

MAASTRICHT SCHOOL OF MANAGEMENT



GROWTH AND PERFORMANCE OF INSURANCE COMPANIES AND THEIR CONTRIBUTION TO ECONOMIC DEVELOPMENT OF RWANDA:

A CASE STUDY ON SORAS & SONARWA

BY

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This paper was submitted in partial fulfillment of the requirements for the Award of the Degree of Masters of Business Administration (MBA) at the Maastricht School of Management (MSM), Maastricht, the Netherlands, and September 2011.”

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DECLARATION

I, Eugene MUVUNYI, declare to the best of my knowledge that this thesis is my original work and has not been submitted for any other degree in any university.

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DEDICATION

This work is dedicated to my Parents, Brothers and Sisters for their support.

CERTIFICATE

The undersigned certify that this dissertation “Growth and Performance of Insurance Companies and their contribution to Economic Development of Rwanda: a Comparative case study of SORAS and SONARWA” was carried out by Mr. Eugene MUVUNYI under my supervision, and thereby recommended it for acceptance by School of Finance and Banking, Kigali, Rwanda.

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ABSTRACT

The stable Insurance Industry is a very crucial element as far as the development of the economy is concerned.

The financial system is very complex in structure and function throughout the world and as far as Rwanda is concerned, the 2007-09 financial crisis that hit the world, Rwanda did also face the challenges.

It is therefore from this context that the financial system in Rwanda had to do all the possibilities to maintain and even protect the financial stability of the economy as well as that of the Insurance companies.

The main objective of the study was to identify the growth and performance of the Insurance companies and their contribution to economic development of Rwanda. They are the two Insurance Companies that were selected among the eight operating in Rwanda. The companies that were selected are SONARWA and SORAS as the leading Public and Private Insurance Companies that have generated experiences and have been operating on a large basis.

From the findings, it was observed that SORAS had a well stable but fluctuating financial performance than SONARWA which registered various losses than profits in various areas, being in Premiums, Increased expenses, redundant increased assets etc.

And we therefore recommended that SONARWA should make more emphasis in further Investments and generate revenues since it gained back a stable management after privatization.

It was further recommended to increase the profits, Invest in Assets like land but later use them for Investments but not holding them. SORAS though profitably operating well was also recommended on various issues taking into consideration, Return on Assets, Return on Equity, Net Premiums, Liabilities, Assets and their management. The Insurance companies were recommended to invest in Financial Securities be it Long term or short securities.

The research was concluded by giving suggestions for further research.

1.0 CHAPTER ONE: GENERAL BACKGROUND

1.1 Introduction

1.1.1 INSURANCE AND ITS RELEVANCE IN THE ECONOMY

Financial Institutions play a vital role in the social and economic development of any country. There is a strong interrelationship between financial and real development of a Country. These financial institutions include banking and non banking institutions. They provide financial services to the public and other organizations.

The creation of Insurance companies was a crucial issue and they are involved in providing insurance and assurance to cover a number of risks such as fire, floods, death, accidents, theft and life respectively in Rwanda.

Insurance has been called the handmaiden of industry. Apart from reduction of loss, damage and stress in society to more acceptable levels, Rwandan insurance companies have played a significant role in mobilization of savings and investments in the social sector over the past 35 years.

Insurance companies refer to those institutions that accept premiums from the public and corporate organizations in order to provide and safeguard against risks such as death, fire, floods, accidents, theft and so on. Thus insurance companies provide different kinds of services ranging from life, retirement fund and medical funds, automobile to property coverage.

Generally a financial institution means any business organization that acts as a mobilizer of savings and as supply of credit or finance in a country. Financial institutions provide financial services to community. According to Smith, the financial system is seen as a servant of the real economic need of business and consumers that are recorded in their demand for loans.

Insurance companies are among the companies that provide services in commercial activities in providing services and improvement of infrastructure.

Insurance companies if efficient and well managed, contribute in providing socio-economic welfare of the people through provision of employment opportunities. Thus insurance companies

need to be efficient so as to achieve their goals. The range and nature of services provided by Rwandan Insurance Industry had been widening and insurance is a dynamic one.

Insurance is a risk transfer mechanism by which an organization or individual can exchange its uncertainty insurance officers opportunity to exchange this uncertainty loss, that was the insurance premium. Thus the organization or individual agree to pay a fixed premium and in return the insurance company agree to meet any losses, which fall within the term of the policy.

Moreover, insurance is of great importance to the economy. By handling various forms of the risk of high investment projects, insurance increases the productivity of the economy. Therefore, there are several classes of insurance which including life assurance, pension schemes, industrial life assurance, personal accident insurance, marine and aviation insurance, fire and other property insurance, credit and fidelity guarantee insurance.

More to the above, insurance also increases the welfare of individual by increasing security. Without coverage against costs, automobile accidents, loss of home or death of breadwinner, our lives and livelihoods would be far less secure and far anxious.

Besides, life insurance is every long term savings, these savings can be invested in high yielding risk assets such as equity shares, mortgages and property development. Life assurance business is based upon the fact that death is certain but the age at which it occurs is not. And this is why people wish to insure themselves to gain benefits for their family should they die prematurely.

However, there are eight main insurance companies in Rwanda which provide insurance services. And efficiently the pool of premiums collected from the public and organizations in order to deal with risk transformed to them. Therefore, insurance companies play a significant role in the economic development of Rwanda by providing both life and Non-Life coverages to the beneficiaries.

The general public needs insurance coverage to avoid various risks and to safeguard themselves and their dependants. In many parts of Africa, where more vulnerable diseases prevails, it is inevitable to have insurance coverage to mitigate the various risks of individuals and their dependants. In this context, various financial institutions including banks and insurance companies started to offer various products and services to suit the individuals demand.

1.2 THE CONTRIBUTIONS/BENEFITS OF INSURANCE TO THE ECONOMY¹

According to the chartered Insurance Institute (October 1999), the existence of a sound insurance market is an essential component of any successful economy and the proof of this can be seen in many parts of the world. The fact that insurance is much less talked about than other financial institutions (such as banks, merchant banks and building societies) is no reflection of its real importance. Many writers on economic history and the history of insurance comment on the link between a sound insurance market and industrial development. Mehr and Cammack, the American writers on insurance, observe in their book Principles of Insurance that the rise of great facilities during the same period, was no coincidence. The benefits, which prompted these and other writers to make such observations, are still obtainable and will look at a number in this section. There is no special significance attached to the order in which they are mentioned.

The benefits are as follows:

a) PEACE OF MIND

The knowledge that insurance exists to meet the financial consequences of certain risks provides a form of peace of mind. This is important for private individuals when they insure their car, house, possessions and so on, but it is also of vital importance in the industry and commerce.

Why should a person put money into a business venture when there are so many risks which could result in the loss of the money? Yet, if people did not invest in businesses then there would be fewer jobs, less goods, the need for even higher imports and a general reduction in wealth. Buying insurance allows the entrepreneur to transfer at least some of the risks of being in business to an insurer, in the manner we have described earlier.

Insurance also acts as a stimulus for the activity of business which are already in existence. This is done through the release of funds for investment in the productive side of the business, which would otherwise need to be held in easily accessible reserves to cover any future loss. Medium sized and larger firms could certainly create reserves for emergencies such as fires, thefts or serious injuries. However, this money would have to be accessible reasonably quickly and hence

¹ **Chartered Insurance Institute (October 1999)**

the rate of interest which the company could obtain would be much less than the normal rate. Quite apart from this is the fact that the money would not be available for investment in the business itself. Because of the effects of the common pool, the business is able to purchase insurance at a premium which is less than the fund that the company itself would have to retain, even assuming it could retain anything in the first place. The premium can be looked upon as a certain loss to the business, but the firm is now free to continue its business and invest in the knowledge that certain risks are now provided for. With this peace of mind it can develop its business activities.

b) LOSS CONTROL

Insurance is primarily concerned with the financial consequences of losses, but it would be fair to say that insurers have more than a passing interest in loss control. It could be argued that insurers have no real interest in the complete control of loss, as this would inevitably lead to an end to their business. This is a rather short-sighted view. Insurers do have an interest in reducing the frequency and severity of losses, not only to enhance their own profitability, but also to contribute to a general reduction in the economic waste which follows from losses.

In the case of fire insurance, we can trace the involvement of insurers in loss control right back to the provision of fire brigades. It is sufficient to say that insurance companies provided the only form of fire fighting for many years and this is certainly evidence of an active interest in loss control. In modern times, the insurance industry pools its resources and the funds continuing research work into the prevention and control of many forms of loss. A number of individual insurance companies have developed considerable expertise in the technology of different forms of loss control and are regarded as being at the forefront of research in this field.

In a practical way, buyers of insurance will normally come into contact with the loss control services offered by an insurer when they meet the surveyor. The surveyor may be employed by the insurer, or indeed the insurance broker, and part of their job is to give advice on loss control. Many insurers employ specialist surveyors in fire, security, liability and other types of risk, others will assess the extent of the risk to which the insurance company is exposed. In doing so they will also offer advice, which could take the form of pre-loss control (minimizing the chance that something will happen) or post-loss control (after an event has occurred).

c) SOCIAL BENEFITS

The fact that the owner of a business has the funds available to recover from a loss provides the stimulus to business activity which we noted earlier. It also means that jobs may not be lost and goods or services can still be sold. The social benefit of this is that people keep their jobs, their sources of income are maintained and they can continue to contribute to the national economy. We all know the effects on a community when a large employer moves or ceases operation. The area runs the risk of being depressed, people have less money to spend and the consequences of this can be far reaching.

To a lesser extent, a major loss resulting in the closure of a business can have the same impact on a community. It may not be as noticeable as the shut-down of a coal mine or large factory, but when losses are aggregated throughout the country the effect is considerable. It is not suggested that insurance alone keeps people in jobs, but it does play a significant role in ensuring that there are not unnecessary economic hardships.

The three benefits that we have looked at all follow on from the protection offered by Insurance.

These benefits may be to the buyer of insurance or to the economy as a whole, but they relate in some way to the basic idea of providing a risk transfer mechanism.

d) INVESTMENT FUNDS

Insurance companies have at their disposal large amounts of money. This arises from the fact that there is a time gap between the receipt of a premium and the payment of a claim. A premium could be paid in January and a claim may not occur until December, if it occurs at all. The insurer has this money and can invest it. In fact, an insurer will have the accumulated premiums of all insureds, over a long period of time.

This is clearly a vast sum of money, but what is the benefit that conveys? The benefit lies in the use to which the money is put. Insurers invest in a wide range of different forms of investment. By having a spread of investments, the insurance industry helps national and international governments in their borrowing. It also helps industry and commerce, by making various forms of loan available and by taking up shares which are offered on the open market. Insurers make up part of what are termed the institutional investors, the others include banks, building societies

and pension funds. Investment is also made in property and many of you will have seen the large boards outside new building developments, stating that the project has been funded by a major Insurer.

It is valuable to point out that this money is the result of thousands of different people and organizations paying premiums. In one sense, the existence of an insurance market really brings about a form of enforced saving. For example, let us consider a person insuring their house. Such a person may not have sufficient free money to be able to purchase shares, buy property or lend money. However when the premium from that person is added to the premiums from several thousand other people, then a reasonable amount of investment money is made available.

e) INVISIBLE EARNINGS

We have already said that insurance allows people and organizations to spread risk among themselves. In the same way, we can also say that countries spread risk.

As a trading nation we have to import goods which we need for our people and by the same token we export goods which other people want to buy.

Where goods the goods are tangible, a visible trade exists, for example when goods are shipped to a foreign country and are paid for by that country these are visible exports. In the case of insurance, goods are visible but the principle remains the same. Whether goods concerned are visible or invisible.

From an economic point of view, it is wise to have a balance between the volume of what we export and import. Importing a much higher amount than we export, means that we are spending money which we have not earned. The difference between the value of visible exports and imports is called the balance of trade, and this is often referred to in newspapers and on television. When the we export more than we import we have a surplus and when imports exceed exports we have a deficit on our balance of trade.²

² **Chartered Insurance Institute (October 1999)**

1.3 THE RWANDA INSURANCE INDUSTRY FACTS

Prior to 1975 there were no full-fledged insurance companies existing in Rwanda. However, some foreign brokerage firms were in operation representing their mother-companies. Prominent among these was Charles Le Jeune. These firms had capacity and were empowered to underwrite and manage claims.

In 1975, two laws related to Insurance were enacted, of which one was related to regulating Insurance Operations (June 20th , 1975) and another related to establishing Third Party Motor liability cover (August 7th 1975).

