EFFECT OF INCREASE IN MOTORCYCLE CLAIMS ON THE
PERFORMANCE OF INSURANCE FIRMS: THE CASE OF
INSURANCE GROUP OF TANZANIA LTD (IGT)
EFFECT OF INCREASE IN MOTORCYCLE CLAIMS ON THE PERFORMANCE OF INSURANCE FIRMS: THE CASE OF INSURANCE GROUP OF TANZANIA LTD (IGT)

By

Richard F. Mwamakula

A Dissertation Submitted to Mzumbe University, Dar es Salaam Campus College in Partial Fulfillment of the requirement for the award of Degree of Master of Science in Business Administration (MBA)
CERTIFICATION
The undersigned certify that they have read and here by recommend for acceptance by the Mzumbe University, a dissertation entitled “Effect of increase in Motorcycle claims on the performance of insurance firms: The case of Insurance Group of Tanzania Ltd (IGT)” in partial/fulfillment of the requirement for the award Degree of Master of Science in Business Administration of Mzumbe University.

........................
iii
Major supervisor

………..

Internal Examiner

Accepted for the board of

………………………………………………………………………

DEAN DIRECTOR /FACULTY/DOCTORATE/SCHOOL/BOARD

DECLARATION AND COPYRIGHT

I, Richard F. Mwamakula, declare that this thesis is my own original work and that it has not been presented and will not be presented to any other university for a similar or any other degree award.

Signature___________________________

Date__________________________
This Dissertation is copyright material protected under the Berne Convention, the Copyright Act 1999 and other international and national enactments, in that behalf, on intellectual property. It may not be reproduced by any means in full or in part, except for short extracts in fair dealings, for research or private study, critical scholarly review or discourse with an acknowledgement, without the written permission of Mzumbe University, on behalf of the author.

DEDICATION

I dedicate this work to my beloved parents Mr. and Mrs. Fred R Mwamakula for their moral and material support during my studies.
ACKNOWLEDGEMENTS

Firstly, I am grateful to God for keeping me healthy throughout the time I was conducting this study. However, this work is a result of several individuals who in one way or another have contributed a lot to the successful accomplishment of this dissertation; their contribution is indeed appreciated. In that regard, I feel obliged to mention few of them.

I would like to thank my supervisor Dr. Andrew Mushi for his competent guidance, genuine discussion, encouragement and generous efforts towards the development of this work. Indeed, he was accessible, helpful and committed supervisor. I really appreciate his commitment that made this study a reality. I extend my special appreciation to my employer, Eagle Surveyors & Loss Assessors Ltd for tireless support toward accomplishment of this work.

My appreciation goes to my parents Fred and Esther Mwamakula for their tireless parental care and prayers toward the accomplishment of this task. Also my heartfelt
thanks goes to my sister and brother Kisa Mwamakula and Aron Mwamakula for their support during this study, I really appreciate their contribution.

I am thankful for the tolerance of my lovely wife, Magdalena Kissoka as most of the time missed me and yet remained calm and friendly. My thanks also go to all lecturers and my colleagues at Mzumbe University Dar es Salaam Campus College for sharing their knowledge and experiences with me.

Lastly but not least, my thanks go to Mr. Jabu Maalim who is my fellow student for imparting me with knowledge of using various computer applications which I applied in presenting the findings of the study, his assistance is highly recognized.

LIST OF ABBREVIATIONS AND ACRONYMS

IGT - Insurance Group of Tanzania
MBA - Master of Science in Business Administration
UAE - United Arab Emirates
SPSS - Statistical Package for Social Sciences
ROA - Return on Assets
ROE - Return on Equity
NIC - National Insurance Corporation
ZIC - Zanzibar Insurance Corporation
ISD - Insurance Supervisory Department
SSRA - Social Security Regulatory Authority
This study was assessing the effect of increase in motorcycle claims on the performance of insurance firms. It was conducted at IGT. Both qualitative and quantitative approaches were employed using a sample size of 60 respondents. The main research instruments used were the questionnaire and interview. Both qualitative and quantitative data collected were analyzed using simple descriptive statistical methods such as frequencies, percentages and cross tabulations. The major focus was to examine the financial performance of IGT with the increasing of motorcycle claims, to examine the measures which are being taken by IGT to reduce number of motorcycle claims and to investigate the challenges IGT are facing on handling motorcycle claims.

The findings revealed that high claims, unexpected inflation, interest rate change, leverage, volume capital, and tangibility of assets these are the major factors that affect the performance of the insurance companies. It was also revealed that the insurance company needs to be aware of and comply with the professional standards and regulations, such as avoid underwriting irregularities which reduce number of claims as well as that the insurance business, by its very nature, is susceptible to fraud thus it has to appoint insurance assessor who have to make thorough investigation on claims so as to avoid fraudulent claims.

The process of settling the claims on time was one of the challenges. Other challenge faced was the way brokers/agents failure to submit the premium on time which affects the compensations to be made to the insured or repudiated. It is recommended that,
insurance companies should offer good claims services to their insured which will create positive image of the company and increase number of the insured.

Contents
Certification .................................................................................................................................................. i
Declaration and Copyright ......................................................................................................................... iv
Dedication ..................................................................................................................................................... v
Acknowledgements ....................................................................................................................................... vi
List of Abbreviations and Acronyms ......................................................................................................... vii
Abstract ...................................................................................................................................................... viii

CHAPTER ONE .............................................................................................................................................. 1
1.0 Introduction ........................................................................................................................................... 1
1.2 Statement of the Problem ...................................................................................................................... 3
1.3 Objectives .............................................................................................................................................. 4
1.3.1 General Objective .............................................................................................................................. 4
1.3.2 Specific Objectives ............................................................................................................................ 4
1.3.3 Research Questions ........................................................................................................................... 5
1.3.4 Hypothesis ......................................................................................................................................... 5
1.4 Significance of the Study ....................................................................................................................... 6
1.5 Scope of the Study ................................................................................................................................ 6
1.6 Limitations of the Study ........................................................................................................................ 7
1.6.1 Financial Restraint ............................................................................................................................ 7
1.6.2 Poor responses ................................................................................................................................... 7
1.7 Delimitations ......................................................................................................................................... 7

CHAPTER TWO .............................................................................................................................................. 7
2.0 Introduction ........................................................................................................................................... 7
2.1 Definition of Terms ........................................................................................................... 8
2.3 Theoretical Review ........................................................................................................... 8
2.4 Measures of Financial Performance ................................................................................... 14
2.5 Firm Performance ............................................................................................................. 14
2.6 Factors affecting insurance firm performance .................................................................... 15
2.7 The concept of insurance companies and their financial performance ............................. 16
2.8 Empirical Review ............................................................................................................ 17
2.11 Research Gap .................................................................................................................. 25
2.12 Conceptual Framework ..................................................................................................... 26

CHAPTER THREE
3.1 Introduction ....................................................................................................................... 27
3.2 Area of Study .................................................................................................................... 27
3.3 Research Approach ......................................................................................................... 27
3.4 Research Design .............................................................................................................. 28
3.5 The Target Population of the Study and the Sample Size .................................................. 29
3.5.1 Population of the study ............................................................................................... 29
3.5.2 Sample size ............................................................................................................... 30
3.6 Sampling Procedure ....................................................................................................... 31
3.6.1 Simple Random ......................................................................................................... 31
3.6.2 Purposive Sampling .................................................................................................... 32
3.7 Methods of Data Collection ............................................................................................. 32
3.7.1 Primary Data ............................................................................................................. 33
3.7.2 Interview Method ...................................................................................................... 33
3.7.3 Questionnaires ......................................................................................................... 34
3.7.4 Observation Method ................................................................................................. 35
3.7.5 Secondary Data ......................................................................................................... 35
3.8 Data Collection Instruments ............................................................................................. 35
3.8.1 Questionnaires ....................................................................................................... 36
3.8.2 Observation Schedule .............................................................................................. 36
3.8.3 Documentary ........................................................................................................... 36
3.8.4 Interview guide ................................................................. 36
3.9 Methods of Data Processing and Data Analysis Procedures ............... 37
3.10 Validity and Reliability of the Instruments ...................................... 39
3.10.1 Validity of the Research Instruments ........................................ 39
3.10.2 Reliability of the Research Instruments ...................................... 39
3.10.3 Ethical Considerations .......................................................... 40

CHAPTER FOUR .............................................................................. 41
4.1 Introduction .................................................................................. 41
4.1.2 Background Characteristics of the Respondent ............................... 41
4.1.3 Gender of Respondents .............................................................. 41
4.1.4 Age of respondents ................................................................. 42
4.2.4 Education of respondents .......................................................... 43
Leverage .......................................................................................... 46
Volume capital .................................................................................. 47
Tangibility of assets ............................................................................ 48
High Claims ....................................................................................... 49
Time Limit to Claim for Compensation ................................................ 50

CHAPTER FIVE .............................................................................. 55
SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION ...... 55
Introduction ......................................................................................... 55
5.2 Summary ....................................................................................... 55
5.3 Conclusion ...................................................................................... 57
5.4 Recommendations ........................................................................... 57
To the government ................................................................................ 58
To the insurance firms .......................................................................... 59
To the insured/customer ....................................................................... 59
Reference ............................................................................................. 60
CHAPTER ONE

1.0 Introduction

This chapter is an introduction of the research paper about the effect of increase in motorcycle claims on the performance of insurance firms, the case of Insurance Group of Tanzania Ltd (IGT) the chapter covers the background information, statement of the problem, research objectives, and research questions, significance of the study and the limitations and delimitations of the study.

Background of study

The background of the study deals with the role of financial institutions in the economy of a country in general and insurance companies in particular and it means their efficient and effective financial system through savings mobilization, risk transfer and intermediation. Therefore, financial institutions, channel funds and transfers risks from one economic unit to another economic units so as to facilitate trade and resources arrangement.

Recent research, as surveyed by Naveed et al (2011), shows that the efficiency of financial intermediation and transfer of risk can affect economic growth while at the same time institutional insolvencies can result in systemic crises which have unfavorable consequences for the economy as a whole.

Hence, the important role that financial institutions such as insurance companies remain in financing and insuring economic activity and contribute to the stability of the financial system in particular and the stability of the economy of concerned country in general is part of immune and repair system of the economy.

In recent years motorcycles are the most popular means of transport in Tanzania, and their accidents are major causes of out-patient attendance and admissions in the most of Municipal Hospitals in the country.
Motorcycle injuries constitute a major but neglected emerging problem in developing countries and are a common cause of road traffic injuries. Road traffic injuries and deaths are a growing worldwide. Studies have shown that road traffic injuries are a major cause of death and disability globally, with a disproportionate number occurring in developing countries.

Hard times have made motorcycles the most popular means of transport in Tanzania, but of late many of their riders have found their journeys ending up in hard falls, according to records of the road traffic police. The number of motorcycle accidents and people killed as a result was increasing at an unprecedented pace, with more than 500 human lives lost between January and September this year, said Tanzania Police (Police Report, 2013).

About 10,000 accidents occurred countrywide during the period and 3,407 people were injured in motorcycle accidents, compared with 2,199 injuries and 407 deaths recorded in 2009. Deaths, injuries and property loss with severe financial and social implications on those involved from traffic accidents are causes of great concern throughout the world, Tanzania is no exception.

