

**AN EXAMINATION OF THE FACTORS INFLUENCING PERFORMANCE  
OF THE INSURANCE INDUSTRY IN TANZANIA: THE CASE OF  
ZANZIBAR INSURANCE CORPORATION**

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**CERTIFICATION**

The undersigned certifies that he has read and hereby recommends for acceptance by The Open University of Tanzania (OUT), a dissertation entitled, “**An Examination of the Factors Influencing Performance of the Insurance Industry in Tanzania: The Case of Zanzibar Insurance Corporation (ZIC)**”. In partial fulfillment of the requirements for the award of Degree of Master of Business Administration of The Open University of Tanzania.

.....

**Dr. Julius Manyanda**

**(Supervisor)**

.....

Date

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Date

**DEDICATION**

This work is dedicated to my family and all those who truly care for me for their efforts, understanding and encouragement. Their support has led the successful accomplishment of my study.

## **ACKNOWLEDGEMENT**

My sincere and heartfelt go to all who in one way or another have helped me through this study. First and far most, I am grateful to the Almighty for giving me strength and good heath which were paramount important in the success of this work. Also, I thank my supervisor Dr. Julius Manyanda for his effort and encouragement until the accomplishment of this study. I also sincerely thank my beloved mother, wife and my entire family for their care to me until I finished this work. Their encouragement, patience and care were instrumental in my success. My appreciation also goes to Zanzibar Insurance Company (ZIC) for permitting me to pursue my study.

## ABSTRACT

The main objective of this study was to examine factors influencing performance of the insurance industry in Tanzania. To achieve these objectives both primary and secondary data were used. Primary data collected by means of semi-structured questionnaires. Secondary data obtained from various sources including book, journal and Internet. The sample of ninety (90) respondents was obtained using simple random sampling and purposive sampling techniques. The study revealed that performance of ZIC was affected by delay of payment of premium on time, reporting of fake claim and lack of know how about insurance service. In addition, accessibility and awareness of the insurance services provided by ZIC was not so difficult, therefore most intermediaries and insured were able to obtain and utilize the services. The result also found that operations of insurance company were influenced by assessors and investigator who delayed producing report on time. The company faced with the following challenges: Construction of marketable policies, introduction of the 'cash and carry' system in selling of insurance products in the market, lack of facilities in the country for training professionals, infrastructures system not well organized which result in only few places getting privilege of receiving the insurance services. The study recommended that insurance policies should be designed to be user friendly. Where possible, documents should be both in English and Swahili language to help understandability of Tanzanian insurance consumers.

**Keywords:** *Performance of ZIC, insurance industry, payment of premium, Tanzania.*

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**LIST OF ABBREVIATIONS**

|      |   |
|------|---|
| GDP  | Gross Domestic Product                      |
| IIT  | Insurance Institute of Tanzania             |
| IMF  | International Monetary Fund                 |
| MBA  | Master of Business Administration           |
| NIC  | National Insurance Corporation              |
| OUT  | The Open University of Tanzania             |
| TIRA | Tanzania Insurance and Regulatory Authority |
| ZIC  | Zanzibar Insurance Corporation              |

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 Overview**

This chapter provides the background information and statement of the research problem of study. It provides the objectives of the study, significance of the study and the scope of the study. It also highlights the organization of the study.

#### **1.2 Back ground to the Study**

Globally there are thousands of insurance companies with large volumes of capitalization and funds employing very large numbers of employees on one hand, and much larger numbers of people and business organizations which are covered by insurance benefits on the other (Majmudar and Diwan, 2005). Insurance market is a substantial market The Tanzania insurance sector is growing steadily, with 30 insurance companies and 112 insurance Brokers which are currently active in the market (TIRA, 2014). The insurance penetrates, the contribution of insurance to Growth Domestic Product (GDP) remains very limited, paving the way for plenty of room for further growth (Provide the contribution of insurance industry/sector to GDP (e.g. Contribute 15 % to GDP). In 1996, insurance Act established the market paving the way for private new entrants to the market, until then a monopoly was held by the governments National Insurance Corporations (NIC) and Zanzibar Insurance Company (ZIC). The chance successfully attracted foreign and domestic investment to the Tanzania insurance sector.



Most company are partnerships a between foreign companies and local investor, combining external sector knowledge and financing with local market expertise. In 2009, a new insurance Act established a general framework for companies operating in the insurance industry and created a regulatory and supervisory body, the Tanzania Insurance Regulatory Authority (TIRA). Since it's established, TIRA has pushed the industry toward a risk-based system, doing away with the old compliance base system.

TIRA has also prepared and distributed insurance related publication aimed at improving Insurance understanding and awareness and among the population. At the same time TIRA has been working closely with insurance broker to improve efficiency and professional standard in the industry. As the result Tanzania are becoming more aware of the benefited of insuring against loss and the insurance sector is seizing an increasing percentage of the growing economy.

Insurance business in Tanzania market, having been under monopoly of the state-owned National Insurance Corporation (NIC) since the 1967 Arusha declaration reached a turning point in 1996 after Liberalization of the market upon enactment of insurance act 1998 (Bakuza, 1997). NIC enjoyed that monopoly for years, while the state continued to own all 100% of the NIC shares. The evolution of harsh global economic changes made Tanzania opt for fundamental changes in its social, economic and environmental programmes as economic changes affected international trade, causing inflation, and made the common life of consumers more miserable (Bwimba, 1999).

A liberalized insurance regime took effect in May 1998 with the establishment of the National Insurance Board, and a number of private companies received licenses from (Tanzania Authorities, IMF and WB, 1999). The liberalization of insurance market witnessed the implementation of insurance Act 1996 which removed NIC's monopoly of insurance market a direct challenge to NIC (Bwimba, 1999). Despite good intention that government had in nationalizing major financial institutions in 1967, lack of competition in the financial sector led to inefficient services, lack of innovativeness, use of outdated technology thus leading to poor delivery of services. In July 1990, the report presented to the Tanzania Government pointed out that services in financial institutions were poor, where lending and investment decisions were subjected to external influences a factor that led to misallocation of resources. The commission recommended reforms in the financial sector. The law opened up the market for private banks and financial institutions to operate in Tanzania bring state monopoly to end (Bakuza, 1997). The total number of insurance companies registered under the Insurance Act, as at 31st December 2007 (including one reinsurance company, Tan Re) stood at 18 (ISD, 2017).

### **1.3 Statement of the Research Problem**

Managing the insurance cycle remains the most important challenge facing the global insurance industry (Cazzolla, 2007). The "big problems" facing insurance agents and brokers today are human resources; government intervention; sustaining agency revenue growth/profit; maintaining a consistent company strategy and tactics; and company consolidation. Those five issues might even keep insurance companies; agents and brokers awake at night (Cazzolla, 2007). Insurers face mounting pressure

to improve profitability, which is directly linked to their ability to accurately assess risk, manage relationships and achieve operational efficiencies (<http://www.eds.com>). Underwriting high degree risk profile is very susceptible to occurrence of misfortune that will result into frequent and huge outflow of compensated fund consequently impair the performance. Likewise, handling customers with great care and keep on maintaining them increases the company's credibility and overall performance.

The government's decision had come at the right time when the insurance industry in Tanzania was going through a hard time due to a shortage of skilled labour (Fimbo, 2008). The contribution of insurance in the overall economic development of the country was still below three per cent, which was the minimum norm as per international standards. Stakeholders in the industry must identify the gaps in insurance service delivery and find ways of plugging them for the benefit of the sector in Tanzania (Meghji, 2006).

Insurance Institute of Tanzania (IIT) looks into ways of timing the false insurance claims and corruption problem by insurance practitioners and agents, which is very serious (Sumaye, 1997). The settlement of forged claim weakens the company's operation and decline the profitability and growth. Hence this study was conducted to found out factors influencing the performance of insurance industry in Tanzania.

## **1.4 Objective of the Study**

### **1.4.1 General Objective**

The general objective of the study is to asses' factors influencing performance

of insurance industry in Tanzania, typically, a case of Zanzibar Insurance Corporation.

#### **1.4.2 Specific Objectives**

The aim of the study is to attain the following objectives:

- i) To identify variables impacting mode of operation in underwriting, claim and finance departments at ZIC determine
- ii) To assess the extent of services rendered and its impact on performance delivery at ZIC
- iii) To identify challenges in service delivering for improvement of performance of ZIC
- iv) To investigate strategies that will enhance performance of ZIC.

#### **1.5 Research Questions**

- i) What variables impacting mode of operation in underwriting, Claim and finance department at ZIC?
- ii) What is the extent of services rendered and its impact on performance delivery at ZIC?
- iii) Which challenges faces ZIC in service delivering for improvement of performance?
- iv) What strategies should be taken on board to enhance performance of ZIC?

#### **1.6 Significance of the Study**

The findings from this study are expected to contribute and advance the body of knowledge for understanding better the factors which influences the performance of

insurance industry as following: The study findings are expected to provide useful understanding of the factors that are supportive, influencing and accelerating the growth of insurance industry in Tanzania. The results of the study and recommendations are likely to be beneficial to other researchers, policy makers, development agencies (actors), and entrepreneurs who would like to venture into the insurance industry. The study is a partial fulfillment of my Master of Business Administration (MBA) at Open University of Tanzania. The study will help business people, Government, Donors, Ngo's, insurers, re-insurers, insured and intermediaries to understand and have advanced knowledge and information on the constraints that they are likely to face and what they have to do in order to grow through the use of insurance services.

### **1.7 Scope of the Study**

This study dwells mostly on the factors which influence performance of the insurance industry, particularly, Zanzibar Insurance Corporation in Tanzania. The study has been chosen due to thorough understanding and familiarity with the content and subject matter by researcher. The study confined itself to the recently revised and updated data by cross-checking the different sources approached. Data were obtained from ZIC, Tanzania Insurance and Regulatory Authority.

### **1.8 Organization of the Study**

Chapter one of this study introduced the background to the study, statement of problem, the objectives of the study, research question, and significance of the study and the scope of the study. Chapter two comprises three sections. The first section

looks at theoretical literature review. It starts looking at some conceptual definitions of terms; theoretical analysis looks at different theories put forward by various scholars and tries to see if those theories safeguard this study. The second section deals with empirical studies. In this section review of studies done outside and in Tanzania by various scholars concerning the topic is done. Last section is conceptual framework. Chapter three deals with research methodology. This chapter looks at research design and strategies, survey population and area of study. It also looks at sampling procedures, sample size and methods of data collection. It ends up by looking at data analysis. Chapter four is about research findings, analysis and interpretations, and lastly chapter five provides recommendations and areas for future studies.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.1 Overview

This chapter presents definition of key conceptual terms. Various theories related to revenue collection are discussed. Theories concerning revenue collection are identified. Empirical literature on the topic is made to show the knowledge gap and the relevancy of the study. Furthermore, a conceptual framework for addressing the research problem is presented.

#### 2.2 Conceptual Definitions

The following is the definition of key terms used in the study.

**Insurance:** The term insurance could be defined in distinct dimension, one can define it in legal context and the other might define in general context. Generally, Insurance is a social device for spreading the chance of financial loss among a large number of people. The act of purchasing insurance, imply a “person” shares risk with a group of others, thereby reducing the individual potential for disastrous financial consequences. Transacting insurance includes soliciting insurance, collecting premiums and handling claims. Insurance is based on the *law of large numbers* in the sense that a combination of large number of homogeneous units; the insurer is able to make predictions of possible loss, calculate their probable losses and establish the rates for premiums that will cover their losses and their operating expenses. Butt (1985:141) described that insurance involve covering against events that may or may

not happen.

In legal aspect Insurance is, essentially, a contract by which one party gives a consideration, typically paid in money, in exchange for a promise from another party to make a return payment if a certain loss has occurred. It connotes, "A contract between two parties whereby one party called insurer undertakes in exchange for a fixed sum called premiums, to pay the other party called insured a fixed amount of money on the happening of a uncertain event."(<http://profit.ndtv.com>).

**Underwriting:** Underwriting is the process of selecting certain types of risks that have historically produced a profit and rejecting those risks that do not fit the underwriting criteria of the insurer. Good underwriting of risk selection normally produces a favorable loss ratio. This means the premium collected, less loss and expenses, produces a profit for the insurer. Insurers must carefully underwrite all risks to avoid being the victim of adverse selection. It is the tendency of insured with a greater-than-average chance of loss to purchase insurance. Often an insurer will cede part of a risk to a reinsurer to avoid being exposed to a larger than usual loss. Reinsurance is a contract of indemnity against liability by which an insurance company procures another insurance company to insure it against loss or liability by reason of the original insurance.