Amb. GATETTE Claver (August 9th 2011), in the Monetary Policy and Financial Stability Statement. The Insurance Industry is viewed from the perspective of Non-Financial Institutions in Rwanda. The non bank financial institutions cover the insurance and pension sectors in Rwanda.

The National Bank of Rwanda is mandated to ensure such institutions are financially sound and stable. This is done through monitoring their financial performance and market conduct.

The Insurance sector in Rwanda is composed of 8 Insurers of which 6 are private (SONARWA, SORAS General Ltd, SORAS life Ltd, COGEAR, CORAR and Phoenix) and 2 public Insurers (RAMA and MMI), the later exclusively doing medical Insurance. Three of the above insurers (SONARWA, CORAR, and COGEAR) are still composite insurers, meaning they offer both general and life Insurance services.

There are four licensed insurance brokers (ASCOMA Rwanda, AFRICA Risk, AIB and Reliance Insurance brokers) and 102 insurance agents.

Today Insurance penetration is around 2.3% which is still far less than middle income economies such as South Africa with 10%. Insurance sector performance has been progressively improving as depicted in Table 1.1 below:

Table 1.1: Financial soundness of insurance sector (in RWF billions, except otherwise indicated)

Details	2010		2011	
	June	December	March	June
Total Assets	102.9	128.0	130.2	151.8
Total Capital	58.1	85.0	87.4	101.8
Total Gross Premiums	31.0	50.0	32.4	64.8
Underwriting profit	6.9	7.1	9.3	10.8
Total Net profit	10.3	16.0	14.2	28.4
Claims ratio, in %	42.0	44.0	32.0	64.0
Combined ratio, in %	76.0	81.0	59.3	108.0
Current ratio, in %	181.0	272.0	289.2	289.2
Return on equity ratio (ROE), in %	18.0	17.0	16.0	30.0
Return on assets ratio (ROA), in %	10.0	11.0	11.0	22.2

Source: BNR, Non Bank financial institutions supervision department

Table 1.1 explains, the total assets of the Rwandan Insurance sector as at march 31, 2011 reached RWF 130.24 billion compared to RWF 128.21 billion as at December 31, 2010. The Gross premiums keep on increasing as well as the net profit due to the boom in the Rwandan economy. The return on assets and returns on equity continue to improve as most of the insurers invested their assets in highly profitable businesses such as real estate (Rent) and investments in equities.

1.4 The Pension Sector towards the development of Rwandan Economy.

The pension sector is comprised of the National Social Security Fund (CSR), which operates the country's public pension and some private sponsored pension funds operated by large employers, estimated at about 40 schemes.

The public pension scheme commonly known as CSR (NSSF) covers about 274,062 salaried workers representing 7% of the working population in Rwanda. The pension coverage is still low compared to middle income economies such as South Africa at 25%.

In this sector, the main performance indicators are assets and contributions, and a positive trend of growth in both assets and contributions has been observed.

The table 2 below shows the trend of main variables selected from the financial statements of NSSF but does not capture data from private pension funds.

Table 1.2: Selected major variables in pension sector (Amounts in billions of Rwf)

Details	2006	2007	2008	2009	June 2009/2011
Total Assets	79.48	112.98	129.04	142.38	166.78
contributions	11.41	18.96	23.25	9.30	28.23
Total Expenses	2.56	4.25	6.21	2.93	6.71
Benefits	3.17	3.68	4.22	3.10	6.47

* Data for the first semester

Source: BNR, Non Bank Financial Institutions Supervision Department

Insurance has been a fast and growing sector in the Rwandan economy, whereby as of today various insurance companies are legally registered and operating on a competitive basis.

1.5 RESEARCH PROBLEM

The focus has been to stick to the traditional roles of insurance in society, which are to spread risk, and if the risk materializes, to spread the resulting loss but at the same time diversifying the range of products offered. Incidental to this role, but increasingly an important ancillary role of insurance in itself, has been the management of risk and the prevention of loss.

The Insurance companies provide different kinds of services ranging from life, retirement fund, and medical fund, automobile to property coverage.

In order to become more efficient, insurance companies need to design and operate sound roles which will enable them to maximize profitability and achieve their objectives.

This research will therefore find out to what extent the Insurance companies plays the role of economic development and determine what it has contributed and contributes towards the successful performance of the economy in Rwanda as a way of maintaining its competitive advantage and earning above average returns to achieve its ends.

1.6 RESEARCH OBJECTIVES

This study has general and specific objectives.

1.6.1 General objectives

The general objective of this project is to assess the contribution of insurance companies in the economic development in Rwanda.

1.6.2 Specific objectives

- To study the insurance indicators with selected insurance companies;
- To analyze the financial performance ratios of selected insurance companies, and
- To predict the insurance companies contribution on economic development with control variables.

1.6.3 Research Questions

- What is the contribution of Insurance companies towards the development of Rwanda?
- What kind of products do these companies provide to its customers?

- How does the financial performance of these Insurance companies contribute to the welfare of the customers?

1.7. Chapterization

The thesis has five chapters. The first chapter gives an overview of the problem statement, the research problem, the research objectives, the significance of the study, the research questions, the problem limitations and finally the thesis structure. The second chapter contains the theories and earlier studies related to the thesis enquiry questions. The third chapter encloses the research methodology which encompasses methods used to collect data. The fourth chapter, which is composed of findings, analysis and Interpretation of data, it is followed by the last chapter which summarizes the research with the conclusion and recommendations as well as some other suggestions for further research.

2.0 CHAPTER TWO: LITERATURE REVIEW AND COMPANY PROFILE

2.1 General Introduction

Robinson Joan (1952), demonstrates the direction of causality is dependent on both financial and growth indicators. And more to this is that the loan market is largely demand following and the INSURANCE market is supply leading. Tan further elaborated that key factors towards economic growth by showing that the stock market is too demand following in the short term and supply leading in the long term. In addition, highlighting the benefits of using disaggregated financial data, the findings also demonstrate that causality patterns vary with indicators used and therefore emphasizes on the danger of very few and restrictive indicators in individual country studies.

Joan Robinson (1952), further explains the relationship between financial economic development and economic growth. These are very crucial factors that one cannot ignore. The engine for development lies in the essence on how finance and its stakes are handled. The financial sector plays an important role towards economic development. He demonstrates that the relationship between financial economic development and economic growth is very controversial. The supply leading theories consider the development of financial sector as the precondition for economic growth, while the demands following theories consider financial development as merely responsive to economic growth. Taking Rwanda as the case of the research, the financial sector has been taken very crucial because of the population that has to be self centered. There have been various claims about access to finance in order to develop their businesses. Various insurance companies have penetrated in the market to mobilize the population in the importance of savings and insurances as further their development is concerned.³

Joan Robinson (1952), believe that as economic progresses, there has been increasing needs for sophisticated financial services and this lead to the development of the financial sector. In the Rwandan context, demand for finances has increased to a high rate.

However the empirical side of the research explains the Insurance market and Economic Growth. It is well indicated that the role of Insurance market is mainly risk hedging. With sufficient

³ Joan Robinson (1952), "The Generation of the General Theory" In the rate of Interest and other Essays, London, Macmillan, P86.

hedging, a firm may be more willing in committing investment projects that are more risky but returns are higher.

Philipa Mladovsky and Elias Mossialos (November 2006), explains the Health Insurance towards the well being of the population. Lives of people get affected at any anytime on high costs and many results into different kinds of life disabilities and death at times.

Community-based health insurance (CBHI) as a transitional mechanism to achieving universal coverage for health care in low-Income countries. Community-based health insurance provides financial protection from the cost of seeking health care. In Rwanda, one can give an example of MUTUEL de SANTE and many more life Insurances in different Insurance Companies. This has three main features, prepayment for health care by the community members, community control, and voluntary membership.

One can further say that, membership in the 19th century mutual schemes grew and eventually they merged to form various types of national health insurance. Emerging in a different social economic context, it is not safe to assume that community-based health insurance schemes will develop according to the historical precedent.

However, constraints to increasing community-based health insurance coverage and sustainability have been identified primarily by a body of literature taking an economic or health system perspective. In agencies such as the World Bank and WHO, analysis of CBHI policy is underpinned by an economic framework, with discussions focusing on features of market transactions such as willingness to pay, information, price and quality.⁴

Beenstock, Dicknson and Khajuria (1988) in the first part of their paper, tried to obtain a demand function for property-liability insurance. They assumed an individual in two-period model with insurable assets and wealth. If a loss occurs and no insurance has been purchased, it causes a reduction in wealth by the amount of value of insurable assets. If insurance has been purchased and no loss occurs, the initial wealth is reduced by the premium paid and if loss occurs, the initial wealth is reduced by the premium paid and if loss takes place, wealth is reduced by the amount of insurable assets minus the sum insured. By considering these

⁴ Philipa Mladovsky and Elias Mossialos, First published in Nov. 2006, Working N° 2/2006, London LSE Health.

assumptions, some equations arranged and they concluded demand for insurance was a function of income, probability of a loss occurring (accident), return on wealth (interest rate) and relative price of insurance.

Maurice Kugler and Reza Ofoghi (July 2005) explains that the importance of insurance activities has been recognized for many years. The impact of insurance on economy even was mentioned in the first conference of UNCTAD in 1964 where acknowledged “ a sound national insurance and reinsurance market is an essential characteristic of economic growth.

They further elaborated that, it seems insurance not only facilitates economic transactions through risk transfer and indemnification but is also seen to promote financial intermediation. More specifically, insurance can have effects such as promote financial stability, mobilize savings, facilitate trade and commerce, enable risk to be managed more efficiently, encourage loss mitigation, foster efficient capital allocation and also can be a substitute for and complement government security programs.⁵

If one views the key economic benefits of insurance as risk transfer, indemnification and financial intermediation, then the benefits of risk transfer and indemnification are likely to be the major characteristics of non-life and health insurance, while financial intermediation is part of life insurance.

Browne and Kim (1993), in their research considered some factors which may affect demand for life insurance for countries around the world. They studied previous research of which had been done about this aspect and provided a list of these factors included: life expectancy, national income, dependency ratio, the portion of the young adult population pursuing third level education, religion, social security payments by the government, expected rate of inflation and policy loading charge or the price of insurance. Before estimating the model, a schedule was provided by the authors' for their expectations about sign of each factor on the demand for life insurance.

Income, dependency ratio and education were expected a positive while life expectancy, religion, inflation and price of insurance considered with a negative effect. The sign of social security

⁵ Maurice Kugler and Reza Ofoghi (July 2005), *Does Insurance Promote Economic Growth? Evidence from the UK*

payments was ambiguous. For each factor's sign expectation, an explanation was provided. For example, about the sign of life expectancy they stated:

Average life expectancy is the number of years the average individual in a country is expected to live. This is used as a proxy for the probability of death. Because the probability of death is hypothesized to be positively related to the amount of life insurance consumed, average life expectancy is hypothesized to be negatively related to life insurance consumption.

By describing the data as it was provided by **the British association of Insurer's website** about the definitions about the different types of insurance. Long term insurance includes life insurance and pension plans, that can last for many years. General insurance covers insurance of (non life) risks where the policy offers cover for a limited period, usually one year. Motor policies cover the legal liabilities arising from the use of a motor vehicle. Private car, motorcycle, commercial vehicles and fleets are all included within this category. Comprehensive policies also cover damage to the vehicle.

Medical expenses insurance will pay the costs of treatment for acute conditions. Liability insurance covers legal responsibility for causing loss to someone else by injuring them or damaging their property. Property policies cover specified property that may be damaged or destroyed by events or perils such as fire, storm or theft.

Reinsurance is the cover insurance companies can purchase to protect themselves against large losses or an unexpected aggregation of losses. Marine, Aviation and Transport covers damage to both the hull and cargo of ships or airplanes, along with the liability for property damage, injury and death to passengers and others. Indemnities are also provided for the goods that may be lost or damaged whilst in transit.

Table 2.1: Showing projections of Insurance and the GDP towards economic development.

Variable	Co integration	GDP causes Insurance Premium			Insurance Premium causes GDP		
		Short run	Long run	Both	Short run	Long run	Both
Logarithm of life Insurance-Yearly Premia	YES	NO	NO	NO	YES	YES	YES
Logarithm of life Insurance-single Premia	YES	NO	NO	NO	YES	YES	YES
Logarithm of motor Insurance Premia	YES	NO	NO	NO	NO	YES	YES
Logarithm of accident and health insurance premia	YES	NO	NO	NO	NO	YES	YES
Logarithm of property insurance premia	YES	NO	NO	NO	NO	YES	YES
Logarithm of Pecuniary loss Insurance Premia	YES	YES	YES	YES	YES	NO	YES
Logarithm of Reinsurance Premia	YES	NO	YES	YES	NO	YES	YES

Source: Article, Does Insurance Promote Economic Growth?, by Maurice Kugler & Reza Ofoghi (July 2005).

