

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Nepal is one of the least developed countries of the world situated on the lap of great Himalayas having total territory area of 1, 47,181 sq. km. This covers 0.03 percent of the world and 0.3 percent of the Asia. Nepal lies between two big countries India and China. Nepal is located in between the latitude of 26^o 22" N to 30^o 27" N and 80^o 4" E to 88^o 12" E Longitude. Nepal is a land-locked country and its altitude ranges between 70 m to 8,848 m above the sea level. The average length is 885 km from East to West and average width is 193 km from North to South.

Physiographically, Nepal is divided into 5 regions. They are High Himal, High Mountains, Mid Mountains, Siwaliks and Terai region. High Himal occupies 23 %, High Mountains 19 %, and Mid Mountains 29% of the total land of the Nepal. Similarly, Siwaliks and Terai regions occupy 15 and 14 percent respectively (HMG of Nepal and Government of Canada, Land Resource Mapping Project, Land Utilization Report, 1986 (Kathmandu: HMG of Nepal and Government of Canada., 1986), p. 5). On the basis of administrative division, it is divided into 5 development regions, 14 Zones and 75 districts along with the 58 Municipalities and 3915 VDCs.

The total population of Nepal is 2, 31, 51,423 and 86 Percent of people live in the rural areas (Census data-2001). This data expose that it is over population, which leads the poverty. The population growth rate, which is the most significant determining factor for poverty is 2.25 Percent and literacy rate is only 53.7 Percent (Census-2001). Nepal lies 136th position out of the 177 Nations of the world (HDR-2005). It was 140th in 2004 according to the HDR-2004. In Nepal, the population whose income is less than 1 \$ per day is 37.7 percent and less than 2 \$

per day is 82.5 percent. The per capita income of Nepal is 270 \$ (WBR, 2005, Pp 289F).

The ratio of population below poverty line is 38 percent estimated by Poverty Reduction Strategy paper (PRSP) by National Planning Commission, Which is less than 42 percent estimated by Nepal Life Standard Measurement Survey (NLSMS, 1996). It is village oriented because more than 90 percent of poor people live in Rural Area (Economic Survey, 2003-2004; Pp. 103).

Nepal is a land-locked country of 22 million people wedged between the northern border of India and the Himalayas, ranging from 330 feet elevation to 29000 feet while 80 percent of the population subsists on agriculture, the productive capacity of the land varies enormously. About a third of the villages have no access by road; consequently it is one of the least develop country in the world and suffers high poverty, infants and maternal mortality, and the Fifth lowest life expectancy in the world (Economic Journal of Development Issue, Vol. 5;1 Pp -7).

The uneven distribution of wealth and means, facilities, opportunities are one of the cause of imbalance between different sectors like as Rural and urban. Lack of knowledge, lack of expertise, lack of appropriate policies, absence of power delegation, unclear responsibilities and accountabilities and frequent centralize concept of the Government, improper utilization of limited resources are the causes for division between different sectors.

Nowadays in Nepal, imbalance between rural and urban areas is increasing day by day. All the opportunities and facilities are centralize in the urban areas such as electricity, transportation, hospitals, education, communication and information, infrastructure, dinking water, entertainment facilities (Cinema Hall, Park, Resort etc) but rural areas deprived from all these facilities. Thus, rural areas

are suffering from illiteracy, unemployment, malnutrition, lack of health facilities and other type of similar opportunities.

Anything, which has got a start, has to end, but we have to be careful for making it long lasting. The world is full of risk. Risk is uncertainty of financial loss. The risk cannot be averted but loss occurring due to certain risk can be distributed among the agreed person. Insurance plays an important role for this purpose.

Risk is the basis of insurance. Risk occurs because of variation in outcomes or results. Insurance emphasizes the variable results of financial losses, uncertainty rather than certainty, unpredictability rather than predictability.

The dictionary of Business and finance defines insurance as a form of contract or agreement under which one party agrees in return for a consideration to pay an agreed amount of money to another party to make good for a loss, damage or injury to something of value in which the insured has a pecuniary interest as a result of some uncertain event.

Insurance distributes the cost of risk over large groups of individuals subject to the same risk, in order to reimburse the few who actually suffer from the risk. For example, a study of past statistics in a city of 10,000 houses, each valued at Rs. 100,000, may indicate that each year there are losses by fire amounting Rs. 1,000,000. Each owner therefore, knows that some of the houses will be damaged by fire, and that it is possible his house may be one of the houses that will be burned. Therefore, if owner contribute Rs. 100 to a common fund annually, the risk would be covered and each owner would be freed from the fear of financial loss through fire. This principle of distributing risk is the basis of all insurance.

Insurance contract are loss-sharing agreement made to reduce the financial burden of loss arising from specific kinds of exposures. Operation of the insurance business requires the use of many specialists to draft contracts, determine

underwriting standards and establish premium rates. Persons skilled in investment analysis are also needed. (Mehr, Robert I.1986:18-19)

Insurance cannot stop the event to happen. But the loss to the individual will be reduced. Society will get a replacement of the assets, which can be lost or damaged. Considering the importance of the insurance business, the analysis is fully concentrated with NLGI Co. Ltd.

1.2 Profile of NLGI Co. Ltd.

National Life and General Insurance Company “NLGIC” was incorporated in 2044 B.S (1988 A.D) under Nepal Company Act 2021 B.S and the Insurance Act 2025 B.S of Nepal with prime objective to meet the nations and nationals insurance requirements. The head office of the company is located at Lazimpat, Kathmandu. Apart from the head office it has four branch offices, nine sub-branch offices and four contact offices. (NLGI Prospectus)

1.3 Statement of the Problem

Nepal is a least developed country whereas 86 percent people live in rural areas (Census, 2001). 38 percent of the population lives in absolute poverty defined as having less than income required to consume a minimum bundle of 2124 caloric daily.

Nepal is an agricultural country. About 67 percent of total population is depending entirely upon agriculture sector but the level of productivity per unit of land low (Census, 2001). Nepalese economy is depended on agriculture, or agriculture plays vital role for the development of national economy. However, agricultural productivity in Nepal has been decreasing due to declining the fertility of soil not only in hills areas but also in the Terai region. Absences of high yielding

technology to farmers, environmental degradation are also the causes for low productivity.

Illiteracy, Poverty, unemployment and malnutrition have been the basic characteristics of Nepalese farmers. In this situation, Dairy Firm being a home industry that can employ farmers and increase their income as well as raise their standard of living. In developing and developed country, livestock plays a vital role in the life of human beings as an extra income generating activities or by providing food and nutrition for the people substantial assistance in agriculture operation and for crop husbandry.

The history of insurance business in Nepal is very short. The insurance business in Nepal is flourishing slowly and they have to move forward with improvement and eradicating the obstacles or the problems.

Lack of sufficient knowledge about insurance is the main problem in our country. Most of the people are unaware about the insurance policy. The subject is not taught in the school level and course design in higher level is also inadequate. The insurance is not compulsory in our country. By making the motor, passenger, worker and business sector compulsory, we can make the insurance business quite wider. There is no reinsurance company in Nepal, which causes outflow of our currency in other countries. Industrial sector is the backbone of insurance, so it needs an industrial revolution to uplift the insurance business in our country.

As per the provision of insurance Act 2049, 12, ka -1 insurance board has given instruction for this company to operate its life and non life through two separate companies. According to this, it has started operating life and non life business through different companies since 1 April 2006 .

Life and non-life premium collection are stated in different headlines. First premium of life insurance plays the vital role in the total life premium collection amount since it is a long-term contract. First life premium collection of NLGIC is

fluctuant. For the year 2004/05, it holds 11% of total life premium, which increased up to 24% in 2005/06, but in next fiscal year 2006/07 it loosed 3% business and holds 21% only. Since the number of life insurance companies is increasing per year, the market share of NLGIC is in decreasing order. At presents it holds only 11.61% of total life insurance business in Nepal.

NLGI Co. Ltd has invested life insurance fund in sectors like bank fixed deposits, government securities and bank current account. The company is also suffering from the weak liquidity position. The current liability is always higher than current assets due to increase in the dues to reinsurance and outstanding claims. This may create problems in future and decrease its goodwill. The research study is conducted to give appropriate suggestion in order to overcome the above difficulties and problems.

1.4 Objective of the Study

The basic objective of the study is to analyze the trend of premium collection and investment of NLGI in order to identify problem and recommend possible remedial measures. The specific objectives of the study are stated as follows:

- i. To assess the trend of premium collection and investment.
- ii. To evaluate the policy of the company to compete in the competitive environment.
- iii. To provide suggestions that will strengthen the future performance of NLGI.
- iv. To analyze the portfolio of the company's investment.

1.5 Significance of the Study

Insurance business is very important to industrial and commercial revolution. It gives financial security to individual and business enterprises. It is due to financial security given by insurance companies that make possible for world to come in this stage.

Insurance is very important in the developing countries like Nepal. The per capita income is very low. Most of the families depend in a single person's income. If the earner becomes ill, the family finds nothing to survive on. Life insurance may be good solution in such circumstance. Still, we can say that insurance is not getting enough popularity among people.

The numbers of insurance policies undertaken are almost negligible. A deep study is needed to find out why insurance business has been unable to attract enough public attention. Even though, 98% of the life insurance markets remain untouched by life insurance companies. The experts said that the life insurance companies could easily collect more than one thousand million without suffering any difficulties.

Risk is the basis of insurance. It is meaningless to think life without risk .Risk is existed in every place and time. Only way to get protection from the risk is insurance.

Premium collection and investment are the vital activities of insurance companies. Success and failure of any company depend upon these activities. As the topic of the study, "Position of Premium Collection and Investment of National Life Insurance Company Ltd." Deals with the problems regarding these important tasks of the company.

