# The Impacts of Political Unrest, Firm Specific and Macroeconomic Factors on the Financial Performance of Insurance Industry in Ethiopia during Youth-Led Mass Anti-Government Protests (2014-2022)

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| Article Info | Abstract |
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| <br><br> | *This study investigates the impacts of political unrest; firm-specific and macroeconomic factors on the financial performance of the insurance industry in Ethiopia during youth-led mass anti-government protests. The study used, Return on Assets (ROA) and Return on Equity (ROE) as dependent variables. Eight key independent (internal and external) variables are also used. The study selected 17 out of 18 due to the availability of data for the period ranging from 2014 to 2022. The descriptive and multiple regression analyses were done. The results of the study indicate that political violence and terrorism (PV&T) have a negative and significant effect on ROA and ROE, while GDP has a positive and significant effect on ROA and ROE. The findings also show that financial risk (FR) has a negative and significant effect on ROA and ROE but a positive and significant effect on ROA and ROE. Furthermore, the study reveals that the size of company (SZ) and premium growth (PG) have a significant and positive impact on ROA but insignificant effect on ROE as well as liquidity (LQ) and asset tangibility (ATG) have a significant negative effect on ROE but insignificant effect on ROA. The inflation rate (INF) has no effect for both models on Ethiopian insurance financial performance. This study is considered one of the first pioneering studies that determined the factors affecting the financial performance of insurance companies in Ethiopia. Therefore, the study gives good insights to policymakers, regulators, and interested parties about enhancing the profitability of insurance companies in Ethiopia.*<br><br>***Keyword:*** *- political unrest, firm specific factor, macroeconomic factor, financial performance, insurance industry, Ethiopia*<br><br>*JEL Classification G22 G32 F50* |

## 1. INTRODUCTION

The insurance industry's plays a significant role in the economic growth of the country's Insurance companies protect resources used in the activities of other businesses, thereby increasing b usiness efficiency (Ali, 2017 & Isayasl, 2021). Insurance companies are very important as they pay insurance for all kinds of financial losses for companies, businesses, and individuals (Batool et al., 2019). Well-functions of insurance sector leads to high-scale investment and a well-performing economy (Abdeljawad et al., 2022) Insurance companies are sources of long-term savings that can be used to fund long-term projects (Morara et al., 2021). The Ethiopian economy is highly supported by the insurance industry besides the banking sector (Hailegebreal, 2016).

Across the world, the insurance business operates in different environments, the factors of which are characterized by challenges to the presence of businesses and industries in the economy. The challenges faced by the business environment are low profits and high operating costs. These environments consist of micro and macro-environments. Micro environments are firm-specific/ internal/factors while external factor such as technology, economic conditions, inflation, interest rate, and political incidents (Cole, 2012; Felix, 2022).

Political instability related to decreased investment in the pace of economic growth and deprived economic acts may lead to government failure and political unrest (Khan et al., 2018). Political risk is viewed as the exposure that a financial institution or any business organization faces due to political events that might affect its profitability (Obalade et al., 2021). Political violence and terrorism kill human beings, destroy natural resources, and demolish assets (Bodea, 2008). Political instability and terrorism have numerous economic consequences. These can be classified into short-term direct effects, medium-term confidence effects, and long-term productivity effects. Economic costs of terrorism include the destruction of life and property, restoration of systems, and affected infrastructure (Elnahass et al., 2022).

The Ethiopian state has long struggled with underdevelopment, political violence, and ethnic conflict. Of course, poverty, ethnic rivalries, and political violence hinder to development and stability (Woldesenbet et al., 2022). In Ethiopia, the political trajectory has been considered as one of the major obstacles that hampered economic growth. Political discontent remained a major problem

throughout this period and eventually became an existential threat to the political system. The escalating conflict and fragility in Ethiopia are major concerns (Khafaga et al., 2022). Different conflicts, along with historical crises and other shocks, have abused millions of Ethiopians and harmed the development of Ethiopia's financial institutions and social development in recent years.

Fatal and devastating protests in the Amhara and Oromia regions have resulted in the loss of more than 5 billion Birr in assets (World Bank, 2022). Moreover, two years of war in the northern part of the Ethiopian has taken a toll, with thousands dead, millions displaced, and many in dire need of help. But that is not the only damage; Ethiopia, the second most populous country in Africa, has suffered. The war also brought enormous economic costs that could take years to repair.

The Tigray region has suffered a total of 79.4 billion Birr in damages from recent conflicts (BBC, 2021). Conflict and violence have severe negative effects on insurance companies' financial performance. Conflicts can lead not only to loss of life, displacement, and material destruction, but also to severe economic depressions resulting in high inflation, worsening financial positions, and declining financial institution quality (Compaoré et al., 2020). Without a doubt, political unrest is a critical serious malaise detrimental to the insurance sector's financial performance. The insurance company in Ethiopia is one of the key instruments of the country's economic growth (Shikur et al., 2022). The insurance company covers the insured against property damage and business interruption costs resulting from terrorism and political violence. However, property damage and death due to political violence and terrorism create opportunities for insurers (Fikru, 2022). Political violence and human and economic losses currently occurring in parts of Ethiopia, combined with rising threat trends, are pushing risks into uncharted directions.