2.2 Empirical results

The results indicate that there is evidence in favor of long run causality from growth in insurance market size to growth in GDP for seven out of eight. Short run causality exists from life (both yearly and single premia), pecuniary loss insurance. Also strong exogeneity exist for all components of insurance, with exception to liability and MAT insurance.

Although results indicate a bi-directional causal relationship in the long run between GDP and insurance market size for three cases, however Granger and Lin's measure shows strength of causality from GDP to components of insurance in these cases is more powerful.

In the first conference of UNCTAD in 1964 acknowledged national insurance and reinsurance market is an essential characteristic of economic growth. In addition, the authors suggested insurance has a positive effect on economy through risk transfer and indemnification and also promote financial intermediation. Nevertheless, except a few papers which have considered relationship between some parts of insurance industry and economic growth, nothing has been done to evaluate this claim empirically.

Potential relationship between growth in insurance industry and economic growth was examined by **Ward and Zurbruegg (2000)** for OECD countries.

Based on the results, co integration analysis showed that there was no long run relationship between growth in insurance industry and economic growth for some OECD countries, including UK. They used total written insurance premia as insurance activities in their paper. However, it is strange to say that an industry in the UK which is the largest in Europe and the third in the world had no effect on the economy.

There is evidence of strong exogeneity from insurance market size to economic growth for six out of eight markets, while this is true just for three cases for GDP growth to insurance market size. Also it is noticeable that GDP growth only causes in pecuniary loss insurance causes economic growth in the short run. The author's analysis does not permit to make a conclusion about these results and also about why when there is a bilateral long run relationship, causality from GDP growth to insurance market size. One reason might that the structure the UK's insurance industry is demand following rather than supply leading for these markets follow a supply leading for the markets. Other markets follow a supply-leading pattern.

2.3 Promoting Savings for economic growth/development

Savings are the major considerations as far as economic development is concerned, this is because when people save they have access to further funds and investment can be boomed on high level that will later strengthen the growth of businesses and hence household development for economic development purposes.

Savings in the insurance companies has been a success in a sense that in the long run people have saved for different activities taking a note for Education of their children, saving for the after work Pensions, saving just for the purpose of increasing their income for the near future investments.

More to the savings to economic development helps in reducing over circulation of income which could result into different economic hazards taking examples like, Inflation, devaluation of national currencies, to mention but a few.

Jonathan Morduch explains informal insurance Patch the safety Net, It had been long thought that most poor households have little desire to save in banks, but the experience of Indonesia's Bank Rakyat Indonesia and programs like it are turning the view around. Once BRI established a safe, convenient savings vehicle, they found high demand for deposits where customers had previously not been interested. BRI now has over 16 million low income depositors (versus two million borrowers), greatly aiding the bank's profitability. While there is no systematic evidence on the income levels of depositors, bank staff argue that they tend to be poorer on average than borrowers and diverse in their socio-economic backgrounds. Partly as a result, savings mobilization efforts are now being renewed in microfinance programs in Latin America, Asia, and Africa. Public policy can aid by ensuring an appropriate regulatory environment and helping to keep inflation in check.

One promising program has shown the surprising demand for savings deposits among poor households in the slums of Dhaka, Bangladesh, and the program is being replicated by other non-governmental organizations in South Asia. The NGO Safe Save of Dhaka took lessons from the functioning of local rotating saving and credit associations, in which participants contributed small sums to a collective pot through daily collections by the ROSCA manager (Rutherford, 1999). Safe Save uses this principle for collecting contributions to savings accounts: collectors

make daily round of participants' homes and businesses six days a week. The response has been much greater than expected, and depositors have been able to build up usefully large sums of money.

The program also allows depositors to take loans against savings, providing a means to address temporary consumption shortfalls and other short-term emergencies.

Without easy saving opportunities, households are tempted to squander surpluses or are susceptible to calls for short-term help from family members or neighbors – often at the expense of long-term progress (Plateau, forthcoming). In this way, provision of savings instruments may well be much more important than provision of credit in raising incomes and reducing risk – and it is generally easier to accomplish than credit provision.

Such financial deposits can be particularly effective in helping households weather the difficult scenarios that undermine systems of gift exchange. This is seen in considering the various forms of shocks that households encounter.

How and where deposits are invested appears to be far less important than those deposits are mobilized from poor households. In principle, there is no reason not to invest the money abroad, for example, if domestic options prove difficult and returns are unattractive. Where it is costly to set up savings bank branches, simple mechanisms like post office savings plans (or innovations based on the African *Susu* collector) may offer appealing options.

With low frequency -- like old age, death in the family, chronic poverty and chronic disability – are fundamentally different from others. Although often anticipated, the events can hit households hard and may require a continuing flow of transfers to the affected households. Without such transfers, having deposits can be a major benefit. (An important tension, though, in relying on savings over the long-term arises if interest rates on deposits fall below inflation rates, eroding the purchasing power of deposits.) Having savings also allows households to avoid having to borrow from moneylenders at high interest rates when emergency funds are needed (especially as interest rates may reach 5-10% per month; von Pischke, 1992). Deposits can also be especially valuable in the face of large covariant shocks like regional drought. After covariant

shocks, the price of assets typically plunges as all villagers simultaneously try to sell their holdings, sharply diminishing gains made through asset sales. Financial savings, however, will generally hold greater value (and could increase in value as prices fall).

2.4 CONCEPTS IN INSURANCE

2.4.1 Types of insurance

According to various web searches (Google & altavista.com), any risk that can be quantified can potentially be insured. Specific kinds of risk that may give rise to claims are known as perils. An insurance policy will set out in details which perils are covered by the policy and which are not. Below are non-exhaustive lists of the many different types of insurance that exist. A single policy may cover risks in one or more of the categories set out below. For example, vehicle insurance would typically cover both the property risk (theft or damage to the vehicle) and the liability risk (legal claims arising from an accident).

Business insurance can take a number of different forms, such as the various kinds of professional liability insurance, also called professional indemnity (PI), which are discussed below under that name; and the business owner's policy (BOP), which packages into one policy many of the kinds of coverage that a business owner needs, in a way analogous to how homeowners' insurance packages the coverage that a homeowner needs.

1. Auto insurance

Auto insurance protects the policyholder against financial loss in the event of an incident involving a vehicle they own, such as in a traffic collision.

Coverage typically includes:

1. Property coverage, for damage to or theft of the car;
2. Liability coverage, for the legal responsibility to others for bodily injury or property damage;
3. Medical coverage, for the cost of treating injuries, rehabilitation and sometimes lost wages and funeral expenses.

2. Home insurance

Home insurance provides coverage for damage or destruction of the policyholder's home. In some geographical areas, the policy may exclude certain types of risks, such as flood or earthquake that require additional coverage. Maintenance-related issues are typically the homeowner's responsibility. The policy may include inventory, or this can be bought as a separate policy, especially for people who rent housing. In some countries, insurers offer a package which may include liability and legal responsibility for injuries and property damage caused by members of the household, including pets.

3. Health insurance

Health insurance policies cover the cost of medical treatments. Dental insurance, like medical insurance, protects policyholders for dental costs. In the U.S. and Canada, dental insurance is often part of an employer's benefits package, along with health insurance.

4. Accident, sickness and unemployment insurance

Workers' compensation, or employers' liability insurance, is compulsory in some countries

- Disability insurance policies provide financial support in the event of the policyholder becoming unable to work because of disabling illness or injury. It provides monthly support to help pay such obligations as mortgage loans and credit cards. Short-term and long-term disability policies are available to individuals, but considering the expense, long-term policies are generally obtained only by those with at least six-figure incomes, such as doctors, lawyers, etc. Short-term disability insurance covers a person for a period

typically up to six months, paying a stipend each month to cover medical bills and other necessities.

- Long-term disability insurance covers an individual's expenses for the long term, up until such time as they are considered permanently disabled and thereafter. Insurance companies will often try to encourage the person back into employment in preference to and before declaring those unable to work at all and therefore totally disabled.
- Disability overhead insurance allows business owners to cover the overhead expenses of their business while they are unable to work.
- Total permanent disability insurance provides benefits when a person is permanently disabled and can no longer work in their profession, often taken as an adjunct to life insurance.
- Workers' compensation insurance replaces all or part of a worker's wages lost and accompanying medical expenses incurred because of a job-related injury.

5. Casualty

Casualty insurance insures against accidents, not necessarily tied to any specific property. It is a broad spectrum of insurance that a number of other types of insurance could be classified, such as auto, workers compensation, and some liability insurances.

- Crime insurance is a form of casualty insurance that covers the policyholder against losses arising from the criminal acts of third parties. For example, a company can obtain crime insurance to cover losses arising from theft or embezzlement.
- Political risk insurance is a form of casualty insurance that can be taken out by businesses with operations in countries in which there is a risk that revolution or other political conditions could result in a loss.

6. Life insurance

Life insurance provides a monetary benefit to a descendant's family or other designated beneficiary, and may specifically provide for income to an insured person's family, burial, funeral and other final expenses. Life insurance policies often allow the option of having the proceeds paid to the beneficiary either in a lump sum cash payment or an annuity.

Annuities provide a stream of payments and are generally classified as insurance because they are issued by insurance companies, are regulated as insurance, and require the same kinds of actuarial and investment management expertise that life insurance requires. Annuities and pensions that pay a benefit for life are sometimes regarded as insurance against the possibility that a retiree will outlive his or her financial resources. In that sense, they are the complement of life insurance and, from an underwriting perspective, are the mirror image of life insurance.

Certain life insurance contracts accumulate cash values, which may be taken by the insured if the policy is surrendered or which may be borrowed against. Some policies, such as annuities and endowment policies, are financial instruments to accumulate or liquidate wealth when it is needed.

7. Property insurance

Property insurance provides protection against risks to property, such as fire, theft or weather damage. This may include specialized forms of insurance such as fire insurance, flood insurance, earthquake insurance, home insurance, inland marine insurance or boiler insurance. The term *property insurance* may, like casualty insurance, be used as a broad category of various subtypes of insurance, some of which are listed below:

- Aviation insurance protects aircraft hulls and spares, and associated liability risks, such as passenger and third-party liability. Airports may also appear under this subcategory, including air traffic control and refueling operations for international airports through to smaller domestic exposures.
- Boiler insurance (also known as boiler and machinery insurance, or equipment breakdown insurance) insures against accidental physical damage to boilers, equipment or machinery.
- Builder's risk insurance insures against the risk of physical loss or damage to property during construction. Builder's risk insurance is typically written on an "all risk" basis covering damage arising from any cause (including the negligence of the insured) not otherwise expressly excluded. Builder's risk insurance is coverage that protects a person's

or organization's insurable interest in materials, fixtures and/or equipment being used in the construction or renovation of a building or structure should those items sustain physical loss or damage from an insured peril.

- Crop insurance may be purchased by farmers to reduce or manage various risks associated with growing crops. Such risks include crop loss or damage caused by weather, hail, drought, frost damage, insects, or disease.^[21]
- Earthquake insurance is a form of property insurance that pays the policyholder in the event of an earthquake that causes damage to the property. Most ordinary home insurance policies do not cover earthquake damage. Earthquake insurance policies generally feature a high deductible. Rates depend on location and hence the likelihood of an earthquake, as well as the construction of the home.
- Fidelity bond is a form of casualty insurance that covers policyholders for losses incurred as a result of fraudulent acts by specified individuals. It usually insures a business for losses caused by the dishonest acts of its employees.

8. Liability insurance:

Liability insurance is a very broad superset that covers legal claims against the insured. Many types of insurance include an aspect of liability coverage. For example, a homeowner's insurance policy will normally include liability coverage which protects the insured in the event of a claim brought by someone who slips and falls on the property; automobile insurance also includes an aspect of liability insurance that indemnifies against the harm that a crashing car can cause to others' lives, health, or property. The protection offered by a liability insurance policy is twofold: a legal defense in the event of a lawsuit commenced against the policyholder and indemnification (payment on behalf of the insured) with respect to a settlement or court verdict. Liability policies typically cover only the negligence of the insured, and will not apply to results of willful or intentional acts by the insured.⁶

⁶ www.google.com & www.altavista.com

2.5 Brief Company Profiles (SONARWA & SORAS)

Following the presidential decree No 114/07/2 of may 30th 1975 sanctioned formation of the National Insurance Company of Rwanda (SONARWA) with 7 shareholders, namely Caisse sociale du Rwanda, Rwandex, MAGERWA, OCIR-THE, J.H Minet, Mr. Robert Close and the Government of Rwanda.