The study is significant to the management of the company to take the right decision regarding the premium collection and investment. It also helps the

management of other insurance companies. Shareholders, investors, customers, competitors, personnel and other stakeholders can get necessary information. Researcher will also be benefited to research about the NLIC Ltd.

1.6 Limitations of the Study

The limitations of the study are as follows:

- i. This study is only related with premium collection and investment position of NLIC Ltd.
- ii. The study covers the analysis of only five years period (060/61-064/65).
- iii. The study is mainly based on the secondary data.
- iv. The accuracy and reliability of the study is based on the data available from the management of NLI Co. Ltd. And various published documents of NLIC.
- v. This study is only the case study of NLIC. Thus the conclusion drawn from this study may or may not applicable to other insurance companies.

1.7 Organization of the Study

The study has been organized into five chapters. Each chapter is devoted to some aspect of the study.

Chapter I: Introduction.

Chapter II: Review of Literature.

Chapter III: Research Methodology.

Chapter IV: Data Presentation and Analysis.

Chapter V: Summary, Conclusion and recommendations

Chapter I: Introduction

This chapter contains significance of the study, statement of the problem, objective of the study and limitation of the study.

Chapter II: Review of Literature

This chapter includes a discussion on the conceptual framework on premium collection and investment. It is also devoted to theoretical analysis and brief review of related literature available.

Chapter III: Research Methodology

This chapter includes research design, nature and sources of data, data collection techniques, statistical analysis tools that are used for the study.

Chapter IV: Data Presentation and Analysis

This chapter deals with presentation and analysis of relevant data and information through a definite course of research methodology.

Chapter V: Summary Conclusion and Recommendations

This chapter is the last chapter for this research. In this chapter, summary and conclusions are drawn from the study. It also includes valuable recommendations and suggestions to the organization on the basis of the study.

CHAPTER II

REVIEW OF LITERATURE

This chapter is concerned with review of literature related to the premium collection and investment position of NLGI Co. Ltd. Past knowledge and findings are very much important. It plays vital role in every research works, which provides foundation to the present study. It is divided into the following parts.

-) Review of Conceptual Framework
-) Review of Journal and previous studies

2.1 Review of Conceptual Framework

Insurance guarantees protection against large and uncertain losses in return of small but certain payment, which is called as premium. Premium is fixed with the past experiences and probability of happening certain event.” Insurance is a co-operative device to spread the loss by a particular risk over a number of persons, who are exposed to it and who agree to insure themselves against the risk”. (Mishra, M.N.1995:3).

M.C Shukla and T.S Grewal defined insurance as a contract settled between the parties, one is the insurance company and another is insured party who, insure his properties as well as lives. They have stated as, it undertakes to indemnify the loss suffered by the other party known as the insured in consideration for a sum of money known as premium. Since the amount of premium is generally small, insurance contract spreads the losses suffered by one person over a large number of persons. Everyone pays a premium; those who suffer a loss are paid a sum of equivalent to loss and those who do not

suffer loss by the premium paid. The protection against unforeseen event is purchased through a contract of insurance. **(Shukla and Grewal, 1990:6)**

2.1.1 Historical Background of Insurance

IT is difficult to fix the date when insurance began. From the very beginning of the society, men have been following the way to share the profit and loss, suffering the prosperity mutually with one another. In Rigveda, the most sacred book of Hindu, references were made to the concept “Yogakshema” more or less akin to the well being and security of the people. However, there is no evidence that insurance in its present form was practiced prior to the twelfth century. The development of modern formal insurance can be described in the following phases.

a. Marine insurance

The marine insurance is the oldest form of insurance. It is the first modern form of insurance in the history of insurance. In 1300 AD, the first insurance contract called Polizza was made in Italy. Later on the word “Policy” was developed from Polizza. The Lombard of Northern Italy had main role in bringing of the international extension of the marine insurance in England. Latter, the Jewish Lombard was banished, and then they settled in different countries of Europe. The name of a street,” Lombard Street” of London was called the central point of the marine insurance. The Lioyd’s coffee house gave an impetus to develop the marine insurance. The Lioyd institution established in 1771 AD is the first institution to make formal marine insurance that is most popular insurance company till now.

b. Fire insurance

After marine insurance, fire insurance developed in present form. It had been originated in Germany in the beginning of 16th century. The fire insurance got momentum in England after the great fire in 1666 AD. The fire losses were tremendous in which 85% of the houses were burnt to ashes and property worth of sterling ten crore were completely burnt off. With colonial development of England, the fire insurance spread all over the world in present form. The sun fire office established in the year 1710 AD is the most successful insurance in fire record.

c. Life insurance

The first recorded life insurance being the policy on life of William Gibbons in June 18, 1653 AD. At that time, the life insurance was for only one year and it have to be renewed every year. In 19th century, the life insurance took the modern developed phase with the availability of scientific mortality table.

d. Miscellaneous insurance

Many types of risks rise with the development of human society and industrial development. Miscellaneous insurance developed for this reason. Under the miscellaneous insurance, fidelity guarantee insurance started from 1848 AD, personal accident insurance from 1880, liability insurance from 1877, motor insurance from 1903 and aviation insurance from 1911 AD, came in practice. Recently, other developed insurances are cattle insurance, earthquake insurance, vocal insurance, model beauty insurance etc.

2.1.2 Types of insurance

Insurance can be divided from business point of view and risk point of view.

2.1.2.1 Business point of view

The insurance can be classified into three categories from business point of view.

1. Life insurance

Life insurance policy is taken to make provision for old age when his earning capacity deteriorates or for leaving a certain sum for his dependents when he dies, which may happen before he is able to save and accumulated sufficient amount. The insurer will pay the fixed amount of insurance at the time of death or at the expiry of certain period. Life insurance is not only a protection but it is a sort of investment because a certain sum is returnable to the insured at the death or at the expiry of a period.

2. General insurance

Insurance, other than life and social insurance are called general insurance. General insurance is done for one year and is renewed every year. General insurance include marine, fire and miscellaneous insurance.

I. Marine insurance

Marine insurance provide protection against loss of marine perils such as collision with rock or ship, captured by pirate, attacks by enemies, fire etc. The ship and cargo may be lost in such case and a tremendous loss may be caused to the owners, so, marine insurance insures ship, cargo and freight.

II. Fire insurance

Fire insurance covers risks of fire. Fire insurance policy may be taken on residential houses or on factories and business premises.

III. Miscellaneous insurance

Miscellaneous insurance business includes the various types of insurances like motor insurance, cash in transit insurance, aviation insurance, burglary and house breaking insurance etc.

3. Social insurance:

Social insurance aims to provide the maximum social benefit to the society. It is to provide protection to the weaker section of the society, who is unable to pay the premium for adequate insurance; pension plans, unemployment benefits and industrial insurance are the form of social insurance. Government and owner of the factories have to bear the portion of the premium.

2.1.2.2 From the risk point of view

1. Personal insurance

The insurance is made to the subject related to the person's life. In this insurance, the risk is associated to death, accidents and disease. The financial protection against death, accident and disease is called personal insurance. Life insurance, health insurance and personal accident insurance are the examples of personal insurance.

2. Property insurance

Under the property insurance, properties of persons are insured against a certain specified risk. The risk may be fire or marine perils, theft of property or goods.

3. Liability insurance

The liability insurance covers the risk of third party, compensation to employee, liability of the automobile owner and reinsurances.

4. Guarantee insurance:

The guarantee insurance covers the loss arising due to dishonesty, disappearance and disloyalty of the employers or second party. Credit right and fidelity guarantee are the example of guarantee insurance.

2.1.3 Sources of funds

The sources of fund for insurance companies are as follows:

a. Premium

The main source of funds is the premium collected by insurers. Excess of this premium over needed premium for meeting claims and expenses is the major source of fund.

b. Interest

Interest is also the source of investment fund. It is the excess interest earned over the assumed rate of interest.

c. Capital:

Capital is the fund obtained from the sale of shares and debentures of the company. It is the long-term source of the investment fund.

d. Other sources

Another source of the investment fund is decreasing the outflow of cash by bonus loading and nonpayment of claims of term insurances.

2.1.4 The principles of investment

a. Safety

The primary objectives of the investment are to earn maximum profit but to maintain a complete security. Safety includes safety of principal amount and interest thereon. Thus, while investing, the principle of safety is very important.

b. Profitability

The insurer must earn at least the assured rate of interest. The investment should be made in such securities, which yield the highest return consistent with the principle of safety. The safety and the profitability principles are opposite to each other. The safest security earns little profit and vice-versa. Safety and profitability principles are fully observed in government bonds and securities.

c. Liquidity

Liquidity means availability of cash in time of need. It represents convertible of investments into cash without undue loss of capital. Liquidity is necessary for the payments of claims, surrender values and for regular expenses. The principle of liquidity is against the principle of profitability because the idle cash that will earn nothing and invested cash will have no liquidity. That's why liquidity must be managed carefully with right estimation.

d. Diversification

Diversification of investment means spreading investment for minimizing the risk over different channels. According to Insurance Act 2049 BS, insurance companies must invest their 75% of fund in priority sectors and rest 25% in other sectors as they like.

2.1.5 Development of Insurance Business in Nepal:

The concept of insurance was developed in Nepal in the ancient period. However the cooperative and security activities similar to insurance were being held since the ancient time, the history of the modern insurance business was only four decade. The Guthi can be taken as the starting point for the development of insurance. The income from such Guthi was used to build buildings, temples and repairing etc. So the concept of insurance was emerged with the religious view but not a commercial view.