Prosperous empirical research focused on many insurance companies' performance-related topics following the Factors affecting the profits of Ethiopia Insurance companies using panel data by Anwar et al. (2022) Deyganto et al. (2019) (Hailegebreal (2016) Kelil et al. (2018) and Tegegn et al. (2020) despite using diverse sample size and covering different period have instead analyzed both firm-specific and macroeconomic factors affect insurance performance in Ethiopia. Recently, many studies have been conducted to identify macroeconomic and firm factors associated with the

performance of insurance companies. Surprisingly, to the best of our knowledge, there is no research on the impact of politics on the financial performance of the Ethiopian insurance industry.

The study introduces political violence and terrorism. This is a new dummy variable in the investigation of insurance performance in Ethiopia during youth-led mass anti-government protests and civil war (2014-2022). Hence, there is a need to examine the impact of political violence and terrorism on other macroeconomic factors on an insurance company's performance in Ethiopia. As argued above of insurance companies performance is a well-debated subject discussed by many scholars. However, there is an absence of studies focusing on political factors affecting the performance of Ethiopian insurance companies. This study aims to fill this gap by identifying the performance of insurance companies' determinants operating in the Ethiopian insurance sector.

## 2. REVIEW OF RELATED LITERATURE

### 2.1. Theoretical Literature

The theories analysed in this section included the political unrest, Risk bearing theory of profit and financial performance theories.

#### 2.1.1. Political unrest theory

The key narrative around, in theory, political instability can be traced back to several root causes, which fall into two main categories. The first group of potential factors causing political instability is related to grievances. Political oppression and economic deprivation fall into this category. The second category concerns opportunity structures such as demographics and urbanization that facilitate the mobilization of people (Woldesenbet et al., 2022). Although the main determinants of civil unrest in this study are measured at the local level, they often interact with macro-level institutional factors that change over time to create political instability. Grievance theory believes that other outside forces (beyond greed and/or grievance) can have an effect on conflict, which makes the critiques all the more vital in understanding the theory itself (Hailemariam. 2022)

#### 2.1.2. Risk bearing theory of profit

Risk-bearing theory, an entrepreneur envisions numerous types of risks (Hawley, 1907). Companies take competitive risks when competitors enter production or when new products or new production

processes are introduced. Cyclical risk occurs when prices plummet due to an economic recession. Businesses also face risks associated with changes in the macroeconomic environment. These environments are technology, economics, and politics which may produce risk. An entrepreneur may be a gainer or loser in this situation, Risks that cannot be avoided even with insurance. Therefore, entrepreneurs must take these risks and claim profits as a reward for taking these risks (Isayas et al., 2021).

### 2.1.3.  Financial Performance Theory

Financial performance can be defined as an estimate of how well an organization uses its assets to generate and retain revenue (Omer et al., 2022). If a company is utilizing its assets in a better way than its peers or competitors, it can be deemed to be doing well from a financial performance perspective (Morara, et al., 2021). There are several basic measures of financial performance. The estimates of return on equity (ROE) and return on assets (ROA) are the key metrics employed in such an assessment. Shikur et al. (2022) mostly return on assets (RoA), which indicates the use of it as an asset to generate earnings, while return on equity (RoE), measures how much profit is made from the interest of shareholders.

### 2.2.  Empirical Literature Review

The previous empirical investigation concentrated on investigating macroeconomic (inflation and interest rate) and firm-specific factors that influence insurance company performance (profitability) in Ethiopia. In a paper on the empirical evidence of Provision regarding the financial performance of the insurance company USA and UK during the Global Financial Crisis (2007–2016) by Batool et al. (2019). The study concludes that in the US, firm size, liquidity, leverage, asset turnover, GDP, and WTI have positive impacts, while CPI and interest rates have negative impacts. For UK company size, liquidity, GDP, CPI, and WTI have positive impacts, while leverage, asset turnover, and interest rates have significant negative impacts. Insurance in the US is more efficient than in the UK.

According to Tesfaye (2018), earnings performance and capital volume positively and significantly influence financial performance, whereas solvency margins and loss-given default have a significant negative impact. The lagged GDP rate and the current inflation rate have a significant positive impact

on ROA, while the inflation rate and the exchange rate have a significant negative impact. Hailegebreal (2016) examined Macroeconomic and Firm-Specific Determinants of the Profitability of the Insurance Industry in Ethiopia. He found that underwriting risk, technical provision, leverage, and inflation have negative and significant effects, whereas premium growth, age of the company, solvency ratio, and GDP have statistically significant and positive relationships with the profitability of the Ethiopian insurance industry.

According to Ben Dhiab (2021), provision regarding the financial performance of the insurance company Empirical results show that premium income growth and fixed asset ratio are the main factors that positively affect the profitability of Saudi insurance companies. Furthermore, although firm size and liquidity ratio are positively correlated with profitability, they are statistically insignificant. On the contrary, the loss ratio, liabilities ratio, insurance leverage ratio, and to a lesser extent, the company age has negative effects on the profitability of Saudi insurance companies.

