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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Abstract.

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.

Keywords: *Political unrest, firm specific factor, macroeconomic factor, financial performance, insurance industry, Ethiopia JEL Classification G22 G32 F50.*

I. INTRODUCTION

The insurance industry's plays a significant role in the economic growth of the countries Insurance companies protect resources used in the activities of other businesses, thereby increasing business 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 (Felix, 2022 & Cole 2012).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 in the northern part of the Ethiopian war have taken a toll, with thousands dead, millions displaced, and many in dire need of help. But that's 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 (Hailegebreal, (2016); KELIL et al. (2018); Deyganto, & Alemu et al. (2019); Tegegn, Sera, & Merra, et al. (2020); and Anwar, Omer& Mubarek (2022) 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.

II. 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. 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, Leta, and Tesfay (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 to identify the Factors Affecting the Financial Performance of Insurance Companies Operating in Hawassa City

Administration, Ethiopia Deyganto, (2019) found that underwriting risk, premium growth, solvency ratio, growth, GDP, and inflation rates have a significant impact on the financial performance of insurance companies operating in the city of Hawassa. In contrast, reinsurance reliance, company size, and interest rates do not significantly affect Hawassa Municipality Insurance Company's financial performance.Shikur Ahmed, & Hussen (2022) examined Empirical Evidence on Influencing Factors of Profitability of Private Insurance in Ethiopia.

The results show that liquidity, premium growth, firm age, and market share have a significant positive impact on 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) examined Determinants of the Profitability of Insurance Companies in Ethiopia. The researcher used multiple regression econometrics models through which the financial performance of the insurance companies in the Ethiopian market is analyzed. The study shows that profitability was usually expressed as a function of internal and external determinants. By using internal factors such as the size of the company, leverage, tangibility of asset, liquidity, loss ratio, growth of the firm, and premium growth with the external variable inflation and economic growth, this study examined the determinants of profitability of insurance companies from 2010 to 2019, using regression model for profitability measures; (ROA) and (ROE). Based on the study findings, the profitability of insurance companies is measured by ROA and ROE, since the company's management has control over the insurance company's specific factors; it was possible to improve the financial performance of insurance companies by giving more attention to the identified company's specific factors, particularly the size of the company and firm growth, Since they were found to be positive and statistically significant variables that affect the profitability of insurance companies measured by both ROA and ROE.Tegegn et al. (2016) explored the determinants of profitability in Ethiopian private insurance companies.

The results show that the profitability of private insurers is statistically significantly affected by firm-specific factors such as negative underwriting risk, positive firm size, positive premium growth, and negative solvency ratio and reliance on reinsurance has not impacted profitability and is statistically insignificant. Although macroeconomic variables, economic growth has a significant impact on profitability and inflation has little impact on insurers' profitability, interest rates, as measured by the weighted average of term deposits, were not the key variables. The study assesses private insurers' underwriting performance through techniques such as risk and product selection using geographic and different pricing strategies, reflecting the country's overall economic activity and growth potential and preferred directions. Isayas, Yitayaw, and Kumlachew (2020); Determine Firm Specific and Macroeconomic Determinants of Financial Institutions' Profitability: Evidence from Banks and Insurances in Ethiopia. Results of the study 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 the profitability of financial institutions in Ethiopia. However, capital adequacy, size and real GDP growth rate were found to have insignificant effects on the profitability of the sector. Abebe and Abera (2019) examine the determinants of financial performance in the Ethiopian insurance market from 2010 to 2015. Results showed that capital adequacy, liquidity, size, age, losses, and leverage were the most important determinants of financial performance.

Marjanović and Popović (2020) focus 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.