Within mainland Tanzania, the regional distribution of road accidents shows about 35 percent of all accidents in Tanzania occur in the Dar es Salaam region. This is likely to be explained by the high concentration of motor vehicles, commercial / industrial and social activities relative to the other regions.

Insurance companies now operate in a more competitive environment than they used to in the Past. Deaths, injuries and property loss with severe financial and social implications on those involved from traffic accidents are causes of great concern throughout the world, Tanzania is no exception.

The fluctuations in volumes and margins due to ongoing competition are source of risk for the company which is called *business risk* (Nakada *et al.* 1999 and Dhaene *et al.* 2006).
Organizational performance as a variable is made up of dimensions as profitability, corporate image and number of products. Bell et al. (1997) contend that high performance and commitment are possible outcomes in organizations that are designed for high involvement but may not occur if environmental conditions are unfavorable.

Torrington et al. (2008) argue that the performance effects of human resource policies and practices are multiplicative rather than additive. In other words, a particular set of mutually reinforcing practices is likely to have more impact on performance than applying one or just some of these in isolation.

Torrington et al. (2008) suggest that there is an assumption that before it is able to plan and manage individual performance, the organization will have made significant steps in identifying the performance required of the organization as a whole.

**1.2 Statement of the Problem**

IGT is one of the insurance companies which deal with different kinds of insurance. These include property insurance, Marine and aviation insurance, liability insurance and Motor vehicle insurance. When the authority allowed, more than five years ago, Motorcycle to be used for commercial purposes with nicknamed ‘’Bodaboda’’, nobody believed the good intentions would turn to be almost a national disaster.

The popularity of this mode of transport in Tanzania can be due to the following reasons; they are a quick means of transport especially for short distances in cities and towns, they are efficient in mitigating traffic jam delays in the cities and they are available throughout the day and night hours.

Road carnage reported last year accounts for almost 1000 deaths that are related to Motorcycle alone in 2013. (Police report, 2013). Police report reported road accidents involving motorcycles have claimed 771, (16.6%) lives, out of 4,637, accidents recorded in the country between January and November, 2013.
The accidents also left some 4,562 people injured during the period, according to the Former Deputy Minister for Home Affairs, who also doubles as the Chairperson of the National Road Safety Council of Tanzania, Mr Pereira Silima. These figures show that motorcyclists are more vulnerable in road accidents.

Motorcycle injuries constitute a major but neglected emerging problem in developing countries and contribute significantly to the overall road traffic injuries (Peden et al, 2002). Even in developed countries with low morbidity and mortality rates from motorcycle injuries, the risk of dying from a motorcycle crash is 20 times higher than from a motor vehicle crash (Peden, 2004; Solagrebu et al, 2006).

The motorcyclists tend to over-speed and over load their motorcycles for quick returns. It is because of that recklessness, indiscipline and lack of respect for other road users by the motorcyclists who are mainly youths, are the major cause of road related injuries.

A fair claim service is one of the most effective competitive tools available to an insurance company. Hence this study intends to assess the extent to which increase in motorcycle claims affect the performance of insurance firms.

1.3 Objectives
1.3.1 General Objective
Main objective of the study is to examine the effect of increase in motorcycle claims on the performance of insurance firms (The case of Insurance Group of Tanzania Limited)

1.3.2 Specific Objectives
   (i) To examine the financial performance of IGT with the increasing of motorcycle claims.
(ii) To examine the measures which are being taken by IGT to reduce number of motorcycle claims

(iii) To investigate the challenges IGT are facing on handling motorcycle claims

1.3.3 Research Questions

(i) What are the financial performance of IGT with the increasing of Motorcycle claims

(ii) What measures are being taken by IGT to reduce number of motorcycle claims

(iii) What are the challenges IGT are facing on handling motorcycle claims.

1.3.4 Hypothesis

i. Ho: there are financial performance of IGT with the increasing motorcycle claims

   Hi: No any financial performance of IGT with the increasing of motorcycle claims

ii. Ho: there are measures being taken by IGT to reduce number of motorcycle claims

   Hi: no measures which being taken by IGT to reduce number of motorcycle claims

iii. Ho: There are challenges IGT are facing on handling motorcycle claims.

   Hi: There no challenges IGT are facing on handling motorcycle claims.
1.4 **Significance of the Study**

The finding of this study is intended to form a basis for creating awareness on the state of the effect of increase in motorcycle claims on the performance of insurance firms, the case of Insurance Group of Tanzania Limited (IGT)

Similarly, these findings will form a basis for informing policy makers and influence creation of policies and guidelines on the controlling and reducing road accidents especially for Motorcycle accidents.

To policy makers like government agencies such as the Tanzania Insurance Regulatory Authority (TIRA) the finding and results of this study will provide invaluable insights and a more reliable guide to monitoring the impact of the operations of Tanzania’s Insurance Industry.

To other stakeholders like investors, shareholders, employees, pressure groups, consumer associations, among others, the study will provide invaluable information that will allow them to provide useful suggestions to reduce motorcycle accidents which will lead to the improvement on the financial performance respective insurance companies in Tanzania.

The study will fulfill my academic need of acquiring Degree of Master of Science in Business Administration (MBA) the dissertation will also be used as an important reference material to other academicians who will use the research document for further reference. Furthermore, the study is expected to increase knowledge in the area of insurance and motor claims to the researcher.

1.5 **Scope of the Study**

This study conducted at IGT insurance company which is situated at Dar es Salaam as headquarters.
1.6 Limitations of the Study

In the course of carrying out this study, the following problems were encountered:

1.6.1 Financial Restraint

Financial constraint also affected the study. However, some funds were available for research but they were still inadequate in carrying out the study efficiently. The study is wide and required a budget that had to facilitate the researcher to smoothly get done with the task.

1.6.2 Poor responses

The researcher also experienced a problem with some respondents who were not willingly to cooperate. Thus few questionnaires were returned nevertheless the researcher used observation and interview methods so as to get feedback on the spot.

1.7 Delimitations

In order to overcome the stated limitations of the study of which based only at Insurance Group of Tanzania (IGT) and other Insurance stakeholder situated at Dar es Salaam. Efforts were done to avoid respondent’s negligence and make sure that the available time and funds are efficiently and effectively utilized to accomplish the task.

CHAPTER TWO
LITERATURE REVIEW

2.0 Introduction

This chapter is divided into two main parts: theoretical literature review and empirical literature review. While theoretical literature provides scientific definitions of the
major concepts describing the phenomenon being studied, empirical literature describes what has been done to solve or address the illogical or contradicting relationship in the phenomenon

2.1 Definition of Terms
2.2.1 Insurer
The insurer is a legal personality who makes a commitment to reimburse losses or pay a certain amount of money in case of an accident in return for receiving premiums from the insured (Iranlou and Lotfi, 2011).

2.2.2 Insured
The insured is a legal personality or natural person who is the other party to the commitment made by the insurer as well as the person who by paying premiums insures his property or responsibility of himself or another person (Iranlou and Lotfi, 2011).

2.2.3 Insurance claim
A formal request to an insurance company asking for a payment based on the terms of the insurance policy. Insurance claims a reviewed by the company for their validity and then paid out to the insured or requesting party (on behalf of the insured) once approved.

2.3 Theoretical Review
The insurance industry in particular is part of immune and repair system of an economy and successful operation of the industry can set energy for other industries and development of an economy. To do so the insurance industry is expected to be financially solvent and strong through being profitable in operation.

Hence, not only measuring the financial performance of insurance companies but also clear insight about extent to which increase in motorcycle claims affect the performance of insurance firms.
Therefore, the determinants of insurance company’s performance have attracted the interest of academicians, practitioners and institutional supervisors. The best performance of any industry in general and any firm in particular plays the role of increasing the market value of that specific firm coupled with the role of leading towards the growth of the whole industry which ultimately leads to the overall success of the economy.

Measuring the performance of financial institutions has gained the relevance in the corporate finance literature because as intermediaries, these companies in the sector are not only providing the mechanism of saving money and transferring risk but also helps to channel funds in an appropriate way from surplus economic units to deficit economic units so as to support the investment activities in the economy.

Clause one of the 1937 Insurance Law defines the insurance contract as a contract where one party makes a commitment to reimburse the other party for losses or pay a certain amount money to that party in case of an accident provided that the first party receives one or multiple payments from the second party.

The first party is named the insurer, the second party is the insured, the payment made by the insured is the premium, and the entity being insured is called the subject of insurance.

Motorcycle injuries constitute a major but neglected emerging problem in developing countries and contribute significantly to the overall road traffic injuries (Peden et al, 2002). Even in developed countries with low morbidity and mortality rates from motorcycle injuries, the risk of dying from a motorcycle crash is 20 times higher than from a motor vehicle crash (Peden, 2004; Solagrebu et al, 2006).

The motorcyclists tend to over-speed and over load their motorcycles for quick returns. It is because of that recklessness, indiscipline and lack of respect for other road users.
by the motorcyclists who are mainly youths, are the major cause of road related injuries.

A claim payment is the defining moment in the relationship between an insurance company and its customer. Butler and Francis (2010) see claim payment as a chance to show that the years spent paying premiums were worth the expense.

Car insurance is generally imposed by the authority for those who owns and drives vehicles. Companies are using different marketing strategies to attract new clients and successfully differentiate from other competitors, and compete with rivals by raising their market shares and increasing profitability.

The motorcycle, commonly called “bodaboda” in Uganda and Kenya (Naddumba, 2004, Galukande et al., 2009) and “okada” in Nigeria (Oluwadiya et al., 2004; Solagrebu et al., 2006), has recently become increasingly popular in Tanzania as a means of commercial transport.

The popularity of this mode of transport in Tanzania can be due to the following reasons; they are a quick means of transport especially for short distances in cities and towns, they are efficient in mitigating traffic jam delays in the cities and they are available throughout the day and night hours.

Insurance is a contract in place of a certain amount payment that is called premium for a specific period (Anderson et al., 2005). This is motorcycles owners have been insured there properties (Motorcycle) with the insurance companies as the policy say. The number of motorcycle accidents and people killed as a result of motorcycle accident was increasing at an unprecedented pace.

Organizational performance as a variable is made up of dimensions as profitability, corporate image and number of products. Bell et al. (1997) contend that high
performance and commitment are possible outcomes in organizations that are designed for high involvement but may not occur if environmental conditions are unfavorable.

According to Butler and Francis (2010) assert that claims payment represents the largest single cost to insurers and 80 percent of all premiums are spent on claims payment and associated handling charges. Claims and loss handling is the materialized utility of insurance; it is the actual product paid for.

Vaughan and Vaughan (1995) state that it is important for the insurance company pay its claims fairly and promptly. It is equally important for the company to resist unjust claims and avoid overpayment of them.

A fair claim service is one of the most effective competitive tools available to an insurance company. Hence this study intends to assess the extent to which increase in motorcycle claims affect the performance of insurance firms.

Business performance involves overcoming a number of difficulties, including the Measurement of business risk itself. Numerous factors influence business risk, yet previous literature has not provided a way to quantify and assess these factors. This could, in turn, clarify specific actions to help protect companies against business risk.

Companies increase overall results when they invest in retaining customers generating high profits, e.g., those who pay premiums for long periods without claims, rather than those with a bad claim history, contributing to reduce overall profits.