And no may 30th 1975 the law gave SONARWA monopoly power for 5 years. Foreign firms were consequently given 5 months to wind up their insurance activities and thereafter on august 1st SONARWA commenced its operations under the management of a UK based company called J.H. Minet. The first offices were located in the caritas building opposite centre Igikari. These were later moved within the vicinity of commune Nyarugenge.

According to the company's profile (2011), SORAS SA (Société Rwandaise d'Assurances) has been split into three different companies, members of one group.

SORAS GROUP LTD: Investment and Service Company headed by MR. Charles MPORANYI, Chairman of the Group.

SORAS - GENERAL BUSINESS LTD: Insurance Company for short term business headed by MR. Marc RUGENERA, General Manager and Board member.

SORAS - LIFE BUSINESS LTD: Insurance Company for long term business headed by Jean Enoch HABİYAMBERE, General Manager.

This split aimed at complying with insurance Laws and related Instructions that existing insurance companies should split into short term and long term activities.

SORAS shareholders took that opportunity to increase SORAS stake in other business activities with a majority shareholding in a microfinance institution AGASEKE BANK LTD, and in GENIMMO LTD, a Real Estate Company.

Finally, SORAS GROUP came as a result of this restructuring and it is composed of five companies:

SORAS GROUP, an investment and service company - Mother Company

Four affiliated companies in three sectors of activities:

- Insurance sector: SORAS General Business and SORAS Life Business;
- Finance sector: AGASEKE BANK
- Real Estate: GENIMMO.

CHAPTER THREE: RESEARCH METHODOLOGY

This chapter includes techniques, methods and general approach used in data collection and research in general. It shows the data analysis methods, problem encountered during the research and the limitation of the research. It is a help in decision making. It is facilitation to the process of comprehension, analysis and Interpretation of data.

3.1 RESEARCH DESIGN

This is intended to analyze the financial performance of SORAS and SONARWA to find out the determinants of profit and profitability. The study design is descriptive in nature. Descriptive research is marked by prior formulation of specific research questions. This study attempt to analyze and describe the trend of insurance indicators and performance of selected insurance companies. Finally, a causal approach employed to find out the effect of insurance companies contribution, control variables on economic development.

3.2 SAMPLE DESIGN

3.3 Selection of the Study

The study was carried out in two Insurance Companies of SORAS and SONARWA. The secondary data related to the Insurance Companies were collected from the branches located in Kigali City.

3.4 TOOL AND NATURE OF DATA COLLECTION

Researcher has used Secondary data. Secondary data was collected from the Annual Reports of SORAS and SONARWA for the period between 1999 and 2008.

3.5 PERIOD OF STUDY

The researcher has conducted the research from May 2011 to September 2011.

3.6 STATISTICAL DESIGN

To draw the inferences and the conclusion from the data collected, appropriate conventional and non-conventional techniques were adopted. The correlation and multiple regression analysis were employed.

- a) Ratio Analysis
- b) Regression Analysis
- c) Percentage Analysis

3.7 Ratios used in the research

In my study, different categories of ratios have been analyzed for evaluating the financial conditions and performance of the companies. Ratios are relationships expressed in mathematical expressions between figures which are connected to each other. The interpretation of ratios suggests the strength and weaknesses in the financial position of a company that should be accorded in the investigation and evaluation.

Below are presented the formula of ratios used in our study:

3.8 RESEARCH LIMITATIONS

However tough this research was carried out effectively, it came across the following limitations.

1. Prior to SORAS and SONARWA, the researcher contacted other Insurance Companies but all of them declined to release their reports.
2. The reports of the years 1999 to 2002 were recorded in French but the researcher managed to translate them by the help of people who are trustworthy in translating from French to English.
3. And again in SORAS and SONARWA, some employees mentioned that some data was confidential and therefore they could not provide them but the researcher managed to convince them their documents and information would be treated with much confidentiality and that they would be treated for academic purposes only.

CHAPTER FOUR: DATA ANALYSIS, INTERPRETATION AND PRESENTATION

4.1 Introduction:

The chapter deals the analysis and discussion of data that were collected from the field.

This chapter presents three forms of analysis and discussions:

- a) Trends of Insurance Sector Indicators with SORAS and SONARWA
- b) Profitability ratios of the selected Insurance Companies, and
- c) Insurance Companies Contribution to economic development

The collected data presented in the form of Tables, Charts and Graphs. Multiple regression tool was also used to eliminate the Insurance Companies Contribution to the economic development.

4.2 FINANCIAL ANALYSIS OF SORAS and SONARWA INSURANCE COMPANIES

The study used the balance sheet and Income statement of SORAS and SONARWA for the period between 1999-2008. A comparison of the ratios for the current year with the historical ratios of both SORAS and SONARWA was done. The researcher analyzed the trend of the ratio over ten years and a particular attention was given to all the ten years.

Table 4.1: Net Premium by Class of Insurance (Non-Life Premiums and Life Premiums)

YEAR	SORAS (Units in Millions Rwf)				SONARWA (Units in Millions Rwf)			
	NON LIFE PREMIUMS (Millions Rwf)	Annual Growth rate	LIFE PREMIUMS (Millions Rwf)	Annual Growth Rate	NON LIFE PREMIUMS (Millions Rwf)	Annual Growth Rate	LIFE PREMIUMS (Millions Rwf)	Annual Growth Rate
1999	979	N/A	45	N/A	1839	N/A	9	N/A
2000	841	14,10	136	202,22	1576	-14,30	64	611
2001	823	-2,14	358	163,24	1523	-3,36	271	323
2002	805	-2,19	800	123,46	1665	9,32	407	50
2003	1191	47,95	1011	26,38	1818	9,19	714	75
2004	1505	26,36	1215	20,18	2137	17,55	1514	112
2005	1611	7,04	1223	0,66	2612	22,23	1905	26
2006	1921	19,24	1211	-0,98	2918	11,72	1927	1
2007	3025	57,47	1242	2,56	3168	8,57	2430	26
2008	4302	42,21	1674	34,78	5607	76,99	2504	3

It is observed that in SORAS the Non-Life premiums increased from 979 million Rwf in 1999 to 4302 million Rwf in 2008. In other words, the Non-Life premiums increased around 4 times during the study periods 1999-2008. Whereas the Life Premium increased from 45 million Rwf in 1999 to 1674 million Rwf in 2008.

This indicates that the Life premium increased 37 times from the period of 1999-2008. The analysis of life and Non-Life Premiums with SORAS explains that Life premiums increased to a higher rate than the Non-Life premiums and this further shows how the population consider their

LIVES very crucial that they run for Insurance in case there might arise any uncertainties or calamities that affect them.

SONARWA as the other comparable Insurance Company in the Rwanda Insurance Industry also marked tremendous changes in its Life and Non Life Premiums where it shows variations in Life Premium it recorded from 1839 million Rwf to 5607 million Rwf in 2008. This also makes it to have changed 3 times for the same period.

This too shows that life insurance has been registered in both Insurance Companies (SORAS & SONARWA).

Overall, the trend of life premiums and Non-Life Premiums are with high volatility. However, the life premium receives much acceptance by the premium holders compared to that of Non-Life Premiums.

The trend of life premiums and Non-Life Premiums for the period between 1999 and 2008 are depicted in Figure 4.1 below.

Chart 4.1: Net Premium by Class of Insurance (Non-Life Premiums and Life Premiums)

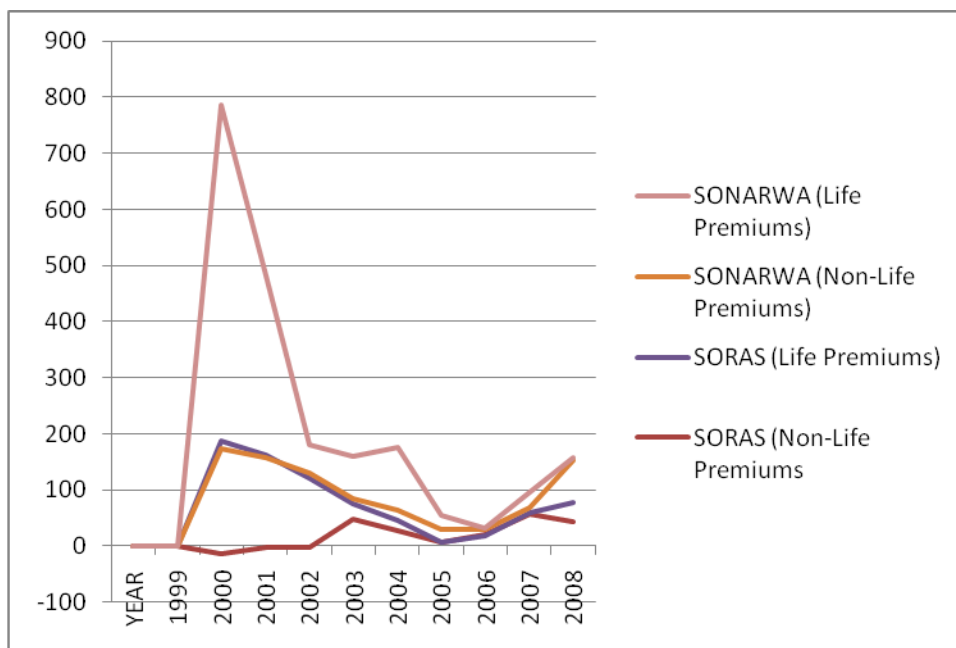


Table 4.2: Claims Settlement by the selected Insurance Companies

YEAR	SORAS (Millions Rwf)	Annual growth rate (%)	SONARWA (Millions Rwf)	Annual growth rate (%)
1999	597		847	
2000	474	-20,603	778	-8,146
2001	641	35,232	898	15,424
2002	817	27,457	1272	41,648
2003	1066	30,477	1042	-18,082
2004	1301	22,045	1252	20,154
2005	1718	32,052	1265	1,038
2006	1922	11,874	2057	62,609
2007	2137	11,186	2195	6,709
2008	3563	66,729	3214	46,424
Times	5,97		3,79	

Table 4.2 gives details on the claims settlement by the SORAS and SONARWA. It is noticed that in SORAS the claims that were settled are worth 597 million Rwf in 1999 and increased to 3563 million Rwf in 2008, that recorded the increment of 6 times in 1999 to 2008. The annual growth rate is equal to 67% in 2008 with negative growth of -20,605 in 2000. This explains that many people's claims were settled efficient and this contributed a lot to the economy social responsibility and this too marked the Insurer's goodwill in providing better services to their clients.

However, settling many claims to the company provides a competitive stand for the company in utilizing well the people's money.

In case of SONARWA, the claims settlement was 847 million Rwf in 1999 and had increased to 3214 million Rwf in 2008 with around 4 times increment during the study period.

This increment is comparatively lower than that of SORAS Insurance Company with around 6 times. In 2006, the annual growth rate was 62, 61 and lower level of growth rate (-18,802) witnessed in 2003.

The Trend of claims settlement is explained in the following Figure 4.2.