### **2.3 Principles of Insurance**

The insurance principle refers as the cannons of risk management, based on assumptions of expected outcomes, in which the law of averages is applied in theory



or in practice in approximating those outcomes. The insurance companies do use to quantify risk factors and determine the cost of indemnity. The following is the key insurance principles regularly used in practice.

**The Principle of Utmost Good Faith:** Utmost Good Faith is defined as a positive duty voluntarily to disclose, accurately and fully, all facts material to the risk being proposed, whether requested or not. In an insurance contract, the true status of the subject matter of the contract is not known to the insurer, if an insured person opts not to tell his insurance company about the realist circumstances for his/her affair would result, the insurance company accepting a risk higher than anticipated. Therefore, the proposer has an unfair advantage over the insurer since he has greater knowledge about the subject matter of the contract. For this reason, the law imposes a greater duty on the parties of an insurance contract than in other commercial contracts. This is called the doctrine of “uberrima fides” or “utmost good faith.” This doctrine calls for the proposer to disclose all facts that are material to the risk, whether the insurer inquires for the facts or not. A Material Fact is any fact which would influence the insurer in accepting or declining a risk or in fixing the premium or terms and conditions of the contract. Breaches of the duty of Utmost Good Faith arise due to:

Misrepresentation act that happens when the proposer does not report the facts accurately or Non-disclosure acts that happens when the proposer omits to report material facts. In other instance, the proposer attempt Concealment, i.e, the proposer deliberately hides facts that he/she knows to be material.

**The Principle of Insurable Interest:** Insurable interest is the financial interest of the proposer in such a manner that the proposer stands benefited by the safety or continuous existence of an asset and absence of liability and prejudiced by the destruction or damage of assets or existence of liability. Any asset is insurable by a person only if damage to that asset results in loss of a legal right or creation of a legal liability for that person. The subject matter of insurance can be any type of property or any event that may cause a loss or create a liability. Insurance is taken to offset the loss incurred or to pay for the liability created. There are several ways in which insurable interest arises. When the element of insurable interest is automatically present, it is said to have arisen through common law. Secondly, is when insurable interest arises by virtue of a contract entered into? Thirdly, through a Statute when an act of parliament may create an insurable interest by granting some benefit to a person or imposing some duty.

**The Principle of Indemnity:** Indemnity is the mechanism by which insurers provide financial compensation in an attempt to make good the loss suffered by the insured due to the happening of the event insured against. The effect of indemnity is to place the insured in the same financial position in which he was immediately before the loss - neither better-off nor worse-off. Indemnity means to provide compensation to the policyholder in such a way that neither he is benefited nor does he remain in loss, after a claim under the policy. There are two corollaries to the principle of indemnity – Subrogation and Contribution. Subrogation is the right of one person (insurer), having indemnified another (insured) under a legal obligation to do so, to stand in the place of that other (insured) and avail himself (insurer) of all the rights and remedies

of that other, whether already enforced or not.

This principle is corollary to the principle of indemnity in the sense that it prevents the insured to be benefited by loss after receiving the loss from the insurer as well as the responsible third party. The insured may recover the loss from another source after receiving the claim from the insurers but that additional money must be given to the insurers. Subrogation applies only when there is a contract of indemnity. It is not applicable in life insurance, personal accident insurance as these are not subject to the principle of strict indemnity. This principle does not apply only to the insured but also to the insurer as insurers are not entitled to recover more than what they have paid as claim. Just like the insured, the insurer must also not make any profit out of an insurance claim. Contribution In some cases, more than one policy may be in force on the same subject matter at the time of loss. In that circumstance, each insurer would need to bear a proportion of loss. This is referred to as Contribution, i.e, the right of the insurer to call upon others similarly (but not necessarily equally) liable to the same insured to share the cost of an indemnity payment. Contribution is usually calculated on the basis of 'Rateable Proportion'. This means that each insurer contributes towards paying the loss in proportion to the sums insured on the policies.

**Proximate Cause:** Proximate Cause is the active efficient cause that sets in motion a train of events which bring about a result, without the intervention of any force started and working independently from a new source. An insurance policy is designed to provide compensation only for losses that are caused by insured perils. This means that the liability of the insurer arises only if the loss is caused by a peril,

which is covered under the policy. However, as per the doctrine of proximate cause, the time that elapses between cause and result does not matter. The cause that is considered truly proximate is that which is proximate in efficiency not in time. Therefore, it is not the latest, but the most direct, dominant, operative and efficient cause that is regarded as proximate.

#### **2.4 The Performance of Quality Services in Insurance Industry**

Various alternative instruments have been used to assess service quality (SERVQUAL), notable among these being the SERVQUAL diagnostic presented in 1988 and refined in 1991 by Parasuraman, Zeithaml and Berry, abbreviated as PZB. They conceptualized service quality (Q) as the difference between customers' perceptions (P) of services of a specific firm and their expectations (E) of services in this particular industry. The negative P-E difference was characterized as a "gap" or quality flaw. The following dimensions were used to construct the 22-item SERVQUAL scale (Zeithaml *et al.*, 1990).

##### **2.4.1 Performance of Insurance in the Economic**

According to Mbelle (November 2005) the structure of Tanzania's economy is dominated by agriculture, while that of manufacturing is dominated by food and beverages, mainly for historical reasons. These structures have not changed for decades, due to limited financial resources to implement structural change. Since the enactment of the Banking and Financial Institutions Act in 1991 liberalizing the financial sector, there has been a rapid growth of financial institutions in Tanzania

Skipper (1997) in his research paper show that a strong insurance sector promotes financial stability of firms and individuals and reduces the anxiety of experiencing unexpected losses or harms, by indemnifying policy holders if hardships occur. As a consequence, insurance facilitates trade and commerce as it fosters entrepreneurial activity in environments that may be perceived as highly risky. Insurance, especially life insurance also mobilizes savings and enhances the efficiency of the financial system, by complementing banks in the role of financial intermediaries. Through these channels of risk transfer, indemnification and financial intermediation the insurance sector can therefore have very positive effects on economic growth. It could be argued, however, that the insurance sector is more likely to fulfill this role in countries at a relatively advanced stage of economic development.

Vaughan, (1982:28) show that in providing a mechanism through which losses can be shared and uncertainty reduced, insurance brings peace of mind to society's members and makes costs more certain. According to Lyaruu, (2009), the performance of insurance sector can strength the security of farmers. Agricultural Insurance can secure credit and will make the farmer a better credit risk and reduces problems associated with collateral, which the farmer will have to offer. If the crop fails, the bank will receive a payment from insurance Company. Insurance can be extended to agricultural sector and farmers can have a better access to credit. Insurance can help agriculture to develop through financial institutions, speed up commercialization and development of rural economy.

TIRA report (2016) shows that improved performance in Tanzania's economy is also reflected in the insurance industry. Higher per capita income, domestic savings, and availability of more instruments for investing surplus funds have facilitated growth in the activities of financial services. Savers' risk appetite has also been increasing which can be seen by the growth in life insurance premium. The premium underwritten by life insurers in 2016 has grown by 81.2% as against 9.1% in 2015. However, the former minister for finance, Zakia Meghji (2006) said the performance of insurance in the overall economic development of the country was still below three per cent, which was the minimum norm as per international standards. She called upon all people in the industry to identify the gaps in insurance service delivery and find ways of plugging them for the benefit of the sector in Tanzania.

## **2.5 Theoretical Framework**

### **2.5.1 Financial Performance of Insurance Companies**

According to Kasturi, (2016) Performance of insurance company in financial terms is normally expressed in net premium earned, profitability from underwriting activities, annual turnover, return on investment, return on equity etc. Budget variances measure the financial performance of insurance company. This performance will include both financial and non-financial performance. Financial performance for a company with branches can be divided as profit performance and investment performance. These measures can be classified as profit performance measures and investment performance measures.

TIRA report (2016) show that the industry recorded a significantly improved and

market grew by 24 percent in gross premium written compared to the previous year's performance (2015: 21 percent). The market growth was more than the growth of the nominal GDP and higher than the growth of nominal financial intermediation sector GDP during the period under review. This performance is in excess of the set target of 15 percent annual premium growth for the industry. However, in the same period real GDP growth was 7.0percent (2015: 6.0 percent).

## **2.6 Empirical Literature Review**

According to Laeven (2017), we now know from the recent crisis experience in East Asia that banks were taking excessive risks, largely unknown to small investors and depositors, although bank performance varied markedly across banks depending on such factors as the quality of management and the type of ownership Laeven (2017), among others. It is important to recognize the sheer magnitude of the insurance industry. During 2011, the world insurance business generated premiums valued at just under \$2.4 trillion, of which North America accounted for 39.4%, Europe 31.7%, Asia 24.7% and the rest of the world 4.2%. Given the nature of the insurance business, a great deal of this premium income is reinvested in local and international capital markets, which in turn makes insurers very significant institutional investors within the world economy.

Meyer *et al.*, (2016), in one of the most comprehensive studies by Swiss re, employed data from the 2014-2015 period to examine the insurance market in CEE and some of the NIS. Meyer *et al.*, found that while the market share of the former state monopolies was eroding – as a result of increased competition from both local

and foreign firms- they were able to retain their dominant position within the local market. The findings also supported the contention that in those host countries where foreign insurers were permitted to operate, they were able to capture a significant share of the local market. This was noted to be the case in both Hungary and Latvia and to a lesser extent in the Czech Republic, Slovakia, and Estonia. It was also shown that non-life insurance continued to be of great importance than life cover. Moreover, it was stated that the former was being driven by strong activity in motor insurance, as it is in Western Europe. In regard to life insurance, the authors contended that local customers increasingly viewed this type of coverage to be a good form of investment, especially in those countries of CEE that were more economic stability. In addition, it was also presumed that the life insurance sector would benefit greatly from pending reforms in state pension systems.

Mauritius has a much higher insurance penetration (premiums as a percentage of GDP) than India, Lebanon, Morocco and Sri Lanka and is on the same level as Chile, Cyprus and Singapore (Sigma 2016). The motor insurance policies are increasing competitive pressures and low profit margins, which makes insurance sector to be with a poor performance in growth. According to Pye (2015) his research paper show that, many foreign and local insurers active in the region seem to be relying on motor insurance not only provide growth but more importantly to introduce consumers to their other product offerings, and hopefully in the process enhance the currently low level of local insurance culture. While this education process is essential, it is sure to be resource intensive, and in the end may not actually yield the necessary critical mass of customers required to support their operation.



Insurance companies are major participants in the contractual savings market. As noted in Vittas (2003), Mauritius belongs to a select group of developing countries where contractual savings (i.e., savings with insurance companies and pension funds) exceed 40 percent of GDP and represent a major potential force in the local financial system. Other developing countries with large contractual savings sectors include South Africa, Malaysia and Chile alongside most high-income countries and some island economies like Cyprus and Malta. The vast majority of developing countries in Africa, Asia and Latin America as well as most transition countries of Eastern Europe are well below this level.

In Tanzania according to TIRA report year (2016) the performance of General Insurance product mix in the year 2015 shows a steady share of Motor insurance business at 36% (2015: 37%). This is followed by miscellaneous accident with 27% share (2015: 24%), Fire 21% (2009: 22%), Marine 6% (2015: 6%), Aviation 5% (2014: 6%), and Engineering 5% (2015: 5%). While in long term Assurance the performance of fund pension administration is 31.49%, other life business is 58.86% and retirement is 9.65%. By comparing with Greek performance in insurance business, Tanzania is not performing well in long-term business. May be the reason is due to like of awareness in long term business. According to Bharat Book Bureau (July 8, 2014) the performance of Thai insurance industry, along with the wider Thai economy, has now however recovered from the depths of the Asian financial crisis and is experiencing noteworthy growth. The trend is expected to continue as public awareness of the need for insurance increases.

## **2.7 Research Gap**

From different insurance performance studies as mentioned in the empirical study it seems there are many factors that influence insurance performance for companies in Tanzania, Africa as well as all over the world. Example, Bremavishnu (2014) investigated the factors driving insurance performance in the South Africa, Pallangyo (2015) investigated the effect of insurance operations in the Mwanza and Massawe (2016) assessed the influence of insurance performance in motorvehicles in Tanzania with case study of Same district. Findings from those studies indicated that there is still a gap on whether the solution taken to solve the insurance problems. Although the study by Obaidi (2011) in UAE provide better understanding on the factors of insurance performance, but it cannot lead us conclude the same because of variation of environments and level of development. Thus, another study has to be conducted in the Tanzanian context so as to bridge the gap. For this matter, there was a need of conducting another study of similar nature in Tanzania insurance industry by using questionnaire, documentary review to assess the factors influencing insurance performance. Therefore, it was thus appropriate to conduct a similar study in Tanzania and essentially in the insurance industry to find out the factors that influence the performance of insurance companies.