Typically, insurance activity is managed separately for each line of business. The most aberrant implication of this classical managerial mistake is that different policies in the same company owned by the same customer are often managed separately. Thus, events affecting one particular policy (claims, premium increases, etc.) are evaluated without consideration of concurrent events plausibly affecting other policies within the company.
The performance of any business firm not only plays the role to improve the market value of that specific firm but also leads towards the growth of the whole sector which ultimately leads towards the overall prosperity of the economy.

Assessing the determinants of performance of insurers has gained the importance in the corporate finance literature because as intermediaries, these companies are not only providing the mechanism of risk transfer, but also helps to channelize the funds in an appropriate way to support the business activities in the economy. However, it has received little attention particularly in developing economies (Ahmed et al, 2011).

Despite the current insurance companies’ development with respect to both total assets and in number, no studies were conducted to investigate the determinants of performance of insurance sector in Tanzania. Therefore, the objective of this study is to identify the extent to which increase in motorcycle claims affect the performance of insurance firms’ in Tanzania.

Insurance companies could prosper by taking reasonable leverage risk or could become insolvent if the risk is out of control. Adams and Buckle (2000) provide evidence that insurance companies with high leverage have better operational performance than insurance companies with low leverage. Nevertheless, more empirical evidence supports the view that leverage risk reduces company performance.

Carson and Hoyt (1995) find that leverage is significantly positively related to the probability of insolvency. Moreover, a negative relationship between leverage and performance has also been found in Browne et al. (2001).

More empirical findings have confirmed that there is a positive relationship between liquidity and financial performance of insurers (Ambrose and Carroll, 1994 and Carson and Hoyt, 1995). Organizations that engage in risky activities are likely to have more
volatile cash flows than entities whose management is more averse to risk-taking (Fama and Jensen, 1983; Lamm-Tennant and Starks, 1993).

As a consequence, insurers that underwrite risky business (e.g., catastrophe coverage, over claims, etc) will need to ensure that good standards of management are applied to mitigate their exposure to underwriting losses ex-ante and maximize returns on invested assets ex-post. This could improve annual operational performance by encouraging managers to increase cash flows through risk taking. Premium growth measures the rate of market penetration.

Empirical results showed that the rapid growth of premium volume is one of the causal factors of insurers’ insolvency (Kim et al. 1995). Being too obsessed with growth can lead to self-destruction as other important objectives may be neglected. Another study by Malik (2011) examined the determinants of Pakistan’s insurance companies profitability proxies by return on total assets.

The result shows that there is no relationship between profitability and age of the company and there is a significant and positive relationship between profitability and size. On the other hand the analysis suggests that leverage ratio and loss ratio have a negative impact on profitability of insurance companies.

Performance is the function of the ability of an organization to gain and manage the resources in several different ways to develop competitive advantage (Iswatia, & Anshoria, 2007). There are two kinds of performance, financial performance and non-financial performance. Financial performance emphasizes on variables related directly to financial report. Company’s performance is evaluated in three dimensions.

The first dimension is company’s productivity, or processing inputs into outputs efficiently. The second is profitability dimension, or the level of which company’s earnings are bigger than its costs. The third dimension is market premium, or the level of which company’s market value is exceeding its book value (Walker, 2001).
Performance is a difficult concept, in terms of both definition and measurement. It has been defined as the result of activity, and the appropriate measure selected to assess corporate performance is considered to depend on the type of organization to be evaluated, and the objectives to be achieved through that evaluation.

Researchers in the strategic management field have offered a variety of models for analyzing financial performance. However, little consensus has emerged on what constitutes a valid set of performance criteria. For instance, researchers have suggested that studies on financial performance should include multiple criteria analysis.

This multidimensional view of performance implies that different models or patterns of relationship between corporate performance and its determinants will emerge to demonstrate the various sets of relationships between dependent and independent variables in the estimated models (Ostroff and Schmidt, 1993).

2.4 Measures of Financial Performance

There have been various measures of financial performance. For example return on sales reveals how much a company earns in relation to its sales, return on assets determines an organization’s ability to make use of its assets and return on equity reveals what return investors take for their investments.

The advantages of financial measures are the easiness of calculation and that definitions are agreed worldwide. Traditionally, the success of a manufacturing system or company has been evaluated by the use of financial measures (Tangen, 2003). (Berger, et al.1995)

2.5 Firm Performance

Company performance is very essential to management as it is an outcome which has been achieved by an individual or a group of individuals in an organization related to
its authority and responsibility in achieving the goal legally, not against the law, and conforming to the morale and ethic.

Performance is the function of the ability of an organization to gain and manage the resources in several different ways to develop competitive advantage. There are two kinds of performance, financial performance and non-financial performance (Hansen and Mowen, 2005).

The literature usually distinguishes between two types of firm performance, financial or economic performance and innovative performance. Financial or economic performance is often expressed in terms of growth of sales, turnover, employment, or stock prices (Havnes and Senneseth 2001), whereas innovative performance is generally expressed in terms of expenditures, patents, percentage of innovative sales, or self-reported (results of) innovations (Oerlemans et al. 2001, Hagedoorn and Cloodt 2003).

Although both types of performance are often inter-related (Damanpour and Evan 1984), the literature often uses both types of performance as separate concepts or only focuses on one of the two. (Knoben and Oerlemans, 2006)

Company performance is the measurement for what had been achieved by company which shows good condition for certain period of time. The purpose of measuring the achievement is to obtain useful information related to flow of fund, the use of fund, effectiveness, and efficiency. Besides, the information can also motivate the managers to make the best decision.

2.6 Factors affecting insurance firm performance

2.6.1 Unexpected Inflation

Inflation certainly plays a role in insurance and has an adverse impact on many aspects of insurance operations, such as claims, expenses and technical provisions (Daykin et al., 1994). Over the years since it is relatively predictable over the term of general
insurance liabilities, and expected inflation generally is taken into account when actuaries set premiums, inflation itself is unlikely to impact seriously on the performance of general insurers.

Nevertheless, it should be noted that there has been unexpected high claims inflation in liability and personal injury claims in recent years. If inflation is significantly greater than expected, it could cause insurers financial difficulty. As a result, we expect that non-life company performance would be negatively related to unexpected inflation.

2.6.2 Interest Rate Change

Interest rate risk resulting from changes in interest rates is one of the main risks facing insurers. Interest rate change affects, not only the value of assets, but also the cost of claims. In terms of the theory of discounted cash flow, the higher the interest rate, the lower the asset value and the liability value.

That is, interest rate change influences the value of assets and liabilities in the same direction. Nonetheless, it is worthwhile to note that most general insurance reserves are undiscounted. Discounting is usually reserved for latent diseases, i.e. where the term exceeds four years.

Moreover, the higher interest rates are, the higher claim inflation is likely to be, which means that claim costs increase. In addition, the impact of interest rate change on assets and liabilities is different if the two have different durations. Since interest rate risk increases with duration, interest rate change will normally have greater impact on the value of assets than on that of liabilities if asset duration is longer than liability duration.

2.7 The concept of insurance companies and their financial performance

Renbao Chen et.al (2004) stated in their investigation that “higher profits provide both the means (greater availability of finance from retained profits or from the capital market) and the incentive (a high rate of return) for new investment”.
Therefore, we can understand from the above explanation that insurance companies have double responsibility: in one way they are required to be profitable so as to have high rate of return for new investment. On the other hand, insurance companies need to be profitable in order to be solvent enough so as to make other industries in the economy as they were before even after risk occurred.

According to Hifza Malik (2011) insurance plays a crucial role in fostering commercial and infrastructural businesses. From the latter perspective, it promotes financial and social stability; mobilizes and channels savings; supports trade, commerce and entrepreneurial activity and improves the quality of the lives of individuals and the overall wellbeing in a country.

Michael Koller (2011) in his investigation identified that insurance companies are playing the role of transferring risk channeling funds from one unit to the other (financial intermediation) such as general insurance companies and life insurance companies respectively.

This implies that insurance companies are helping the economy of a country one way by transferring and sharing of risk which can create confidence over the occurrences of uncertain event and in another way insurance companies like other financial institutions plays the role of financial intermediation so as to channel financial resources from one to the other.

2.8 Empirical Review
Performance in insurance companies could be affected by a number of determining factors. These factors, as explained above could be further classified as internal, industry, and macroeconomic factors. In most literatures, performance with regard to insurance companies usually expressed in as a function of internal factors.


Hence, most of the researchers focused on internal factors affecting performance and most of the factors considered are age of company, size of company, leverage ratio, growth rate, volume of capital, tangibility of assets and liquidity ratio.

Accordingly Hafiz Malik (2011) defines internal determinants of performance as factors that could be influenced by management decisions. As stated by Hamadin Ahamed Ali Al-Shami (2011) internal determinants can be broadly classified into two sub-categories namely financial statement variables and non-financial statements variables.

The financial statement variables are determining factors which are directly driven from items in a balance sheet and profit & loss accounts of the insurance companies. On the other hand, the non-financial statement variables are those factors which are not directly displayed on the financial statements accounts. According to Yuqi Li (2007) financial institutions non-financial statements variables are classified as management quality, efficiency and productivity, age and number of branches.

Most researches concerning insurance companies are conducted with respect to only financial statement variables. Hence, Hamadin Ahamed Ali Al-Shami (2008) in his dissertation regarding UAE used financial statement variables such as size, leverage, liquidity, tangibility of assets, volume of capital, and premium growth.

Mike Adams (1999) from UK companies suggests that there is an inverse relation between performance and firm size. Jay Angoff Roger Brown (2007) found that there
is a positive and significant relationship between the age of a company and its performance as measured by ROA. Similarly, the research conducted on the relationship among firm characteristics including size, age, location, industry group.

Performance and growth by Swiss Re (2008) indicated that larger firms are found to grow faster than smaller and younger firms found to grow faster than older firms. In contrast, Hamadan Ahamed Ali Al-Shami (2008) found no significant statistical relation between age and profitability of insurance companies in UAE but there exist a positive and statistical significant relation between firm size and profitability.

Similarly, Hafiz Malik (2011) in his Pakistan study found that there is significantly positive association between age & size of the company and profitability. The older the firm the more may be the profitability of the firm. This could be justified as experience and efficiency in the operation process may decrease cost of production and he found even that age is the strongest determinant of profitability.

2.9 Tanzania – The Growth of a New Insurance Market
The insurance market in Tanzania has quite a particular history. Before 1996, the insurance industry was under a state-owned monopoly (read nationalization). Such monopoly was decreed in 1967 and since then, local policies could only be offered and sold by the National Insurance Company (NIC) and the Zanzibar Insurance Corporation (ZIC). Although this state of affairs may have benefited Tanzanians, it became evident that a monopolistic insurance market had no place in a globalised economy. Tanzania suffered from the lack of modernization and diversification of its insurance market, and especially from the absence of an autonomous regulatory agency.

Despite the fact that previous attempts were made in relation to a potential opening of the market to competition, it was not until 1996 that the Ministry of Finance and Economic Affairs – the country’s financial and insurance sector policymaker - undertook a formal commitment to regulate its insurance market and allow the
participation of private insurers. After consultations and debates regarding the convenience of the Insurance Supervisory Department (ISD), this commitment was finally materialized through the enactment of a new law, the Tanzania Insurance Regulatory Act, No. 10 of 2009.