The modern insurance business is relatively new in Nepal. Indian insurance companies from the late 1930 initiated the insurance business in Nepal. The Indian insurance companies were enjoying monopoly over the insurance business and had a well-developed business network in Nepal. After 2004 B.S., the first Nepalese

insurance company, ‘Nepal Mal Chalani Ra Beema Company Limited’ was established by Nepal Bank Ltd.(Adhikari, Devendra 2000). This pioneering insurance company has changed its name into Nepal insurance and Transport Company in 2016 B.S. and Nepal Insurance Company Ltd. Since 2048 B.S. It carried out only non-life business.

There was not any insurance company to carry out life insurance business until 2024 B.S. and the government realized the necessity for the establishment of insurance company to execute life insurance business. As a result, Government established Rastriya Beema Sansthan in 2024 B.S. under the company Act. The government enacted Rastriya Beema Sansthan act 2025 and changed into Rastriya Beema Sansthan under this act. It has provided life and nonlife insurance service all over the country.

After the restoration of democracy and the liberal economic policy of government make establishment of more insurance companies. Insurance Board (Beema Samiti) was established in 2025 B.S. under the Insurance Act 2025 to regulate and enforce rules and regulation regarding insurance business in the country .At present nineteen insurance companies is running in the insurance industry of Nepal. They are as in following table.

Table 2.1

Insurance companies in Nepal

No.	Name of the company	Head Office
1	Nepal Insurance Company Limited	Kathmandu
2	Rastriya Beema Sansthan	Kathmandu
3	National Life and General Insurance Company Ltd.	Kathmandu
4	National Insurance Company Ltd.	Kathmandu
5	The Oriental Insurance Company Ltd.	Kathmandu
6	Himalayan General Insurance Company Limited.	Kathmandu

7	United Insurance Company Ltd.	Kathmandu
8	Premier Insurance Co.Ltd.	Kathmandu
9	Everest Insurance Co.Ltd.	Kathmandu
10	Neco Insurance Co. Ltd.	Kathmandu
11	Sagarmatha Insurance Co.Ltd.	Kathmandu
12	Alliance Insurance Co.Ltd.	Kathmandu
13	N.B Insurance Co. Ltd.	Kathmandu
14	Nepal Life Insurance Co.Ltd.	Kathmandu
15	Life Insurance Corporation (Nepal)	Kathmandu
16	American Life Insurance Co.	Lalitpur
17	Prudential Insurance Co.Ltd.	Kathmandu
18	Shikhar Insurance Co.Ltd.	Kathmandu
19	Lumbini General Insurance Co.Ltd.	Kathmandu

Source: Insurance Views and News, Vol.6.No.16-17, Apr-Nov.2008

2.1.6 Historical Background of National Life Insurance Company Limited:

National Life and General Insurance Company ‘NLGI’ was established in 2044 B.S.(1988 AD) under Nepal Company Act 2021 and Insurance Act 2025 of Nepal with prime objective to meet nations and national insurance requirement. It was established to meet the growing risk in industrial and business activities.

NLGI is in technical collaboration with leading syndicate member of ‘Lloyds’ of London, the company which is owned and managed by risk management and leading reinsurance broker of USA. NLGI has reinsurance support and backup of world’s known and leading reinsurance companies.

Shareholders of NLGI

Nepalese Promoters	45%
Foreign Collaborator	10%
Rastriya Banijya Bank	10%
Public shareholders	35%
Total	100%

The head office of 'NLGI' is located at Lazimpat, Kathmandu. Apart from the central, It also has four branches, nine sub branches and four contact offices.(NLGI prospectus)

2.1.7 Importance of Insurance:

The role of insurance is great to bring our world in this stage. It has contributed a lot for the development of business and industrial revolution .The insurance principle come to be more and more useful in modern period. So, insurance is the main element, which helps to minimize risk of loss in business in business activities, individual activities, and in social activities and necessity of insurance may be studies under the following heading:

2.1.7.1 Uses to an Individual

a) Insurance provides security and safety

The insurance provides safety and security against the loss on a particular event. In case of life insurance payment is made when death occurs or the term of insurance is expired. The insurance provides safety and security against the loss of

earning after death or in old age, against the loss by fire, by damage and theft of any valuable property.

b) Insurance affords peace of mind

The security avoids the fear and uncertainty about future by different reasons. Without insurance people may be frustrate or weaken by future possibilities. Therefore, insurance help to be fresh and out of any tension about their future.

c) Insurance protects mortgaged property

When the owner of the mortgaged property is dead, the property is taken over by the lender of money and the family will be deprived of the uses of the property. Insurance is the solution for this problem. Mortgagee also wishes to get the property insured because at the damage or destruction of the property he will lose his right to get the loan repaid.

d) Insurance eliminates dependency

At the death of husband or father, the destruction of family need no elaboration. Similarly, the destruction of property and goods the family would suffer a lot living standard of the family would be low and suffering may to any extent of begging from the relatives, neighbors or friends. The insurance is here to assist them and provide adequate amount at the time of suffering.

e) Insurance encourages for saving

Life insurance encourages saving habit. Once the person is life insured, he has to pay certain premium for the specified period. Systematic saving is possible because regular premiums are required to be compulsorily paid.

2.1.7.2 Uses to Business

a) Uncertainty of business losses is reduced

In a business, with a slight negligence, the property may be turned into ashes. The accident may be fatal not only to the individual or property but to the third party also. New construction and establishment are possible only with the help of insurance. Without insurance, uncertainty will be to the maximum level and nobody would like to invest a huge amount in the business or industry. So, insurance play important role in the development of business and its activities.

b) Increment of Business- efficiency

Insurance make the owner free from future losses. This helps them to devote much time and effort to the business .As businessman devotes much time to the business, business efficiency is increased.

c) Enhancement of credit

The business can obtain loan by pledging the policy as collateral for the loan .The insured person are getting more loans due to certainty of payment at their death. So, insurance is very much useful to business.

d) Welfare of employee

The employer has to look after the welfare of employee, which can be provision for early death, provision for disability and provision for old age. Their

requirements are easily met by the life insurance, accident and sickness benefit and pension, which are generally provided by group insurance.

2.1.7.3 Uses to the Society

a) Wealth of the society is protected

The loss of a particular wealth can be protected with the insurance. Life insurance provides loss of human wealth. The loss of damage of property at fire, accident etc can be well indemnified by the property insurance, cattle, crop and machines are also protected against their accidental and economic losses. With the advancement of the society, new types of insurance programmes and policies are developed and people feel happy and secure in the society.

b) Economic growth of the country

Development of insurance in the country is the sign of economic growth of the country. Insurance provides strong hand and mind for the economic growth. As the protection is given by the insurance, it stimulates more production in agriculture, in industry, factory premises, and machines. It provides more confidence to start and operate the industry.

c) Reduction in Inflation

The insurance reduces the inflationary in two ways. First, by extracting money in supply to the amount of premium collected and secondly, by providing sufficient funds for product narrow down the inflationary gap.

2.1.8 Legislation Relating to Insurance in Nepal

Law is important in every field. Law makes the things controlled. Every business is controlled and directed by the legislation and the Insurance Act 2049 B.S. Rastriya Beema Sansthan and other 18 insurance companies from the private sector are running governs regulation .The insurance business. Rastriya Beema Sansthan Act 2025 B.S and Company Act 2053, Contract Act 2056, Insurance Act 2049 govern Rastriya Beema Sansthan and the rules 2049 B.S. govern other private companies. They should also follow their own memorandum, article of association. They should obey the policy, instruction and the circulars issued by the Insurance Board from time to time. (Bhandari, Dilli Raj 2003:415-416)

The legislation and regulation related with the insurance activities in Nepal are as follows:

1. Insurance Act 2049
2. Rastriya Beema Sansthan Act 2025
3. Insurance Rules 2049
4. Company Act 2053
5. Contract Act 2056

The Main features of the insurance act and rules of Nepal are as follows:

1. Provision of the Insurance Board

Insurance Board is an organized supervisory body of the government to regulate insurance business in the country. It is formed under the Insurance Act 2049 B.S. Section 3, of the Act mention in detail about the members of the Board, which is formed to manage, regulate, control and develop the insurance industry. Formation of the Board is as follows:

- A. Person appointed or designated by Nepal Government.....Chairman.
- B. Representative, Ministry of law and justice.....Member.
- C. Representative, Ministry of finance Member.
- D. A person nominated by NG from Insurance Industry..... Member.
- E. A person nominated by NG among the insurers..... Member.

The employee selected by the Board shall work as its secretary. The Board may also invite local or foreign expert to attend its meeting .All the nominated member of the Board shall have a term of four years. They may be re-nominated for not more than two terms after the expiry of their term. The head office of the Board shall be located in Kathmandu Valley.

2. Specific function, Duties and power of the Insurance Board

The functions, duties and power of the Board are specified by the section 8 of the Insurance Act 2049. Similarly, section 9 explains that it can form the sub-committee according to need. Some major functions, duties and powers of the Board are as follows:

- a) To offer suggestion to the government for policy making.
- b) To formulate policies and fix priority sectors for investment.
- c) To register and renew insurers, insurance agents, brokers.
- d) To mediate in disputes between the insurer and the insured.
- e) To justify on complaints filed by the insured against the insurer.

- f) To issue necessary directives to the insurers regarding the insurance business.
- g) To make arrangement for performing other necessary functions about insurance industry.