In a paper on the empirical evidence of the financial performance of insurance companies in Kenya, Morara et al. (2021). The result shows that there is a positive correlation between financial performance and the size of insurers. The study also found that insurers' financial performance was negatively related to the age variable. While highly leveraged insurers outperformed their less leveraged peers. Mengistu et al. (2020) examined the factors affecting the profitability of insurance companies in Ethiopia. They established that size, premium growth rate liquidity, and age are identified as the most important determinant factors of profitability. Hence, premium growth rate and size are positively related. In contrast, liquidity and age significantly negatively affect profitability. Finally, leverage and asset specificity have little to do with profitability.

In a study by Deyganto (2019) to identify the factors affecting the financial performance of insurance companies operating in Hawassa City Administration, Ethiopia, it was found that underwriting risk, premium growth, solvency ratio, growth, GDP, and inflation rates have a significant impact on the financial performance of these companies. On the other hand, reinsurance reliance, company size, and interest rates do not significantly affect the financial performance of Hawassa Municipality Insurance Company

Shikur et al. (2022) examined empirical evidence on factors influencing the profitability of private insurance in Ethiopia. The results show that liquidity, premium growth, firm age, and market share significantly impact insurance profitability. While underwriting risk, leverage, capital volume, and inflation have a significant negative effect on insurance profitability. The study suggests that insurers use a variety of techniques, including improving claims processing mechanisms, assessing and gathering appropriate information about policyholders before selection, and marketing that their manager should pay a great deal of attention to maximizing market share through the use of user-friendly information technology for both the insurance and its customers.

Shiferaw (2022) conducted a study on the factors influencing the profitability of insurance companies in Ethiopia. The researcher used multiple regression econometrics models to analyze the financial performance of insurance companies in the Ethiopian market. The study found that profitability was determined by both internal and external factors. Internal factors included the company's size, leverage, asset tangibility, liquidity, loss ratio, firm growth, and premium growth, while external factors included inflation and economic growth.

The study examined the profitability of insurance companies from 2010 to 2019 using regression models for profitability measures such as Return on Assets (ROA) and Return on Equity (ROE). The findings suggest that focusing on specific factors within the company, particularly its size and growth can improve its financial performance. These factors were found to have a positive and statistically significant impact on the profitability of insurance companies as measured by both ROA and ROE.

Tegegn et al. (2016) conducted a study on the factors influencing profitability in Ethiopian private insurance companies. The findings indicate that firm-specific factors such as negative underwriting risk, positive firm size, positive premium growth, and negative solvency ratio significantly affect the profitability of private insurers. The study also found that reliance on reinsurance does not impact profitability significantly. Additionally, macroeconomic variables such as economic growth and inflation were observed to have significant and minimal impacts on insurers' profitability, respectively. Interest rates, as measured by the weighted average of term deposits, were not found to

be key variables. The study also evaluated private insurers' underwriting performance using techniques such as risk and product selection, geographic and pricing strategies.

Isayas et al. (2020) also investigated the firm-specific and macroeconomic determinants of profitability in banks and insurance companies in Ethiopia. The results revealed that liquidity ratio, asset tangibility, and leverage have positive and statistically significant effects on the profitability of financial institutions, while firm age and inflation rate have negative and statistically significant effects on profitability. However, capital adequacy, size, and real GDP growth rate were found to have negligible impacts on the profitability of the sector. In a separate study, Abebe and Abera (2019) examined the determinants of financial performance in the Ethiopian insurance market from 2010 to 2015. Capital adequacy, liquidity, size, age, losses, and leverage were identified as the most important determinants of financial performance.

Marjanović and Popović (2020) focused on the factors that influenced the profitability of 14 insurers in the Republic of Serbia between 2006 and 2016. The authors conclude that firm-specific factors such as firm age, capitalization, investment performance, and market share have statistically significant effects on firm performance as measured by ROA. An immense empirical investigation has been devoted to investigating the nexus of insurance performance and macro and micro environmental influence, but no one has considered political influence on Ethiopian insurance financial performance, which is a research area of deep interest to the researcher. The researchers discuss a brief review of the related literature to achieve the intended purpose. The recent political and economic fluctuations in Ethiopia succeeded in effectively bringing structural changes concerning economic, social, and political factors and influenced negative economic activities such as increasing inflation, reducing financial institution quality, and aborting investment activity. In the literature, extensive attention has been given to the political factors in companies' profitability in various financial institutions. Compared to the banking performance sector, the insurance industry has not been explored in the Ethiopian context. Moreover, much of the literature focused on the Arab Spring in Yemen and both the conventional and Islamic banking sectors in the GCC region. But no one considers Ethiopian financial institutions, because now Ethiopia is extremely challenged by political instability issues.