The Tanzania Insurance Regulatory Act (the Insurance Act), established the general framework for conducting the business of insurance in Tanzania, as well as the duty for insurers, insurance brokers, insurance agents, loss adjusters and assessors, and cross-border providers to register before and/or be licensed by the national regulator. It also created the Tanzania Insurance Regulatory Authority (TIRA), the supervisory authority for the insurance sector, with authority over general and long-term insurance, but not pension funds, which are under the ambit of the Social Security Regulatory Authority.

TIRA’s key functions are to promote and maintain an efficient, fair, safe and stable insurance market for the benefit and protection of policy holders. The creation of TIRA represented a major change, as in the previous years of monopoly no independent supervisory agency existed for our insurance market. Evidently, there was a significant absence of control and regulation of the business of insurance in Tanzania, and the majority of Tanzanians lacked the “insurance culture” that can only be achieved through competitive markets.

In this aspect, although still a young regulatory authority, one of the predominant roles that TIRA has successfully accomplished has been the preparation and distribution of various insurance-related booklets, magazines and materials of interest, aiming to provide a simple and understandable reference for any consumer who may not be familiar with insurance policies and their importance.

In the following months after the enactment of the Insurance Act, and because the Insurance Act only established a general framework for conducting insurance business in Tanzania, the National Insurance Board, which is TIRA’s controlling agency, has
been providing further and more detailed guidance and advice on the regulation and supervision of such business. Among others, it is important to highlight the Code of Ethics and Conduct as well as the Insurance Regulations 2009, which, read together with the Insurance Act, details the requirements and procedures for TIRA to license insurance companies, to authorize the registration of insurance products, to evaluate the capital solvency of insurers and guide the investment of their capital, and to provide guidance for the sale of insurance products, among others.

Subject to certain exceptions, the general rule in Tanzania is that any insurance company, insurance broker, agent or loss adjuster that performs, or wants to perform, any insurance activity or business in Tanzania must follow an authorization or registration procedure before TIRA, the requirements for which are detailed in the Insurance Regulations 2009. These requirements in some cases will vary depending on the type of entity and its country of origin. By way of example, there are special rules for foreign reinsurers who are directly contracted by local insurers.

In future, it is expected that TIRA will issue additional circulars and guidelines derived from the Insurance Act and the Insurance Regulations. This will be a big step towards the establishment of a modern and consumer-oriented regulation of insurance policies for the local market by covering aspects like risk aggravation.

From the perspective of market indicators of the industry, though its key functions do not explicitly include market development, TIRA is committed to supporting inclusive insurance market development. This is evidenced by the fact that TIRA has set up a Directorate of Market Development. Due to the annual premiums sold and growth potential, the Tanzanian insurance market is considered the most important insurance market in East Africa (excluding Kenya).

This business opportunity has interested various foreign insurers who seek an early advantage in Tanzania’s emerging and promising insurance industry. Currently, there are 26 authorized insurance companies, including current market leaders Jubilee and
Heritage as well as renowned insurers like Strategies, Reliance, and Metropolitan. The market regulator TIRA expects this number to increase in 2014, as there are additional companies in the process of their licensing and registration.

According to the 2011 Annual Report of TIRA, the amount of Gross Premiums Written (GPW) shows a steady rise in the part years. For example, in 2009, GPW climbed to Tshs 231.2 billion, nearly duplicating its size since 2007. Official results for the year 2010 showed a significant increase, as the amount of GPW totaled Tshs 286.9 billion; while official results for the year 2011 reflect a 20 per cent increase, as the sum of GPW totaled Tshs 344.7 billion. Economic experts I have interacted with predict that the Tanzanian insurance market could generate more than US$1,000 million in annual premiums once the market fully develops, especially in the rising life and health sector.

On this matter, it is important to highlight that in reality a significant portion of upper-middle-class Tanzanians either have additional health insurance with a foreign company or are interested in potentially obtaining additional health insurance. This particularity of the Tanzanian market is reflected in the fact that most licensed insurers have obtained their registration solely for the life and health sector. Their efforts in obtaining part of this niche are becoming highly effective, as official results for the year 2011 reflect a 16.2 per cent increase in the sale of life and health policies from Tshs 31.2 billion in 2010 to Tshs 36.3 billion in 2011.

It is also interesting to note that the steady increase of available insurance products has not only allowed licensed insurers to offer an array of policies, but has enabled a higher consumer awareness of the benefits of a competitive insurance market, including a significant decrease in the price of insurance policies, compared those before the market opened up to competition.

It is worth noting that Tanzania may also experience interesting developments in two other insurance-related areas. The first is the reinsurance business. It is a fact that licensed insurers need to reinsurance part of their policy risk, but there are no authorized
reinsurers in Tanzania other than the Tanzania National Reinsurance Corporation (TANRE), whose reinsurance authorization derives from statutory provisions. Consequently, one can conclude that licensed insurers may seek international reinsurers to transfer part of their policy risk; therefore international reinsurers as well as brokers like AON and MIC Global Risks may play a key role in the development of our reinsurance market.

It is thus essential to note that the Insurance Act establishes TANRE as the only reinsurer in Tanzania, but international reinsurers may not require licensing or registration if certain parameters are met – which also creates an opportunity for regional fronting programmes. In general terms, if a foreign reinsurer or reinsurance broker is directly contacted by the local insurer, registration may not be required before TIRA; but this will not exempt the local insurer from certain disclosure procedures to obtain the corresponding credit for reinsurance.

The second field of interest is private community-based health insurance schemes. These schemes provide a very useful service and growth point for health service provision in rural Tanzania, but are currently operating outside of any prudential regulatory framework. Given the crucial role of health insurance, there is need for explicit protection of consumers in this sphere.

As the schemes grow beyond provision of prepaid services, the need for regulatory oversight will increase, calling for consideration of the functions performed by such schemes, how the model works, and whether or not it amounts to insurance.

2.10 An Assessment of Economic Impact on the Insurance Industry during 2012 and Future Prospects for Growth
The country’s GDP has continued to record a satisfactory growth level in 2012. The satisfactory economic growth levels continue to create economic opportunities for businesses and households leading to higher demand for insurance products.

The insurance market’s growth was largely consistent with the growth of the national economy and that of the financial intermediation sector. The industry’s contribution to GDP and insurance premium per capita has also shown consistent growth over the past ten years.

Movements in inflation rates affect insurance business in a number of ways. High inflation rate tends to decrease the real value of benefits that accrue to policyholders. The fall in the real value of benefits arising from inflation pressure will dissuade existing and potential insurance clients from purchasing life assurance covers, thus affecting life assurance sales. Also, during high inflation periods, management expenses together with claim values tend to be inflated thus pushing high a combined ratio of the market.

Therefore, the lower the inflation rates, the more conducive the environment for insurance business to thrive. The country’s inflation rate appeared to have deteriorated during the year under review compared to the prior year. Some improvement in the inflation rate is anticipated in 2013/2014 thus contributing to a further growth of the insurance business. Interest rates movements are a major determinant of the profitability of insurance companies operations.

Insurance funds that are amassed by insurers as insurance premiums must be invested in profitable ventures including in money markets to obtain a financial return that is sufficient to support the business operations of insurance companies and provide a return to shareholders. Healthy interest rates are vital for profitable business operations and general sustainability of insurance business in the country. The industry is projected to grow at a rate of 18 percent in the next year.
2.11 Challenges Facing the Insurance Industry in Tanzania

According to Annual Insurance Market Performance Report for the Year Ended 31st December 2012, the industry faced several challenges during the year under review. The challenges included:

(i) Absence of a national policy on insurance: Lack of a national policy on Insurance continues to deny the insurance industry with the necessary opportunities for growth and building its capacity for creation of national underwriting. This has an adverse impact on the industry’s contribution to the national economy.

(ii) Premium rate undercutting: some insurers charged unreasonably low premium rates for certain classes of insurance, especially motor. This has potentially eroded the capacity of the insurers in servicing contractual financial obligations such as payment of admitted insurance claims due to poor reserving practices. Insurers are exposed to reputational risk in this regard.

(iii) Poor claims servicing practices by some insurers – potential for negative image of the industry and exposure to reputational risk.

(iv) The shortage of insurance professionals in the industry especially in certain key disciplines including actuarial science - due to lack of local training institutions which offer relevant qualifications.

(v) Delay in adoption of banc assurance as an alternative distribution channel for insurance services – This matter involves TIRA and Bank of Tanzania as regulators of insurance and banking industries, respectively.

2.12 Research Gap

Most of the researchers conducted a study of internal factors that affect performance of insurance companies such as interest rate change, age of the company, Leverage,
Volume of Capital, Tangibility of assets, Growth Rate, liquidity etc. No research has been done on the effect of motorcycle claims on the performance of insurance companies. Hence this study intends to look on the effect of increase in motorcycle claims on the performance of insurance firms, the case of Insurance Group of Tanzania Ltd (IGT).

2:13 Conceptual Framework
A conceptual framework is an analytical tool with many variations and contexts. It is used to make conceptual distinctions and organize ideas. Strong conceptual frameworks capture something real and do this in a way that is easy to remember and apply.

Conceptual frameworks are particularly useful as organizing devices in empirical research. Conceptual frameworks are abstract representations, connected to the research project's goal that directs the collection and analysis of data (on the plane of observation – the ground). Critically, a football play is a “plan of action” tied to a particular, timely, purpose, usually summarized as long or short yardage.

Fig 1: Conceptual Framework

Source: Developed by Researcher, 2014
CHAPTER THREE

3.1 Introduction
This chapter describes the methodology and procedures which was employed during collection and analysis of data. It covers area of the study, research design, target population, sample size, sampling procedures data collection methods and data analysis.

3.2 Area of Study
This study was carried out in Dar es Salaam at IGT. The study area was selected because of the proximity and is the company which researcher works with as insurance assessor. This helped to reduce the travelling cost by considering that the researcher is self-sponsored.

3.3 Research Approach
The approach which applied in this research is qualitative research approach. The qualitative research approach involves a range of methods such as documentary analysis, interviews, observations, focus group discussion (Bell 1993).
The qualitative research approach was used in this research because it is appropriate for the study in the sense that it gives an opportunity for one aspect of a problem to be studied in detail. It also enables the researcher to collect facts and study their relationship in order to find the sources as well as solutions (Strauss & Corbin, 1998).

Bell (1993) recommends the use of qualitative approach when doing research due to its flexibility in data collection. It allows the use of different research methods such as in-depth interviews, focus group discussions, questionnaire and observation through the method of triangulation.

This enables the researcher to achieve objectives of the study. The flexibility within the qualitative approach enables the researcher constantly to modify the structure of the study as the research process proceeds.

Denzin (1995) & Bell (1993) recommends the use of qualitative approach because it allows the researcher to gather authentic data which are very easy to analyze and it gives the context of the experience, states the intention and meaning that argued in experience and reveals the experience as process.

Bell (ibid) explains that the easiness descriptive data interpretation and analysis enables the researcher to critically explain issues that emerged from the study and to give reliable valid conclusions.

3.4 Research Design
Research design is also known as type of the study. It is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. It is a conceptual structure within which research is conducted. It constitutes blue print for the collection, measurement and analysis of data (Kothari, 2004).
Descriptive research is used to obtain information concerning the current status of the phenomena to describe “what exists” with respect to variables or conditions in situation the methods involved range from the survey which describes the status quo, the correlation study which investigates the relationship between variables, to developmental studies which seek to determine changes overtime.