Figure 4.2: Claims Settlement by the selected Insurance Companies

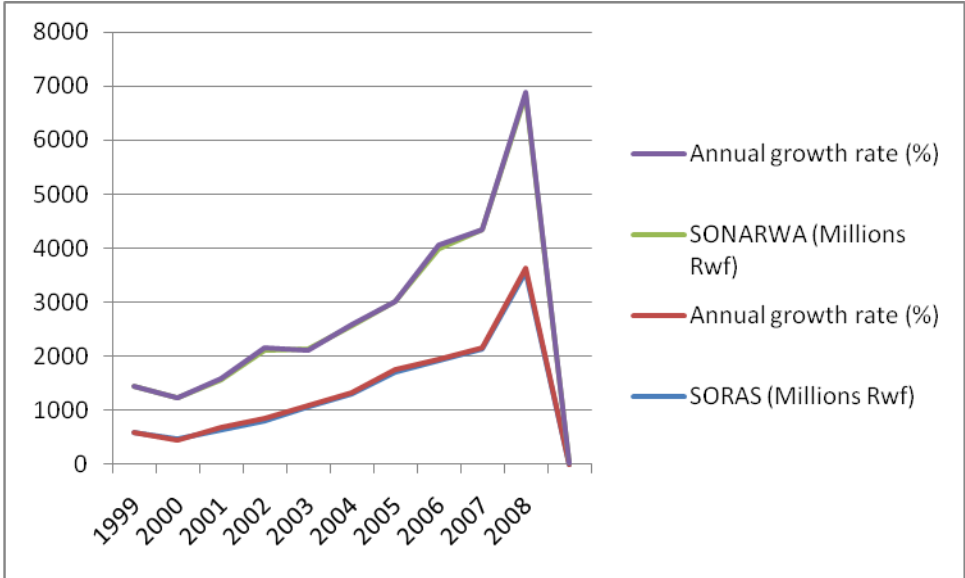


Table 4.3: Claims paid as per class of Insurance by SORAS

YEAR	MOTOR (millions Rwf)	Annual Growth rate	MARINE, TRAVEL & AVIATION (Millions Rwf)	Annual Growth rate	FIRE (Millions Rwf)	Annual Growth rate	MISCELLANEOUS RISKS (Millions Rwf)	Annual Growth rate	LIFE & NON LIFE ACCIDENTS (Millions Rwf)	Annual Growth rate
2000	604	N/A	41	N/A	15	N/A	83	N/A	35	N/A
2001	520	-14	65	59	68	353	195	134,9	50	43
2002	622	20	146	125	276	306	115	-41,0	113	126
2003	656	5	40	-73	104	-62	95	-17,4	147	30
2004	677	3	38	-5	36	-65	64	-32,6	437	197
2005	785	16	67	76	182	406	31	-51,6	200	-54
2006	1183	51	138	106	37	-80	120	287,1	579	190
2007	1128	-5	94	-32	112	203	280	133,3	581	0
2008	1791	59	159	69	154	38	432	54,3	677	17
TIMES	3,0		3,9		10,3		5,2		19,3	

Table 4.3 indicates different classes of insurance paid by SORAS Insurance Company:

a) Motor Insurance

The Motor Insurance raised a 604 million Rwf in 2000 to 1791 Rwf million in 2008. This increase happened in 3 times with a high annual growth rate of 59% in 2008. Negative growth was recorded in 2001 (-14%) and 2007 (-5%).

This shows further that motor insurance claims were attended to in an efficient way.

b) Marine, Travel and Aviation Insurance

Marine, Travel and Aviation Insurance claims were lower compared to the Motor Insurance claims and this shows the variation in these different classes.

In 2000, it paid to the clients an amount worth 41 million Rwf and increased to 159 million Rwf in 2008. If it is compared to the motor Insurance it is low because many tend to use the road transport means and very little in Marine. Highest annual growth was recorded in 2002 (125%) and negative growth recorded in 2003 (-73%), 2007 (-32%) and 2004 (-80%).

c) Fire Insurance

Fire accidents in the country showed that they are majority than the other risks. This arise either due to planned or unplanned circumstances, some happen because of technical harzards and others due to various circumstances.

In 2000 the claims were worth 15 million Rwf increased to 154 million Rwf in 2008. The fire insurance in the period 2000 to 2008 changed 10 times. This shows a great level to which the clients face fire accidents. Highest annual growth rate recorded in 2005 (406%) with negative growth rate in 2003 (-62%), 2005 (-65%) and 2006 (-80%).

d) Miscellaneous Risks

The miscellaneous risks were worth 83 million Rwf in 2000 and increased to 432 million Rwf in 2008. Risks are of various categories that one can list as many as possible, some of which are not clearly indicated in annual reports but considered miscellaneous though hinder the population but have to be catered for as the other usual mentioned risks are handled.

From 1999-2008, the miscellaneous risks increased 5 times.

e) Life & Non-Life Insurance

This took a huge range of claims where it showed from the research that it increased 19 times. This is because many risks or accidents affect people's lives and this make the company face various claims from the population that are being claimed to be handled and catered for.

In 1999 the claims paid for Life and Non Life Insurance were worth 35 million but it is indicated that towards the end of 2008 they had increased to 677 million. Showing such changes indicates that of the reality there are accidents that take place on a day to day basis due to different circumstances.

Table 4.4: Assets classification of SORAS

YEAR	LAND	Annual growth rate	OTHER TANGIBLE ASSETS	Annual growth rate	FINANCIAL SECURITIES	Annual growth rate	SHORT TERM ASSETS	CASH AND BANK	Annual growth rate	TOTAL
1999	28	N/A	1200	N/A	4644	N/A	1692	67	N/A	7631
2000	60	114	2257	88	308	-93	1266	110	64	4001
2001	60	0	847	-62	1984	544	1446	240	118	4577
2002	60		1770		1462	-26	2153	268		5713
2003	60	0	3030	71	799	-45	2408	470	75	6766,7
2004		-100		-100		-100		N/A	-100	N/A
2005	138		1546		1197		4535	517		7932,8
2006	111	-20	4620	199	1164	-3	3896	868	68	10659
2007	111	0	4089	-11	1566	35	3211	731	-16	9707,7
2008	111	0	3958	-3	512	-67	3749	519	-29	8848,8
Times	3,96		3,30		0		2	7,75		

Table 4.4 shows that classification of total assets of SORAS increased from 7631 million Rwf to 8849 million Rwf from the period 1999 to 2008. The assets increased on a high level and this is either due to different investments of the company or other tangible and intangible resources.

a) Lands

The annual growth for land was of 114% in 2000 but later reduced and this reduction is assumed to have been due to different investments done by SORAS. The land classification increased 4 times in the period to 2008.

b) Other tangible resources

Other tangible assets increased 3 times in 2008 and the annual growth rate reduced to -3%.

It is indicated that the total assets had increased from 1200 million Rwf to 3958 million Rwf in the year 20008.

Therefore the changes depict the fact that, the increase and decrease of the assets can show the level of investment undertaken by this insurance company.

c) Financial securities

Financial securities reduced to -67% with zero changes in the times of increase. This further explains that SORAS did not put much emphasis in investing in other financial securities, though in 2001 there was a great increase in the Financial Securities by showing a range of 544%.

d) Short term assets

Short term assets increased in 2008 with a very high annual growth rate of 3749 million Rwf in 2008 and the annual growth rate increased 7 times.

e) Cash and Bank

Cash and Bank increased from 67 million Rwf in 1999 to 519 million Rwf in 2008. It is indicated that though a decrease iof -29% in the end year of 2008, SORAS has marked a great increase in the financial performance alongside its daily operations.

Table 4.5: Assets classification of SONARWA

YEAR	LANDS (Millions Rwf)	Annual growth rate	OTHER TANGIBLE ASSETS (Millions Rwf)	Annual growth rate	FINANCIAL SECURITIES (Millions Rwf)	Annual growth rate	SHORT TERM ASSETS (Millions Rwf)	Annual growth rate	CASH AND BANK (Millions Rwf)	Annual growth rate
1999	1211	N/A	1272	N/A	593	N/A	3449	N/A	1150	N/A
2000	1198	-1	1214	-4,6	471	-21	2649	-23,2	600	-48
2001	1107	-8	1103	-9,1	324	-31	2437	-8,0	793	32
2002	973	-12	2556	131,7	997	208	2629	7,9	1024	29
2003	99	-90	2504	-2,0	925	-7	2956	12,4	1427	39
2004	200	102	1669	-33,3	915	-1	3142	6,3	2294	61
2005	271	36	1158	-30,6	2576	182	4490	42,9	759	-67
2006	276	2	1224	5,7	2551	-1	5926	32,0	572	-25
2007	491	78	6418	424,3	2440	-4	2354	-60,3	3937	588
2008	496	1	8408	31,0	2578	6	11243	377,6	5383	37
TIMES	0,41		6,61		4,3		3,3		4,7	

Table 4.5 shows trends in different Assets of SONARWA.

a) Lands

Lands recorded a negative in the begging of 1999 but later increased to 1% in 2008. However, irrespective of the negative remarks indicated in 2000 through 2003, land gained positive annual growth rates from 2004 to 2008 and this tremendously indicates how land was utilized for various investment purposes. SONARWA have invested in different real estates as a fact of utilizing its land resources effectively.

b) Other tangible resources

Other tangible resources in 1999 were 1272 million Rwf and increased to 8408 million Rwf in 2008. SONARWA had negative growth rates from 2000 through 2003 but later increased the rates from the period 2004-2008. By the end of 2008 the annual growth for other tangible resources which includes Buildings and other tangible assets for SONARWA was 31%. This shows how great the other tangible assets in SONARWA contribute to the development of the Insurance Company not leaving behind the development of the Rwandan Economy.

c) Financial securities

Financial Securities are opportunities for investment purposes for companies with a motive to increase their capital and returns for expansion of the business. Financial securities were 593 million Rwf in 1999 and increased to 2578 million Rwf in 2008.

d) Short term assets

Short term assets increased in 2008 with 11243 million Rwf from 3448 million Rwf and this arises due to different factors to mention like increased clients with high volumes in deposits plus many more investments and resources. This short terms assets increased by 3.3 times during the study periods.

e) Cash and Bank

Cash and Bank for SONARWA was 1150 million Rwf in 1999 and increased to 5383 million in 2008. Thus cash at bank increased by 4.7 times during the study period between 1999 and 2008.

Table 4.6: Liabilities

YEAR	SONARWA				SORAS			
	SHARE CAPITAL	Annual growth rate	RESERVES	Annual growth rate	SHARE CAPITAL	Annual growth rate	RESERVES	Annual growth rate
1999	500	N/A	1202	N/A	300	N/A	2463	N/A
2000	500	0	1059	-11,9	300	N/A	2598	5,48
2001	560	12	908	-14,3	N/A	-100	N/A	-100,00
2002	594	6,1	499	-45,0	501	N/A	3393	N/A
2003	1079	81,6	66	-86,8	501	N/A	4329	27,59
2004	1115	3,3	66	0,0	N/A	-100	N/A	-100,00
2005	575	-48,4	799	1110,6	501	N/A	6353	N/A
2006	645	12,2	958	19,9	501	0	7307	15,02
2007	645	0,0	4155	333,7	1002	100	7651	4,71
2008	2247	248,4	3955	-4,8	1002	0	8675	13,38
TIMES	4,5		3,3		3,3		3,5	

The share capital of SONARWA has increased from 500 million Rwf to 2247 million Rwf during 1999 to 2008 respectively. The annual growth rate of share capital is high 248,4% in 2008 compared to the minimum of 3,33 in 2004. However, the share capital registered a negative growth in 2005.

The share capital of SORAS has increased from 500 million Rwf in 1999 and increased to 1002 million Rwf in 2008.

The reserves for SONARWA were 1202 million Rwf in 1999 and increased to 3955 million Rwf in 2008.

The reserves for SORAS were 2463 million Rwf in 1999 and also increased to 8675 million Rwf in 2008. The annual growth rate was 5, 5% in 1999 and increased to 13,4% in 2008.

Table 4.7: Operating Profit & Net Profit

	SORAS		SONARWA		SORAS		SONARWA	
	OPERATING PROFIT				NET PROFIT			
	(Units Millions in Rwf)	Annual growth rate	(Units Millions in Rwf)	Annual growth rate	(Units Millions in Rwf)	Annual growth rate	(Units Millions in Rwf)	Annual growth rate
1999	1152	N/A	244	N/A	135	N/A	104	N/A
2000	1106	-4,0	28	-88,5	145	7,4	52	-50
2001	-	-100,0	229	717,9		-100,0	60	15
2002	1910	N/A	163	-28,8	255	N/A	94	57
2003	2272	19,0	204	25,2	290	13,7	122	30
2004	-	-100,0	488	139,2	N/A	-100,0	149	22
2005	3218	N/A	275	-43,6	469	N/A	195	31
2006	3466	7,7	480	74,5	522	11,3	251	29
2007	4102	18,3	239	-50,2	649	24,3	-708	-382
2008	6466	57,6	-106	-144,4	846	30,4	62	-109
TIMES	5,6		-0,4		6,3		0,6	

The Operating profits for SORAS were 1152 million Rwf in 1999 and increased to 6466 million Rwf in 2008, which means that the it increased 6 times to the end of 2008. Again in 1999 SORAS Net Profits were 135 million Rwf and increased to 846 million Rwf in 2008. Thus the annual growth rate for the operating profits is highest of 58% at the end of 2008.

The operating profits for SONARWA were 244 million Rwf in 1999 and decreased to -106 million Rwf in 2008. This must have been due to the course of changes in management when SONARWA was privatized to private investors. The annual growth rate of operating profits recorded -144% to the end of 2008, and with this negative impact the times were -0, 4.