3. Provision about the Registration, Renewal and the cancel of the Registration of the Insurer

In section 10 of the Insurance Act 2049, there is the provision of registration of the insurer and in sec.11; there is provision of the renewal of the registration of the insurer. Similarly, the registration of the insurer can be cancelled as per sec.12 of the Act. According to the Act, without obtaining a license no one shall engage in the insurance business. Any local or foreign corporate body desires of carrying out insurance business as an insurer should give an application form with the prescribed fees and other supporting documents. There is provision that in the last chaitra of every year insurer should give application to renew his registration.

4. Provision to pay claim after cancellation of the registration

If any insurer is dissolved his claim must be refunded to the policy holder and institution within the given period by the Insurance Board as per section 13 of the Insurance Act. In the case of life insurance business, along with a bonus as prescribed by the board but incase of non life insurance, it should refund the principal amount on a proportionate basis.

5. Provision to keep separate fund for separate types of insurances

If any insurer is involved in more than one insurance business, it should maintain separate account for each insurance business. The insurer should keep the separate fund for deposit the amount received from the business to the related fund.

There is a provision it can't borne the liability from the fund maintained for one business to another business.

6. Provision made about reinsurance

There is no reinsurance company in Nepal yet. Under the section 28 of the Insurance Act the insurer by taking the risk that is supposed to take, should do the reinsurance as the insurance Board fixed for the rest of the risk.

7. The provision to get the insured amount by the designee

Under the section 38(1) of the insurance Act 2049, incase any life insurance policy holder dies before the expiry of the term policy, the amount mentioned in such policy shall be paid to the person designated by him. In case he has not designated any person or in case the designee has already died, payment shall be made to any of his surviving related dependents as following in the order:

- a) Husband or wife
- b) Unmarried sons and daughters (equal shares)
- c) Parents
- d) Married sons in equal shares
- e) Sons and daughters of the deceased son, in equal shares
- f) Widowed wife or son
- g) Unmarried brothers in equal shares
- h) Unmarried sisters in equal share
- i) Grandfather or grandmother on the father side.

8. Legal provision for the appeal

According to the section 37 of the Insurance Act 2049 B.S, there is a legal provision that if a person or an organized institution is not satisfied with the decision of the insurance board, the related person or institution can appeal to the related court within 35 days of the decision made. This provision is very important to get the justice by the unsatisfied person or institution.

9. Provision made for the appointment of liquidator

Under the section 18 of the Insurance Act 2049, in case an insurer dissolved as a result of the cancellation of its registration under sec.13, NG may appoint a liquidator. The functions, duties and powers of the liquidator appointed shall be equivalent to those of a government liquidator under the Insurance Act.

2.2 Review of Previous Studies

There is negative impact on insurance area due to government's decision to implement VAT on general insurance. According to the experts, it will make negative impact on the people who want to take insurance policy .Large amount of the nation capital will flow to the foreign country.

The government has levied on 13% VAT on the general insurance but in life insurance is away from this. Insurance Board has felt the need of discussion on issue as it will badly impact on insurance business. The concerned companies also blame the government for not consulting with them with regard to this law.

According to member of Nepal Insurance Association K.B. Basnet, there is financial burden on the customer due implementation of this law without consulting the intellectuals. There is a risk of marine and aviation insurance business going in the hand of foreign insurance companies.

According to the President of Shikhar Insurance Company, there will be negative impact on the transaction volume of insurance business due to VAT on insurance. The business will have to pay price from next years. The airlines company will insure from where the plane has been leased. The insurance business is comparatively expensive here and this law will further make it more expensive. Fifty percent of general insurance covered by aviation insurance. If the aviation insurance goes out, the whole insurance will be hampered badly.

Intellectual are saying the person bringing goods from Calcutta to Nepal also will find their goods insured cheaper in India than here. There is 0.25% service tax in India. The competitive power of insurance business in Nepal has gone down due to added tax.

Insurers have claimed that the government idea to take tax in insurance business has been unsuccessful before. Before this, government had levied sales tax in general insurance and it left negative impact. At that time a lot of capital has been gone to the foreign countries in the name of insurance. Due to this reason, government had to stop this rule.

The insurers are saying that this rule is against the international practice. The insurance relating to the health is taken more important and crucial in international practice and is freed from tax. In the present context, the annual general insurance premium is about 3 billion and the government expects to raise about 390 million as a value added tax. (Source: Kantipur Friday, August 2008).

The history of insurance is not long in our country Nepal. At present 19 insurance companies are operating in Nepal. Many researchers have conducted a number of researches on insurance. The gist of some reviewed studies is presented below.

Bin Bahadur Raut, (1995) in his study “A study on the financial performance of National Life and General Insurance Co.Ltd.” had analyzed the various financial ratios of it. Analysis had been done on liquidity ration, premium turnover ratio, return on net worth, return on shareholders equity, earning per share, dividend per share etc.

Raut’s Major Findings:

1. Premium collection of NLGI has increased day by day. It was Rs.7.99 million for the year 1988/89 whereas it was Rs.43.68 million for the year 1992/93.
2. The company outstanding premium in the five years period jumped from Rs.5.22 million in 1988/89 to Rs.15.68 million in 1992/93. The company should not ignore it.
3. The return on net worth of NLGI is satisfactory .It is in increasing trend. The return on net worth increased from 8.35% in 1988/89 to 30.29% in 1992/93.
4. Return on shareholders equity is in improving trend. It was 9.91% in the base year and 55.32% in 1992/93.
5. The trend of earning per share is fluctuating. It deviates from minimum level of Rs.7.72 per share in 1988/89 to maximum of Rs.55.28 per share in 1992/93.

Tara Bahadur Thapa, (2002) had a study on Insurance Industry in Nepal: “A Comparative study on Premium Collection and Investment Pattern” .

Thapa's Major Findings:

1. Terrorism and recession are the main problems of insurance business in Nepal.
2. There is delay in claim paying pattern.
3. Insurance business should extend its business and services in remote areas too.
4. Insurers are trying to form reinsurance agency in Nepal that will be beneficial for them and growth of national economy.

Thapa's Recommendations:

1. The entire insurer should follow the sound investment policy and improve its management.
2. The entire insurer should improve their premium collection and investment system.
3. Insurance premium fund should be invested in different sectors to uplift the living standard of people which may increase insurance premium also.
4. Insurance companies are suggested to expand in rural areas by branches or agents.
5. Insurance companies should introduce new policies and attractive strategies.

Shree Prasad Gelal, (1998) had a study on "A comparative financial analysis of Nepal Insurance Co. Ltd and Nepal Life and General Insurance Co. Ltd."

Gelal's Major Findings:

1. Both companies have satisfactory gross profit margin.
2. Net profit of Nepal Insurance Co. followed constant trend than NLGI Co. Ltd.
3. The premium collection of both companies are in increasing trend.
4. Liquidity position of both companies are satisfactory.

Gelal's Recommendations:

1. Companies should invest in different sectors other than government bond in order to increase the living standard of people.
2. Emphasis should be given for advertisement and publicity and to expand insurance activity in remote areas by establishing branches or making agents.

CHAPTER III

RESEARCH METHODOLOGY

Research is a system and organized effort to investigate a specific problem that needs a solution. This process of investigation involves a series of well thought out activities of gathering, recording, analyzing and interpreting the data with the purpose of finding answer to the problem. It is a careful search or inquiry into any subject or subject matter, which is an endeavor to discover or find out valuable facts which would be useful for further application or utilization.

The basic objective of this study is to study the trend of insurance business in context of Nepal, volume of insurance premium collected and investment pattern of insurance companies in Nepal. The study follows the following research methodology in order to achieve its objective.

3.1 Research Design

The research design is the strategy for conducting research work, which describes the general framework for collection, analysis and evaluation of identified data. A research design is the arrangement of condition, for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. In fact, the research design is the conceptual structure within which the research is conducted. Useful research design can produce the answer to the proposed research, questions. The research design is thus an integrated frame that guides the researcher in planning and executing the research works.

3.2 Population and sample

Population means the whole industry and for this study, twenty insurance companies operating in the kingdom will be population. Out of twenty insurance companies, the selected one insurance company National Life Insurance Company is the sample of this study.

3.3 Nature and sources of data

The research study is mainly based on the secondary data that are available in the published form. The required data for the study has been collected from the NLI Co.Ltd. Head office, branch office Nepalgunj, Insurance Board (Beema Samiti) and website www.nepalstock.com.np. Thesis and reports conducted by various degree students relating to the insurance field are also taken as sources. In the same way different books, journals, articles, report, newspaper etc has been collected for the study.

3.4 Data Collection Techniques

In order to make the study more reliable and authentic, different tools and techniques are used through out the study. Primary data has been obtained through questionnaire, direct interviews, field visits and telephonic inquiries. For secondary data annual report books, newsletters etc have been collected from different departments of concerned insurance companies and as well websites were also used for downloading the necessary information. Various related publications of insurance board were collected from concerned departments of the board.

For the reference material, the researcher visited Shankar Dev Campus and Central Department of Management T.U. and Insurance Board (Beema Samiti).

Many visits in management department and various sections of central library, T.U led the researcher to be successful in conducting the study.

3.5 Data Processing

Data obtained from the various sources cannot be directly used in their original form. Further, they need to be verified and simplified for the purpose of analysis. The data supplied by NLI, Beema Samiti and other authorities have been reorganized and refined in the form of tables and then necessary items out of many have been picked up for analysis and interpretation.

3.6 Tools and Techniques used

The data collected and obtained are scanned and tabulated under various needs for the purpose of study. Two sorts of tools are used to achieve the results.

3.6.1 Financial analysis tools

Financial tools are those that are used for the analysis and interpretation of financial data. These tools can be used to get the precise knowledge of a business, which in turn, are fruitful in exploring the strengths and weakness of the financial policies and strategies. There are various tools in financial sector but for the purpose of this study and in accordance to the studies objectives, ratio analysis was performed in this study. Ratio analysis certainly showed the position of premium collection, investment and return and their contribution on overall performance.