Hence the study adopted a descriptive survey design because it look at the various aspects of a phenomenon that already existed.

3.5 The Target Population of the Study and the Sample Size

3.5.1 Population of the study
A target population is a precisely specified group of cases from which a researcher studies a sample and to which the results from the sample are generalized (Neuman 2006).

The attribute of good sampling is the ratio. It is the proportion of the population in the sample (Neuman 2006). This brings to the fore the appropriateness of the sample size for a given population.

He also observes further that larger samples, other things being equal, generate high accuracy, and are needed when the population is significantly heterogeneous or when there is the need to simultaneously analyse many data variables. In contrast, smaller samples are sufficient when less accuracy is acceptable, when there is homogeneity in the population or when only a few variables are analysed at a time.

The term population refers to a large group of people, institution, or anything that has one or more characteristics in common on which a study focuses. It consists of all cases of individuals or elements that fit a certain specification (Kothari, 2005).

The population of the study composed of all staff of IGT in total they are 40 in number
from different departments and all IGT Motorcycle insured or in other words customers of the IGT insurance Company who are more than 5000 in number.

<table>
<thead>
<tr>
<th>TYPES OF RESPONDENTS</th>
<th>NUMBER OF RESPONDENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance Group of Tanzania (IGT)</td>
<td>40</td>
</tr>
<tr>
<td>staff</td>
<td></td>
</tr>
<tr>
<td>Insured (Customers)</td>
<td>20</td>
</tr>
<tr>
<td><strong>Total Respondents</strong></td>
<td><strong>60</strong></td>
</tr>
</tbody>
</table>

Table 3.1: Sample Size  
**Source:** Researcher Construction, 2014

### 3.5.2 Sample size

The sample size of this study consists of sixty (60) respondents whereby forty (40) IGT staffs were selected using purposive sampling. Apart from that, twenty (20) the insured of IGT from brokers/Agents offices were selected using simple random sampling. This is because under random sampling, bias is generally eliminated and the sampling error can be estimated.

The researcher purposely targeted the two group of respondent believing to be reliable for the study. So the selected items are what we call sample size. By using sample size, it is possible to obtain sufficiently and accurate results by studying only a part of total population (Kothari, 1990).

A sample is a group of respondents drawn from a population in which a researcher is interested in collecting information as these respondents are assumed to have different
insight and understanding concerning effect of increase in motorcycle claims on the performance of insurance firms. Also due to time limitation and financial resources, the respondents were selected from IGT staff, and out of more than 500 insured of the IGT.

3.6 Sampling Procedure
Simple random sampling was used in this study due to the fact that every insured of IGT had equal chance of being included in the sample because every individual has different understanding, feeling and insights about effect of increase in motorcycle claims on the performance of insurance firms.

Also purposive sampling was used because using his own judgement, the researcher selected the respondents particularly and accordingly as they posed appropriate characteristics required to answer research questions.

3.6.1 Simple Random
The researcher applied simple random sampling in selecting sample from the insured (clients) of Insurance Group of Tanzania. This process involved identifying brokers/agents who are working with IGT this was accompanied by selecting 20 insured (clients) as sample of the respondents. This was done after having a list of all the insured at the particular offices, then random numbers were given to each of the insured and selected sample from population. Using this technique helped in eliminating biasness which could have been observed if non-probability sampling were to be used alone.

The choice of the technique was based on the fact that every item of the universe has an equal chance of inclusion in the sample. Freedom from human bias and classification error remains one of the biggest advantages simple random sampling offers, as it gives each member of a population a fair chance of being selected, it is highly representative. This was due to the fact that every insured has different
understanding, feeling, insight and experiences about effect of increase in motorcycle claims on the performance of insurance firms.

Therefore, the total sample was sixty (60) respondents; twenty respondents were obtained through simple random sampling whereas forty respondents were selected using purposive sampling.

3.6.2 Purposive Sampling

Purposive sampling was applied for selecting 40 respondents who are staff of IGT from different department. This was because the respondents posed appropriate characteristics such as having information, insight, experiences and understanding concerning the effect of increase in motorcycle claims on the performance of insurance firms. Thus, this group of respondents from IGT staff was required for the study and it was also possible to access them during working hours for in-depth interview.

<table>
<thead>
<tr>
<th>Sample category</th>
<th>Sample selected</th>
<th>Methods used</th>
</tr>
</thead>
<tbody>
<tr>
<td>IGT Staff</td>
<td>40</td>
<td>Purposive</td>
</tr>
<tr>
<td>Insured(customers)</td>
<td>20</td>
<td>Simple Random-sampling</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td></td>
</tr>
</tbody>
</table>

Source: Researcher Construction, 2014

3.7 Methods of Data Collection

Different research methods used to collect both primary and secondary data. In this study, the methods used are interviews, questionnaires and observations. Both primary data and secondary data collected by using data collection methods. The following is the detailed explanation of key terms under this sub-section:-
3.7.1 Primary Data

Primary data are those which are collected afresh and for the first time from the field, and thus happen to be original in character. The method of collecting primary data differs from secondary data since primary data are to be originally collected.

Primary data can be obtained through observation or through direct communication with respondents or through personal interviews (Kothari, 1990). In this study, the primary data was collected through observation and direct communication with respondents where by interviews and questionnaires were administered.

3.7.2 Interview Method

In this study, interviews were administered to some few respondents from each group, the first group were staff of IGT and the second group were the insured due to the nature of the study, researcher prefer to use un-structured interview to get information.

The interview was applied to all respondents who were selected. In the same manner, Kothari (2004) defines interview as the method of collecting data that involves presentation of oral verbal stimuli and reply in terms of oral verb responses. This method was used through personal interview.

The technique enabled the researcher to enter into other person’s view/world to understand that person’s inner perspective and its flexibility enables the researcher to capture as much as rich information as possible.

Interview was conducted during working hours to collect information regarding the study. The interview was un-structured in order to make the exercise more meaningful. The major advantage of using the interviews is that they help the researcher to make the best use of limited available time to make the process of interviewing different people more systematic. The interviews helped the researcher to ask follow up questions and hence, gaining more information and understanding on what the respondents real meant.
The interview questions were open ended in order to give room to respondents to express themselves freely and give their views. These questions provided opportunities for both interviewee and interviewer to discuss in detail the effect of increase in motorcycle claims on the performance of insurance firms. Thus, primary data were collected using interview which is a research method that provides basic information from those who witnessed, experienced or were direct beneficiaries or victims.

Second, the interview data collection method allowed for dynamic brainstorming between interviewee and researcher in detail the effect of increase in motorcycle claims on the performance of insurance firms It also provided an opportunity for the interviewees to express their opinions.

3.7.3 Questionnaires

A questionnaires consist of a number of questions printed or typed in a definite order on a form or set of forms. In this method the questionnaires is sent usually by post to the persons concerned with a request to answer the questions and return the questionnaires. This method of data collection is popular; particularly in the case of big inquire (Kothari 1990).

The questionnaires were used in gathering both quantitative and qualitative information from respondents thus was distributed to the respondents and wait for them to complete the questionnaires. The following categories of stakeholders were administered with the questionnaire: respondents from insurer’s brokers/agent offices and staff from IGT headquarter study area. The researcher used both open ended questions and close ended questions.

In questionnaire the same question were usually given to respondents’ in the same order so that the same information can be collected from every member of sample.
3.7.4 Observation Method

According to Kothari, (1990), observation is commonly used method in studies relating to behavioral sciences. It is a way of observing things around us that mean data can be obtained by observing how things are.

Observation becomes a scientific tool and the method of data collection for the researcher when it serves as formulated research purpose, systematically planned, recorded and subjected to checks and controls on validity and reliability. Under this method the information was sought by the way researchers’ own direct observation without asking from the respondent.

3.7.5 Secondary Data

Secondary data are those which have been collected by someone else and which are already been passed through the statistical process. The nature of collecting secondary data is merely that of compilation.

During this research, the researcher gathered secondary data by reviewing written documents of the IGT and outside of the company. Data from the IGT included; notices, journals, books, magazines, administrative records, and reports which were available at the case study, and outside the company.

3.8 Data Collection Instruments

The study employed the techniques of questionnaires, observation schedules, interview guide, and documentary to seek information from various samples of groups.

These methods used as follows: Interview questions used to collect primary data and administered to all respondents. Open-ended and closed-ended-questions administered to respondents in order to enable them to provide much information.
3.8.1 Questionnaires

Questionnaires used to collect primary data. This enabled the researcher to collect data which couldn’t be collected by using other research instruments. The questionnaires consisted of closed and non-closed types of questions which enabled the respondents to provide relevant information.

Non-closed questions (Open-ended questions) were administered and they enabled the researcher to probe the respondent in order to get the relevant and hidden information.

3.8.2 Observation Schedule

An observation was planned to enable the researcher identify what to be observed in the whole process of a research. After the identification of what to be observed, the schedule was designed to guide the researcher during observation.

Basing on the schedule, all the identified areas for observation was thoroughly observed. The observation instrument enabled the researcher to collect primary data.

3.8.3 Documentary

Documentary method is a qualitative method which involves deriving information by careful studying written documents or visual information from sources called documents. These could be textbooks, news papers, articles, journals, speeches, advertisements, pictures and many others. Documentation focuses on secondary data, (Enon, 1998).

In this research documentary analysis schedule was used as an instrument in data collection. Before designing the schedule used, documents were reviewed and identified. The documentary schedule enabled the researcher to collect secondary data.

3.8.4 Interview guide

An interview guide involves a list of prepared questions used in conducting an interview (Kothari, 1990) in this study, the interview guide was prepared for special
respondents who was selected as aforementioned above in the sub-heading interview method.

The use of interview enabled the researcher to clarify ambiguous questions more appropriately, and facilitated follow-up of details of information from the respondents, the researcher met with respondents in their respective areas. Moreover, the use of interview helped in accessing more sensitive data from IGT staff, head of section and managers

3.9 Methods of Data Processing and Data Analysis Procedures

Data processing is the process of preparing data before data analysis takes place. The key activities in data processing are data entry, editing, coding, classification and tabulation. Data entry aims at converting gathered data to a medium for a viewing and manipulation.

All gathered data in a questionnaire of interview guide should be entered in a computer to facilitate the tabulation (Bhattacharyya, 2003) as quoted by Adams & Kamuzora (2008). In this study, data entry was done by using Statistical Package for Social Sciences (SPSS).

Calculations for totals and percentages were done using SPSS method which displayed tables and percentages. The responses from different respondents were sorted and grouped to make them correspond with the research objectives. The sorted data was compared to identify the related data.

Data editing as one of the data processing method, is the process whereby the researcher examines collected data (raw data) to identify errors and omissions and to make necessary corrections. The basic purpose of data editing is to secure quality and standard of the data. Editing involves inspection and if necessary correction of questionnaires or observation forms Kothari (2001).
Coding as one of data processing stage, is the process of assigning numerals or other symbols to answers so that responses can be put into a limited number of categories or classes. Such classes should be appropriate to the research problem under consideration.

They must also possess the characteristics of exhaustiveness that is there must be a class for every data item and also that of exclusivity which means that a specific answer can be placed in one and only one cell in a given category set. Another rule to be observed in coding process is that every class is defined in terms of only one concept.