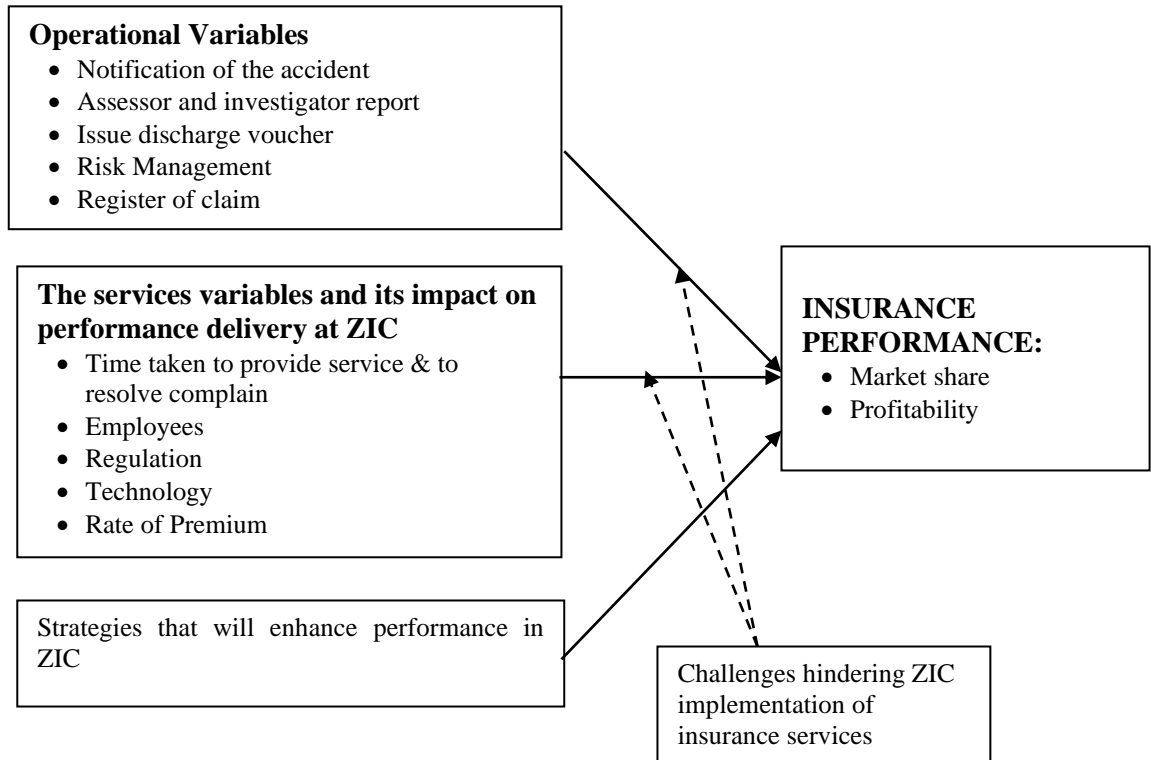
## **2.8 Conceptual Framework**

A conceptual framework explains graphically, the main theme to be studied, including the key factors that are constraints or variables and the presumed relationship among them (Miles & Huberman, 1994). This study investigates the factors that influence insurance performance. The conceptual framework developed

illustrates the relationship existing between factors involved and performance of those insurance companies.

**Independent Variables**

**Dependent Variables**



**Figure 2.1: Conceptual framework**

Source: Researcher (2020)

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Overview**

The major focus of this chapter was on research design, area of the study, target population, sample size and sampling techniques, data collection methods and type of data collected, validity and reliability of research instruments, data analysis and research ethics.

#### **3.2 Research Design**

Kombo and Tromp (2009) define research design as the glue that holds all the elements in the research project together. It holds all the elements in the research project. It is the structure of research. Research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with the economy in producer (Kothari, 2006). This study used a descriptive research design. This is because descriptive studies are concerned with specific predictions, narrations of facts and characteristics concerning individuals, groups or situations. Therefore, this study adhered to the descriptive research design. The aim of the study was to examination the factors.

influencing performance of the insurance industry in Tanzania and get an insight to an unknown phenomenon that is the factors influencing performance of the insurance industry in Tanzania. A case study approach was used to examine factors influencing performance of the insurance industry in Tanzania at ZIC.

### **3.3 Area of the Study**

The study was conducted in Zanzibar at Zanzibar Insurance Corporation. The selection of the region was on the basis that, it was the main commercial center in the country for insurance business and is the area we expect to obtain enough data concerning insurance business.

### **3.4 Target Population**

Population is the totality of objects under investigations (Kamuzora and Adam, 2008). In this study, population consists of management of the organization, head of departments, staffs, insured and non-insured, insurance brokers and insurance agencies from Zanzibar Insurance Corporation. The targeted populations were 27 insurers, 200 agencies and 20 corporate customers making a total of 307 persons.

### **3.5 Sampling Design and Sample Size**

Generally, it is not easy to study the whole population; therefore, the researcher determined the number of necessary samples to include in the study.

#### **3.5.1 Sampling Design**

Sampling involves selecting units of analysis which is referred to as the individual case or group of cases that the researcher wants to express something about when completed and is therefore the focus of all data collection efforts (Tashakkori and Teddlie, 2009). Sampling is done due to constraints of time, money and accessibility of data to the entire population (Cohen, et al., 2007).

This research employed both probability and non-probability sampling.

### **3.5.2 Stratified and Simple Random Sampling**

Probability sampling involved stratified sampling because the sample was not homogeneous. Within the stratum, simple random sampling was used. This sample consisted of insured and non-insured, insurer respondent, Agency and brokers from selected insurance industry. The aim of using simple random sampling was to make sure that each member within the sample had equal chance of been chosen.

### **3.5.3 Purposive or Judgmental Sampling**

According to Saunders *et al.*, (2000), purposive or judgmental sampling enables the researcher to use his judgment to select cases that will best enable him to answer the research questions and to meet the objectives. This form of sample is often used when working with very small samples such as in heterogeneous character of individuals motivated the study to choose this type of sampling technique so as to obtain chance of asking any insured, non-insured and employee of the organization. The main targeted groups for the purposive sampling were insured and non-insured, insurer and agency in insurance sector. The technique used is that, the researcher has taken the population from three categories 27 insurance companies, 200 insurance agencies and 20 corporate clients. The sample of fifteen (15) insurance companies, 80 agencies and 12 corporate clients were selected out of respective population group. The researcher used the responses to conclude for the whole population from five (5) managers out of 15 insurance companies, six (6) intermediaries out of 80 insurance agencies and four (4) corporate insured out of twelve (12). About 20% of the sample was obtained through purposive sampling to conclude the whole population. This method was deliberately chosen for intended special group of

people who were among the top management for the aim of getting reliable information about insurance operation. These respondents were selected purposively because they hold specific positions in the ZIC.

#### **3.5.4 Sample Size**

Kothari (2006) defines sample as a collection of some parts of the population on the basis of which judgment is made, small enough for convenient data collection and large enough to be a true representative of the population from which it has been selected. Sample size refers to a number of items to be selected from the universe to constitute a sample. The researcher used the responses to conclude for the whole population from five (5) managers out of 15 insurance companies, six (6) intermediaries out of 80 insurance agencies and four (4) corporate insured out of twelve (12). The total sample size for this study was ninety respondents (90). According to Kothari (2004), in order sample size to be a true representative of the population; it is supposed to be at least ten percent (10%) of the sampling frame. The higher the percentage the more representative the sample it becomes. In this study, sample size was about thirty-five (24.3%) percent of the sampling frame, so it was a true representative of the population.

#### **3.6 Data Collection Methods**

The researcher used both primary and secondary data collection methods in order to counterbalance shortcomings from each technique (Saunders et al., 2005). The aim was to use multiple methods in collecting data (triangulation) so as to ensure validity of data because one method complemented the other (Saunders et al., 2005).

### **3.6.1 Primary Data**

Primary data refers to the information collected afresh and for the first time and thus happen to be original in character. They are named primary because they are unsullied and have not been manipulated by any other person (Kothari, 2004). The researcher collected data from ZIC employees and Insurance brokers.

### **3.6.2 Secondary Data**

Secondary sources contained data which have been collected and compiled for several purposes. It contained some of the data collected and compiled by organizations and may include details on the income statement, journals and textbooks (Saunders et al, 2000). In this study the researcher collected secondary data from files, books, journals and where necessary, internet.

## **3.7 Data Collection Tools**

The researcher used three types of data collection tools.

### **3.7.1 Questionnaires**

Questionnaire refers to questions printed or typed in a definite order on a form or set of forms, the respondents have to answer the questions on their own (Kothari, 2004). The researcher employed self-administered semi-structured questionnaire with open ended questions. Self-administered questionnaires were distributed ninety (90) respondents who filled them and the researcher administered them. This study employed semi structured questionnaire with open ended questions and some with close ended questions. The researcher administered filling of the questionnaires.



### **3.7.2 Documentation**

Documentation is one of the techniques which are used to obtain various information from various literature including books, journals, research papers and other documentary source relating to a certain field of study. Normally documentation helps to gather qualitative data and measure the consistency of information obtained through other techniques (Kothari, 2004). In this study the researcher used secondary data obtained from various sources including book, journal and Internet, web pages, printed materials such as claim settling procedures, rate of premium for various risks (e.g. Marine, fire, burglary, good in transit, motor, money in transit, public liability, workman compensation etc), managerial operation, company strategic and organization performance. The researcher also employed other documents from libraries of Open University of Tanzania (OUT) and other relevant materials from internet that had relevant information to the study.

## **3.8 Data Reliability and Validity**

Reliability and validity tests were employed to test the research instruments.

### **3.8.1 Data Reliability**

Reliability refers to the consistence, stability, or dependability of the data. The reliability of an instrument is increased by identifying the precise data needed and repeated use of the instrument in field testing (Kothari, 2004). In order to ascertain reliability of this study a pilot study was conducted to some of the ZIC employees. In order to ascertain reliability of the study, a pilot study was conducted whereby questionnaires were distributed to 10 respondents in order to identify questions that

might be unclear or ambiguous to them. The pilot study also helped the researcher to identify any non-verbal behaviour of respondents that could have possibly shown discomfort or embarrassment about the content or wording. The questions that gave ambiguous answers were revised and formatted again so that they gave reliable answers during the final process of data collection.

### **3.8.2 Validity**

Validity refers to the extent to which a measurement does what it is supposed to do (Kothari, 2004). If a measurement is valid, it is also reliable but if is reliable, it may or may not be valid. In this study data was checked for its accuracy to make sure that they gave valid results. To make the data collection instruments, which in this case were questionnaires, valid and worth, ten questionnaires were distributed to ten respondents. The pre-test aimed at testing understandability of the questions presented in the questionnaires. As regards external validity the researcher assumed and believed that each respondent chosen had rich information.

### **3.9 Data analysis and Presentation**

The data obtained in this study was analyzed and presented for interpretation so as to fulfill the objectives of this study. In order to analyze quantitative data descriptive statistics was used while content analysis was applied to analyze qualitative data. Data was coded, edited, and analyzed statistically by using Excel. Furthermore, data was summarized in tables followed by short and brief explanations of the contents.

### **3.10 Ethical Considerations**

For ethical requirements in the conduct of the study respondents were duly informed

of the fact that the study was for academic purpose and that they were under no compulsion to respond to the questionnaire. The respondents were asked to participate voluntarily whilst assuring them of anonymity and confidentiality on the information given. In order to avoid plagiarism, all sources of information were duly acknowledged.

## **CHAPTER FOUR**

### **FINDINGS AND DISCUSSION**

#### **4.1 Overview**

This chapter contains six sections including; characteristics of respondents, mode of operation and service rendered by Zanzibar Insurance Corporation (ZIC), variables impacting mode of operation in underwriting, claim and finance departments, Extent of services rendered by Zanzibar Insurance Corporation (ZIC) and its impact in performance delivery, challenges facing ZIC in maximizing service delivery and strategies that will enhance performance of ZIC.

#### **4.2 Characteristics of the Respondents**

The general descriptions of the respondents i.e. insured, intermediaries, Non – insured and Insurer gives overview of the people participating in insurance industry. Under this section the study looked at the age and education level of respondents.