3.6.1.1 Ratio Analysis

For proper financial analysis of data, ratio analysis is the best tool. It is a very simple analyzing tool under which ratios are taken to express the relation between two or more data. Simply relation between two figures is known as ratio.

Under ratio analysis following ratio related to premium collection and investment position are analyzed.

-) First life premium collection to total life premium collection: $\frac{\text{First life premium Collection}}{\text{Total life premium collection}}$.
-) Renewal life premium collection to total life premium collection: $\frac{\text{Renewal life premium collection}}{\text{Total life premium collection}}$.
-) Investment of government bond to total investment: $\frac{\text{Investment of government bond}}{\text{total life investment}}$.
-) Investment on bank fixed deposit to total investment: $\frac{\text{Investment on bank fixed deposit}}{\text{total life investment}}$.
-) Investment on policy loans to total investment: $\frac{\text{Investment on policy loans}}{\text{total life investment}}$.
-) Return on Investment: $\frac{\text{Net Income}}{\text{Total Investment}}$.
-) Claim paid to total premium collection: $\frac{\text{Claim paid}}{\text{total premium collection}}$.

3.6.2 Statistical Analysis Tools:

Statistical tools are used for attaining accuracy on analysis and study. Various statistical mathematics are studied which are related to decision making for premium collection and investment pattern under statistical analysis. Mean, Standard deviation, Coefficient of correlation, trend analysis, Coefficient of variation and F-test are performed.

a. Mean

The simple arithmetic mean is the sum of total values to the number of values in the sample, thus

Mean= Sum of total value/ number of values

$$\bar{X} = \sum X/N$$

b. Standard Deviation (S.D):

The standard deviation shows the deviation of actual value with average mean value of the variable. A small standard deviation means high degree of uniformity of observation as well as homogeneity of a series.

$$\text{S.D. } (\sigma) = \sqrt{\frac{\sum (X - \bar{X})^2}{n}}$$

c. Coefficient of Correlation

Correlation analysis is the statistical tool that can be used to describe the degree to which one variable is linearly related to other variables. Correlation is an analysis of the covariance between two or more variable and correlation analysis

deals to determine the degree of relationship between two or more variables. It refers the closeness of relationship between two or more variables.

Among the various method of finding out co-efficient of correlation, Karl Pearson's method is applied in this study.

$$r = \frac{\sum XY}{\sqrt{\sum X^2 \sum Y^2}}$$

Probable error of correlation can be calculated by following formula:-

$$PE(r) = 0.6745(1-r^2)/\sqrt{n}$$

d. Trend Analysis

Some statistical tools used to draw the valid conclusion of the variables. Among them trend analysis is used here to show the basic tendency of investment and premium collection.

e. Coefficient of variation (C.V)

The coefficient of variance is the relative measure of dispersion, comparable a cross distribution which is defined as the ratio of the standard deviation to the mean expressed in percent. It is calculated as follows:-

$$C.V. = \frac{s}{\bar{X}} \times 100\%$$

f. T-Test

T-test is generally used to find out the relationship between the two variables. In order to test whether two independent samples have been drawn from two normal populations having the same means, the population variables being equal, t-test for difference of means is used.

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

In this chapter, it has been focused on the analysis of premium collection and investment position of National Life and General Insurance Co. Ltd. Once the data is placed on summary sheets, the data analysis can be done. Usually when the data is arranged on the summary sheet, it is possible to get some idea of the results. After that the data is tabulated and statistically analyzed. Both primary and secondary data are used for the purpose of the study and analysis.

4.1 Analysis of premium collection

Premium is the main source of income for all the insurance companies. The collected premium is invested in different sectors. Investment is done according to the rules and regulation of Insurance Board. Since higher premium tends the higher volume of transaction leading to high income through investment, all the insurer tries to collect higher premium than others.

In this chapter, quantitative analysis is done relating to the premium collection and its composition. The trend analysis, F-test, mean, standard deviation and coefficient of variation are used for the purpose of the evaluation of premium collection condition and composition of all the respective matter on premium collection, various ratio analysis are computed which will give the actual proportion to the particular insurance company sum. The analysis chapter is separated in two parts as financial analysis and statistical analysis.

The analysis deals with various financial ratios, which are related to premium collection. Financial ratios are studied to evaluate and analyze the performance of National Life Insurance Co. Ltd. Ratios are calculated as follows:-

4.1.1 First premium collection to total life premium collection

Life insurance premium is the premium paid to the insurance company for insuring his life and contract to pay that amount for a certain period. The insurer get amount back with bonus in expiry of the time or his beneficiary will get contract amount in expiry of his life.

First premium of life insurance hold significant role in the total life premium collection. It is regular amount that the policyholder should pay to the company till the expiry of time or his death .The ratio, premium collection on first life premium to total life premium collection is used to measure the contribution of premium collection on first life premium to total life premium.

It is computed by using following formula;

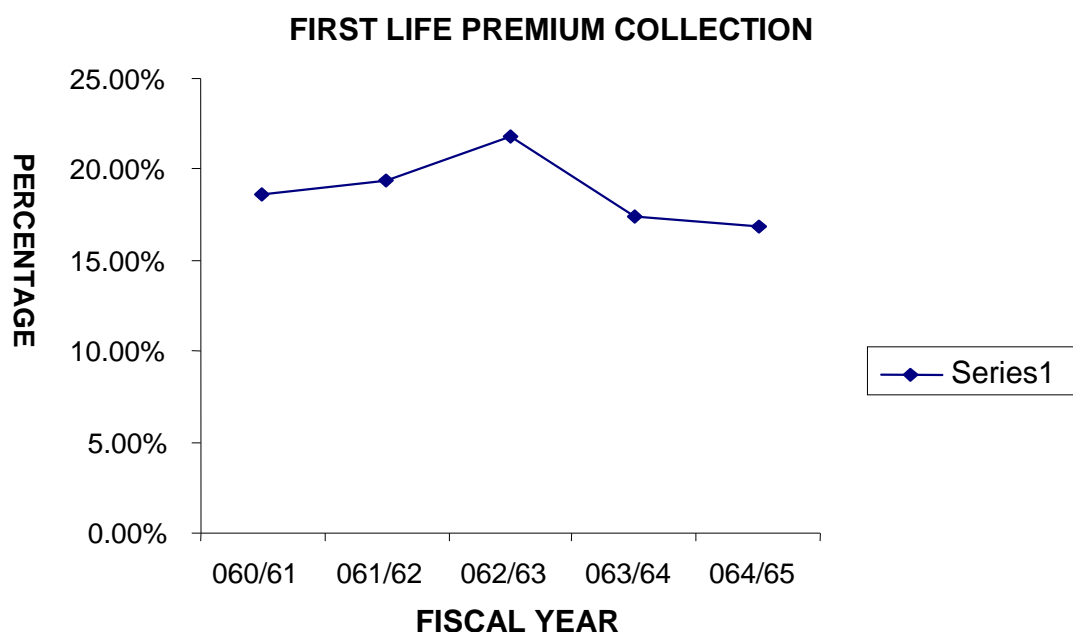
$$\text{First life premium to total life premium} = \frac{\text{First life premium collection}}{\text{Total Life premium collection}}$$

Table 4.1
First life premium to total life premium collection

Year	060/61	061/62	062/63	063/64	064/65	Mean	S.D	C.V
Percentage	18.65%	19.34%	21.80%	17.35%	16.82 %	18.79%	1.75	9.31

Source: - Annual Report of NLIC 060/61 to 064/65.

Figure 4.1



Above table 4.1 and figure 4.1 reveal that the company's ratio on first life Premium to total life premium collection ratio are in fluctuate trend. The highest ratio was in the F/Y 062/063 and least was in the F/Y 064/65.

The CV is 9.31%. Its shows that the ratios were little consistent and stable.

4.1.2 Renewal Life Premium to Total Life Premium Collection

Life Premium Collection of person is continuous till the last date of policy period, otherwise death of a policyholder and breaking of contract by any of party. Renewal life Premium held the majority of Life Premium Collection. This ratio shows the weight of renewal life premium collection to total life premium collection. Following equation depicts these ratios:

Renewal Life Premium to Total Life Premium Collection =

$$\frac{\text{Renewal Life Premium Collection}}{\text{Total Life Premium Collection}}$$

Table 4.2

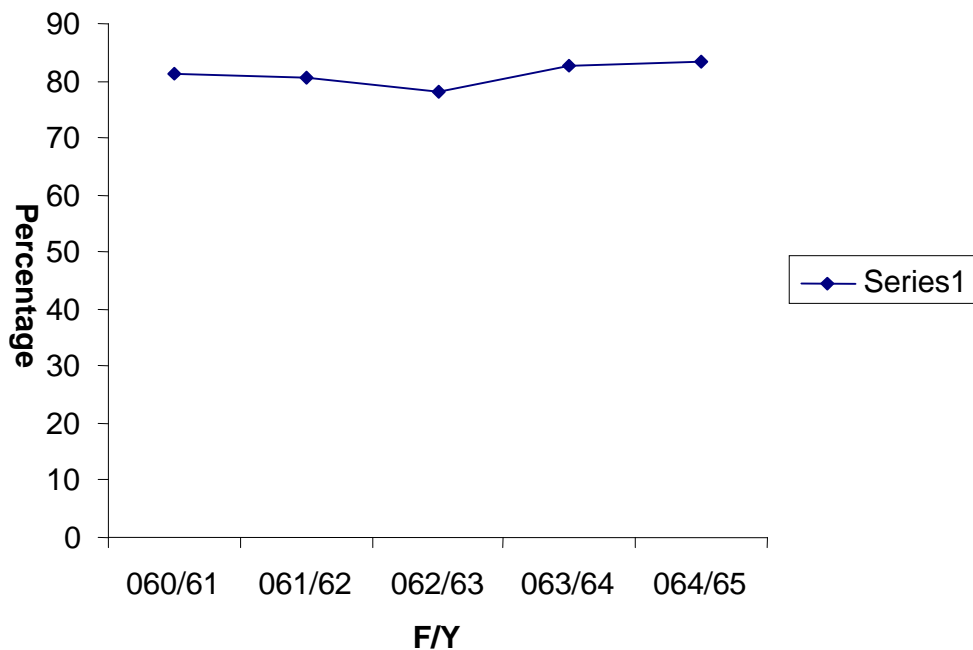
Renewal Life Premium to Total Life Premium Collection:

Year	060/61	061/62	062/63	063/64	064/65	Mean	S.D	C.V
Premium	81.35	80.65	78.20	82.65	83.18	81.2	3.06	3.77

Source: - Annual Report of NLIC 060/61 to 064/65.