Coding is necessary for efficient analysis and through it the several replies may be reduced to small number if classes which contain the critical information required analysis. Coding decisions should usually be taken at the designing stage. Coding methods can be to code in the margin with coloured pencils or to transcribe the data from the questionnaire to a coding sheet (Kothari 1990).

Classification as one of the data processing techniques, involves the arrangement of data in groups of classes on common characteristics. In other words, classification is just of putting responses of the same characteristics into a same group or class data having common characteristics or traits are placed/ grouped together in one class and in this way the entire data are divided into number of groups or classes.

Classification can be done in two ways basing on the classification according to the attributes and classification according to the class-intervals depending on the nature of the research questions to be addressed (Kothari, 1990). The major role of the classification is to reduce the hugeness of collected raw data to facilitate easy tabulation.

Data analysis is a stage after data processing. It refers computation of certain measures along with searching pattern of relationship that exist among data groups. There are two types of data analysis techniques which are qualitative and quantitative techniques.
In this study the researcher adopted qualitative analysis techniques and partially quantitative analysis techniques. With qualitative techniques, the collected data was edited, coded, classified and summarized in the form of tables and analyzing them using percentage.

3.10 Validity and Reliability of the Instruments

3.10.1 Validity of the Research Instruments

The validation of the instrument is the process of establishing documentary evidence which provides a high degree of accuracy and that the specific process consistently produces a product meeting its predetermined specification and quality attributes (Cohen et al. 2000). To achieve the objective the multiple data collection techniques (Triangulation) was used in this study.

This involves the use of more than one method of data collection. This enables the researcher to combine the strengths of each method and correct the inefficiency of one source of data. The validity of research instruments assessed through discussions with the researcher’s supervisor.

3.10.2 Reliability of the Research Instruments

In research the term reliability refers to the ability of research instruments to produce consistent results. The method is reliable if it produces similar results when it is repeated (Best & Khan, 2006).

Reliability looks at the level at which correlations between information given by the same people but with differences in time (Furlong & Lovelace, 2000). In this study the reliability of data was assessed by using three research instruments to measure the same thing using the same respondents at different times.
3.10.3 Ethical Considerations

Kumar (1999) stipulates that ethical principles in the conduct of research include acquiring research clearance and the informed consent of participants as well as maintaining confidentiality.

The ethical issue was considered during the fieldwork. All respondents were assured of maximum level of confidentiality and consent was considered. So the use of force or questions which might violate the ethical issue was avoided and discouraged.
CHAPTER FOUR
DATA ANALYSIS, PRESENTATION AND DISCUSSION OF RESEARCH FINDINGS

4.1 Introduction
This chapter presents study findings, analysis and discussions of the same. It is organized into four sections; the first section of the chapter provides respondents profile in terms of age, gender and level of education, the chapter further gives the financial performance of IGT with the increasing of motorcycle claims, the relationship between increased claims and performance of IGT and the challenges IGT are facing on handling motorcycle claims.

4.1.2 Background Characteristics of the Respondent
In this study the characteristics of respondent were categorized in terms of demographic and social, where by demographic characteristics were based on age and social characteristics of respondent based on gender and level of education.

It was considered important to know the gender, age of respondents, level of education, name of department in which the employee is serving. There was an assumption that these variables influence the extent to which increase in motorcycle claims affect the performance of insurance firms.

The study involved 60 respondents who were representing two categories, namely; IGT staff 40 (67%), and insured (customers) 20 (33%) of IGT from different brokers/Agents offices. Various reports from IGT head office and brokers/agents offices were used to get more useful information that could be of help to be used for the findings.

4.1.3 Gender of Respondents
A question on gender of respondents was asked to ascertain the sex of the respondents, out of 19 respondents the data (see Fig.4.1) shows that 15(78. 9%) were male and 4(21.1%) were female.
The findings revealed that the bigger sample was drawn from male. The implication that can be drawn from data on figure 4.1 is that a good number of men were taken as a sample to represent other men who are employee of IGT and insured.

In order to analyze the population involved in the study, respondents were categorized by their gender as presented in figure 4.1 below;

**Figure 4.1 Gender of respondents**

Source: Study Findings, 2014

**4.1.4 Age of respondents**

The researcher decided to include age in the questionnaire because age associates with employment. Table below shows the majority of the respondents were in age group of 18-35 with 52.6% of the study sample while respondents with age group of 36-50 (35.4%). The study also found that age group of 51- 60+ was (12%) of all surveyed study.

The study revealed that IGT has employed staff who are still energetic and can work on different environmental condition based on the fact that insurance industry in Tanzania are in competitive manner, however the findings also revealed that the insured of IGT most of them are adults their age range between 36-50 (35%) this is age group which own motorcycles and most for business purpose to increase their income.
More over according to the IGT Motor insurance policy and the constitution the insured should be above 18 years old meaning at this age a person can enter a contract on certain matter, thus in finding most of insured were above 18 years old.

Table 4.1: Age of Respondents

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>18-35</td>
<td>10</td>
<td>52.6</td>
</tr>
<tr>
<td>36-50</td>
<td>7</td>
<td>35.4</td>
</tr>
<tr>
<td>51-60</td>
<td>2</td>
<td>12</td>
</tr>
<tr>
<td>Total</td>
<td>19</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Study Findings, 2014

4.2.4 Education of respondents

Education is crucial to improve performance, reducing poverty, improving general health, and hence, enable people to play their full part in their communities and nation by delivering services with integrity, accountability, loyalty, and respect of law and with proper use of official information.

Education qualification is also important aspect in considering with understand capacity towards education on the importance of insurance and how to control accident. The results from the field show that, out of 19 respondents, 12 (63.2%) were college respondents; this implies that, IGT companies employs people with qualification to meet the customer demand.

However, only 5(26.2%) were having any A level qualification and 2(10.6%) were having primary education and O-Level education, from the finding as aforementioned that most of IGT staff are educated but for the case of insured (customers) of IGT some of them having ordinary level of education and they depend much on their motorcycle business to increase their income for example; the insured who own one motorcycle expect to get fifty thousand per week and two hundred thousand per month.
The finding also revealed that due to their little education on insurance most of insured are not taking precaution measure to reduce claims since they employ drivers who most are young boys and rough riders which cause accidents and automatically raise claims to insurance company.

**Table 4.2: Education of Respondents**

<table>
<thead>
<tr>
<th>Education Category</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Primary</td>
<td>1</td>
<td>5.3</td>
</tr>
<tr>
<td>2 O-level-Secondary</td>
<td>1</td>
<td>5.3</td>
</tr>
<tr>
<td>3 A-Level Secondary</td>
<td>5</td>
<td>26.2</td>
</tr>
<tr>
<td>4 College</td>
<td>12</td>
<td>63.2</td>
</tr>
<tr>
<td>Total</td>
<td>19</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Study Findings, 2014

**Factors Affecting Performance of IGT**

**Unexpected Inflation**

The researcher wanted to know factors affecting performance of IGT as one of insurance companies insuring motorcycles. The results show that, 57.9% of the respondents strongly agree that, unexpected inflation is one of the factors affecting the performance of the insurance companies, 15.8% of the respondents agree that, unexpected inflation is one of the factors affecting the performance of the insurance companies, 10.5% of the respondents disagree that, unexpected inflation is one of the factors affecting the performance of the insurance companies.

This was addressing the first objective of the research study. Inflation certainly plays a role in insurance and has an adverse impact on many aspects of insurance operations, such as claims, expenses and technical provisions (Daykin et al., 1994). It is relatively predictable over the term of general insurance liabilities, and expected inflation generally is taken into account when actuaries set premiums, inflation itself is unlikely to impact seriously on the performance of general insurers.
Nevertheless, it should be noted that there has been unexpected high claims inflation in liability and personal injury claims in recent years. If inflation is significantly greater than expected, it could cause insurers financial difficulty. As a result, we expect that non-life company performance would be negatively related to unexpected inflation.

Table 4.3: Factors Affecting Performance of IGT

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Agree</td>
<td>11</td>
<td>57.9</td>
<td>57.9</td>
<td>57.9</td>
</tr>
<tr>
<td>Agree</td>
<td>3</td>
<td>15.8</td>
<td>15.8</td>
<td>73.7</td>
</tr>
<tr>
<td>Neutral</td>
<td>2</td>
<td>10.5</td>
<td>10.5</td>
<td>84.2</td>
</tr>
<tr>
<td>Disagree</td>
<td>2</td>
<td>10.5</td>
<td>10.5</td>
<td>94.7</td>
</tr>
<tr>
<td>Strongly Disagree</td>
<td>1</td>
<td>5.3</td>
<td>5.3</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>19</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Study Findings, 2014

**Interest Rate Change**

The researcher wanted to know factors affecting performance of IGT as one of insurance companies insuring motorcycles. The results show that, 42.1% of the respondents strongly disagree that Interest Rate Change is one of the factors affecting the performance of the insurance companies, 31.6% of the respondents strongly disagree that Interest Rate Change is one of the factors affecting the performance of the insurance companies, 10.5% of the respondents agree that Interest Rate Change is one of the factors affecting the performance of the insurance companies.

The higher interest rates are the higher claim inflation is likely to be, which means that claim costs increase. In addition, the impact of interest rate change on assets and liabilities is different if the two have different durations. Since interest rate risk
increases with duration, interest rate change will normally have greater impact on the value of assets than on that of liabilities if asset duration is longer than liability duration.

Table 4.4: Interest Rate Change

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Strongly Agree</td>
<td>1</td>
<td>5.3</td>
<td>5.3</td>
</tr>
<tr>
<td>2</td>
<td>Agree</td>
<td>2</td>
<td>10.5</td>
<td>10.5</td>
</tr>
<tr>
<td>3</td>
<td>Neutral</td>
<td>2</td>
<td>10.5</td>
<td>10.5</td>
</tr>
<tr>
<td>4</td>
<td>Disagree</td>
<td>6</td>
<td>31.6</td>
<td>31.6</td>
</tr>
<tr>
<td>5</td>
<td>Strongly Disagree</td>
<td>8</td>
<td>42.1</td>
<td>42.1</td>
</tr>
<tr>
<td>Total</td>
<td>19</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Study Findings, 2014

Leverage

The results show that, 36.8% of the respondents strongly agree that Leverage is one of the factors affecting the performance of the insurance companies, 31.6% of the respondents agree that Leverage is one of the factors affecting the performance of the insurance companies, 10.5% of the respondents disagree that Leverage is one of the factors affecting the performance of the insurance companies.

Renbao Chen and Rie Ann Wong (2004) stated that leverage beyond the optimum level could result in higher risk and low value of the firm. Empirical evidences with regard to leverage found to be statistically significant relationship but negative. The relationship between leverage and profitability has been studied extensively to support the theories of capital structure and argued also that insurance companies with lower leverage will generally report higher ROA, but lower ROE.
Table 4.5: Leverage

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Strongly Agree</td>
<td>7</td>
<td>36.8</td>
<td>36.8</td>
</tr>
<tr>
<td>2</td>
<td>Agree</td>
<td>7</td>
<td>36.8</td>
<td>73.7</td>
</tr>
<tr>
<td>3</td>
<td>Neutral</td>
<td>2</td>
<td>10.5</td>
<td>84.2</td>
</tr>
<tr>
<td>4</td>
<td>Disagree</td>
<td>2</td>
<td>10.5</td>
<td>94.7</td>
</tr>
<tr>
<td>5</td>
<td>Strongly Disagree</td>
<td>1</td>
<td>5.3</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>19</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Study Findings, 2014

**Volume capital**

The researcher also wanted to know if the volume capital also affects the performance of IGT. The results show that, 42.1% of the respondents strongly disagree that volume capital is one of the factors affecting the performance of the insurance companies, 21.1% of the respondents disagree that volume capital is one of the factors affecting the performance of the insurance companies, 15.8% of the respondents agree that volume capital is one of the factors affecting the performance of the insurance companies.