##### **4.2.1 Age of Respondents**

Data from Table 4.1 revealed that out of 90 respondents 35(38.8%) were between 26 and 35 years old, 25(27.7%) were between 36 and 45 years old, 10 (11.2%) were between 36 and 45 years old ,9 (10%) were above 55 years old, whilst 4 (4.4%) were below 18 years old. The results from Table 4.1 showed that majority of the people started business or became employed at the age of 19 to 35 after completed their studies. The former group buys assets such as motor vehicles, buildings, home furniture, electronics equipments and also assumed their family responsibility. Therefore, need to protect their assets against risk.

**Table 4. 1: Distribution of respondents according to age**

| <b>Age in Years</b> | <b>Frequency</b> | <b>Percentage</b> |
|---------------------|------------------|-------------------|
| Below 18 years      | 4                | 4.4               |
| 19 – 25 years       | 7                | 7.8               |
| 26 – 35 years       | 35               | 38.8              |
| 36 – 45 years       | 25               | 27.7              |
| 46- 55 years        | 10               | 11.2              |
| Above 55 years      | 9                | 10.0              |
| <b>Total</b>        | <b>90</b>        | <b>100.0</b>      |

**Source:**Field data (2020)

Furthermore, the results revealed that young, active, energetic people and cooperative clients at the age of 19 to 55 years engaged in business and employment activities to support their families or complement income from other sources. This category also needs to insure their property and business against risk. Beyond 55 years old comprised of retired who were involve in farming and animal husbandry. Although the retired one have assets, but they cannot insure them against risk due to lack of money for paying insurance premium. Those below 18 years were found to be in school or do not had enough knowledge of doing business and majority was not employed. Generally, this group did not possess enough assets to insure against risk.

#### **4.2.2 Educational level of the Respondents**

Data from Table 4.2 indicates that out of 90 respondents 50(55.5%) were university education, 18 (20%) of the respondents had diploma education,11(12.2%) had certificates,6 (6.6%) had a level education,4 (4.5%) had o level education while 1 (1.2%) was the holder of primary education. Hence the study revealed that majority of people who participating in insurance industry were educated people.

**Table 4.2: Distribution of respondents according to the level of education**

| <b>Education</b>  | <b>Frequency</b> | <b>Percentage</b> |
|-------------------|------------------|-------------------|
| Primary Education | 1                | 1.2               |
| O-Level Education | 4                | 4.5               |
| A-Level Education | 6                | 6.6               |
| Certificate       | 11               | 12.2              |
| Diploma           | 18               | 20.0              |
| Degree            | 50               | 55.5              |
| <b>Total</b>      | <b>90</b>        | <b>100.0</b>      |

**Source:** Field Data (2020)

### **4.3 Mode of Operation and Services Rendered by ZIC**

The study revealed that Zanzibar Insurance Corporation was providing insurance services to the government, corporate clients and Individual clients. This section is divided into two parts which include; mode of operation of ZIC and services rendered by ZIC. These findings helped to determine if the mode of operation and services rendered by ZIC affected the performance of the company.

#### **4.3.1 Mode of Operation of Zanzibar Insurance Corporation (ZIC)**

ZIC makes profit in two ways: (1) through underwriting, the process by which insurers selects the risk to insure and decide how much in premiums to charge for accepting those risks and (2) by investing the premiums they collect from insured. During the field study it was found that, the most complicated aspect of the insurance business was the underwriting of policies. Using a wide assortment of data, insurer predicts the likelihood that a claim will be made against their policies and price products accordingly. Upon termination of a given policy, the amount of premium collected and the investment gains thereon minus the amount paid out in claims is the insurer's underwriting profit on that policy.

From the insurer's perspective, some policies are winners (i.e., the insurer pays out less in claims and expenses than it receives in premiums and investment income) and some are losers (i.e., the insurer pays out more in claims and expenses than it receives in premiums and investment income). (wikipedia.org. December 15, 2016). ZIC also earned investment profits on “float”. “Float” or available reserve is the amount of money, at hand at any given moment that an insurer has collected in insurance premiums but has not been paid out in claims. Insurers start investing insurance premiums as soon as they are collected and continue to earn interest on them until claims are paid out.

In managing the claims-handling function, insurance company seek to balance the elements of customer satisfaction, administrative handling expenses, and claims overpayment leakages (wikipedia.org. December 15, 2016). According to this mode of operation the findings were obtained to determine mode of operating underwriting department, mode of operating claim department and mode of operating finance department at Zanzibar Insurance Corporation. These findings are divided into three parts as follows; Mode of operating underwriting department, mode of operating claim department and mode of operating finance department.

#### **4.3.2 Variable Impacting Mode of Operation of Underwriting Department**

Data from Table 4.3 showed that out of 90 respondents 40 (44%) said that the company was doing well in providing renewal notice to their clients. While out of 90 respondents interviewed 50 (56%) were not satisfied with the mode of sending renewal notice to insured. This was due to a delay to send renewal notice to clients

and sometimes failed to send them totally. Respondents said that delaying or not sending renewal notice affected both clients and the company, hence failed some clients to plan or budget for insurance expenses. As a result, some clients were found guilty by traffic police due to possession of expired motor insurance. The company lost insurance business because clients insured to other insurance companies. Also, renewal notice helped clients to become aware of insurance services; it also helped the company to plan for the future, reduced risk, and management cost and wastage of time because the existing businesses were already assessed.

For the management to control sending renewal notice, the company must be dealing with drop outs of insured on monthly basis. Number of dropouts from the insurance contracts must be observed time to time and a proper analysis to be made for analyzing the causes for drop out. The company may formulate policies to allow the customers to integrate back into the stream. The company also must consider the importance of tracing and customer retention.

Risk Management is the identification, assessment, and prioritization of risks followed by coordinated and economical application of resources to minimize, monitor, and control the probability and/or impact of unfortunate events (wikipedia.org. December 15, 2008). The aim of assessing the risk is to know if this risk is insurable or not and know if the risk is insurable according to the standard of the company. Data from Table 4.3 showed that out of 90 respondents interviewed 57 (63%) said that ZIC was doing well in risk management; while out of 90 respondents 33 (37%) were not satisfied by the company risk management. The reason was that



sometimes they insured risk without assessing; insured the risks which were not in the required standard and sometimes not insurable for example fake claims. Other impact of not assessing the risk was the failure of the company to fix the required rate of premium, failure of insurer to predict the likelihood that a claim will be made against the risk. Also the findings showed that sometimes underwriters were underwriting what comes from intermediaries and direct clients. The study noted that lack of qualified employees to undertake risk management was one of the factors of not performing well in risk management. Hence if the company is not assessing the risk, it affects underwriting profit of the company due to set low rate of premium and increase of claims. This result concur with the findings of, Kasturi, (2006) who also found that, “The efficiency of actuaries and assessors of the insurance policies in fixing premiums and settling claims is foremost an important area for achieving overall efficiency in operations. The quality of assessing the risk and estimation of losses has the largest claim on the performance of an insurance company. Well-trained, experienced and expert hands are needed for the operations.”

**Table 4.3: Data of Respondent in questionnaire related with mode of operation in underwriting department**

| Mode of Operating (MO)                | Satisfied |    | Not Satisfied |    | Total |     |
|---------------------------------------|-----------|----|---------------|----|-------|-----|
|                                       | N=90      | %  | N=90          | %  | N=90  | %   |
| Providing of renewal notice (PRN)     | 40        | 44 | 50            | 56 | 90    | 100 |
| Risk management (RM)                  | 57        | 63 | 33            | 37 | 90    | 100 |
| Collection of premium (CP)            | 58        | 64 | 32            | 36 | 90    | 100 |
| Risk acceptance (RA)                  | 62        | 69 | 28            | 31 | 90    | 100 |
| Documentation (DC)                    | 68        | 76 | 22            | 24 | 90    | 100 |
| Mode of cancellation of service (MCS) | 85        | 94 | 5             | 6  | 90    | 100 |

**Source:** Field Data (2020)

Data from Table 4.3 showed that out of 90 respondents interviewed 58 (64%) agreed that the company was doing well in collection of premium; the indicator of doing well was the settling of claims on time, growth of the company and getting insurance service on cash basis. While out of 90 respondents 32 (36%) were not satisfied by collection of premium from insured and intermediaries. This was caused by the nature of insurance market to provide insurance services on credit. As a result insured some times were not paying premium total, delay to pay premium, or pay premium after accident. The findings are supported by age analysis from Table 4.4. The effect of not doing well in collection of premium increased operating expenses in collection of premium from both intermediaries and insurer. This affected liquidity ratio of the company (The liquidity ratio indicator measures the amount of available cash to meet the “short term” obligations of the company). Also the mode of providing insurance services on credit affected solvency of the company. The study also revealed that the ZIC policy show that insurance services were provided on credit for business which came from the brokers and on cash basis for business from direct clients and insurance agencies. The nature of the insurance market and marketing competition were forcing the company to provide insurance services on credit for direct clients and insurance agency. However, insured were allowed to pay premium by installment for example COMPREHENSIVE product.

Data from Table 4.3 revealed that out of 90 responded interviewed 62 (69%) said that insurer was doing well in risk acceptance, while 28 (31%) did not agree with the performance of the company in risk acceptance. This was caused by delay in issuing the quotation and pro - former invoice on time. The impact for the company was to

lose business through the intermediaries. Underwriting premium also decreased due to increased competition of insurance companies in the market by undercut rate of premium. But the study noted that delay in issuing the quotation or pro - former invoice was done to very few intermediaries who were not providing business to the company. Also, the study noted that the delay was done on the businesses which were not potential to the company due to the claim expectations.

The result from Table 4.3 showed that majority of the respondents out of 90 respondents 68 (76%) said that the company was doing well in documentation or processing of documents e.g. endorsement, policy documents, certificates, invoice etc. While out of 90 respondents 22 (24%) showed that the company was not performing well in documentation for example delayed processing of policy documents and sends them to insured, delayed in sending renewal notes to them client to renew their policies, and sometimes to send certificates to intermediaries. As the result insured were not aware with terms of contracts which were enclosed in policy documents.

On the other side clients said that renewal notes helped them to plan about future premium payable to insurer and other disturbance to traffic police for expired insurance for those clients who have insured motor vehicle. Data from Table 4.3 revealed that out of 90 respondents 85 (94%) agreed that cancellation of insurance policies by insured was done on time and also the company returned premium on time. Furthermore, the study found that when cancellation was done, the policy cancelled under prorata. On the other side very few out of 90 respondents

interviewed 5 (6%) clients said that the insurer was delaying in cancellation of policy. The study further revealed that, the company was excellent in cancellation of policy and return of premium.

**Table 4.4: Premium age analysis from brokers and agencies**

| Description    | Less than 90 days | Between 90 to 180 days | Between 180 to 360 days | Over 360 days |
|----------------|-------------------|------------------------|-------------------------|---------------|
| Premium in (%) | 60                | 31                     | 7                       | 2             |

**Source:** Field data (2020)

Data from Table 4.4 showed that 60% of premium booked existed in the company for 90 days without being settled by intermediaries and direct clients. 31% of the businesses booked by the company were not settled for 180 days. This constituted 50% of businesses reported to TIRA as an asset, and 50% were not reported as an asset and all business over 180 days was not reported to TIRA as an asset of the company and this had affected solvency and liquidity of the company.

The study discovered that more than 50% of the customers (sample) have been dissatisfied by provision of renewal notice which implying an adversely affects in performance while risk management, collection of premium, risk acceptance, documentation and mode of cancellation of service altogether satisfy the customer above 50% ranging from 52% to 85%.

The study discovered that more than 50% of the customers (sample) have been dissatisfied by provision of renewal notice which implying an adversely affects in performance while risk management, collection of premium, risk acceptance,

documentation and mode of cancellation of service altogether satisfy the customer above 50% ranging from 52% to 85%. Therefore, ZIC should devote more in improving renewal reminder service to the existing customer simultaneously improving another variable to 100%.

### **4.3.3 Variable Impacting Mode of Operation of Claim Department**

A claim a rise on the occurrence of a contingency insured against and, in a way, is the proof of the existence and validity of the insurance cover. The insurance policy stipulates the procedure to be followed by the insured, starting with the intimation of the claim. The insurance company requires a claim form to be completed giving full particulars of the risk insured as also of the event giving rise to the loss. The onus of proof that the claim is payable as per the policy terms will be on the insured which the insurer will seek to verify, if necessary, with the assistance of a surveyor. The insurer will settle the claim as soon as he/she are satisfied that the loss is covered under the policy. In case the policy under which the claim has occurred is reinsured, the insurer having paid the claim to the policyholder, will affect a recovery from the re insurer as per the terms of reinsurance. The following result from Table 4.5 were collected for the aim of investigating mode of operation in claim department and the outcome of this mode to the company performance.