### 2.3. Conceptual framework of the study

Conceptual framework helps to clearly identify the variables that are used in the research process and shows how particular variables are connected with each other in the study. The conceptual framework presented both internal and external variables used in this study in Figure 1.
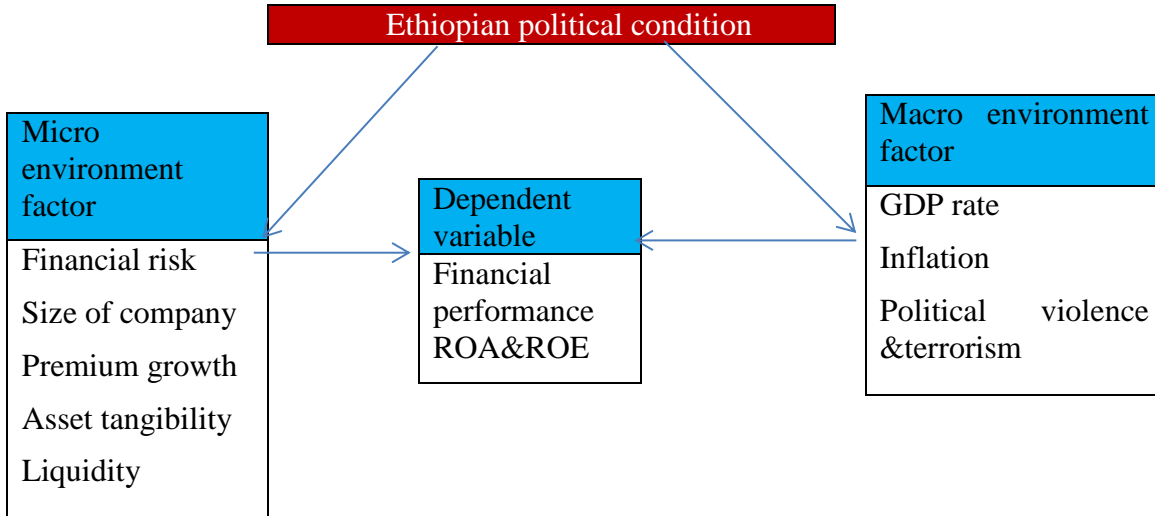


FIGURE 1:

Model on determinants of financial performance

### 3. MATERIALS AND METHODS

The major objective of the study was to investigate the impacts of political unrest, firm-specific and macroeconomic factors on the financial performance of the insurance industry in Ethiopia during youth-led mass anti-government protests (2014-2022). This study has employed a quantitative approach and an explanatory research design to realize the stated objectives. The total number of the Ethiopian insurance sector was 18, among which 17 are private companies and 1 is a state-owned company. The study employed a purposive sampling technique to select 1 public and 16 private insurance companies, which have been in operation from 2014-2022, based on the availability of data. The study used secondary data which includes the audited annual financial reports of insurance companies. The data was a strong-balanced panel type, which captured both cross-sectional and time series data

### 3.1. Methods of Data Analysis

In this study, both descriptive statistics and econometric tools were used to analyze the data to achieve pre-defined objectives. The former includes simple description methods such as mean, maximum, minimum, standard deviation, and other simple statistical tools that allow the best understanding of the existing situation and analyze general trends in data. The study enhanced descriptive analysis by manipulating econometric models to explore causal relationships between explanatory and dependent covariates. In this regard, the study used a random-effects model to identify the explanatory variables that significantly influence the financial performance of insurers. A diagnostic test for a traditional linear regression model was also performed at the 5% significance level through EVIEWS 12.

### 3.2. Variable Measurement and Model Specification

Several important factors need to be considered in specifying an empirical model. These include choice of suitable dependent and explanatory variables, measurement of these variables, and model specifications.

#### 3.2.1. The Dependent Variable

Consistent with previous studies examining the determinants of financial institution profitability, this study used one of the most commonly used profitability indicators. That is, Return on Assets (ROA) and Return on Equity (ROE). Return on Assets (ROA) measures overall profitability and reflects both profit margins and an institution's efficiency in using its total assets to generate income. Since equity is a company's assets minus its liabilities, ROE is considered a return on net worth (Isayas et al., 2020). ROA is calculated as net income after tax divided by total assets and (ROE) is calculated as net income after tax divided by total equity.

#### 3.2.2. The independent Variable

The choice of explanatory variables used in this study is based on their relationship with the dependent variable. Explanatory variables used to determine the financial performance in the Ethiopian insurance sector are financial risk (FR), size of company (SZ), premium growth (PG), asset tangibility (ATG), and Liquidity (LQ), as firm-specific variables and GDP, inflation and Political violence &terrorism (PV&T) as macroeconomic variables. Those variables are used and reported

significantly by various studies as determinants of financial performance in insurance companies with different combinations such as by Anwar et al. (2022) Isayas et al. (2020) Lire & Tegegn (2016) Mengistu et al. (2020).

### 3.3. Diagnostic tests

In this study, we performed a battery of diagnostic tests before interpreting the model. These diagnostic tests were measures of error terms, normality, Heteroskedasticity, and Multicollinearity. Hausman and Breusch-Pagan-Lagrange multiplier (LM) tests were also used to determine the appropriate model to use, and the fit R-squared and F-statistics were used to measure the stability and reliability of the multiple linear regression model used to evaluate.