Figure 4.2

Renewal Life to Total Premium Collection



The table 4.2 and figure 4.2 shows that the ratio between renewal life premium and total life premium. The ratio varied between 78.20 to 83.18 %. The highest ratio is in F/Y 2064/065 and the least is in F/Y 061/062. The calculated CV

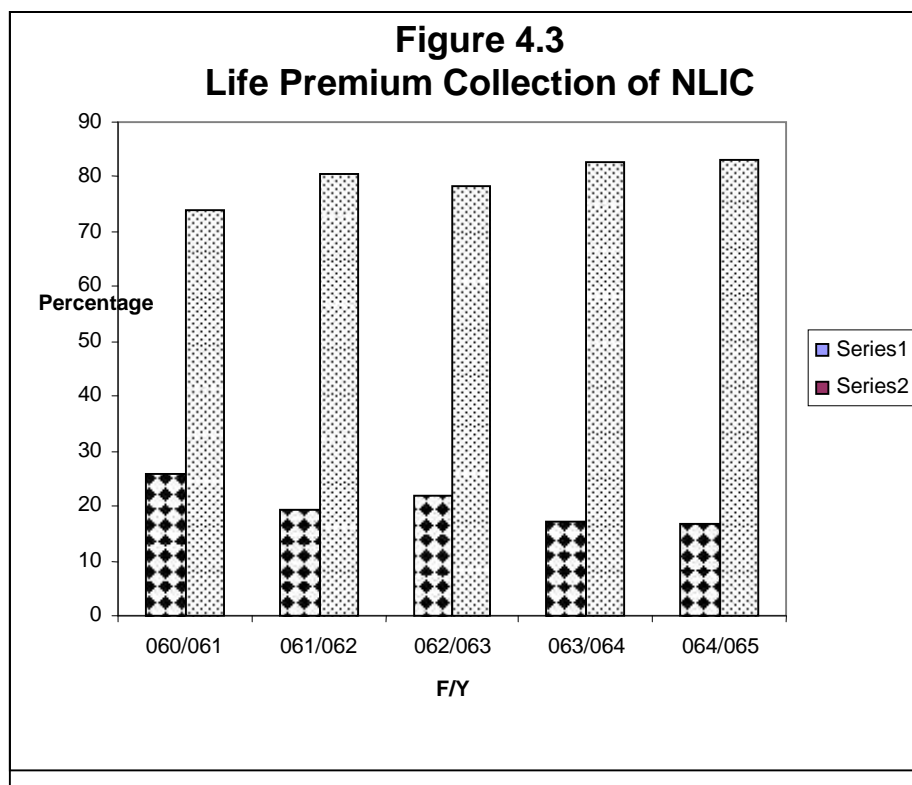
is 3.77 % shows the satisfactory result and revealed that the company is suffering negligible risk.

4.1.3 The Total Amount of Life Premium Collection by NLIC:

The total amount of life premium collected by NLIC covers the large portion of total premium collection. The total amount of life premium collected by the company in different years and the comparative chart is given below:

Table 4.3
The total amount of life premium collection:

Year	060/061		061/062		062/063		063/064		064/065	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
First	61340051.7	25.9	59266315	19.4	86295475	21.8	75511771	17.3	99545395	16.8
Renewal	174999016.7	74.1	247041575	80.6	309404813	78.2	359725137	82.7	492222277	83.2
Total	236339068.4	100	306307890	100	395700288	100	435236908	100	591767672	100



The above graph reveals that the major part of life premium collection consists of renewal life premium. Renewal life premium ratios are; 74.1, 80.6, 78.2, 82.7, 83.2 for the F/Y 060/061 to 064/065 respectively. Similarly, the first premium collection ratios are; 25.9, 19.4, 21.8, 17.3 and 16.8 for the F/Y 060/061 to 064/065 respectively.

4.2 Analysis of Investment Pattern

Investment is the crucial activity of every insurance company. It invests the collected fund in form of premium in various sectors for profit motives. It has to follow the rules and regulation of investment regulated by Insurance Board of Nepal. They have to invest 75 % of their investable fund in compulsory sectors and rest 25 % in other sectors.

For the purpose of the evaluation of the investment pattern and composition among the portfolios, the trend analysis and 't' test are used. For the comparison of all respective matters on investment, the Mean, Standard Deviation and Co-efficient of variance is also used. Likewise, the ratio analysis is used to evaluate the return on respective portfolio and investment amount. To attain the objectives of the study, all the concern studies and analysis are done. The evaluation chapter is separated in two parts; as Financial Analysis and Statistical Analysis.

Life premium is collected through the life insurance policies. This premium is returnable along with bonus to the policyholders. So, the life fund should be invested in areas having higher return and thus the company is able to give more bonuses to their customers. The life Insurer preferred government saving bonds, bank fixed deposits, policy bonds and policy loans to invest their life funds.

4.2.1 Investment on Government Saving Bond to Total Life Investment:

The ratio measures the portion of total life investment on government saving bonds. The ratio is computed using following equation;

Investment on Government Saving Bond to Total Life Investment =

$$\frac{\text{Investment on Government Saving Bond}}{\text{Total Life Investment}}$$

Table 4.4

Investment on Government Saving Bond to Total Life Investment

Year	060/61	061/62	062/63	063/64	064/65	Mean	S.D	C.V
Percentage	16.32	12.15	9.68	11.14	12.29	12.31	4.88	39.64

Source: - Annual Report of NLIC 060/61 to 064/65

Figure 4.4

Investment on Government Saving Bonds to Total Life Investment

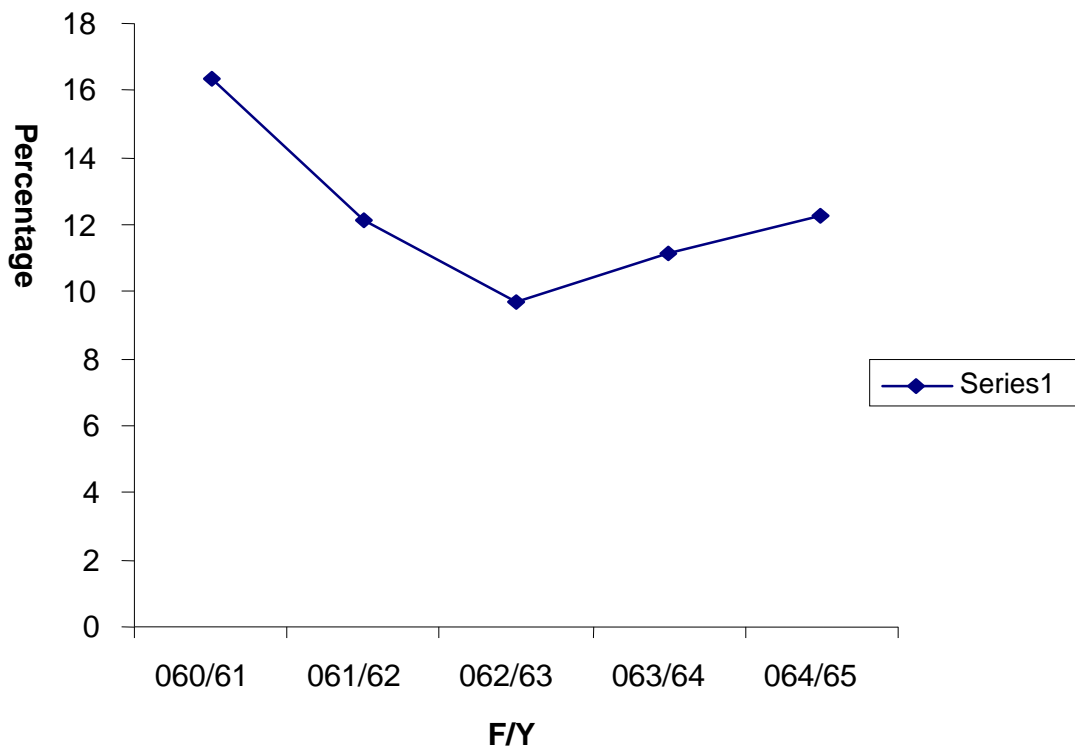


Table 4.4 and figure 4.4 revealed that the investment on government saving bonds has been fluctuating. It was 16.32, 12.15, 9.68, 11.14 and 12.29 percent in F/Y 060/061, 061/062, 062/063, 063/064 and 064/065 respectively. The average investment is 12.31 Percent. The CV is 39.64 % that shows the inconsistency of investment in government saving bonds.