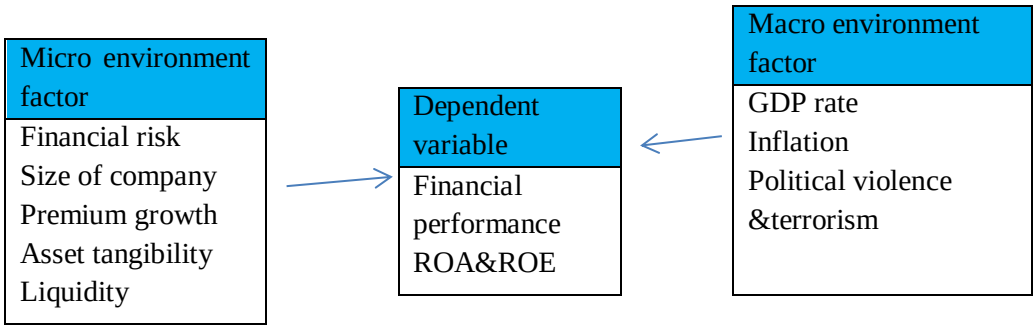
The recent political and economic fluctuations in Ethiopia succeeded in effectively bringing structural changes concerning economic, social, and political factors and influenced negative economic activities such as increasing inflation, reducing financial institution quality, and aborting investment 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 below;

Fig 1. Model on determinants of financial performance



III. 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, Yitayaw, and Kumlachew 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: Isayas, Yitayaw, and Kumlachew (2020), Lire and Tegegn (2016); Anwar, Omerand Mubarek(2022) and Mengistu, Leta, and Tesfay (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	+
	Externa l 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: Yit =α + Xit'β + u, where Yit characterizes the dependent variable (ROA, ROE, i at time t), Xit was the predictor variable for insurance i at time t; α was intercept/constant term, β was coefficient which represents predictor variables' slope, and uit 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=α+β1(FRi,t)+β2(SZ i,t)+β3(PGi,t)+β4(ATG i,t)+β5(LQ i,t)+β6(GDPi,t)+β7(INFi,t)+ β8(PV&T i,t)εi, ui,t

ROE i,t=α+β1(FRi,t)+β2(SZ i,t)+β3(PGi,t)+β4(ATG i,t)+β5(LQ i,t)+β6(GDPi,t)+β7(INFi,t)+ β8(PV&T i,t)εi, ui,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 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

IV. 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 represents 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; EViews 12 output

The mean values of ROA and ROE are 0.170(17%) and 0.288, (28.8%) respectively, and 0.044&0.210 at minimum and maximum values of 0.275&0.380, respectively, with a standard deviation of 0.049&0.042. Over the study period, the average profitability of the sample insurers was 0.170(17%) measured in return on Asset (ROA) and 0.288, (28.8%). As measured by Return on Asset (ROE) This scenario indicates that those insurance companies during the study era earned 17% of after tax profit on every single ETB of their asset investment and 28.8 % equity investment. Besides the sample, the maximum profitability record was a ROA of 27.5% while the minimum appeared at 4.4, while the maximum profitability was ROE OF 38% and 21% respectively. the standard deviations for both are also lesser. We can conclude that there is no great variation. The Ethiopian insurance company‟ Asset size (SZ) is a proxy measured by the natural logarithm of total assets (Ln TOA), with a high mean of 18.11, while the standard deviation is also high, 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.Asset tangibility measured by (fixed asset divided by total asset) the mean value of asset tangibility indicates 0.347.This indicate that out of the total assets owned by insurance companies, 34.7 % is categorized as tangible assets remaining 65.3 are liquid asset of Insurance companies. This ratio indicates that Ethiopian insurance company companies hold proportion liquid asset; these engaged in nonlife insurance business required by law (NBE's directive) to hold at least 65% of the total assets in the form of liquid assets. It is for this reason that insurance companies generally assumed to have best performance.