(See the figure below). The relationship between volume capital and return on asset for insurance industry is found positive and statistically significant relationship between insurance capital and profitability.
Other factor that was considered to affect the performance of IGT was the tangibility of assets. The results show that, 47.4% of the respondents agree that tangibility of assets is one of the factors affecting the performance of the insurance companies, 21.1% of the respondents strongly agree that tangibility of assets is one of the factors affecting the performance of the insurance companies, 15.8% of the respondents strongly disagree that tangibility of assets is one of the factors affecting the performance of the insurance companies. Tangibility of assets in insurance companies in most studies is measured by the ratio of fixed assets to total assets.
Figure 4.3: Tangibility of assets

Source: Study Findings, 2014

High Claims

The researcher was interested to know if high claims imposed by motorcycle claims do affect performance of the organization. Field result revealed that, 73.7% of the respondents strongly agree that high claims imposed by motorcycle claims do affect performance of the IGT, 10.5% of the respondents agree that high claims imposed by motorcycle claims do affect performance of the IGT, 10.5% of the respondents disagree that high claims imposed by motorcycle claims do affect performance of the IGT.

However, only 5.7% of the respondents strongly disagree that high claims imposed by motorcycle claims do affect performance of the IGT. (See the fig below). However, as we discussed in the previous sections of the literature review, in most literatures, profitability with regard to insurance companies usually expressed in as a function of internal determinants factors. Rather, most researches concerning determinants of profitability in insurance companies are divided in to two, such as determinants of profitability in property/liability or general insurance companies and in life/health insurance companies.
Time Limit to Claim for Compensation

Any claim must have time limit, where should be considered to be varied. In this case the researcher was interested to know if there is time limit for the claim to be paid and considered to varied for payment.

It was revealed that, 84.2% of the respondents said there is time limit for the claim to be payed and considered to varied for payment. But only 15.8% of the respondents said there is no time limit for the claim to be payed and considered to varied for payment. This implies that, the claim should only be satttled if it is within the required time of claim.
Figure 4.5: Time Limit to Claim for Compensation

Source: Study Findings, 2014

Claim be settled if the agent/broker failed to submit the premium on time
The insurer also asked on the settlement of claims if the agent/ brokers failed to submit the premium on time, the results show that 84.2% of the respondents said that, no claims should be settled if the agent/ brokers failed to submit the premium on time.

However, only 15.8% of the respondents said that, the claims should be settled if the agent/ brokers failed to submit the premium on time. Failure to brokers to submit the premium on time no payment will be made.

Table 4.6: Claim be settled if the agent/broker failed to submit the premium on time

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Yes</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 no</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

51
Once the insured cancelled the policy, how long will it take to receive the refund.

Cancellation of the policy show that it takes two weeks to receive the refund, but very few respondents of only 21.1% said that, it takes one week to receive the refund.

Table 4.7: Once the insured cancelled the policy, how long will it take to receive the refund.

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td>One week</td>
<td>4</td>
<td>21.1</td>
<td>21.1</td>
</tr>
<tr>
<td></td>
<td>Two Week</td>
<td>12</td>
<td>63.2</td>
<td>84.2</td>
</tr>
<tr>
<td></td>
<td>Three week</td>
<td>1</td>
<td>5.3</td>
<td>89.5</td>
</tr>
<tr>
<td></td>
<td>Depends on the regulations prevailing</td>
<td>2</td>
<td>10.5</td>
<td>10.5</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>19</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Study Findings, 2014

Motorcycle Claims per Year

Since the researcher was interested to know the effect of increase in motorcycle claims per year. Knowing the number of motorcycle claim was his interest, the result show that, 84.2% of the respondents said that there 100 motorcycle claims per year, 5.3% of the respondents said that there 20 motorcycle claims per year, 5.3% of the respondents said that there 50 motorcycle claims per year and other 5.3% of the respondents said that there 150 motorcycle claims per year. This shows that the claim is so high compared to the premium insured.
Procedures of reporting the claims

The interview conducted between the insurer and the researcher was revealed that, the procedures of reporting the claims is as follows, first of all the insured should Notifying the insurer immediately by phone within 48hrs and by writing within 7days, informing the incident occurrence. It is followed by reporting the incident at the police station and submitting the police reports. This report should be detailed on the cause of accident.

After submission of the police reports followed by filling the claim form, Insurance assessor will be appointed to assess the loss. If the loss is genuine the claim will settled within 14days and not more than 40days.

Procedures taken during underwriting of the motorcycle

The respondents said that, were asked to provide the copy of registration card and state the price of sum insured. Underwriter inspects the vehicle and took photos for records.
Insured will be issued with receipts showing the payment, cover note, insurance policy and sticker of insurance cover.

**Measures which are being taken to reduce number of motorcycle claims**

The researcher wanted to know Measures which are being taken to reduce number of motorcycle claims, as one of insurance companies insuring motorcycles. The respondents explained that the insurance company needs to be aware of and comply with the professional standards and regulations, such as avoid underwriting irregularities.

More over to increase the premium rate to the motorcycle was sought to be a good measure since the insurer will accumulate more premium as it’s well known Insurance is a risk distribution system that requires the accumulation of liquid assets in the form of reserve funds that are, in turn, available to pay loss claims. Insurance companies generate a large steady flow of cash through insurance premiums.

Apart from that the insurance business, by its very nature, is susceptible to fraud thus it has to appoint insurance assessor who have to make thorough investigation on claims so as to avoid fraudulent claims.

**Motorcycle claims has direct impact on the financial performance of the IGT**

The question on whether Motorcycle claims have any impact on the financial performance of the IGT was asked. Most of the respondents (93.3%) said that the Motorcycle claims have an impact on the financial performance of the IGT.

The rest of the respondents agree Motorcycle claims have any impact on the financial performance of the IGT. Only 6.5% responded that Motorcycle claims has any impact on the financial performance of the IGT. (See Table 4.7 below)
Table 4.7: Motorcycle claims has direct impact on the financial performance of the IGT

<table>
<thead>
<tr>
<th>S/N</th>
<th>Responses</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Motorcycle claims has direct impact on the financial performance of the IGT</td>
<td>16</td>
<td>93.5</td>
</tr>
<tr>
<td>2</td>
<td>direct impact on the financial performance of the IGT</td>
<td>3</td>
<td>6.5</td>
</tr>
<tr>
<td>3</td>
<td>Total</td>
<td>19</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Study Findings, 2014

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION

Introduction
This chapter presents a summary of the findings, conclusions and puts forward recommendations based on the research findings. The study assessed the effect of increase in motorcycle claims on the performance of insurance firms: the case of Insurance Group of Tanzania Ltd (IGT).

The major focus was the examination of the financial performance of IGT with the increasing of motorcycle claims, the relationship between increased claims and performance of IGT and the challenges IGT are facing on handling motorcycle claims.

5.2 Summary
The research on the effect of increase in motorcycle claims on the performance of insurance firms was conducted at IGT and 19 respondents participated. The general
objective was to examine the effect of increase in motorcycle claims on the performance of insurance firms (The case of Insurance Group of Tanzania Limited).

The major focus was the financial performance of IGT with the increasing of motorcycle claims, the measures which are being taken by IGT to reduce number of claims, and the challenges IGT are facing on handling motorcycle claims.

Both the empirical and theoretical literature review was oriented and the research gap was covered. The case study research design was used and questionnaires, interview guide, observation schedule and documentations were used as data collection instruments.

The study came up with the following findings in accordance with the study’s research objectives. The first objective focused on the financial performance of IGT with the increasing of motorcycle. The findings revealed that Motorcycle claims have an impact on the financial performance of the IGT. Since the claims are higher compared to the premium insured.

Profitability with regard to insurance companies usually expressed in as a function of internal determinants factors. These includes, Tangibility of assets, in these research the findings show that, tangibility of assets, is one of the factors affecting the performance of the insurance companies.

Volume capital is one of the factors affecting the performance of the insurance companies. The relationship between volume capital and return on asset for insurance industry is found positive and statistically significant relationship between insurance capital and profitability. Leverage being another internal factor, it was revealed that, also affect the performance of insurance companies.

Unexpected inflation is one of the factors affecting the performance of the insurance companies. Inflation certainly plays a role in insurance and has an adverse impact on
many aspects of insurance operations, such as claims, expenses and technical provisions.

The second objective was on the measures which are being taken by IGT to reduce number of claims; most of the respondents strongly agree that there should be measures which will be taken to reduce the number of claims and the main point is that the insurance company needs to be aware of and comply with the professional standards and regulations, such as avoid underwriting irregularities.

The third objective was on the challenges IGT are facing on handling motorcycle claims. The results show that, the process of handling the claims took a lot of time since it has to involves other authorities such as police who are supposed to issue the police reports and sometimes it took much time for the insured to be issued with such reports in this manner it affect the way insured to be handled within a short period.

Other challenge faced is the way brokers/agents failure to submit the premium on time which affects the compensations to be made to the insured.

5.3 Conclusion
On the basis of the findings of this study, it can be concluded that Motorcycle claims have an impact on the financial performance of the IGT. Since the claims are high compared to the premium insured which automatically do affect performance of the IGT.

Profitability with regard to insurance companies usually expressed in as a function of internal determinants factors which are Volume capital, Tangibility of assets, Leverage, unexpected inflation and high claim.

5.4 Recommendations
This study has proved beyond doubt that the effect of increase in motorcycle claims affects the performance of insurance firms. This is due to the fact that the firms
experience more claims than the premium paid due to the compensations which has to be made to the insured. Based on that, the study comes up with the following recommendations to different stake holders.

**To the government**

Since the government through the ministry of finance and economic affairs, and Ministry of home affairs are the key actor or institution for making and enforcing laws, it is therefore recommended that the government (Ministry of Finance and Economic Affairs, and Ministry of home affairs) should;

- Design strategies for addressing problems facing the insurance firms as results of increasing motorcycles claims which most are resulted from the accidents.

- Imposing high fine to the driver of motorcycles who most of them are the source of accidents of which these accidents raise claims to insurance companies.

- Some of authorities in the government like police should reduce bureaucracy and issue the police reports in time after completion of the investigation which will automatically not delaying the compensation to the insured.

- The government should enact the insurance policy, since the lack of a national policy on insurance continues to deny the insurance industry with the necessary opportunities for growth and building its capacity for creation of national underwriting. This has an adverse impact on the industry’s contribution to the national economy.

- Reinforce a great amount of training and practice to the motorcycle riders so that they can take precaution to avoid accidents.

- Deter aggressive riding behavior on the street that may be hazardous to the drivers and the general public.
➢ Track the costs of life insurance, hospitalization, and rehabilitation due to fatalities and injuries caused by motorcycle accidents to get a better sense of how important the correct training is to reducing cost.