TABLE 1:

Summary of variables and their expected relationship

| Categories | | Variables Name and Notations | Measurement | Expected Effect |
|---|---|---|---|---|
| Dependent Variables | | Return on asset(ROA) Return on equity (ROE) | Net Income/ Total Asset Net Income/ Total equity | N/A |
| Independent variable | Internal factor | Financial risk(FR) | Total liabilities/total assets | **-** |
| | | Size of company(SZ) | Natural Log of Total Asset | + |
| | | Premium growth(PG) | PG= (GWP (t) – GWP (t-1)) / GWP (t-1) | + |
| | | Asset tangibility(ATG) | fixed assets/Total assets | + |
| | | Liquidity (LQ) | Current Assets / Current Liabilities | + |
| | External factor | GDP growth rate (GDP) | Annual real GDP growth | + |
| | | Inflation(IN) | Inflation rate | _ |
| | | Political violence &terrorism(PV&T) | 1 for the year of high severity of conflict and war,0 for the year of low severity of conflict and war | -/+ |

Source: Developed based on the literatures 2022

To identify the effect of determinant variables on the profitability of financial institutions, this study formulated the following econometric models. A panel regression model was formulated as follows: $Y_{it} = \alpha + X_{it}'\beta + u$, where $Y_{it}$ characterizes the dependent variable (ROA, ROE, i at time t), $X_{it}$ was the predictor variable for insurance i at time t; $\alpha$ was intercept/constant term, $\beta$ was coefficient which represents predictor variables' slope, and $u_{it}$ was the error term (scalar). While i denotes cross-sections (insurance), t represents time-series dimensions (years).

The general model specified for the study was:

ROA $i,t = \alpha + \beta_1(FR_{i,t}) + \beta_2(SZ \ i,t) + \beta_3(PG_{i,t}) + \beta_4(ATG \ i,t) + \beta_5(LQ \ i,t) + \beta_6(GDP_{i,t}) + \beta_7(INF_{i,t}) + \beta_8(PV\&T \ i,t)\varepsilon_i, u_{i,t}$

ROE $i,t = \alpha + \beta_1(FR_{i,t}) + \beta_2(SZ \ i,t) + \beta_3(PG_{i,t}) + \beta_4(ATG \ i,t) + \beta_5(LQ \ i,t) + \beta_6(GDP_{i,t}) + \beta_7(INF_{i,t}) + \beta_8(PV\&T \ i,t)\varepsilon_i, u_{i,t}$

Results of Diagnostic Tests

### 3.4. The researcher conducted diagnostic tests

To guard against the possibility of obtaining and interpreting spurious regression results. Every estimator of the model should have to meet the OLS assumptions before the estimation is carried out. If the estimators of the model satisfy the OLS assumptions, it is possible to say the estimators are BLUE (Best Linear Unbiased Estimators). The estimators of models should satisfy all OLS assumptions (Brooks, 2008). Accordingly, appropriate diagnostic tests for each OLS assumption were conducted.

### 3.4.1. The Jaque-Bera normality test.

The Jaque-Bera normality test was meant to establish whether the mean of the residuals is zero and the p-value is greater than 0.05. Hence, we fail to reject the null hypothesis and conclude that the data follows a normal distribution. Thus, this study found p-value of 0.729. This means that the null hypothesis of the normally distributed error term is accepted. On the other hand, if the r-value of the JB test is less than 5%, then the null hypothesis of the normally distributed error term is rejected.

### 3.4.2. Durbin-Watson test

The researchers tested the autocorrelation assumption and showed no deviation from the error term over time. This means that the error associated with one observation is uncorrelated with the error of

another observation. As Gujarati (2004) pointed out, the best-known test for detecting serial correlation is the Durbin-Watson test. Therefore, if the value is closest to 2, the correlation is considered fine. Therefore, as shown in Table 1, the bottom calculation for this study is 1.991, which is closest to 2, indicating no autocorrelation problems. This, therefore, means that the error terms for the various observations in this study are not correlated with each other.

### 3.4.3. Breusch-Pagan-Godfrey test

The assumption of Heteroskedasticity states that the variance of the errors is constant. The Breusch Pagan-Gofrey test was used to check for Heteroskedasticity. If the p-value is greater than 0.05, meaning Heteroskedasticity is not present at 5% level of significance. Thus, the result is no Heteroskedasticity problem for this study. Hence, the p value is 6.22% or (0.0622) showing insignificant value

### 3.4.4. Multicollinearity

The Multicollinearity problem of the explanatory variables in this study is tested with Pearson's correlated Multicollinearity problem if a correlation coefficient exists between the two explanatory variables is more than 0.75 Gujarati (2004). Multicollinearity becomes a serious problem when the correlation between two independent variables exceeds 0.8. However, as shown in Table 3 below, the largest correlation observed for the explanatory variables in this study is 0.46 between firm size and interest rates, well below 0.8. Ignore, Multicollinearity was not a serious issue for this study.