Table 4.5 present the findings related to the mode of operating claim department at Zanzibar Insurance Corporation. The study revealed that there was no delaying in notification of the accident or claim, proof of cover if it exist and register of claim. According to the company policy. "All new claims notified must be acknowledged

within two (2) working days and the action to be taken advised to the client or intermediary. New claims must be registered within two (2) working days after receipt of notification. Assessor or adjuster should be instructed within two (2) working days of notification as long as the claim is valid and premium has been paid”.

**Table 4.5: Mode of operation claim department**

| Stages in Processing a Claim                                      | Doing Well |     | Not Doing Well |    |
|---|------------|-----|----------------|----|
|   | N=74       | %   | N-74           | %  |
| Notification of the Accident (NA)                                 | 74         | 100 | 0              | 0  |
| Proof of the cover if it exists (PEC)                             | 74         | 100 | 0              | 0  |
| Register of the Claim (RC)  | 74         | 100 | 0              | 0  |
| Confirmation of Premium if Paid (CPP)                             | 59         | 80  | 15             | 20 |
| Assessor and investigator report (AIR)                            | 22         | 30  | 52             | 70 |
| Reviewing Assessor/investigator report and decision making (RAIR) | 30         | 41  | 44             | 59 |
| Issue Discharge Voucher (IDV)                                     | 52         | 70  | 22             | 30 |
| Preparing and Releasing the Cheque to insured (PCRI)              | 59         | 80  | 15             | 20 |

**Source:** Field data (2020)

Data from Table 4.5 showed that, out of 74 respondents 59 (80%) said that there was no delay in confirmation of premium, while out of 74 respondents 15 (20%) shown that there was delaying in confirmation of premium if paid or not. The present work found that delay in confirmation of premium was caused by brokers; agency or direct client not disclosing clear information about payment. To avoid this, the company was making sure that for any receipt concerning premium must contain full information of what was paying for. Also delay in confirmation was caused by intermediaries and insured for failure to pay premium on time or pay after accident which affected settling claim on time. Also as per company policy no claim could be

compensated if premium not settled or if premium settled after accident. The study revealed that this policy encouraged insured and intermediaries to pay premium on time and it reduced delay in settling of claim on time. The benefit to the company was reduced solvency and increase of liquidity.

The result from Table 4.5 showed that, out of 74 respondents 22 (30%) were satisfied with assessor or Investigator works, while out of 74 respondents 52 (70%) said that appointment of assessor was excellent within 48 hrs. However, respondents said that the problem was to get assessor or investigator report and if the report has been received could take up to 12 weeks to get discharge voucher (DV) but when DV was signed, a cheque was fairly received on time.

Also, the study revealed that sometimes assessors or Investigators came up with unclear report in terms of amount of money which was required to be compensated to the insured and repudiating of genuine claim. On the other side respondents said that these problems were caused by the company to appoint unqualified assessors or Investigators. Further the study noted that the complicated issue of assessing or investigating claim was caused by insured to report fake claims which were not open for assessment or investigation due to failure of insured to enclose all required information. Some times for genuine claim insured were not enclosing all document which were required by the company for example police report, to fill claim form, to submit repair estimation or replacement quotation which caused the company to delay in payment.

Data from Table 4.5 revealed that; out of 74 respondents 30 (41%) said that management was doing well in reviewing the assessor report. While out of 74 respondents 44 (59%) were not satisfied with the time taken by the management to review assessor or investigator report and making decision which took up 8 weeks, which was not fair for the person who got damage. The management showed that delaying decision-making was caused by lack of enough information from insured, assessors or investigators for decision making. The findings concur with Banker, et al, (1997) who also found that. "To function successfully in a business environment, an organization depends upon the decision-making ability of its managers, who in turn, depend upon the availability of useable information. Information about performance is important in different ways to various stakeholders within a business".

According to the data from Table 4.5 the study revealed that mode of operating claim department was not performing well in some areas for the insured and intermediaries delayed to pay premium on time, delayed or didn't submitted the required claim documents on time, reported fake claims, paid premium after claims and lack of enough knowledge about insurance which delayed settling of claims on time. This was associated with increased expenses to the company, reduced underwriting profit and affected the operations of the company. The same findings were also reported by Temu, (1997), who found that the task of NIC to settle claims as faster as possible to enable its clients continue with their business was difficult where hostile business environment repudiated with fraudulent claimants. There came the need to thoroughly scrutinize each claim leading to delays. For example, between January,



1997 and June, 1997, some 50 claims were given to the firm's inspectors for re-assessment and some TZS: 136,695,473/= was found to have been inflated. But again, during a period between June 1995 and June 1996 NIC handed to an investigator 75 claims files amounting to 1.28bn/= and findings were that 34 files, with claims amounting to TZS: 599,634,916/= were fraudulent the same investigator was also assigned 86 claims files between June 1996 and June 1997, and out of the files 52 claims were fraudulent. People were employing a variety of tricks and dirty games that were designed to deprive NIC and the government of money. A-part from forging claims, some motor vehicle owners were forging motor insurance stickers by changing expiry dates instead of renewing their policies. Presumably, they did so in order to fool the traffic police, but the problem started when they were involved in accidents and claims submitted to insurance company. The study shows that the variables notification of the accident, proof of existence of cover and register of claim are being delivered excellent, conversely, all variables pertaining to assessor are delivered very lesser that indicate the need of special measure by the management so that to increase the performance.

#### **4.3.4 Variables Impacting Mode of Operation in Finance Department**

It is important to know mode of operating finance department in order to find out the performance of finance department in insurance industry. The study showed that respondents interviewed agreed that the finance department was doing well in investment of premium collected from insured and intermediaries. Furthermore, the study revealed that finance department was not doing well in liquidity ratio and solvency due to insurance market structure where insurance service were provided

on credit. The insurance rate is a factor used to determine the amount, called the premium, to be charged for a certain amount of insurance coverage. If the likelihood of an insured event is so high, or the cost of the event is so large, that the resulting premium is large relative to the amount of protection offered, it is not likely that anyone will buy insurance, even if an offer. Further, as the accounting profession formally recognizes in financial accounting standards, the premium cannot be so large that there is no reasonable chance of a significant loss to the insurer. If there is no such chance of loss, the transaction may have the form of insurance, but not the substance. (U.S. Financial Accounting Standards Board standard number 113). This study from Table 6 was conducted to see if ZIC was providing Affordable Premium.

**Table 4.6: Rate of premium charged by ZIC**

| Type of Risk  | Low Rates |    | High Rates |    | Normal Rates |     |
|---------------|-----------|----|------------|----|--------------|-----|
|               | N=90      | %  | N=90       | %  | N=90         | %   |
| Motor         | 69        | 77 | 5          | 5  | 16           | 18  |
| Miscellaneous | 11        | 12 | 13         | 14 | 67           | 74  |
| Fire          | 9         | 10 | 18         | 20 | 63           | 70  |
| Engineering   | 12        | 13 | 3          | 4  | 75           | 83  |
| Marine        | 0         | 0  | 22         | 24 | 68           | 76  |
| Aviation      | 0         | 0  | 0          | 0  | 90           | 100 |

**Source:** Field data (2020)

Also, according to (Cambridge International Manual, 2004. pp .120), rate of premium should be related only to the actual risk to be undertaken. It should not be based on the principle that any losses on one class of risk may be offset against any profits from another type of risk. For example, losses on motor business should not be compensated for by profits on fire business. The premium on one type of risk should not be increased because a loss made on another type. The ideal 'premium

rating for a particular type of risk should neither show an excessive loss nor an excessive profit. The study got the following results to see if the rates of premium which were charged by ZIC were affordable compared to the other insurance companies.

Data from Table 4.6 showed that out of 90 respondents 69 (77%) indicated that the rate which was charged on motor cover was low compared to those in other insurance companies in insurance market. 5 (5%) of the respondents said that the rate which was charged on motor cover was high and 16 (18%) of the respondents highlighted that it was normal. On miscellaneous cover for example profession indemnity, burglary, money in transit, good in transit, all risk etc) the study revealed that out of 90 respondents 11 (12%) agreed that the rate was low, 13 (14%) of the respondents complained that the rate was high and 67 (74%) of the respondents said that the rate was normal. About Fire out of 90 respondents 9 (10%) said the rate was low, while 18 (20%) of the respondents complained that the rate was high whereas 63 (70%) of the respondents were satisfied that the rate was normal. For engineering out of 90 respondents 12 (13%) said the rate which was charged was low but 3 (4%) of the respondents complained that the rate which was charged on engineering was high and 75 (83%) of the respondents agreed that the rate which was charged on engineering was normal. Also, about marine cover out of 90 respondents 22 (24%) complained that the rate charged was high where by 68 (76%) of the respondents were satisfied with the rate by agreeing that it was normal. For aviation cover all 90 (100%) respondents were satisfied with the rate which was charged that it was normal.

Generally, rates charged by ZIC seemed to be doing what is called cash flow underwriting. Some of the premium rates quoted was very low compared to market rates especially on motor and Contractor All risk. The study found that, majority of respondents who said that the rate charged by ZIC were low were brokers and agencies and those who said that the rate was high were insured. The finding indicates the low rate of premium charged in motor insurance while a normal rate is absolutely charged in the marine and aviation variable and the rest of the variables premium charged is considerably normal.

#### **4.3.5 Scope of Service Rendered by Zanzibar Insurance Corporation (ZIC)**

Zanzibar Insurance Corporation deals with provision of insurance services which include; fire and allied perils, fire consequential loss, domestic package, asset all risks, motor, employers liability and workmen's compensation, personal accident, burglary, public liability, marine cover, money in transit, goods in transit, fidelity guarantee, vessel, contractors all risks (car), works damage. Also, the company continued with follows up and provides after sales services for all giants' clients. The following were variables tested in field to see if they were affecting insurance services at ZIC.

#### **4.3.6 Variables Impacting Performance in Service Rendered by ZIC**

The performance of an insurance company depends on four important functions: Identification of markets, Assessment of risks (of the insured and the insurance corporation) and estimation of losses, Penetration into and exploitation of markets, and Control over investment and operating costs. The basic measures of performance

were economic viability and sustainability. Once these are achieved, company's objectives may turn on long-run profitability, expansion and growth, market share as well as to diversification. Each of these stages requires strategy.

The individual interests of the managers and other employees of the organization may not match with the interests of the organization, leading problems in attaining the organization goals. Several variables were impacting the performance of company. Some of these were external to the organizations (referred to as environmental factors, and some were internal). Environmental factors were customers, competitors, regulatory and political condition. Front line management of insurance the company constantly updated its knowledge on the external environment to formulate strategies.

The potential market for insurance was to be identified and compared with the internal efficiency of the company so as to formulate a strategy. Due to these factors the study was conducted to investigate variables which were affecting the performance of ZIC. The study found that the company's performance was affected by Variables impacting performance in underwriting department, in Claim department and in finance and administration department.

#### **4.3.7 Variables Impacting Service Rendered of ZIC in Underwriting Department**

Policy holders (insured) focus on product and quality of services, i.e. the economics and the reliability of the contingent payment promise made by their insurers and supplemented by competent services. Favorable customer relations usually pay off in

the form of lower marketing costs and a stabilization of premium income based on customer loyalty. Intermediaries also were important or even vital to ZIC business origination. In certain markets and segments brokers generate the lion's share of insurers' premium income. Mutual trust, familiarity and knowledge based on favourable supply chain relations can serve as a "lubricant" for the insurer's value chain and therefore increase profitability. Due to customers' needs the following data were obtained to determine variables impacting performance of ZIC in underwriting department.

**Table 4.7: Variable impacting underwriting department**

| Variable   | Impacting |    | Not Impacting |    |
|--|-----------|----|---------------|----|
|  | N=85      | %  | N=85          |    |
| Time taken to provide service and to deal with complains | 25        | 29 | 60            | 71 |
| Customer satisfactions of services provided              | 22        | 26 | 63            | 74 |
| Employees  | 32        | 38 | 53            | 62 |
| Brokers and Agencies                                     | 26        | 31 | 59            | 69 |

**Source:** Field data (2020).

The result from Table 4.7 showed that, out of 85 respondents interviewed 60 (71%) indicated that time taken by ZIC to provide service and to resolve complains to their clients in underwriting department was not affecting the performance of the company, because in most cases within 48 hours a client could be serviced and his or her complains resolved very excellently. While 25 (29%) of the respondents said that time taken to provide service and to resolve complains was affecting the performance of the company.