The net profit on SONARWA was 104 million Rwf in 1999 and decreased to 62 million Rwf in 2008 with a change. The annual growth rate was 1%.

In comparison of the two Companies (SORAS & SONARWA), it is regarded that, SORAS has made profits more extensively than SONARWA, by taking Net profit of SORAS which was 144

in 1999 and increased to 6466 million Rwf in 2008 where as SONARWA’s Net profit was 104 million Rwf in 1999 and decreased to 62 million Rwf in 2008 and this can be shown by the help of the following figure 4.3.

Figure 4.3. Operating Profit to Net Profit of both SORAS and SONARWA

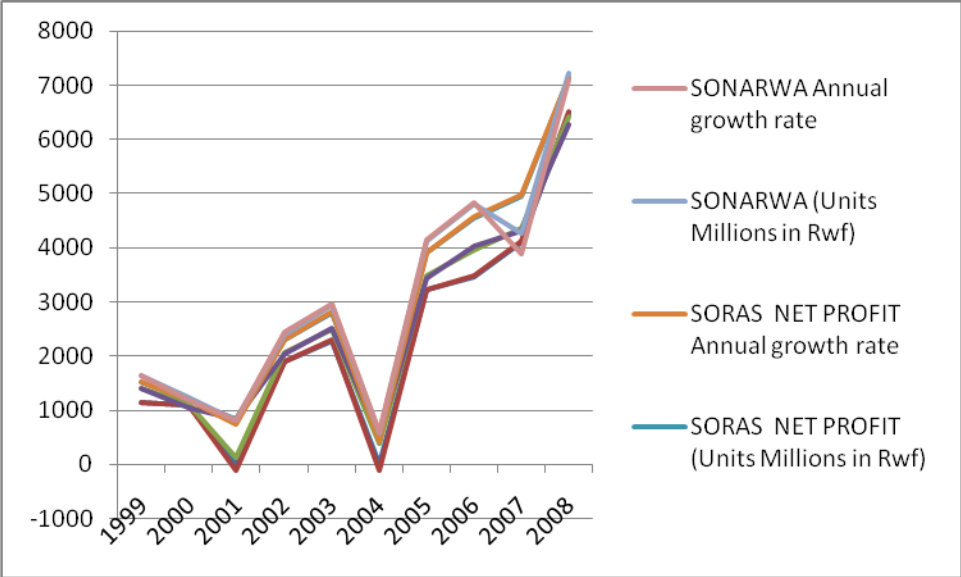


TABLE 4.8: NET PROFIT TO TOTAL ASSETS RATIO

YEAR	SORAS (In million Rwf)			SONARWA (In million Rwf)		
	NET PROFIT	TOTAL ASSETS	RATIO (%)	NET PROFIT	TOTAL ASSETS	RATIO (%)
1999	77	3290	0,02	104	7675	0,01
2000	82	4001	0,02	52	6132	0,01
2001	145	185	0,78	60	5764	0,01
2002	163	5713	0,03	94	8179	0,01
2003	180	6766,7	0,03	122	7911	0,02
2004	N/A	N/A	N/A	149	8220	0,02
2005	316	7932,78	0,04	195	9254	0,02
2006	238	10658,7	0,02	251	10549	0,02
2007	309	9707,7	0,03	-708	15640	-0,05
2008	846	8848,8	0,10	62	28108	0,00

Table 4.8 explains the net profit to total assets ratio for SORAS and SONARWA Insurance Companies.

It is noted that the net profit ratio of SORAS was 0,023 in 1999 and has raised to 0,096 in 2008. The ratio was high in the year 2001 with 0,784. With respect to SONARWA, the Net Profit to Total Assets ratio was 0,002 in 2008 compared to the initial period of analysis in 1999 with 0,014.

The SONARWA recorded negative ratio of 0.045 in 2007.

When the two companies compared on Net profit to total assets, the SORAS performance is better than SONARWA because SONARWA's ratios are always lower the ratios of SORAS.

This happens due to the fact that there were low investments by SONARWA by holding its assets and not strategizing on how to utilize the resources to make more profits for sustainability. In comparison with SORAS there has been a tremendous increase in profits meaning that the assets were well managed and were invested for profit maximization.

Increase in assets and reducing investments always lowers profit making. Therefore, it is more advised to SONARWA to take further measures even though it made profits by with respect to SORAS's, there should be some increments and consideration in order to boost the economy through various activities.

TABLE 4.9: NET PROFIT TO TOTAL PREMIUMS RATIO for SORAS and SONARWA

YEAR	NET PROFIT	TOTAL PREMIUMS	RATIO (%)	NET PROFIT	TOTAL PREMIUMS	RATIO (%)
1999	77	1024	0,08	104	1848	0,06
2000	82	977	0,08	52	1640	0,03
2001	145	1181	0,12	60	1794	0,03
2002	163	1605	0,10	94	2072	0,05
2003	180	2202	0,08	122	2532	0,05
2004	N/A	2720	N/A	149	3651	0,04
2005	316	2834	0,11	195	4517	0,04
2006	238	3132	0,08	251	4845	0,05
2007	309	4267	0,07	-708	5598	-0,13
2008	846	5976	0,14	62	8111	0,01

Table 4.9 indicates Net Profits to Total Premiums ratio is a very crucial and considerable factor to both SORAS and SONARWA. It is from this context that one might note that, if profit maximization is realized, premiums are ready for distribution among the respective participants. SORAS and SONARWA have a great role in economic development and this is can only be achieved if these two companies and the rest in the Industry are profit and premium distribution oriented, otherwise there would not be any importance of Insurance in an economy for developmental purposes.

The Net Profit for SORAS increased 11 times to 2008 and the Total Premiums Increased 6 times. In 1999 the Net Profit to Total Assets of SORAS was 0,08 and has raised to 0,14 in 2008.

This indicates that SORAS's Net Profits are increasing on a promising rate and this too makes Premiums to increase on a positive note.

The Net Profit for SONARWA was 104 million Rwf in 1999 and decreased to 62 million Rwf in 2008. Making a 1% times change and by this though made the Total premiums increase by 4 times. The Net Profit to Total Assets Ratio of SONARWA increased by 0,01% in 2008.

It is observed that the Total Premiums Ratios for SONARWA changed slightly with same ratios whereby it recorded a 0,03 ratio in the period of 2000 to 2001 and a 0,05 ratio from 2002 to 2003. It is observed with net profit to total premium ratio that the performance of the SORAS is higher than the SONARWA with this ratio.

TABLE 4.10: TOTAL OPERATING INCOME TO TOTAL ASSETS

YEAR	SORAS (million Rwf)			SONARWA (million Rwf)		
	TOTAL OPERATING INCOME	TOTAL ASSETS	RATIO (%)	TOTAL OPERATING INCOME	TOTAL ASSETS	RATIO (%)
1999	1152	3290	0,35	993	7675	0,13
2000	1106	4001	0,28	987	6132	0,16
2001	1542	4577	0,34	990	5764	0,17
2002	1910	5713	0,33	685	8179	0,08
2003	2271	6766,7	0,34	983	7911	0,12
2004		0		1464	8220	0,18
2005	3218	7932,78	0,41	2340	9254	0,25
2006	3466	10658,7	0,33	2743	10549	0,26
2007	4102	9707,7	0,42	3141	15640	0,20
2008	6466	8848,802	0,73	3993	28108	0,14

The total operating profits to Total Assets for SORAS changed 6 times by the year 2008 and its ratio increased to 0,73 in 2008. The Total Assets for SORAS also was 3290 million Rwf in 1999 and Increased to 8845 million Rwf in 2008. The Total Assets increased by 3 times up to the period of 2008.

The Operating Income for SONARWA was 993 million Rwf in 1999 and increased to 3993 million Rwf in 2008.

In comparison of both SORAS and SONARWA, it is noted that SORAS had high increase in Total operating Income ratio of 0,73 in 2008 where as SONARWA's total operating Income was increased to 0,14 in 2008. This shows that SORAS's performance far better than SONARWA's.

Table 4.10 again indicates variations to both companies (SORAS and SONARWA) in total operating profits to total assets. As it was discussed earlier, profitability is all that every company starting out a business is profit oriented. In the interim, operating profit vis a vis assets determines the company capacity to sustain in the business. SORAS and SONARWA as it is observed have profitably realized increments in both operating profits to total assets. From the period 2008 to 2008, SORAS total operating profits was 1152 million Rwf and increased to 6466

million Rwf in 1999. SONARWA, total operating profit has increased from 993 million Rwf to 3993 Rwf million for the period 1999 to 2008 respectively.

From the researcher's point on analysis, increased investment of assets makes it a great achievement of earning much to sustain a lot income for daily operations of the business. It is therefore from this perspective that one can note out that both SONARWA and SORAS have great impact to the society and together achieving their goals by investing their assets and not holding them but rather invests them for profit maximization.

TABLE 4.11: OPERATING EXPENSES TO OPERATING INCOME

YEAR	SORAS			SONARWA		
	OPERATING EXPENSES	OPERATING INCOME	RATIO	OPERATING EXPENSES	OPERATING INCOME	RATIO
1999	1039	1152	0,9	725	993	0,7
2000	1028	1106	0,9	579	987	0,6
2001	1410	1542	0,9	381	990	0,4
2002	1682	1910	0,9	826	685	1,2
2003	2001	2271	0,9	821	983	0,8
2004				1016	1464	0,7
2005	2830	3218	0,9	1085	2340	0,5
2006	3054	3466	0,9	1662	2743	0,6
2007	3465	4102	0,8	1777	3141	0,6
2008	5601	6466	0,9	2880	3993	0,7

Table 4.11 explains the ratio of operating expenses to operating income for the study period 1999-2008.

Operating expenses were 1039 million Rwf in 1999 and increased 5601 million Rwf in 2008 where as the operating income was 1152 million Rwf in 1999 and increased to 6466 million Rwf in 2008 with the ratio of operating expenses to operating income ranging to 0,9 in 2008. It is observed that the ratio was almost 0, 9 through the years 1999 to 2008 explains the operating surplus is not adequately generated by the SORAS.

Operating expenses increased 5 times for SORAS and again the total operating income increased 6 times. Which shows much increased in operating income than operating expenses marking good performance.

SONARWA had operating expense to operating income ratio 0,73 in 1999 and decreased to 0,72 in 2008.

SONARWA both total operating expenses and operating income changed at the same times with records of 4 times from 1999 to 2008.

In comparison of the two Insurance Companies it is observed that SORAS spent much than SONARWA but again due to increased profits better than SONARWA again records better performance.

As far as profitability is concerned, every organization targets levels where by it reduces expenses as it increases income. The expense/income relation has a great meaning in any organization's strategy of profit making. If a company spends more than it earns, a loss is immediately recorded and the reverse is true.

As far as SORAS and SONARWA are concerned, it has been analyzed that in the period 1999 to 2008, these companies have faced facts of increased expenses than earnings but not on a loss level because much has been realized in profit making for both companies.

TABLE 4.12: GROSS OPERATING PROFITS TO TOTAL ASSETS

YEAR	SORAS			SONARWA		
	GROSS OPERATING PROFIT	TOTAL ASSETS	RATIO	GROSS OPERATING PROFIT	TOTAL ASSETS	RATIO
1999	113	3290	0,034	244	7675	0,03
2000	77	4001	0,019	28	6132	0,00
2001	132	4577	0,029	230	5764	0,04
2002	228	5713	0,040	163	8179	0,02
2003	271	6766,7	0,040	204	7911	0,03
2004		0		488	8220	0,06
2005	388	7932,78	0,049	275	9254	0,03
2006	412	10658,7	0,039	480	10549	0,05
2007	637	9707,7	0,066	239	15640	0,02
2008	865	8848,802	0,098	-106	28108	0,00

In SORAS the Gross operating profit increased 8 times from 1999 to 2008 and total assets increased 3 times respectively.

The ratio for increments was 0,034 in 1999 and increased to 0,098 in 2008.

The Gross operating profit for SONARWA was 244 million Rwf in 1999 and reduced to -106 million Rwf in 2008.

The gross operating profit ratio for SONARWA was 0,03 in 1999 and negative ratio in 2008 with 0.02 in 2007. There was around 2 times increase in operating profit between 1999 and 2006 and registered negative in 2008. The total assets by 4 times which indicates that the assets were not well distributed to bring resources, in other words the assets were redundant.