The mean value of financial risk (FR) (total liability divided by total assets) is 0.668, which means 66.8% of the assets of the insurance were financed though liability having short and long maturity, with 0.45 minimum, 0.90 maximum value, and the standard deviation of 0.080, It has a relatively low deviation from the mean value, which accounts for 8%, these show that the insurance are highly leveraged. This leverage level might mainly come from the very nature of insurance in Ethiopia; they collected premium from the insured. Premium growth, which is measured by the PG= (GWP (t) – GWP (t-1)) / GWP (t-1) shows a mean value of 0.250 with the standard deviation of 0.141%, This indicates that, on average premium growth rate was 25% with a maximum value of growth was 79% and the minimum value of growth was 1%. This higher growth standard deviation might be due to the difference in the age of the insurance companies. In the sample, some of the companies were as old as more than 30 years and others were less than 10 year

4.4 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; EViews 12 output

Note: significance at 1, 5, 10 percent levels.

From Tables 4 and 5, the R-squared for regression model 1(ROA) is 0.711 while 0.599 for model 2 (ROE). This means that model 1 explains 71% of the total variability in the performance of insurance companies (ROA). The remaining 29% of the variation in the performance is explained by other variables that are not included in the model in this research; while 59.9%of total variability in the performance measured ROE. Despite the moderate R-squared value, a Prob (F-statistic) of 0.0000 implies that the null hypothesis that the model is adequate and can be accepted since the p-value of the F-statistic is 0 which is sufficiently low. Hence the model is well-fitted at a 1% level of significance. The results also show in Table 4&5 that the variable coefficient of the size of the company, premium growth, inflation, GDP, and asset tangibility are increased by 1%. The financial performance of Ethiopian insurance companies measured by (ROA) increased by 2.6%, 6.8%, 1.3%, 2.3 %, and 0.02% respectively. While political violence and terrorism, liquidity, and financial risk increased by 1%, the financial performance of Ethiopian insurance companies measured by (ROA) decreased by 10%, 1.3%, and 30% respectively.As well as the size of the company, premium growth, GDP, and financial risk increased by 1%. The financial performance of the Ethiopian insurance company measured by (ROE) increased by 0.5%, 1%, 6.9%, and 23 % respectively. While political violence and terrorism, liquidity, inflation, and asset tangibility increased by 1%, the financial performance of Ethiopian insurance companies measured by (ROE) decreased by 4%, 3.8%, 4.2%, and 0.4% respectively.

The regression result in Tables 4 and 5 shows the size of the company has a positive and significant effect on the financial performance of the Ethiopian insurance company proxied by ROA at (p-value of 0.0326) at a 5 percent confidence interval but no significant effects on ROE. The result of this study is consistent with the result of Azmi, (2020), BEN DHIAB (2021), and Batool, et al. (2019) It is shown in the table above that political violence and terrorism have a negative and statistically significant effect on the

Ethiopian insurance industry's performance at a significant level of 1% to ROA (p-value of 0.0061) and 10%. This ROE (p-value of 0.0845) This variable has not been investigated yet. Premium growth has significant negative effects on the financial performance of the Ethiopian insurance sector proxied to ROA (p-value of 0.0012) at a 1% significant level but no significant influence on ROE. This study is consistent with the findings of Anwar, Omerand &Mubarek (2022) and Hailegebreal (2016). As is found in this study, Liqudity has a negative and significant effect on the Ethiopian insurance industry's financial performance proxied to ROE (p-value of 0.0355) at a 5% significant level but insignificant effects on ROA. This finding is similar to the finding of Shiferaw, and Gujral (2022) and Mengistu, Leta, and Tesfay (2020) but opposite of Shikur, Ahmed, and Hussen (2022), and BEN DHIAB (2021) Regarding macroeconomic variables, the inflation rate of Ethiopia has a positive but statistically insignificant impact on the financial performance of