To the insurance firms

➢ Poor claims servicing practices by some insurers is potential for negative image of the industry and exposure to reputational risk, thus insurance companies are advised to offer good services in order to compete in the competitive insurance industry in Tanzania, such as paying valid claims efficiently.

➢ Insurance companies should established policies which will guide their relationship with brokers since some of brokers are doing things in unprofessional way such as failure to submit the premium on time and when the claims arises it became a problem for the insured to be reimbursed.

➢ TIRA should enforcing regulatory compliance by insurers and reducing scope of trading licenses for insurers which perpetually delay in settling appropriate admitted claims, especially in respect of motor insurance.

➢ Moreover TIRA should continue with the process of establishment of Ombudsman Services as a quasi-court to address customers’ complaints.

To the insured/customer

➢ The Insured are advised to insure the properties to the insurance companies which offer good services and follow the professional ethics such as the claims are being paid with no delay and no bribe demanded for the claim to be settled.

➢ The insured are advised to take precaution when they employ drivers since most of them are young boys who normally do not follow the traffic regulations
as results motorcycle accidents are increasing which automatically raise the claims to insurance companies.

Reference


Rebao Chen and Ann Wong (2004), Determinants of Financial Health of Asian Insurance Companies, the Journal of Risk and Insurance Volume 71 Number 3

APPENDICES

Appendix 1

Questionnaire for IGT staff

Dear Sir / Madam

This questionnaire is intended on conducting a study on the “effect of increase in motorcycle claims on the performance of insurance firms”. You are kindly requested to respond to the questions below as to the extent of your knowledge so as to facilitate this study. Please note your participation is appreciated and the information you give will be valuable. Thank you for your maximum cooperation for the betterments of the insurance industry in Tanzania. Your participation is of great importance.

SECTION A;

The aim of this section is to introduce the respondents

1. Gender of respondent

   1. Male [ ]

   2. Female [ ]
2. Age of respondent
   1. 18-25
   2. 26-35
   3. 36-45
   4. 50 and above

3. Level of your education;
   1. Below primary level
   2. Primary education
   3. Secondary education
   4. University

4. Name of Department
   1. Finance
   2. HR and Admin.
   3. Planning, Statistics and Actuarial Services
   4. Compliance
   5. Claims department

5. For how long have you been working with IGT
   1. Less than 1yr – 5yrs
   2. 6yrs- 10yrs
   3. 11yrs- 16yrs
   4. 17yrs- 22yrs
SECTION B: QUESTIONS

Effect of increase in motorcycle claims on the performance of insurance firms:

Study concentration: Insurance Group of Tanzania Limited (IGT) in Dar es Salaam

1. Mention the major factors affecting performance of IGT

2. What is the time limit to claim for compensation from the time of accident to occurrence?

3. In case of damage/loss what are the documents required for settlement of claims?

4. What are the procedures required for the claim settlement?
5  Mention five challenges your company are facing on handling motorcycle claims?

(i) ..............................................................................................................

(ii) ...........................................................................................................

(iii) .......................................................................................................... 

(iv) ......................................................................................................... 

(v) .......................................................................................................... 

6  What is the financial performance of IGT with the increasing of motorcycle claims?

..............................................................................................................
..............................................................................................................
..............................................................................................................
..............................................................................................................

7  How many motorcycle claims you are receiving per year?

(a) 20

(b) 50

(c) 100

(d) 100+

8  How does the number of claims increase or decrease for the past two years?..............................................................................................................
..............................................................................................................
9 What are the measures taken to minimize number of claims?

........................................................................................................................................
........................................................................................................................................
........................................................................................................................................
........

10 It takes how many days to settle motorcycle claims? .................................

11 Where does the insured take the motorcycle for repairs in the event of claim? ........................................................................................................................................

12 Does it need to go to a specific repair facility?
.................................................................................................................................

13 Can the insured keep the damaged parts?
.................................................................................................................................

14 What was the financial performance of IGT for the past two years?
........................................................................................................................................
........................................................................................................................................

15 Does the trend of financial performance satisfy the company? How?
........................................................................................................................................
........................................................................................................................................

68
16 If the financial performance is weak what are the measures taken to boost it?

17 Does the motorcycle claims have direct impact on the financial performance of the IGT?

18 Is there any time when IGT was taken to the court as results of motorcycle claims?

19 How many times have you have taken to court?

20 What were the results of the case if any?

21 What was the decision of TIRA on various motorcycle claims which they intervened?
22 How does the company handle claims after “hit and run” incident and the insured unfortunately failed to note the plate number?

........................................................................................................................................................
........................................................................................................................................................
........................................................................................................................................................

23 What are the most common causes of motorcycle claims?

........................................................................................................................................................
........................................................................................................................................................
........................................................................................................................................................

24 What will happen if the insured driver did not have a valid driving licence?

........................................................................................................................................................

25 Can the claim be settled if the agent/broker failed to submit the premium on time? And what are the rights of insured?

........................................................................................................................................................
........................................................................................................................................................
........................................................................................................................................................

26 Who is allowed to file a claim once a motorcycle accident has occurred?

........................................................................................................................................................
........................................................................................................................................................
........................................................................................................................................................

27 Who is allowed to fill in the claim form?
28 What will happen if the insured failed to make transfer of ownership at the time of loss and he/she submitted the claim to insurance company?

…………………………………………………………………………………………
…………………………………………………………………………………………
…………………………………………………………………………………………

29 Does the insured need to pay the premium in full or is there a payment plan?

…………………………………………………………………………………………
…………………………………………………………………………………………
…………………………………………………………………………………………

30 What is installment plan? Does insured pay monthly?

…………………………………………………………………………………………
…………………………………………………………………………………………
…………………………………………………………………………………………

31 What are considered accessory when covering motorcycle?

…………………………………………………………………………………………
…………………………………………………………………………………………

32 What happen if insured has dual insurance cover from different insurers?

…………………………………………………………………………………………
…………………………………………………………………………………………

33 If insured let friends ride his motorcycle are they covered if they cause an accident?
34 How can the insured cancel the policy?

35 Once the insured cancelled the policy, how long will it take to receive the refund?

36 What are the procedures of reporting the claims?

37 What procedures are taken during underwriting of the motorcycle?

38 What happen if the insured repaired his motorcycle in case of accident and request to be refunded?
39. What is deductible on the case of claim?

40. How many years has your company been in business under your present business name? 

41. Where do you see your company after five years with the increasing of competition on the insurance industry in Tanzania?

42. Who are your bankers?

43. What rights does insured have if didn’t report an accident to insurance company right away?

44. Is there a formula the IGT uses to determine a pain and suffering settlement?
Appendix 2

Questionnaire for the insured of IGT

Dear Sir / Madam

This questionnaire is intended on conducting a study on the “effect of increase in motorcycle claims on the performance of insurance firms”. You are kindly requested to respond to the questions below as to the extent of your knowledge so as to facilitate this study. Please note your participation is appreciated and the information you give will be valuable. Thank you for your maximum cooperation for the betterments of the insurance industry in Tanzania. Your participation is of great importance.

SECTION A;

45 What will you do when the other driver’s insurance company refuses to pay?


The aim of this section is to introduce the respondents

1 Gender of respondent
   1. Male [ ]
   2. Female [ ]

2 Age of respondent
   1. 18-25 [ ]
   2. 26-35 [ ]
   3. 36-45 [ ]
   4. 50 and above [ ]

3 Level of your education;
   1. Below primary level [ ]
   2. Primary education [ ]
   3. Secondary education [ ]
   4. University [ ]

4 Your professional

SECTION B: QUESTIONS

Effect of increase in motorcycle claims on the performance of insurance firms:

Study concentration: Insurance Group of Tanzania Limited (IGT) in Dar es Salaam
1. Who was your previous insurer(s)?

.................................................................

.................................................................

2. For how long you have been insured with IGT

----------------------------

3. How many motorcycles do you own?

.................................................................

4. How many of your motorcycles are being covered by IGT?

.................................................................

5. Have you had any claim before? How many times?

.................................................................

6. What was the nature of the claim?

(a) Accident

(b) Theft [   ]

7. What precautions measure you are taking to avoid claim?

.................................................................

.................................................................
8. How do you see the service offered by IGT
   (a) Good
   (b) Better [ ]
   (c) Excellent
   (d) No comment

9. It took how many days for your claim to be settled? .............

10. How did you know the IGT insurance company?, tick the appropriate box indicating channel of choice
   (a) Tv and Radio
   (b) Magazine and newspaper [ ]
   (c) Website and billboards
   (d) Friends

11. What are your suggestions to IGT on improving the way of handling insured?........................................................................................................................
........................................................................................................................

12. Mention challenges you faced when dealt with IGT?
........................................................................................................................
........................................................................................................................

13. How is the motorcycle insurance police of IGT?
   (a) Highly satisfactory
   (b) Satisfactory [ ]
14. How are the charges rate of the motorcycle insurance policies offered by IGT
(a) High
(b) Average [    ]
(c) Low

15. How do you obtain your insurance cover?
(a) Direct through insurer [    ]
(b) Through Broker/Agent

16. What are the most common causes of motorcycle accidents?
(a) Speeding
(b) Inexperienced driver [    ]
(c) Recklessness
(d) All of the above
Appendix 3

Interview Guide to the staff of IGT

Dear Sir / Madam

This interview is intended on conducting a study on the “effect of increase in motorcycle claims on the performance of insurance firms”. You are kindly requested to respond to the questions below as to the extent of your knowledge so as to facilitate this study. Please note your participation is appreciated and the information you give will be valuable. Thank you for your maximum cooperation for the betterments of the insurance industry in Tanzania.

Questions:

1. What is the financial performance of IGT for the past two years?
   ……………………………………………………………………………………………………………………………
   ……………………………………………………………………………………………………………………………

2. What measures are taken to minimize number of claims?
3. How many motorcycle claims are you receiving per year?

4. What are the most common causes of motorcycle claims?

5. What are the relationship between increased Motorcycle claims and performance of IGT?

6. Does the trend of financial performance satisfy the company? Why?

7. What are the challenges IGT are facing on handling motorcycle claims?

8. Can the claim be settled if the agent/broker failed to submit the premium on time? And what are the rights of the insured in this scenario.

9. What rights does the insured have if didn’t report an accident to insurance company right away?
10. Is there a formula the IGT uses to determine a pain and suffering settlement?

........................................................................................................................................
........................................................................................................................................
........................................................................................................................................
........................................................................................................................................

Appendix 4

Interview Guide to the insured of IGT

Dear Sir / Madam

This interview is intended on conducting a study on the “effect of increase in motorcycle claims on the performance of insurance firms”. You are kindly requested to respond to the questions below as to the extent of your knowledge so as to facilitate this study. Please note your participation is appreciated and the information you give will be valuable. Thank you for your maximum cooperation for the betterments of the insurance industry in Tanzania.

1 Who was your previous insurer(s)?
........................................................................................................................................
........................................................................................................................................
........................................................................................................................................

2 For how long you have been insured with IGT
........................................................................................................................................

3 How many motorcycles do you own?
........................................................................................................................................

4 How many of your motorcycles are being covered by IGT?
........................................................................................................................................

5 Have you had any claim before? How many times?
6 What was the nature of the claim?

7 What precautions measure you are taking to avoid claim?

8 It took how many days for your claim to be settled? .................

9 What are your suggestions to IGT on improving the way of handling insured?

10 Mention challenges you faced when dealt with IGT?