In comparison of the two Insurance Companies, it is noted that the gross operating profit to Total Assets for SORAS increased with a high rate of 0,098 where as that for SONARWA had no increment but rather 0,00. This makes one compare the two by indicating how SORAS financially is stable than SONARWA by that period of 1999 to 2008.

The table 12 above shows the ratios of gross operating profit to total assets. This is due to the fact of which changes in asset investments determines the level profits earned respectively. It has been observed that from the statistics above in the table both SORAS and SONARWA have been operating profitably.

Various changes have taken place by the periods (1999-2008), whereby SORAS recorded an increase in gross operating profits from 113 million to 865 million respectively and SONARWA moved from 7675 million to 28108 million. But it is observed that again SONARWA incurred a loss in 2008 because of the different changes in the management of the company. This again has been that SONARWA did not earn much though assets were realized that their management has been effectively achieved. The ratios recorded for SORAS have been realistic as far as SONARWA is concerned by 0,034 in 1999 and 0,094 in 2008 (SORAS) where as SONARWA achieved 0,032 in 1999 but later incurred a loss and this shows a lower ratio to -0,004 in 2008.

This further shows that the great changes have been realized and that it has increased the profitability of the Insurance Companies. Management of assets vis a vis the profit maximization go hand in hand. And this further in comparison of the operations of both companies shows that SORAS still has a greatly achieved than SONARWAS has made it, but as far as SONARWA is concerned, since it has been with a stable and competitive management team and due to the fact of the competition in the Industry, it is observed that it will operate well effectively and efficiently as SORAS has been doing taking earnings/expenses into consideration.

TABLE 4.13: GROSS OPERATING PROFIT TO TOTAL PREMIUMS

YEAR	SORAS			SONARWA		
	GROSS OPERATING PROFIT	TOTAL PREMIUMS	RATIO	GROSS OPERATING PROFIT	TOTAL PREMIUMS	RATIO
1999	113	1024	0,11	244	1848	0,13
2000	77	977	0,08	28	1640	0,02
2001	132	1181	0,11	230	1794	0,13
2002	228	1605	0,14	163	2072	0,08
2003	271	2202	0,12	204	2532	0,08
2004		2720	0,00	488	3651	0,13
2005	388	2834	0,14	275	4517	0,06
2006	412	3132	0,13	480	4845	0,10
2007	637	4267	0,15	239	5598	0,04
2008	865	5976	0,14	-106	8111	-0,01

Table 4.13 indicates the gross operating profit to total premiums ratio of the period of 1999 to 2008.

Gross operating profit to total premium for SORAS was 0, 11 in 1999 and increased to 0, 14 in 2008.

The gross operating profit for SORAS increased 8 times to the end of 2008 and the total premiums also increased 6 times. This shows how the clients gained their premiums and this contributes a lot to the development of the insurance company by gaining more clients and more income for operating purposes in the competitive industry.

SONARWA's gross operating profit reduced in volume by -0, 01 though the total premium increased 4 times and maybe this could have been the fact of the reserves for the Company.

With the above references, it is noticed that SORAS gross operating profit to total premiums predicts much profits than SONARWA that registered losses due to different factors.

Gross operating profit in SORAS from 1999 was 113 million and increased to 865 million in 2008. Where as in SONARWA from 1999 it was 0132 million to 8111 million. The ratio of SORAS is 0,110 in 1999 and 0,145 in 2008. SONARWA's ratio is realized to 0,132 but later at the end of the 2008 it had faced losses as discussed earlier due to the different changes that

happened is -0,013. This has been observed by the researcher that gross operating profits contribute a lot to the Net premiums of the clients and the company itself. The ratio in SONARWA increases due to proper management of the assets and increased investments. It is of this record that one can note that estate has increasingly contributed to resource management. SONARWA kept on facing difficulties and this comes as a result of which at first SONARWA was managed by the government but later had to be privatized.

The above ratio of gross operating profit to total premiums can be explained by the following figure 4.5.

FIGURE 4.5: GROSS OPERATING PROFIT TO TOTAL PREMIUMS

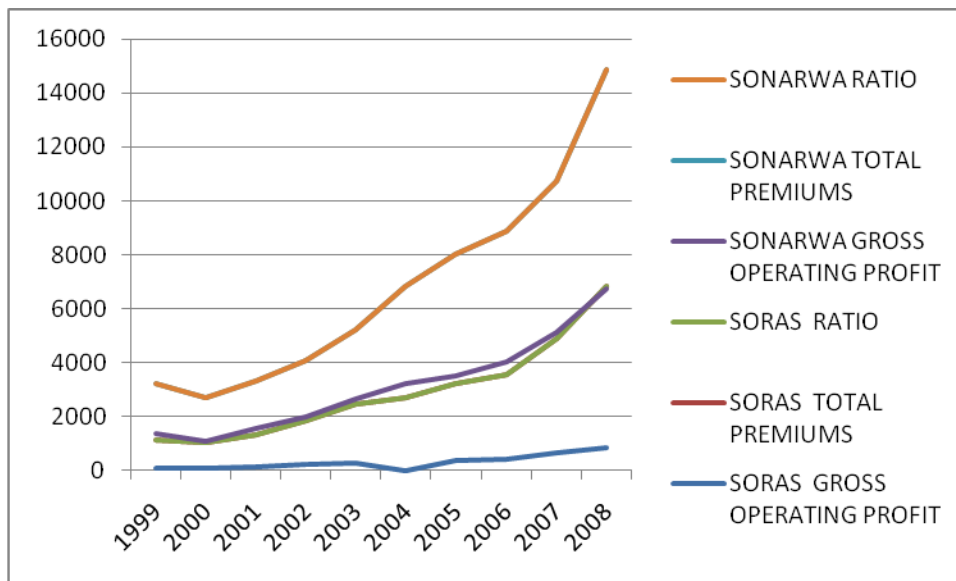


TABLE 4.14: NET PROFIT TO SHARE CAPITAL RATIO

YEAR	SORAS			SONARWA		
	NET PROFIT	SHARE CAPITAL	RATIO	NET PROFIT	SHARE CAPITAL	RATIO
1999	77	300	0,26	104	500	0,21
2000	82	300	0,27	52	500	0,10
2001	145	300	0,48	60	560	0,11
2002	163	501	0,33	94	594	0,16
2003	180	501	0,36	122	1079	0,11
2004	N/A	N/A	N/A	149	1115	0,13
2005	316	501	0,63	195	575	0,34
2006	238	501	0,48	251	645	0,39
2007	309	1002	0,31	-708	645	-1,10
2008	846	1002	0,84	62	2247	0,03

Table 4.14 explains the Net Profit to share capital ratio, whereby the Net profit to share capital ratio for SORAS was 0,26 and increased to 0,84 in 2008.

Net profit increased 11 times in the period to 2008 and made the share capital to increase 3 times in the same period of time.

The Net profit of SONARWA increased once in the period 1999 to 2008 and the share capital increased 4 times which brought in the increase of the Net Profit to share capital ratio of 0,21 in 1999 and 0,03 in 2008. There was a slight decrease of the ratio by the year 2007 due to a loss that appeared in 2007.

One can compare the two companies by the use of the figure that shows the trend in which the net profit to share capital of SORAS increased much better than SONARWA whereby it recorded increment of 11 times of the Net profit than SONARWA that recorded the increment of 1 (once). This too compares the share capital in both companies where by the SORAS's share capital increased 3 times and SONARWA's increased 4 times, but it does not depict that SONARWA had an appreciation financial performance but rather SORAS that had 10 times profits than SONARWA.

The net profit to share capital for SORAS and SONARWA shows how effective the share capital can be maintained and increased.

Every Institution has the objective of providing the capital that will boost the development of a company. In most cases some companies go ahead to sale shares that will bring an increase in capital but again a gain, since the shareholders at the financial period, they request for the dividends of which dividends are got from the profits earned by the institution from its different activities.

From the above table 14, SORAS's Net profit was 77 million this was at the beginning of its operations and had 846 million during the end of 2008, where as the share capital was 300 million in 1999 and was 1002 million in 2008. This increase of the share capital was realized due to increases in the profits. The ratio of the two companies was 0,26 in 1999 and 0,84 in 2008.

SONARWA also realized an increase in the net profits by the end of 2008 with 62 million. The ratio of the two companies in 2008 by 0, 03

TABLE 4.15: GROSS OPERATING PROFIT TO SHARE CAPITAL RATIO

YEAR	SORAS			SONARWA		
	GROSS OPERATING PROFIT	SHARE CAPITAL	RATIO	GROSS OPERATING PROFIT	SHARE CAPITAL	RATIO
1999	113	300	0,38	244	500	0,49
2000	77	300	0,26	28	500	0,06
2001	132	300	0,44	230	560	0,41
2002	228	501	0,46	163	594	0,27
2003	271	501	0,54	204	1079	0,19
2004	0	0		488	1115	0,44
2005	388	501	0,77	275	575	0,48
2006	412	501	0,82	480	645	0,74
2007	637	1002	0,64	239	645	0,37
2008	865	1002	0,86	-106	2247	-0,05

Table 4.15 above shows the operating profit to share capital ratio.

The operating profit to share capital ratio of SORAS was 0,38 in 1999 and increased to 0,86 in 2008.

Whereas the operating profit to share capital for SONARWA was 0,49 and decreased to -0,05 in the period 1999-2008.

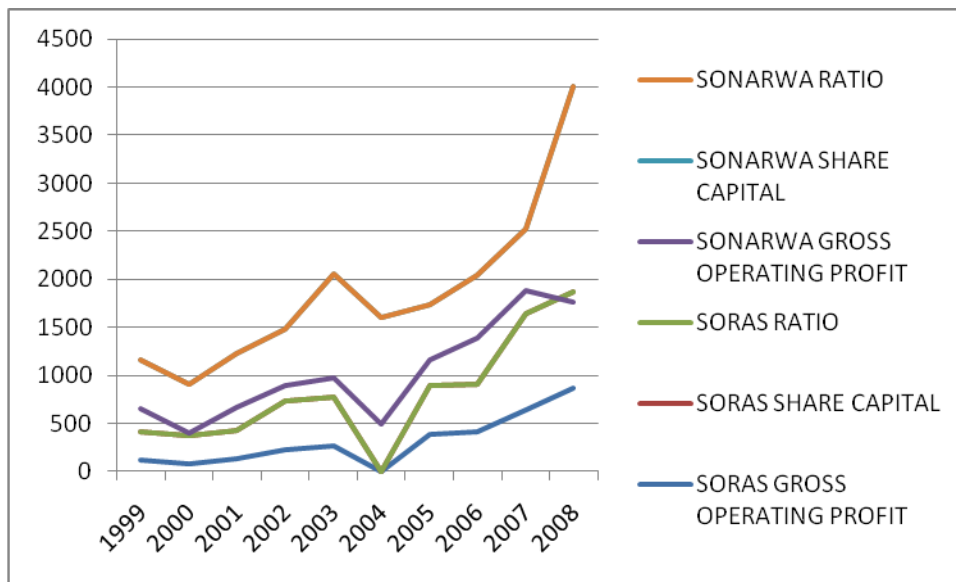
The Operating profit for SORAS increased 8 times and the Share capital increased 3 times.

SONARWA's operating profit decreased -0,4 but though increased 5 times up to 2008.

In 1999 Gross operating profit of SORAS was 113 million and in 2008 it was 865 million with the ratio of 0, 38 and 0, 86 respectively. Comparable to SONARWA it is clear that still the differences show the ratios are 0, 49 in 1999 and 0, 05 in 2008. From the observations above, the researcher observed that operating profits are very crucial to enable the shareholders achieve their goals by earning their returns and remain with the retaining earnings and these earnings do allow re-investments to other activities.

It is observed that SORAS's resources have increased with a high, the gross operating profit to the share capital but though SONARWA's gross operating reduced towards the end of 2008 must have been the consequence of changes in management that has affected the operating profits with less earnings.

Figure 4.6: Showing the gross operating Profit to Share Capital Ratio



It is noted that by many of the development economies sector definitely contributes to the overall development of the country either in terms of overall GDP or Per Capita GDP. With this point, an attempt is made to study the Insurance Industries contribution to real Per capita GDP of Rwanda.

Real Percapita GDP= f (LIFEPREGDP, NLIFEPREGDP, INSREF, GRPOP, MS, INF, LENRATE).

The model is as follows:

$REPCGDP = a + b_1LIFEGDP + b_2NLIFEGDP + b_3INREF + b_4GRPOP + b_5MS + b_6INF + b_7LENRAT$
E.