This was caused sometimes by a delay in issuing policy documents and delay of one to three weeks in sending renewal notes to their clients for renewing their policies

which in turn caused the company to lose clients and underwriting premium. Sometimes intermediaries were not satisfied by the response of underwriting to some queries and provision of quotation of business on time taken for improvement. Average period of clearance of checks and other modes of payment will be maintained at minimum. Electronic data processing and Internet and e-mail facilities may be utilized for supplying reminders to the customers for renewing their policies. Repeated reminder may be supplied at a cheaper cost to the customers. Causes for poor performance are analyzed and remedial measures must be taken.

The study also, found that difficulties existed in assessing the customer's satisfaction in insurance contracts. Unlike commodities and other services, such as transport and banking insurance, customers do not consume the products or utilize the services at one point of time, rather they feel the satisfaction of assurance over a period of time, particularly when they give a thought about the risk they are exposed had they not insured. However, to some extent, customer satisfaction came from minimization of funds they had committed in insurance premium and possibility to maximize their benefits from a policy. Other facilities or services such as, easy installments, affordable premium were some of the means to make the customers satisfied. Any suffering due to delay in providing a financial compensation to the victims will create a negative image of the company among customers.

Data from Table 4.7 showed that out of 85 respondents 63 (74%) were satisfied with quality of services provided by underwriting department for example getting renewal notice on time, risk acceptance, documentation, cancellation of policy, affordable

premium, claim settling on time and good customer care), while 22 (26%) of the respondents were not satisfied with services rendered by underwriting department.

Furthermore, the study revealed that in a declining market, the end user of the insurance services determines the price the client is willing to pay. Brokers on the other hand, play a major role in the placement of an account. This may be based on genuine facts such as claims service; professionalism and financial strength exhibited by a particular underwriter. Whatever the reasoning, intermediaries are the key buying influences of the insuring public.

Hence to overcome these problems the company must measure average time taken for the serving reminders to the customers and average speed in assessing the accounts that have fallen over due etc., need to be observed and controlled to maintain quick processing of the policies and settlements.

This was caused by staff not sending policy document to their clients on time, hence underwriting department needs to improve the turn-around time for documentation. Policies should be designed to be user friendly. If possible, documents should be both in English and Swahili language to reflect the reality of Tanzanian Insurance consumers. Most clients do not read the documents because they were written in an alien language printed in small font as they are still today. Other respondents said that, the company must customize the policy documentation to reflect and accommodate the expectations of an ordinary client as majority of them had no legal knowledge to interpret the documents.



Data from Table 4.7 revealed that out of 85 respondents 53 (62%) showed that, employees from ZIC were not negatively affecting the underwriting performance. While 32 (38%) of the respondents showed that underwriting staffs were affecting the underwriting performance. This effect was caused by lack of motivation to their employees, upward and downward communication, and failure to visit brokers, absence of training for employees, agencies and corporate clients. Furthermore, the study noted that underwriter insured what came from intermediaries and from direct client without selecting risk which at the end caused loss to the company in terms of claims (no selection of risk to insure). Also the study noted that underwriter were underwriting without selecting purposely to meet their given target and budget.

As a result, they increased expenses to the company in terms of claims, operating expenses and also reduced an income to the company in terms of premium. The findings were in line with Bakuza, (1998), who found that “in insurance selection relates to grading of risk to determine their acceptance and applicable rates. It is synonymous to underwriting because to underwrite basically is to select risks for insurance purpose”.

For brokers and agency, the study from Table 4.7 revealed that, out of 85 respondents 59 (69%) agreed that brokers and agency did not have negative influence on the underwriting performance. On the other hand, very few 26 (31%) of the respondents said that brokers and agencies influenced underwriting performance. This was due to lack of well representation of the company to their insured. Some brokers had few insurance professional staffs. On the other side information from the

Intermediaries is sometimes insufficient and took long time to reach the underwriters. This in turn made the underwriting work to delay and difficult due to lack of full underwriting information.

Also, brokers had a tendency to meet the demands of insured than those of the insurers and that is why sometimes they provide underwriting documents after the clients have got claims. The above findings support (wikipedia.org. December 15, 2008) which observed that, the Insurance broker represents buyer rather than insurance company and should find a best policy for buyer in comparison shopping. But the study is noted that lack of training to intermediaries is also a source of poor performance in insurance industry. Hence it is better if insurance company will make contribution for the aim of providing training to employees and agents.

Employee and agent training must be among the essential activities of the company to operate in a competitive and ever-changing business environment. ZIC must prepare budget at each branch containing necessary requirements for training. Effectiveness of such expenses on training and development of the employees and agents should separately be assessed to measure the readiness and ability of the branches to adapt the changes in the environment. The company must recruit employees based on their Intelligent Quotient levels rather than their field of education. Such recruitment must base on the philosophy that intelligent people can be trained and developed in the manner the company desires. Each branch will assess the skills and expertise required for its proposed programs and operations and makes necessary arrangement for training their employees. Agents are to be appointed

based on their ability to obtain customers. Each agent must be offered a commission on the business she/he brings to the company at a fixed rate. Agents should be allowed to continue with the company as long as they meet the targets set by the insurance offices. This often discourages many prospective insurance agents.

Agents will improve their performance over a period of time, when dealing with different individuals and institutions. Usually, training is to be organized at departmental or company level from time to time, as it is economic to organize such programs centrally. Agents will be successfully promoted based on their performance of the company. This suggestion will help the company to improve performance.

#### **4.3.8 Variables Impacting Service Rendered of ZIC in Claim Department**

Data from Table 4.8 showed that, out of 90 respondents only 28 (31%) said that the operation of insurance company was done well by the Assessors and investigators while out of 90 respondents 62 (69%) were not satisfied with their performance. This is because assessors or investigators delayed claim reports to the management for decision making. Also, respondents said that sometimes assessors or investigators came up with wrong reports which caused the company to repudiate claims which were not fair. To overcome these problems the management employed internal assessors.

**Table 4.8: Variables impacting the claim department**

| Variable                   | Impacting |    | Not Impacting |    |
|----------------------------|-----------|----|---------------|----|
|                            | N=90      | %  | N=90          | %  |
| Assessor and Investigation | 62        | 69 | 28            | 31 |
| Insured                    | 41        | 46 | 49            | 54 |
| Underwriting               | 27        | 30 | 63            | 70 |
| Brokers and Agencies       | 23        | 26 | 67            | 74 |
| Management                 | 18        | 20 | 72            | 80 |

**Source:** Field data (2020)

However, after employing internal assessors the study realized that there was a delay in producing claim reports due to increased number of claims. The management noticed that increased infidelity by all stakeholders has caused significant increases in claims. In order to solve such problems, the management was looking into the possibility of coming up with Motor service centre where all damaged vehicles will be towed after accident. Such centre will be managed by the motor assessment team which will immediately provide quotations to customer's damaged vehicles. Garages will then be requested to tender repairing these vehicles based on the company quotations. The motor service centre will not only be responsible for damaged vehicles, but also provide pre-insurance inspection services. The results from Table 4.8 showed that underwriting was affecting operation performance. Out of 90 respondents 27 (30%) agreed that this was caused by underwriting to underwrite everything which came on the desk without assessing the risk. This led the company to underwrite fake claims, or property with high risk at low rate while business with low rate at high rate. Failure to visit intermediaries regularly and medium corporate clients to building good relationship with external customers and for promoting the company services aggravated the severity of the problem to the company. To reduce

fake and other claims there is a need by the company to build team work and provide training to intermediaries which will help intermediaries to be aware with risk management.

Data from Table 4.8 revealed that, out of 90 respondents 23 (26%) showed that brokers and agency had negative effects on the operation of Zanzibar Insurance Corporation through delaying premium collected from the insured and late submission of insurance premium collected from insured after accident. According to TIRA regulation brokers were allowed to submit premium collected from insured within sixty days. Contrary to these brokers were delaying premium for more than four months. This led the company to suffer liquidity and solvency. See Table 4.4 which explains debtor's age analysis.

The result from Table 4.8 showed out 90 respondents 41 (46%) agreed that insured were affecting the operations of the claim department by 45%. This was the outcome of not paying premium on time While 54 (54%) of the respondents interviewed said that insured were not influencing the operational performance of the company.

#### **4.3.9 Variables Impacting Service Rendered of ZIC in Finance Department**

It was important to find out the variables impacting the performance of Zanzibar Insurance Corporation in finance department. Data from Table 4.9 revealed that out of 40 respondents 16 (40%) agreed that brokers, agency and insured were affecting the performance of finance department.

This was caused by intermediaries and insured not paying premium on time or paid premium after occurrence of accidents. This was also supported by the age analysis in Table 4.4. Table 4.4 showed that 40% of the outstanding premiums were over 90 days which affected the solvency ratio of the company by 23 %. According to TIRA regulation the all-premium outstanding which are greater than 6 months were not reported as an asset to the company. Hence the study found that brokers and agencies were not settling premium collected from insured on time.

The liquidity ratio indicator measures the amount of available cash to meet the “short term” obligations of the company. This is calculated as follows:  $\text{Liquidity Ratio} = \frac{\text{Available Cash or Cash Equivalents}}{\text{Short-term Payables (3 months)}}$ . Hence Liquidity affected the ability of the company to meet short-term obligations of the company. Data from Table 4.9 showed that out of 40 respondents interviewed 10 (25%) agreed that liquidity ratio affected the performance of finance department especially in paying claims, premium ceded in and outside the country, operating expenses and investment on time. While 30 (75%) of the respondents showed that liquidity did not affect the performance of finance department. However, the company can use cash call to meet short-term obligation.

**Table 4.9: Variable impacting Finance Department**

| Variable                 | Impacting |    | Not Impacting |    |
|--------------------------|-----------|----|---------------|----|
|                          | N=40      | %  | N=40          | %  |
| Intermediary and Insured | 16        | 40 | 24            | 60 |
| TIRA regulation          | 9         | 22 | 31            | 78 |
| Liquidity                | 10        | 25 | 30            | 75 |
| Solvency                 | 10        | 25 | 30            | 75 |
| Claim incurred           | 16        | 40 | 24            | 60 |

**Source:** Field data (2020)

Data from Table 4.9 further showed that out of 40 respondents 9 (22%) said that TIRA regulations are impacting the performance of finance department in several areas. According to insurance regulations no: 29 of 1996 made under section 139 “A broker shall pursuant to section 57 (2) of the Act, remit to the insurer all premium due to the insurer within sixty (60) days of the last day of the calendar month in which cover under the policy incepted or the date on which the policy is renewable or in which an endorsement was made”. This regulation gives brokers a loop hole to delay remitting premium collected from the insured. Sometimes it takes over 6 months or over one year to remit premium. Also this situation was forced by the market to provide insurance service on credit. During the study, it was noted that 80% of insurance services in Tanzania were provided on credit the tendency which affected the performance of finance department at ZIC. The findings align with Skipper (1997), his study found that “a strong insurance sector promoted financial stability of firms and individuals and reduced the anxiety of experiencing unexpected losses or harms, by indemnifying policy holders if hardships occur.”

In addition, out of 40 respondents 16 (40%) from Table 4.9 said that claims did not affect the performance of finance department. Claims in any insurance company were used as advertisement. As much as claims were settled on time, underwriting premium and underwriting profit increased. Always insured preferred to insure in companies which pay claims on time. 24 (60%) of the respondents said that claims were affecting the performance of finance department due to increased company expenses. When the company had many claims, its profit decreased or incurred big loss for that specific financial year.

The study also revealed that several market threats affected the bottom-line performance of ZIC. As indicated by data from Tables 4.7, 4.8 and 4.9, clients had a tendency to shop around in order to get the best deal. However, this was successful due to the undercutting of rates and underwriting principles that did not add value to the industry as a whole. Managers from ZIC agreed that, shortage of skilled manpower pushed most companies to rely on experienced employees who were but not necessarily qualified for the work they performed. This blocked the penetration of new ideas into the industry. Service standards remained inconsistent throughout the insurance sector. This is ironic due to the fact that the insurance industry was highly driven by service delivery. The insurance industry in Tanzania needs to move together towards standardizing service delivery to promote a healthier competitive environment. Lack of public awareness caused many to question the integrity of the insurance industry as a whole, further coupled by the negative imprints left behind by the government monopoly before market liberalization.