4.2.2 Investment on Bank Fixed Deposits to Total Life Investment

The ratio measures the portion of total life investment on bank fixed deposit. It is the popular investment sector for Life Insurance Company. The ratio is computed by using the following equation.

Investment on Bank Fixed Deposits to Total Life Investment =

$$\frac{\text{Investment on Bank Fixed Deposit}}{\text{Total Life Investment}}$$

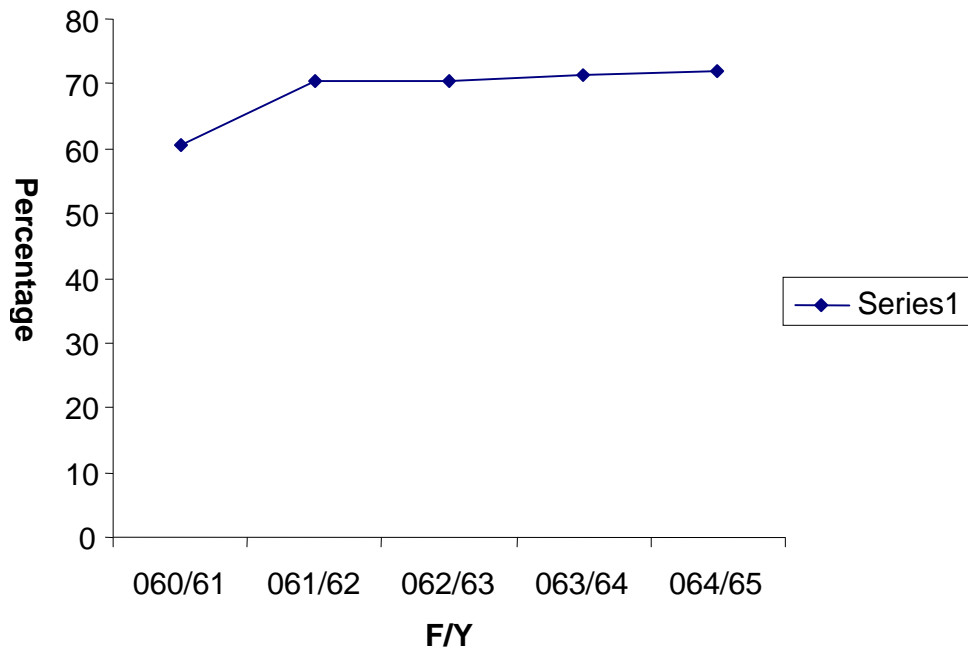
Table 4.5

Investment on Bank Fixed Deposits to Total Life Investment

Year	060/61	061/62	062/63	063/64	064/65	Mean	S.D	C.V
Percentage	60.53	70.29	70.32	71.21	72.01	68.87	17.8	25.85

Source: - Annual Report of NLIC 060/61 to 064/65

Figure 4.5
Investment on Bank Fixed Deposits to Total Life Investment



Above table 4.5 and figure 4.5 revealed that, NLIC had invested its majority portion of life funds investment on bank fixed deposits. The lowest ratio of Company was 60.53 % in F/Y 2060/061 and the highest ratio is 72.01 % in F/Y 2064/065. The average investment was 68.87 %. The calculated standard Deviation is 17.8 and the CV is 25.85, which indicates that the investment is consistent.

4.2.3 Investment on Policy Loans to Total Life Investment:

Policy loan is the loan that is given by the Insurance Company to its life policyholders. The loan is available to the customers after the stated time generally two years of the start of policy and limited to 90 % of surrender value. Life policy holder can get this facility very easily to use money in their needy works. The ratio measures the portion of total life investment on policy loans.

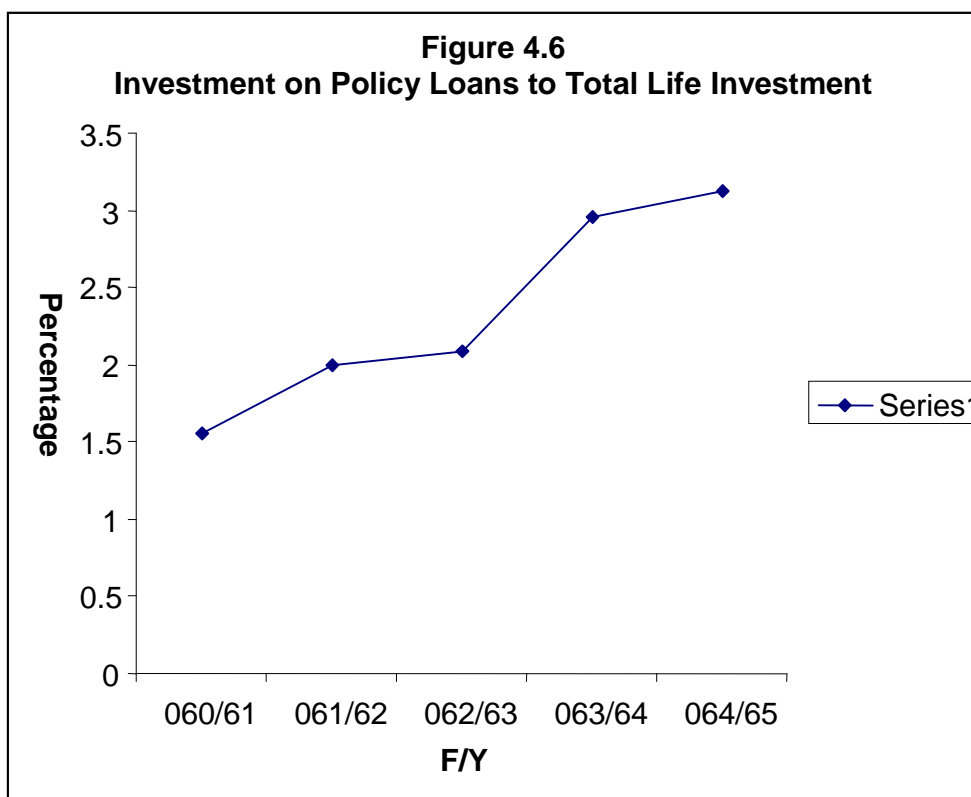
Investment on Policy Loans to Total Life Investment =

$$\frac{\text{Investment on Policy Loans}}{\text{Total Life Investment}}$$

Table 4.6
Investment on Policy Loans to Total Life Investment

Year	060/61	061/62	062/63	063/64	064/65	Mean	S.D	C.V
Per.	1.55	1.99	2.09	2.95	3.12	2.34	0.36	15.38

Source: - Annual Report of NLIC 059/60 to 064/65



The above table and figure shows that the portion of policy loan in total life investment is very little. It is not more than 4.0 % during the study period. The

ratio is in increasing trend. It was lowest in 060/061 with 1.55 % and highest in 064/065 with 3.12 % . The average investment is 2.34 and the CV is 15.38, which indicates that the ratio is not stable.

4.3 Comparison of Life Premium Collection

Life Premium Collection of NLIC is fluctuating year by year. First Premium Collection plays very an important role for the renewal life premium collection because if the first life premium increases, it also increases the renewal life insurance automatically. The analysis of percentage change in premium collection and its effect in total premium collection is done below:

Table 4.7
Comparison of Life Premium Collection

Premium	060/61	061/62	% Change	061/62	062/63	% Change
First	59272955	59266315	-0.0112	59266315	86295475	45.61
Renewal	258547269	247041575	-4.45	247041575	309404813	25.24
Total	317820224	306307890	-3.62	306307890	395700288	29.18

062/63	063/64	% Change	063/64	064/65	% Change
86295475	75511771	-12.5	75511771	99545395	31.83
309404813	359725137	16.26	359725137	492222277	36.83
395700288	435236908	9.99	435236908	591767672	35.96