TABLE 2:

Multicollinearity

|        | PV_T   | PG     | LQ     | INF    | GDP    | FR    | ATG   | SZ |
|--------|--------|--------|--------|--------|--------|-------|-------|----|
| PV_T   | 1      |        |        |        |        |       |       |    |
| PG     | -0.052 | 1      |        |        |        |       |       |    |
| LQ     | 0.092  | 0.139  | 1      |        |        |       |       | -  |
| INF    | 0.143  | 0.009  | -0.164 | 1      |        |       |       |    |
| GDP    | -0.251 | -0.062 | 0.125  | -0.937 | 1      |       |       |    |
| FR     | 0.000  | -0.058 | -0.244 | 0.119  | -0.111 | 1     |       |    |
| ATG    | 0.066  | 0.036  | -0.037 | 0.124  | -0.129 | 0.088 | 1     |    |
| SZ     | 0.042  | 0.030  | -0.083 | 0.192  | -0.179 | 0.460 | 0.064 | 1  |

Source; EVIEWS 12 output

## 4. EMPIRICAL RESULTS AND DISCUSSION

This section presents the empirical results of the study. Descriptive and panel regression results are presented and analyzed to identify key factors contributing to the financial performance of Ethiopian insurance companies. Two of his models were evaluated, the ordinary least squares (OLS) model and the random effects model. Diagnostic evaluations and tests were investigated to determine which model to use for inference purposes. Two financial performance metrics were used for robustness, namely ROA and ROE.

### 4.1. Descriptive Statistics

It provides a brief description and summarizes the whole data set which can represent the entire data. The measure of variability means minimum and maximum variables and standard deviation.

TABLE 3:

Descriptive statistics of variables

|             | ROA   | ROE   | SZ    | PV_T  | PG    | LQ    | INF   | GDP   | FR    | ATG   |
|-------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Mean        | 0.170 | 0.288 | 18.11 | 0.625 | 0.250 | 1.099 | 0.122 | 0.084 | 0.668 | 0.347 |
| Median      | 0.180 | 0.280 | 18.12 | 1.000 | 0.226 | 1.108 | 0.108 | 0.085 | 0.660 | 0.225 |
| Maximum     | 0.275 | 0.380 | 22.32 | 1.000 | 0.790 | 2.604 | 0.200 | 0.104 | 0.900 | 18.00 |
| Minimum     | 0.044 | 0.210 | 15.21 | 0.000 | 0.010 | 0.684 | 0.074 | 0.061 | 0.452 | 0.029 |
| Std. Dev.   | 0.049 | 0.042 | 1.727 | 0.485 | 0.141 | 0.254 | 0.047 | 0.016 | 0.080 | 1.525 |
| Observations| 136   | 136   | 136   | 136   | 136   | 136   | 136   | 136   | 136   | 136   |

Source; E Views 12 output

The mean values of Return on Assets (ROA) and Return on Equity (ROE) are 17% and 28.8% respectively, with minimum values of 4.4% and 21% and maximum values of 27.5% and 38% respectively. The standard deviation for ROA is 4.9% and for ROE is 4.2%. Over the study period, the average profitability of the sample insurers was 17% measured in return to an Asset (ROA) and 28.8% as measured by Return on Equity (ROE). This indicates that these insurance companies earned 17% on after-tax profit for every unit of their asset investment and 28.8% on equity investment during the study era. The size of the Ethiopian insurance company's assets is measured by the natural logarithm of total assets (Ln TOA). The mean asset size is 18.11, with a standard deviation of 1.727.

The mean value of the macroeconomic variables (GDP) is 0.084. It shows a small value as well as a small standard deviation, which is 0.016. The mean of (INF) is 0. 122 and the standard deviation is 0.047. The mean value of the political violence and terrorism (PV&) dummy variable is 0.625. It expresses high value and a moderate standard deviation, which is 0.485. Similarly, the mean value of premium growth is 0.25 with a standard deviation of 0.141, where the variability is exceptionally slightly large, ranging from the minimum value of 0.010to 0.790. This might imply that there is a significant difference among insurance companies in Ethiopia in terms of their premium growth. In terms of tangibility, on the other hand, insurance companies in Ethiopia are highly different positions as the mean value is 0.347 with an associated variability of only 1.525. Its value ranges from the minimum of 0.029 to 18.00. As shown in Table 4.1, the mean value of liquidity is 1.099, indicating that 1:1.099, which is the minimum, whereas the maximum is 1:2.604. This scenario indicates that the Ethiopian insurance company can hold at least 1.099 ETB in terms of 1ETB short term liability and as much as 2.604 ETB in terms of 1 ETB liability.

The measure of asset tangibility, calculated as fixed assets divided by total assets, has a mean value of 0.347. This indicates that 34.7% of the total assets owned by insurance companies are categorized as tangible assets, while the remaining 65.3% are liquid assets. This ratio illustrates that Ethiopian insurance companies hold a significant proportion of liquid assets. Specifically, those engaged in nonlife insurance business are required by law (NBE's directive) to hold at least 65% of their total assets in the form of liquid assets. Consequently, insurance companies are generally presumed to be performing well. The mean value of financial risk (FR), calculated as total liability divided by total assets, is 0.668, signifying that 66.8% of the insurance company's assets are financed through liabilities with short and long maturities. The minimum and maximum values are 0.45 and 0.90 respectively. The standard deviation is 0.080, indicating relatively low deviation from the mean value, accounting for 8%. These findings suggest that insurance companies are highly leveraged, a characteristic largely driven by the nature of insurance in Ethiopia, where they collect premiums from the insured.