#### **4.3.10 Awareness and Accessibility of Insurance Services**

For awareness and accessibility of ZIC products, out of 90 respondents 40 (44%) said that clients or insured were aware of products provided by ZIC, and also the products were accessible due to presence of branches in different areas such as branches at Dar es Salaam, Mbeya, Arusha and others are found in Mwanza. and Dodoma.

Also, insurance services can be obtained through any agencies, through insurance brokers and agencies at difference regions in Tanzania. Other insurance services



were accessed by using telephones, internet, fax and postal mails. Although the respondents said that the insurance services were accessible, they advised the company to increase networks of insurance brokers and Agencies by providing more incentives to them. On the other side out of 90 respondents 50 (56%) said that ZIC products were not accessible and very few clients were aware of products provided by the company. The products were also known by few people and corporate clients especially those who were living in Dar es Salaam, Arusha and Mwanza. Accessibility was decreasing because of the deteriorating attitude towards claims. The insurance penetration relative to the potential market seemed to be less than 1% for the entire insurance industry. This is an important area where the company should work very hard to intervene the situation.

The study further revealed that people had slight awareness with ZIC products, and the same products were not accessible for 64%. The reason probably was that these products were mostly accessible for people staying in the fast-growing towns such as Dar es Salaam, Mbeya, Mwanza, Arusha and also through agencies only. Lack of technology in providing ZIC insurance services in Tanzania was mentioned also as another factor which affected the performance of the organization (ZIC).

#### **4.3.11 Technology Development and Technical Services**

The managers from Zanzibar Insurance Corporation said that during the financial year (2012) the company was planning to increase underwriting premium and product quality through using appropriate technology within the country and commercializing the proven technologies. Another area of improved technology

includes good infrastructure of technology development and technical services. All Zanzibar Insurance Corporation branches were connected with both insurance and accounting system network. Promotion of Insurance agency in terms of training, technology acquisition, networking etc. will be given priority. The findings revealed that all 5 managers interviewed from ZIC said that the company had good relationship with agencies strategically to enhance this relationship so that the organization could maximize the premium and retain the same relationship. Apart from agencies, the management also pursued relationships with other banks provided that relationship with agencies is not disturbed.

#### **4.3.12 Growth of Insurance Business**

Growth of insurance business was one of the factors that helped to determine the performance of the insurance services which were rendered by the company. Insurance business growths were measured in terms of qualitative and quantitative factors. The study revealed that Zanzibar Insurance Corporation getting business from insurance brokers, Insurance agency, direct clients and reinsures. The continued growth of an insurance organization relied on its products and therefore the company was investing in this area to ensure that, the products remain competitive. The company introduced COMPREHENSIVE Motor product with the following benefits compared to other insurance companies in industry. COMPREHENSIVE cover has been specifically designed to meet the insurance needs of ZIC clients with at least two vehicles they enjoyed fleet discount. It provides among other benefits, flexible premium payment plan which is primarily available to COMPREHENSIVE cover alone, premiums is being paid either: half yearly (with 50% of annual

premium), or annual with (100%). All five managers interviewed said that “It must be noted that the cover afforded was “true” **cover** therefore there is a deduction of premium from the claim of an unexpired portion of the annual period if claim will be during the existence of a policy. Furthermore, the study revealed that ZIC products and underwriting premium level decreased from TZS 8,368,6,438 gross premiums for year 2009 to 8,141,732,592 gross premium for the year 2010 while claims decreased to TZS 4,100,481,533 in the year 2010 compare to 6,093,688,802 paid in the year 2009 however the sales level remained stable. (Source: ZIC annual report, 2010).

#### **4.4 Challenges Facing ZIC in Maximizing Delivering of Services in Sustainable Manner**

Insurance is supposed to exist to ensure the survival of industry and commerce as well as other sectors of the economy. But there are a lot of contemporary challenges facing the Industry that the survival of insurance itself is threatened. The challenges we have to deal with are grouped into: legal, moral, millennium products and global financial and self-inflicted threats. The respondents mentioned the following as challenges that were facing Zanzibar Insurance Corporation in the process of providing insurance services to the society.

##### **4.4.1 Lack of Enough Qualified Professionals in Insurance Industry**

The study revealed that, one of the major challenges facing Zanzibar Insurance Corporation was shortage of skilled personnel and the problem was compounded by the brain drain to Insurance industry in Tanzania. Adequate skills base is essential

because complex structures and systems must be created at ZIC to enable them compete favorably with others in Tanzania. Staff would require complex leadership and managerial skills to drive the company. The study found that technical skills required include actuarial, loss adjusting, risk management, underwriting skills and information technology skills to handle the ZIC itself and to assist clients. The study advice ZIC to develop its skills continuously, budgeting for it and participating in cooperation and technical assistance programmes with other stakeholders in insurance industry in Tanzania.

Intra-regional and international exchange of managerial staff can also be used as a means to enhance management skills and competence. The study noted that Zanzibar Insurance Corporation Company had seven offices in Tanzania only. Hence to overcome this respondent interviewed agreed that skills should imported and export to those without. Interactions between companies Tanzania, Kenya, Uganda Rwanda, Malawi etc must be intensified in order for insurance companies to benefit from the skills and knowledge of other players. This can be achieved through the organization of workshops and seminars on insurance matters. Business sharing (sharing risk) with other insurance companies must be increased in Tanzania leather that fronting outside of the country for establishment of strong networks. The company must be run by highly skilled personnel who are educated on all talents of good leadership and in best practices.

Also, insurance industry in Tanzania should establish Centre of Insurance education as an independent centre of Insurance Excellence. About infrastructure it is time the

industry to put and invest money in such projects to develop skills for the industry, and this will prove that they add value to the industry. There must be educational scholarships locally and regionally to benefit insurance companies in Tanzania. Training insurance professionals in Tanzania, there is a need to develop homegrown talent to staff the private sector, the public sector and the insurance regulators. Given the technical nature of the insurance sector in terms of calculating premiums, rate setting, underwriting etc. and given the fact that these components get more complex within specific sub-sectors, in specialized areas (like actuarial services, accountants, brokers/agents) and newly emerging areas training is essential. This could be achieved by setting up specialized schools for the training of insurance professionals, through the exchange of insurance professionals within the private sector domestically and internationally.

#### **4.5 Strategies to Enhance Performance of ZIC**

Insurance companies in Tanzania must set up strategies which can help to improve performance and service standard to the level of international. The study was conducted to investigate strategies which could enhance the performance of ZIC. This section is divided into three parts which include; Strategy in operation, Business growth strategy and retention and earning capacity Strategy. The aim was to determine strategies which could help the company to improve the performance and achieve its goals.

##### **4.5.1 Strategy in Operations**

This section was divided into four parts including, Strategy in underwriting, Strategy

in claim services, Strategy in claim management and Strategy in services delivery by ZIC. These findings aimed at determining strategies which were taken by ZIC to improve their operation for the aim of improving performance in this industry.

#### **4.5.2 Strategy in Underwriting Operation**

The study interviewed 15 managers from ZIC, and from intermediaries to investigate measures which were taken by underwriting managers to improve quality of services. Study revealed that three measures set to achieve strategies in underwriting” were to improve workflow management, improve intermediary relationships and risk management which are described below.

- i) **Improving workflow management:** The results from Table 4.12 showed that out of 15 respondents interviewed 11 (73%) agreed the strategies of improving work flow management by including compilation and use of underwriting manual, random checks on outgoing mail, random checks on mail status, set intra-departmental targets on mail and renewals, prioritize key resource areas and regularly assess performance, diarize and follow up on quotations.

All these were to improve communication from the top management to the lower management and vice versa. On the other side out of 15 respondents 4 (27%) did not agree with this strategy, but suggested that the company must change the culture of increasing the rate of commission payable to intermediaries as motivation.

**ii) Improve intermediary relationships**

Data from Table 4.12 showed that all 15 (100%) respondents interviewed agreed with this strategy which could be achieved through regular visits to brokers and re-insurers (at least once monthly), delivery of major new policies to brokers, assist in speedy settlement of claims, addressing credit control issues, and giving intermediaries' queries first promptly.

**Table 4.10: Strategies for enhancing underwriting**

| Strategies                        | Agreed |     | Disagreed |    |
|-----------------------------------|--------|-----|-----------|----|
|                                   | N =15  | %   | N =15     |    |
| Improve of workflow management    | 11     | 73  | 4         | 27 |
| Improve intermediary relationship | 15     | 100 | 0         | 0  |
| Risk Management                   | 15     | 100 | 0         | 0  |

**Source:** Field data (2020)

**iii) Risk management:** Data from Table 4.12 revealed that all 15 (100%) respondents interviewed agreed with the risk management strategy of the company which include surveys of clients on the corporation assist client's valuation. The company undertakes risk assessment.

**iv) Proving claims services beyond others in the market:** Claim registration and acknowledgement to be done within 3 days from date of receipt, claim payment (requisition, authorization, signing, cheque preparation and dispatch) to be done in 3 days, diary to be maintained after every 2 weeks maximum, general mail to be worked on within 5 working days, assessors to be appointed within 24 hrs, and encourage brokers to submit or obtain quotations in time and avoid increase in costs.

- v) **Claims Purification:** The study found that purification should be done every quarter and reported after completion to check on effects, a monthly review of outstanding claims per broker and discussion about outstanding issues with the brokers.



## **CHAPTER FIVE**

### **SUMMARY OF THE MAIN FINDINGS, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Overview**

The overall objective of the study was to examine factors influencing performance of the insurance industry in Tanzania. A case of study was Zanzibar Insurance Corporation and mainly focused on Insured, non- insured, intermediaries and Insurer from Zanzibar Insurance Corporation (ZIC). The specific objectives of the study were to determine mode of operation and services rendered by ZIC, variables impacting ZIC performance and challenges facing ZIC in maximizing delivering of services in sustainable manner, strategies that will enhance ZIC performance.

#### **5.2 Summary of the Main Findings**

The study was not satisfied by the company risk management because the company had a tendency of ensuring some risk without assessment, to ensure the risk which was not in the required standard or not insurable. These entire problems were caused by underwriters sometimes to underwrite everything which came on the desk to meet the given budget and also due to lack of enough knowledge about risk management, sending renewal notice to insured beyond time or not sending them completely.

For operation of claim department was doing well in notification of claims, approval of existed cover, registration of claim and confirmation of premium if paid. Appointment of assessor was excellently done within 48 hrs., but the problem was to

get assessor's report or even though the report could be received on time still discharge voucher (DV) was delayed up to an average of 6 weeks. The study noted that delay in getting investigator report was extended to more than one month while management decision took more than three weeks to review investigator report. Poor quality of assessor or investigator report was caused by the company sometimes to appoint unqualified assessors or investigators. Delay in processing of claim was caused by insured to delay submission of required information on time.

The study revealed that accessibility and awareness to the insurance services provided by ZIC was not so difficult. Most intermediaries and insured were able to obtain and utilize the services. However, ZIC insurance services were not accessible to direct client except those who were near ZIC branches agencies allocated in different regions in the country. For growth of business, the company was growing very slowly due to lack of good marketing environment for instance, promotion and visiting of intermediaries and medium corporate clients. Also, the study revealed that the rates which charged by ZIC were reasonable.

### **5.2.1 Variables Impacting Performance of the ZIC**

The findings showed that brokers and agencies contributed a big amount of underwriting premium at ZIC despite their tendency of delaying premium after accidents or not paying at all brokers and agencies. The study noted that delaying to pay premium on time by intermediaries was caused by the nature of the insurance market in Tanzania to provide insurance services on credit. Hence it seemed that ZIC

performance was affected by failure of insured to pay premium on time, report fake claims and lack of enough knowledge on insurance services.

The study noted that, good communication and open systems in decision making from high levels were important for the performance of the company. In addition, lack of human resources department, participation of employee in preparing the company plan and budgeting to develop team work and motivation of employees in terms of financial motivation, semi financial motivation and non-financial motivation had negative impacts to the company.

### **5.2.2 Challenges Facing ZIC in Maximizing Delivering of Services in Sustainable Manner**

The company was faced with the following challenges: Construction of marketable policies, following up with the Government sector-wide proposals to review the Law/regulations and introduce the ‘cash & carry’ system in selling of insurance products in the market, lack of facilities in the country for training professionals in the fields that have direct bearing to the development of the insurance industry, lack of enough technological advanced, infrastructures system is not so well organized as a result only few places get privilege of receiving the insurance services, global financial crisis, users’ had low/lacks of technical insurance know how.