Ethiopian insurance companies proxied on ROA as well as negative and insignificant effects on ROE. As indicated in the regression result above in Table 4&5, the economic growth proxied by GDP is the most important determinant of the insurance industry's financial performance proxied ROA (p-value of 0.0067) at 1% significant level and proxied ROE (p-value of 0.0224) at 5% this finding consistent with the finding of Tesfaye (2018) and (Hailegebreal, (2016); Financial risk has a negative and significant impact on ROA at a significant level of 1% (p-value of 0.0002) but positive for ROE on the financial performance of insurance companies in Ethiopia at a 5% significant level (p-value of 0.0399). It is implied that highly profitable insurance companies are more likely to rely on internally generated funds and equity capital than debt capital as the source of financing. This finding is similar with Taddesse& Tripti (2022) but the opposite with Shikur, Ahmed, and Hussen (2022). Asset tangibility has a positive and significant effect on shareholder equity ROE at a significant level of 10%(p-value of 0.0873) to have increased investment in a fixed asset to the total asset with decreasing the liquidity level, but no significant impacts on ROA. Findings are consistent with previous findings by Isayas, Yitayaw, and Kumlachew (2020).

V. CONCLUSION AND RECOMMENDATIONS

The objective of this study was to find out firm-specific, macroeconomic, and political factors that explain the financial performance of Ethiopian insurance companies. Based on the findings from the regression analysis, the researcher can conclude that the financial performance of Ethiopian insurance companies was best explained by the explanatory variables included in the model, and it was also concluded that financial performance was highly affected by the company-specific factors and the external factors. The positive effects of the size of the company on (ROA) indicate that size is used to capture the fact that larger insurance companies are better placed than smaller ones in joining economies of scale in transactions and enjoy a higher level of profits. Thus, an insurance company needs high consideration of increasing the company's assets because the size of the company is an important factor as it influences its competitive power.The negative effect of political violence and terrorism in the (ROA) scenario indicates political instability significantly reduces financial performance during Oromo youths known as (Qeerroo) led mass anti-government protests. 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 manifestations of discontent. My Suggestion that Ethiopian governments in politically fragmented countries with high degrees of political instability need to address its root causes and try to mitigate its effects on political policy.

Policymakers should shed light on the significance of effective internal bank strategies when designing policies to prevent political instability and enhance financial performance. The empirical results propose that no mention of available financial insurance tools influences their ability to encounter political problems.It needs great attention to financial risk. Companies that are highly leveraged mean reducing company financial performance. If they are unable to make payments on their debt, they may also be unable to find new lenders in the future. Premium growth has a positive effect on the financial performance of insurance companies in Ethiopia, which implies that insurance companies operating in Ethiopia with higher premium growth will generate more profit than lower premium growth. We suggest that the Ethiopian insurance sector should diversify its products and service to attract insured and to earn better profit. Macroeconomic variables'

GDP growth rates have a positive impact on the profitability of insurance companies, which implies insurance companies operating in Ethiopia with higher economic growth rate will generate more profit than a lower GDP growth rate. The analysis suggests that the tangibility of asset has a positive impact on shareholder equity of insurance companies in Ethiopia. It implies that insurance companies with high rates of fixed asset are in a lower position of return on equity.

Thus, from the results, it can be concluded that the Ethiopian insurance companies' investment (ROE) has been affected by liquidity. There is a negative relationship between liquidity and profitability of insurance companies in Ethiopia. This means, if an insurance company has hold more liquid assets, they are in a lower position of having returned on equity. Thus, the insurance sector should invest its short term idle fund to maximize shareholder equity.Although my study produced exciting outcomes, it had several limitations. Firstly, the study is only applicable to insurance industry in Ethiopia. Second the report recommends that the study is including 2014-2022 years of data and countries in the Ethiopia to provide more insight into policy maker and government during youth protestor movement. Future research can include banking sector, microfinance institution as well as small and medium enterprises which affected by political instability case. Thirdly, despite the use of several other model regardless liner regression models and other variables related to dimension error in the study, the results are not completely free of dimension error. Finally, there is an on-going debate about the inefficiency of current accrual models for classifying political unrest dummy variable measurement.

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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