The premium growth, calculated using the formula PG= (GWP (t) – GWP (t-1)) / GWP (t-1), has an average value of 25% with a standard deviation of 0.141%. This means that, on average, the premium

growth rate was 25%, with a maximum growth of 79% and a minimum growth of 1%. The higher standard deviation in growth may be due to differences in the ages of the insurance companies. In the sample, some companies were more than 30 years old, while others were less than 10 years old.

## 4.2. Multiple Linear Regressions

TABLE 4:

Empirical Results when ROA is used a Measure in Panel Regression.

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| SZ | 0.026688 | 0.011494 | 2.321850 | 0.0326 |
| PV_T | -0.101400 | 0.011389 | -8.903452 | 0.0061 |
| PG | 0.068055 | 0.003403 | 19.99661 | 0.0012 |
| LQ | -0.013196 | 0.015652 | -0.843112 | 0.4010 |
| INF | 0.138983 | 0.217138 | 0.640069 | 0.5234 |
| GDP | 0.023991 | 0.008653 | 2.772625 | 0.0067 |
| FR | -0.305095 | 0.078265 | -3.898237 | 0.0002 |
| ATG | 0.000223 | 0.002114 | 0.105558 | 0.9161 |
| C | 0.009390 | 0.236702 | 0.039669 | 0.9684 |
| R-squared | 0.711620 | | | |
| Adjusted R-squared | 0.652783 | | | |
| Prob(F-statistic) | 0.000000 | | | |

Source; EVIEWS 12 output, Note: significance at 1, 5, 10 percent levels

TABLE 5:

Empirical Results When ROE is used as the Measure in Panel Regression.

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| SZ | 0.005959 | 0.015811 | 0.376909 | 0.7070 |
| PV_T | -0.044460 | 0.025529 | -1.741665 | 0.0845 |
| PG | 0.014482 | 0.026618 | 0.544074 | 0.5875 |
| LQ | -0.038674 | 0.018165 | -2.129024 | 0.0355 |
| INF | -0.042866 | 0.252009 | -0.170096 | 0.8652 |
| GDP | 0.069899 | 0.030107 | 2.345860 | 0.0224 |
| FR | 0.238401 | 0.130472 | 1.827219 | 0.0399 |
| ATG | -0.004233 | 0.002454 | -1.725124 | 0.0873 |
| C | 0.131572 | 0.274715 | 0.478941 | 0.6329 |
| R-squared | 0.599862 | | | |
| Adjusted R-squared | 0.513346 | | | |
| Prob(F-statistic) | 0.026767 | | | |

Source; Views 12 output, Note: significance at 1, 5, 10 percent levels.

Based on the data from Tables 4 and 5, the R-squared value for regression model 1 (ROA) is 0.711, while for model 2 (ROE) it is 0.599. This indicates that model 1 explains 71% of the total variability in the performance of insurance companies (ROA), with the remaining 29% of the variation being explained by other variables not included in this research. For model 2 (ROE), it explains 59.9% of the total variability. Despite the moderate R-squared value, the F-statistic of 0.0000 suggests that the null hypothesis can be accepted, indicating that the model is adequate and well-fitted at a 1% level of significance.

The results in Tables 4 and 5 also show that the coefficient of the size of the company, premium growth, inflation, GDP, and asset tangibility increased by 1%. This increase led to a 2.6% improvement in the financial performance of Ethiopian insurance companies measured by (ROA), along with increases of 6.8%, 1.3%, 2.3%, and 0.02% in the respective categories. On the other hand, factors like political violence and terrorism, liquidity, and financial risk increased by 1%, resulting in a 10%, 1.3%, and 30% decrease in the financial performance of Ethiopian insurance companies measured by (ROA).

The company's size, premium growth, GDP, and financial risk all increased by 1%. The financial performance of Ethiopian insurance companies, measured by return on equity (ROE), increased by 0.5%, 1%, 6.9%, and 23% respectively. However, factors such as political violence, terrorism, liquidity, inflation, and asset tangibility also increased by 1%, leading to a decrease in the financial performance of Ethiopian insurance companies as measured by ROE, by 4%, 3.8%, 4.2%, and 0.4% respectively. The regression results in Tables 4 and 5 showed that the company's size has a positive and significant effect on the financial performance of the Ethiopian insurance company when measured by return on assets (ROA) at a 5 percent confidence interval with a p-value of 0.0326, but no significant effects on ROE. These findings are consistent with the results of Azmi (2020), Ben Dhiab (2021), and Batool et al. (2019).

The results presented in Table 5 demonstrate that political violence and terrorism have a negative and statistically significant impact on the performance of the Ethiopian insurance industry. This is evidenced by the significant level of 1% for ROA (p-value of 0.0061) and 10% for ROE (p-value of 0.0845). Furthermore, the influence of premium growth is found to have significant negative effects

on the financial performance of the Ethiopian insurance sector, as indicated by a p-value of 0.0012 at a 1% significant level for ROA, but no significant impact on ROE. These findings are consistent with previous studies conducted by Anwar et al. (2022) and Hailegebreal (2016). Additionally, the study reveals that liquidity has a negative and significant effect on the financial performance of the Ethiopian insurance industry, proxied by ROE (p-value of 0.0355) at a 5% significant level, while showing insignificant effects on ROA. This finding aligns with the results of research by Shiferaw and Gujral (2022) and Mengistu et al. (2020), but contradicts the findings of Shikur et al. (2022) and Ben Dhiab (2021).