### **5.2.3 Strategies That Will Enhance Performance of ZIC**

To achieve the retention of 50% which was revisited so as to be raised to 80% by 2014, the company had placed strategies such pre renewal or inception risk surveys

and valuations, target high retention classes of business, target products with high premium earning capacity for example fire, marine, short term bonds, reinsurance placement which favor high commission earning treaties (for example proportional). The management said that business growth strategy grew by at least 40% in the year 2014 in line with the company's co-strategy of attaining 10% market share in 2013. It was therefore important for ZIC to adopt a strategy to build its own competitive advantage. Marketing monthly renewable policies, increase in distribution channels, strengthening Agencies relationship, new strategies products, strategic alliances promotion could help the implementation of this strategy.

For operation the company was targeting to put strategies in the services' delivery by ZIC, in underwriting, claim services and in claim departments. The management noted that increased infidelity by all stakeholders due to significant increases in claims. The management was looking for the possibility of coming up with "MOTOR SERVICE" centre where all damaged vehicles could be towed. The motor service centre was expected not only for damaged vehicles but also to provide pre-insurance inspection services. Garages were requested to tender repairing the vehicles based on the company quotations.

It is thus concluded that Insurance services are very important in several aspects for example increasing capital within companies (that can be used in the business, enterprises are encouraged to open other branches and sales offices expanding business in profitable manner), employees are kept in work, losses are reduced in size and number, the nation benefits from investments made by insurers, the national

benefits from so-called invisible exports, reducing fear of the future, encouraging confidence to undertake new ventures, assisting people to save, investment, reducing demands on social services. Therefore, insurance companies, intermediaries, insured and TIRA should consider the above-mentioned factors which influence insurance industry in Tanzania for the benefit of the country rather than emphasizing in profit. Otherwise, insurance industry will fail in future to perform well.

### **5.3 Conclusions**

The study revealed that insurance services provided by Zanzibar Insurance Corporation (ZIC) such as timely settling of claim, increase of retention and earning capacity, risk management and improvement of intermediaries' relation together with the company strategies to increase quality of services had positive contribution towards the company performance.

### **5.4 Implication of the Research Findings**

The weakness of risk management, particularly, in underwriting department entail the shortage of risk expatriates who could well appraise and establish the likelihood of happening the event with utmost expectation. Intensity of competition in insurance industry necessitate the underwriter accepting whatever the level risk that come at the counter. Moreover, there is leeway that make the underwriter not fully disclosed all material facts by the insured which induce them to inceptiate.

Initially, claim notification is dealt very well due to highly apprehensive nature of insured that provide a convenience means of processing the claim, collectively with

claim staff ensure the effectiveness in service delivery as finding indicate high customer satisfaction. Also, it implies that the staffs have well organized and deliver the service promptly. Unlike in subsequent stage that indicates delay in receiving assessors report which most of the time is deemed as poor, probably because there is short supplier of manpower with relevant knowledge and shortage of facilities to finish exercise within a reasonable time frame.

Furthermore, the assessor relationship with insured might be not good and detrimental to assessing assignment due to ambiguous information from insured. The management delay in issuing discharge voucher implies that the task is very sophisticated and cumbersome as it involves high degree of professional judgment and vast experience due to nature of the decision. Any mess in this stage could account for greater loss of finance, hence forth the delay in decision making in this stage is due to the nature of circumstance in question.

Last but not least, the service accessibility and awareness are very good due to durable relationship between ZIC and several intermediaries. It connotes that, the company is closely working with intermediaries rather than itself, implying the indirect business model, the repercussion is that any conflict of interest between company and intermediaries could drastically reduce the volume of business, therefore, the company should attach its self especially to corporate client directly even via intermediaries. The poor marketing and promotion conducts implies lack of resources or company attitude in marketing investment. The durable relationship between intermediaries and ZIC might be due to reasonable rates offered to them that

attract more customers. The company growth rate is caused by lack of marketing and promotional strategies.

## **5.5 Recommendations**

Based on the major presentation and discussion of findings, conclusion and literatures, the following are recommended.

- ZIC should properly identify, select and screen potential clients and intermediaries in order to discriminate them from others and taking incentive measures in favour of them such as providing insurance training, motivation, reducing time of processing claims and give them a reasonable rate of premium. This will not only encourage the potential customers but also will be a challenge to bad customers.
- Policy documents should be user friendly and possible documents should print in English and Swahili language because most clients do not read the documents as they are right now because they are written in an alien language besides containing too much small print. This will be useful even for those clients who are not conversant with English language.
- The company must customize the policy documentation to reflect the expectations of an ordinary lay person. Most of clients are not lawyers so the documents should be aligned with the demographics of the intended consumers. The Company should increase distribution channels, promotion, creating good working environment for employees, creating good marketing environment,

retaining earning and earning capacity in order to improve growth of premium and underwriting profit.

- The industry requires a massive infusion of investment in the area of awareness and the value of insurance. This is not a task for anyone company to pursue but a task requiring co-operation between all stakeholders including the government. The insurance companies on the other hand need to put more focus on customer satisfaction than maximization of shareholders value. On strategies which will help ZIC to maximize underwriting premium and settling claim in short time than other insurance companies. For starters, ZIC should make itself the underwriter of choice by everyone. As a result of this, the company will be in a position to cherry-pick the best quality risks while politely refusing to book any that doesn't fit the expectation. When an underwriter enjoys the position, it can easily charge any rate of premium and customers will still pay instead of running off to competitors.
- For Zanzibar Insurance Corporation to build future success on the simple premise of dealing with claims with minimum fuss. If a claim is reported today and ZIC have facts indicating it is a payable claim, then pay it today and be fair in doing so! This should be the primary objective of the company. The rest of the activities must be adopted to support this objective.
- The company must ensure that claims are settled fairly and quickly in accordance with the Company's contracts and standards while at the same time ensuring that



the Company's financial interest is protected in as far as cost control, fraud detection and avoidance of claims leakage are concerned. Due to the nature of modern business today, time play a significant role in making the business successful. Always the Stakeholder is required to consider the competitive factors like cost, quality, price and dependability. Therefore, the insurance companies should decrease bureaucracy in providing insurance services.

- The TIRA should change the regulations of intermediaries to remit premium collected from insured within 7 days so as to enhance insurance companies to provide insurance services on cash basis. ZIC had number of employee motivational packages but there was no written policy toward employee motivation, therefore, the corporation needs to specify their motivational packages in written form. The company should state the objective of such package and criteria to obtain such motivational packages. The packages should be clearly defined so that each employee could know the intention of such package.
- Although ZIC considered their salary increment is enough, is not true, employees had seen not competitive compare to other Tanzanian corporations. According to the comments of respondents, money was ranked as the best important motivational factor. Therefore, the company could use money (such as sufficient loans) as their best motivator. Although this cannot be the sole motivator, failure to use money might decrease the employee performance.

- Management by objectives should be used. This is a phrase used to describe a style of management which attempt to relate organizational goal to individual performance and development through the involvement of all level of management. Implementing the above recommendations can improve the effectiveness and efficiency of insurance industry to attain their objectives on the performance of insured, insurer and intermediaries in Tanzania and hence attaining their sustainability.

## **5.6 Limitations of the Study**

The study has the following limitations, which were making difficult to obtain missing relevant information. These limitations were:

- Data accessibility:** Some of the data from the study were confidential, thus, the researcher experienced inaccessibility of some data.
- Reluctant respondent:** Some of the respondents did not give response to the questionnaires given, hence, lead to difficult in getting enough data for reporting and conclusion.
- Time factor:** Time available to carry this study is so tight due to the office responsibilities.

### **5.6.1 Delimitation**

After making it clear that this study was for academic purposes only, respondents responded to questionnaires, so the enough data were collected for the study.

### **5.7 Area for Future Research**

This study proposes the area for further studies to be, “Performance management in insurance industry in Tanzania”. This is because performance management is the key for success of organization. For instance, when the insurance company grows larger, the degree of complexity increase, bureaucracy in decision-making and control become more appealing factors. Establishing a systematic and well-organized performance management system can enhance understanding and analyzing the key success factor.

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## APPENDICES

### Appendix I: Questionnaires

#### INTRODUCTION:

My name is **Ameir Hamid**. The student of The Open University of Tanzania. The objective of this study is to examine factors influencing performance of insurance industry in Tanzania, the case of study of Zanzibar Insurance Corporation (ZIC). The success of this study greatly depends on your assistance. For this reason I request for your kind responses to the following questions. All information collected will be strictly confidential and exclusively be used for academic purposes only.

1. What is your level of education?

- a) Primary Education
- b) level education
- c) A level education
- d) Certificate
- e) Diploma
- f) Degree

2. What is your age

- a) Below 18 years
- b) 19 – 25 years
- c) 26 – 35 years
- d) 36 – 45 years
- e) 46- 55 years
- f) Above 55 years

3. Are you satisfied/not with the following mode of operating underwriting department?

| <b>Mode of Operation</b>        | <b>Satisfied</b> | <b>Not Satisfied</b> |
|---------------------------------|------------------|----------------------|
| Providing of renewal notice     |                  |                      |
| Risk management                 |                  |                      |
| Collection of premiums          |                  |                      |
| Risk acceptance                 |                  |                      |
| Documentation                   |                  |                      |
| Mode of cancellation of service |                  |                      |

4. What is the rate of premium charged by ZIC?

| <b>Types of risk</b> |  | <b>High rates</b> | <b>Normal rates</b> |
|----------------------|--|-------------------|---------------------|
| Motor                |  |                   |                     |
| Miscellaneous        |  |                   |                     |
| Fire                 |  |                   |                     |
| Engineering          |  |                   |                     |
| Marine               |  |                   |                     |
| Aviation             |  |                   |                     |

5. In which stage of processing claim the company is doing/not doing well?

| <b>Stage in processing claim</b>                              | <b>Doing well</b> | <b>Not doing well</b> |
|---|-------------------|-----------------------|
| Notification of the accident                                  |                   |                       |
| Proof of cover if it exist                                    |                   |                       |
| Register of claim   |                   |                       |
| Confirmation of premium if paid                               |                   |                       |
| Assessor and investigator report                              |                   |                       |
| Reviewing of assessor/Investigator report and decision making |                   |                       |
| Issue discharge voucher                                       |                   |                       |
| Preparing a cheque & release a cheque to insured              |                   |                       |

6. Which variables are impacting/not impacting underwriting performance?

| <b>Variables</b>                                       | <b>Impacting</b> | <b>Not Impacting</b> |
|--|------------------|----------------------|
| Time taken to provide service and to resolve complains |                  |                      |
| Customer satisfaction of the services                  |                  |                      |
| Employees  |                  |                      |
| Brokers and agency                                     |                  |                      |

7. Which variables are impacting/not impacting performance of claim department?

| <b>Variable</b>           | <b>Impacting</b> | <b>Not Impacting</b> |
|---------------------------|------------------|----------------------|
| Assessor and Investigator |                  |                      |
| Insured                   |                  |                      |
| Underwriting              |                  |                      |
| Broker and Agency         |                  |                      |
| Management                |                  |                      |

8. Which variables are impacting/not impacting performance of finance department?

| <b>Variable</b>            | <b>Impacting</b> |  | <b>Not Impacting</b> |  |
|----------------------------|------------------|--|----------------------|--|
| Intermediaries and Insured |                  |  |                      |  |
| TIRA regulation            |                  |  |                      |  |
| Liquidity                  |                  |  |                      |  |
| Solvency                   |                  |  |                      |  |
| Claim incurred             |                  |  |                      |  |

9. Do you agree/disagree with these strategies for enhancing business growth?

| <b>Strategies</b>                          | <b>Agreed</b> |  | <b>Disagreed</b> |  |
|--|---------------|--|------------------|--|
| Introduction of monthly renewable policies |               |  |                  |  |
| Increase of distribution channel           |               |  |                  |  |
| Strategies in new products                 |               |  |                  |  |
| Promotion                                  |               |  |                  |  |

10. Do you agree/disagree with these strategies for enhancing underwriting performance?

| <b>Strategies</b>                 | <b>Agreed</b> |  | <b>Disagreed</b> |  |
|-----------------------------------|---------------|--|------------------|--|
| Improve of workflow management    |               |  |                  |  |
| Improve intermediary relationship |               |  |                  |  |
| Risk Management                   |               |  |                  |  |

11. How technological help to facilitate operation and the process of providing insurance service to insured?

.....

12. Do brokers and agencies affect the operation of ZIC? [Yes] or [No]

13. From question number 12 above if the answer is yes, explain how brokers & agencies affect the operation of ZIC?

.....

14. What challenges are facing Zanzibar Insurance Corporation in providing insurance services?

.....

**THANK YOU**