Where,

- a) REPCGDP= Real Per Capita GDP
- b) LIFEGDP=Life Insurance to GDP
- c) NLIFEGDP=Non-Life to GDP
- d) INREF=Insurance Reforms
- e) GRPOP= Growth Rate to Population
- f) MS= Money Supply
- g) INF= Inflation
- h) LENRATE= Lending Rate

Table 4.16: Variables and Coefficient

Variables	Coefficients	T
Constant	211.549	1.456
LIFE – GDP	8.552	1.016
NONLIFE-GDP	(9.180)	-2.043 [@]
INSREFORMS	(15.845)	-1.170
GRPOPULATION	(7.147)	-3.009***
MS	0.0002	4.301**
INFL	0.111	0.128
LENRATE	(3.309)	0.733
Adj.R ²	0.972	
F	45.176**	

It is noticed that the coefficient if life premium is positive, but statistically insignificant. Non-Life Insurance Premium have had negative impact on economic development and the coefficient value is also statistically significant at 0.20 confidence lend.

The other control variables present mixed results. Though money supply positive, its magnitude is very low, on economic development.

Interestingly, the growth rate of population on economic development of Rwanda has negative impact and which is statistically significant at 0.05 confidence level.

Lending rates and inflation rate in Rwanda are not statistically significant variables which affects the economic development of Rwanda.

CHAPTER 5: SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION

5.1. BRIEF INTRODUCTION

This study was carried out with an aim to identify the Insurance Companies and their role towards the development of the economy of Rwanda by using different methods like the Trend analysis, Ratios (whereby different ratios were used), and later on show the consistency of the financial performance of Insurance Companies where by the researcher found it necessary to use two Insurance Companies of SORAS and SONARWA.

The specific objectives of this study are as follows:

1. To identify how SORAS and SONARWA contribute to the development of Rwanda
2. To identify what kind of products do these companies to their customers.
3. To assess the financial performance of these companies towards their clients' financial resources.

The Literature review was considered and various articles concerning Insurance and economic development were consulted and a lot of information was derived from them.

It was found out from the articles and journals that Insurance is a key sector for the development of the economy. It is from the research data that one can say that various types of Insurance were given and were looked into in their different categories taking examples like, Auto Insurance, Home Insurance, Health Insurance, Accident, Sickness, and Unemployment Insurance, Causality, Life and Non-Life Insurance to mention but a few.

According to the literature, it was found out that as economic development progresses, there has been increasing needs for sophisticated financial services and this lead to the development of financial sector.

However the empirical side of the research explains the Insurance market and economic growth. It is well indicated in the research that the role of Insurance market is mainly risk hedging. With sufficient hedging, a firm may be more willing in committing investment projects that are more risky but returns are higher.

More to the literature, the researcher managed to research that Insurance not only facilitates economic transactions through risk transfer and indemnification but is also seen to promote financial Intermediation.

More specifically, Insurance was found out to have effects such as promote financial stability, mobilize savings, facilitate trade and commerce, enable risk to be managed more efficiently, encourage loss mitigation, foster efficient capital allocation and also can be a substitute for and complement government security programs.

The researcher has used secondary data, where by the data was removed from Annual reports which were selected from 1999 to 2008.

The Insurance Companies that were selected are SORAS and SONARWA. And these were selected basing on the fact that they are the leading Insurance Companies operating in Rwanda. Other insurance companies were contacted, but the companies have refused to provide the data for the purpose of this study.

Taking examples, like SONARWA was established in 1975 under the Presidential Decree No 114/07/2 of may 30th , and it started under the ownership by 7 different institutions and Individuals like Caisse Sociale du Rwanda Rwandex, MAGERWA, OCIR-THE, J.H.Minet, Mr Robert Close and the government of Rwanda.

SORAS was founded on the 15th November 1984. The researcher found out that it was the first Private Insurance to be registered and operate in Rwanda.

To draw the inferences and the conclusion from the data collected, the Researcher adopted appropriate conventional and non conventional techniques:

- a) Percentage analysis
- b) Ratio analysis, and
- c) Regression analysis

5.2: MAJOR FINDINGS

Concerning the financial performance the analysis of ratios of ten years.

Insurance indicators were derived from a series of various insurance services provided by the two insurance companies (SORAS and SONARWA).

Below are the classes of insurance paid by SORAS Insurance Company from the researcher's findings, where the Motor Insurance's increase happened in 3 times with a high annual growth rate of 59% in 2008. Negative growth was recorded in 2001 (-14%) and 2007 (-5%), Marine, Travel and Aviation Insurance claims were compared to the motor Insurance it is low and the highest annual growth was recorded in 2002 (125%) and negative growth recorded in 2003 (-73%), 2007 (-32%) and 2004 (-80%), Fire accidents in the country showed that they are majority than the other risks and in 2000 the claims from 2000 to 2008 changed 10 times. This shows a great level to which the clients face fire accidents and its highest annual growth rate recorded in 2005 (406%) with negative growth rate in 2003 (-62%), 2005 (-65%) and 2006 (-80%).

The miscellaneous risks were worth 83 million Rwf in 2000 and increased to 432 million Rwf in 2008. Risks are of various categories that one can list as many as possible, some of which are not clearly indicated in annual reports but considered miscellaneous though hinder the population but have to be catered for as the other usual mentioned risks are handled. Therefore from 1999-2008, the miscellaneous risks increased 5 times. Life & Non-Life Insurance in 1999 the claims paid for Life and Non Life Insurance were worth 35 million but it is indicated that towards the end of 2008 they had increased to 677 million.

The overall profitability ratios in the period were fluctuating due to different reasons, and later on the ratios were improved and maintained that enable the Insurance companies mentioned above their goals and at the same time satisfy the clients' needs.

In the profitability of the Insurance companies were researched on and factors like Net Premium by the different classes of Insurance (Non-Life and Life Insurance), Claims settlement by the selected Insurance Companies, Claims paid as per class of Insurance by SORAS and that for SONARWA, Assets classification of SORAS and SONARWA, the liabilities, Operating Profit and Net Profit, the Ratios for different figures like Net Profit to Total assets Ratio, Net Profit to

Total Premiums Ratio were all researched and reasons for decrease and Increase of the different ratios were indicated.

The Increase and decrease of Expenses was identified as they fluctuated in different dimensions. Taking examples, it was found out that the operating expenses to Operating Income, it was observed that the ratio was almost 0,9 through the years 1999 to 2008 explains the operating surplus is not adequately generated by the SORAS.

More to the major findings, the operating profits for SORAS were 1152 million Rwf in 1999 and increased to 6466 million Rwf in 2008, which means that the it increased 6 times to the end of 2008.

The operating profits for SONARWA were 244 million Rwf in 1999 and decreased to -106 million Rwf in 2008. This must have been due to the course of changes in management when SONARWA was privatized to private Investors. The annual growth rate of operating profits recorded -144% to the end of 2008, and with this negative impact the times were -0,4.

Therefore in comparison of the two companies (SORAS and SONARWA), it is regarded that, SORAS has made profits more extensively than SONARWA, by taking Net profit of SORAS which was 144 in 1999 and increased to 6466 million Rwf in 2008 where as SONARWA's Net profit was 104 million Rwf in 1999 and decreased to 62 million Rwf in 2008.

As far as claims are concerned, in 2000 the claims were worth 15 million Rwf and increased to 154 million Rwf in 2008. The fire insurance in the period 2000 to 2008 changed 10 times. This shows a great level to which the clients face fire accidents. Highest annual growth rate recorded in 2005 (406%) with negative growth rate in 2003 (-62%), 2004 (-65%) and 2006 (-80%).

It was observed that SORAS had a stable financial performance compared to SONARWA. It indicated variations in assets, Operating and Net profits, Premiums and other financial assets.

The researcher again compared the two Companies by the use of the figure that shows the trend in which the net profit to share capital of SORAS increased much better than SONARWA whereby it recorded increment of 11 times of the Net profit than SONARWA that recorded the increment of 1(once).

This too compares the share capital in both companies where by SORAS's share capital increased 3 times and SONARWA's increased 4 times, but it does not depict that SONARWA had an appreciable financial performance but rather SORAS that had 10 times profit than SONARWA.

5.3: RECOMMENDATIONS

From the researcher's recommendation point of view, the Life Premiums for SORAS increased 37 times for the period 1999-2008 and it is recommended that life and non-life premiums with SORAS should keep on increasing. SORAS should invest in many possible channels so that it can keep up the range of increasing premiums to the Clients, Investments could be like Real Estate, Social Responsibility etc.

Sonarwa as the comparable Insurance Company in Rwanda also marked tremendous changes in its Life and Non-Life Premiums where shows variations in Life Premium it recorded from 1839 million to 5607 million Rwf in 2008.

Therefore, the trend of life and Non-Life Premiums are with high volatility.

The Financial Securities reduced to -67% with zero changes in the times of increase. This further explains that SORAS did not put much emphasis in investing in other financial. It is therefore recommended that SORAS should invest in other securities like buying shares of other Insurance Companies or other Institutions that will generate of revenues for the Profitability of the Company. The management should look into investing in either Short term or long term securities, importantly that the Capital market is vibrant to play a big role.

Irrespective of buying, SORAS could also sell some of the shares to enable increase on the reveunues/Assets.

The short term assets for SORAS increased in 2008 but had decreased in the previous years but the annual growth rate had increased 7 times. This would not be sufficient but rather engage in further investments to generate income for the Company.

SONARWA's short term assets increased also but with a low level of 3 times. This should have increased in comparison to the competitor SORAS. SONARWA is also recommended to invest

in further sectors being buying properties like Land Etc, to boost the development and Increase in revenues.

The share capital of SONARWA also increased from 500 million Rwf to 2247 million Rwf during 1999 and 2008, the annual growth rate of the share capital was high 248% in 2008.

The share capital of SORAS also increased from 500 million in 1999 and increased to 1002 million Rwf in 2008.

The reserves for both SORAS increased with the annual growth rate of 5.5% and later on further increased to 13%. This should not bring SORAS to a standstill but rather encourage the savings to the population so that it can reserve further Income or else invest in long term investments that will generate financial resources to its operations.

SONARWA with a low annual growth rate of -4% should be encouraged to invest and make more reserves to cater for further charges that may happen in future claims.

The operating profits for SONARWA decreased to -106 million Rwf in 2008. In a competitive industry, it is recommended for SONARWA to priotise on revenues than expenses. This strategy will boost the revenue to expenses ratio. The more they generate revenues through various business opportunities the less they spend will increase the profits.

This too applies to the Net profits, because the moment the operating expenses exceed the revenues then this will affect the net profit.

The Returns on Assets indicate that for both companies is noted that the gross operating profit to total assets for SORAS increased with a high rate of 0.098 where as that for SONARWA had no increment. It is therefore recommended that SONARWA's financial status is not performing better as SORAS does, therefore more effort in increasing on investment and putting more revenues than expenses would profit the SONARWA management to another level. Various opportunities are put in place to allow these Insurance companies gain much revenues.

Increase in assets and reducing on investments lowers profits making for companies. There should be some increments and consideration in order to boost the economy through various activities.

One can recommend the two companies as far as share capital is concerned. It is noted that the share capital for SORAS increased better than that of SONARWA. This too compares the share capital in both companies where by the SORAS's share capital increased 3 times and the SONARWA's increased 4 times, but it does not depict that SONARWA had an appreciation financial performance but rather SORAS that had 10 times profit than SONARWA. SONARWA is recommended to strategize on all possible opportunities that may generate income and at the same time reduce expenses down the level of Income generated.

At the end this study, some recommendations have been formulated to various Stakeholders of the two Insurance Companies (SORAS and SONARWA).

5.3.1: Recommendations to the Management of SORAS and SONARWA.

- Improve the total income to cover the total expenses: there should be various measures to be adopted in order to increase the total income to cover the increase in total expenses by also improving the service quality. On the other hand, the companies to adopted various policies to follow to reduce the various classification of expenses.
- Sonarwa should look at the profits making factors that will make it a bit competitive but again SORAS is recommended to put in more effort as the market is growing to another level as the financial market is enlarging.
- Provide further reports in different languages to enable those that understand other language make their analysis and understand the content of the report rather assuming one language to the people.

5.4: SUGGESTION FOR FURTHER RESEARCH

I would suggest on the following topics for the next researchers:

1. The effects on the Insurance industry towards the development of the Banking Institutions (taking Insurance companies as Non-Banking Institutions).
2. Cash management and the development of the Insurance Industry.
3. Insurance Companies and the Social Responsibilities in the Rwandan Economy.

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