In terms of macroeconomic variables, the inflation rate in Ethiopia has a positive but statistically insignificant impact on the financial performance of Ethiopian insurance companies measured by return on assets (ROA), as well as negative and insignificant effects on return on equity (ROE). According to the regression results in Table 4 and 5, the most significant determinant of the insurance industry's financial performance, as measured by ROA (with a p-value of 0.0067 at a 1% significance level) and ROE (with a p-value of 0.0224 at a 5% significance level), is economic growth represented by GDP. This finding is consistent with the findings of Tesfaye (2018) and Hailegebreal (2016). Financial risk has a negative and significant impact on ROA at a 1% significance level (with a p-value of 0.0002), but a positive impact on ROE at a 5% significance level (with a p-value of 0.0399) for the financial performance of insurance companies in Ethiopia.

It is suggested that highly profitable insurance companies are more likely to rely on internally generated funds and equity capital than debt capital for financing. This aligns with the findings of Taddesse & Tripti (2022), but contradicts the findings of Shikur et al. (2022). Asset tangibility has a positive and significant effect on shareholder equity return on equity (ROE) at a 10% significance level (p-value of 0.0873). This suggests that an increased investment in fixed assets relative to total assets while decreasing liquidity levels has a positive impact on ROE, but it does not significantly affect return on assets (ROA). These findings are consistent with the previous findings of Isayas et al. (2020).

## 5.  CONCLUSIONS AND RECOMMENDATIONS

The objective of this study was to identify firm-specific, macroeconomic, and political factors that can explain the financial performance of Ethiopian insurance companies. After conducting regression analysis, the researcher concluded that the financial performance of Ethiopian insurance companies could be best described by the variables included in the model. It was also found that financial performance was significantly influenced by both company-specific and external factors. The positive impact of company size on return on assets (ROA) suggests that larger insurance companies are better positioned to benefit from economies of scale and achieve higher profits compared to smaller companies. Therefore, increasing the assets of an insurance company should be carefully considered, as company size plays a crucial role in determining its competitive strength.

The negative impact of political violence and terrorism in the scenario of the Republic of Oromia indicates that political instability significantly reduces financial performance during mass anti-government protests led by Oromo youths known as the Qeerroo. Political discontent remained a major problem throughout this period and eventually became an existential threat to the political system. The feeling of relative economic deprivation was one of the signs of this discontent. The study suggests that in politically fragmented countries with high degrees of political instability, the Ethiopian government needs to address the root causes of this instability and try to mitigate its effects on political policy. Policymakers should emphasize the importance of effective internal bank strategies when designing policies to prevent political instability and enhance financial performance. The empirical results suggest that the lack of available financial insurance tools affects the ability to deal with political problems.

It is important to pay close attention to financial risk. Companies that are highly leveraged may experience a reduction in financial performance. If they are unable to make payments on their debt, they may also struggle to find new lenders in the future. In Ethiopia, growth in insurance premiums has a positive impact on the financial performance of insurance companies. This means that insurance companies in Ethiopia with higher premium growth will generate more profit than those with lower premium growth. We recommend that the Ethiopian insurance sector diversify its products and services in order to attract more insured individuals and earn better profits.

The growth rates of macroeconomic variables such as GDP have a positive impact on the profitability of insurance companies in Ethiopia. This means that insurance companies operating in Ethiopia will generate more profit with higher economic growth rates compared to lower GDP growth rates. The analysis also indicates that the tangible assets of insurance companies have a positive impact on their shareholder equity. This implies that insurance companies with higher rates of fixed assets are in a better position in terms of return on equity. Based on the results, it can be concluded that the investment (ROE) of Ethiopian insurance companies has been affected by liquidity. There is a negative relationship between liquidity and the profitability of insurance companies in Ethiopia. This means that if an insurance company holds more liquid assets, it is in a lower position to have a return on equity. Therefore, it is advisable for the insurance sector to invest its short-term idle funds to maximize shareholder equity.

The study presented some exciting findings, but it also had several limitations. Firstly, the study's findings are only relevant to the insurance industry in Ethiopia. Secondly, the report suggests that including data from the years 2014-2022 and other countries within Ethiopia would provide more insight for policymakers and the government during youth protest movements. Future research could explore the impact on the banking sector, microfinance institutions, as well as small and medium enterprises affected by political instability. Thirdly, despite using various models, including linear regression models and related variables, the results are not entirely free from dimensional errors. Finally, there is an ongoing debate about the inefficiency of current accrual models for classifying political unrest as a dummy variable.

**Abbreviation**

GWP---------- gross written premium

ROA---------- return on asset

ROE ----------return on equity

PG------------- premium growth

LQ---------------liquidity

PV-T----------- political violence and terrorism

INF ------------ inflation

GDP -------------gross domestic product

FR----------------financial risk

ATG --------------Asset tangibility

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