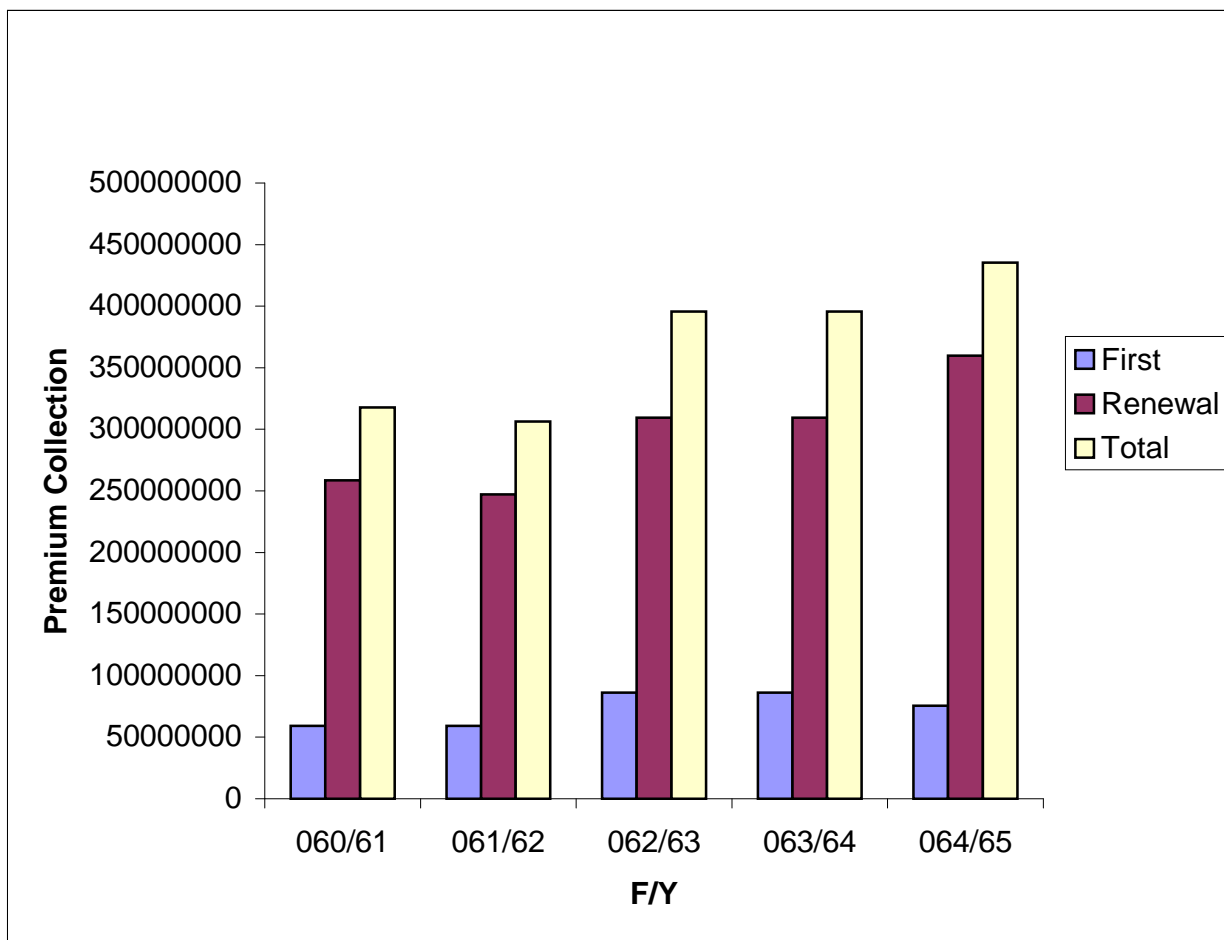
Source: Annual Reports of NLIC, 060/61 to 064/65

The above table reveals that the comparison of life insurance premium collection of NLIC. The first, renewal and total life premium collection of the company is fluctuating from year to year. The first life premium was fluctuated to -0.0112% from 060/61 to 061/62 from 61/62 to 62/63 it was 45.61%, from 62/63 to 63/64 it was -12.5% and from 63/64 to 64/65 it was increased by 31.83%. Like

the first life premium collection the trend of renewal life premium collection is also fluctuate. It was -4.45% in the F/Y 060/61 to 61/62, 25.24% from 061/62 to 062/63, 16.26% from 062/63 to 63/64 and 36.83% from 063/64 to 64/65.

Above data reveals that the highest change in first life premium collection is in the F/Y 062/63 by 45.61% and the lowest change in the F/Y 061/62 by -0.0112% . Similarly the renewal life premium collection is highest in the F/Y 64/65 by 36.83% and lowest in 61/62 by -4.45% . Regarding the total life premium collection the highest change is in the F/Y 64/65 by 35.96% and lowest in F/Y 061/62 by -3.62% . A bar shows it in diagram:

Figure 4.7
Comparison of Life Premium collection of NLIC



4.4 Life Insurance Business in Nepal

Life insurance is an important device, which helps people in different ways in different situations. It assures people from fear of future risks and increases their self-confidence. But in the context of Nepal the life insurance business is in a creeping position. There are five life insurance companies in Nepal. Rastriya Beema Sansthan is first to undertake life insurance business in Nepal since 2029 B.S. Nepal Life and General Insurance Corporation is second to undertake the business since 2044 B.S. These two companies undertake both life and non-life business. Though, Nepal Life and General Insurance Company has done life non-life business with separate company since April 2006. Three new life insurers are Nepal Life Insurance Co. Ltd., Life Insurance Corporation (Nepal) Ltd. and American Life Insurance Co. Ltd.

4.4.1 Investment of Life Insurance Fund by NLIC

The life insurance fund is invested in different sectors for profit motive. It is regulated by the Insurance board of Nepal. The Table shows the sectors where the company invested its life fund during the study period.

The NLIC had maintained the rules and regulation regarding the investment in all the study period of 060/61 to 064/65. As per the provision of the Insurance Board, any company should must invest 75% of their investable fund in compulsory sectors and rest 25% as per their choice.

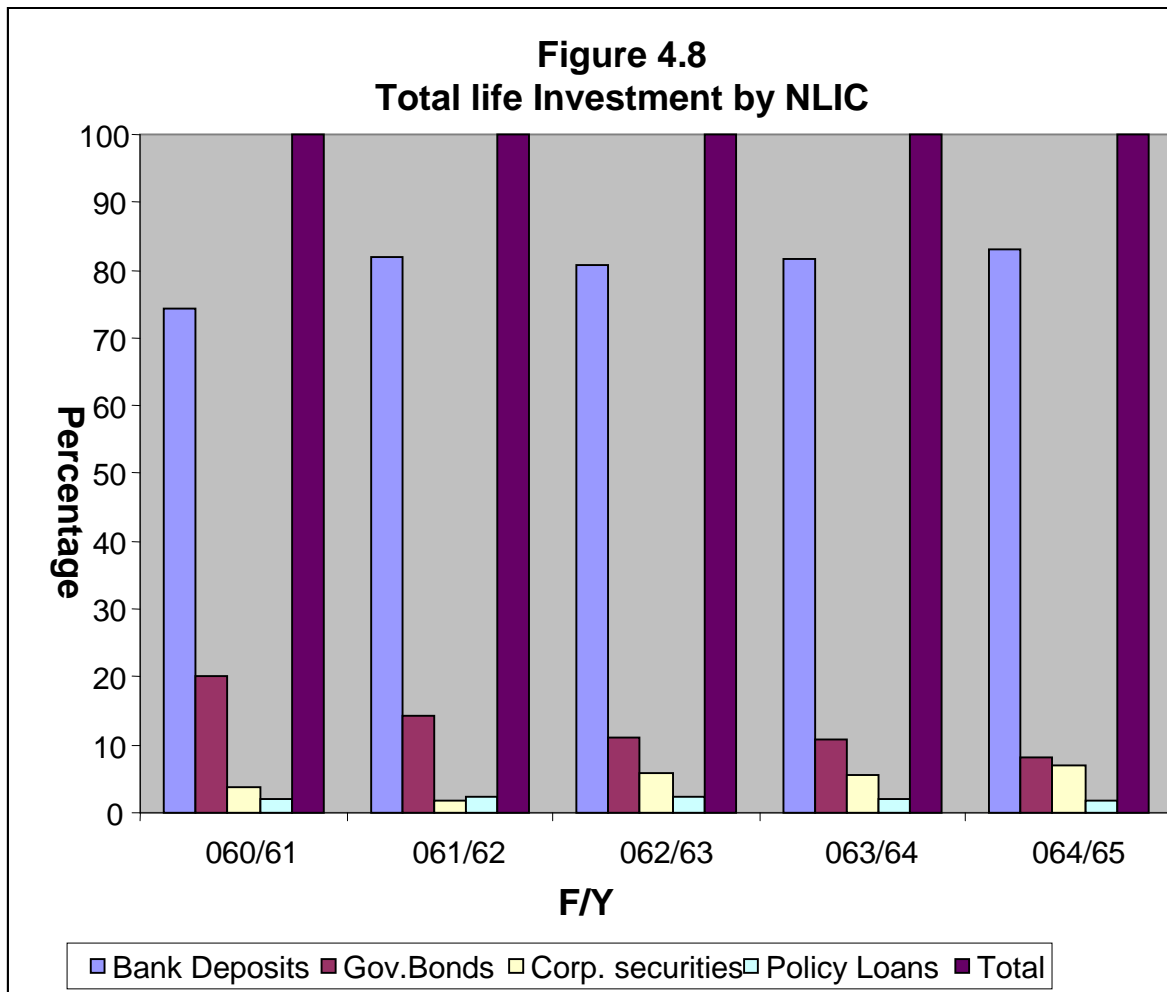
For life fund investment, NLIC has preferred bank fixed deposits as the first priority followed by government saving bonds. Bank fixed deposits contributes more than 70% of its investment. In second priority was on the government saving bonds. It has invested in different sectors as following table.

Table 4.8
Total life Investment by NLIC

Sectors	060/61		061/62		062/63	
	Amount	%	Amount	%	Amount	%
Bank Deposits	709543000	74.33	1008067915	81.9	1265033588	80.7
Gov.Bonds	191298435	20.04	174298436	14.16	174298436	11.13
Corp.securities	35500000	3.72	19945400	1.62	90595400	5.78
Policy Loans	18153740	1.91	28523122	2.32	37617187	2.39
Total	954495175	100	1230834873	100	1567544611	100

063/64		064/65	
Amount	%	Amount	%
1578927226	81.58	1712894220	83.09
211298436	10.92	166227130	8.06
106120225	5.48	144775333	7.02
38980175	2.02	37560224	1.83
1935326062	100	2061456907	100

Source: Annual Reports of NLIC, 060/61 to 064/65



Above table and diagram shows the portfolio of NLIC in different sectors. Major part of the investable fund is invested in bank fixed deposits and very few portions is invested in other sectors. This may be due to the fear of risk in other sectors by various factors. The portion of bank fixed deposit was 74.33 %, 81.9%, 80.7%, 81.58%, and 83.09% from 060/61 to the F/Y 064/65 respectively. Similarly, investment in government bonds is the second priority of the company it was 20.04%, 14.16%, 11.13%, 10.92%, 8.06% from the year 060/61 to the year 64/65.

4.4.2 Comparison of Life Investment

The comparative study helps to know the trend of investment. It shown the percentage of investment increased or decreased in different sectors in comparison

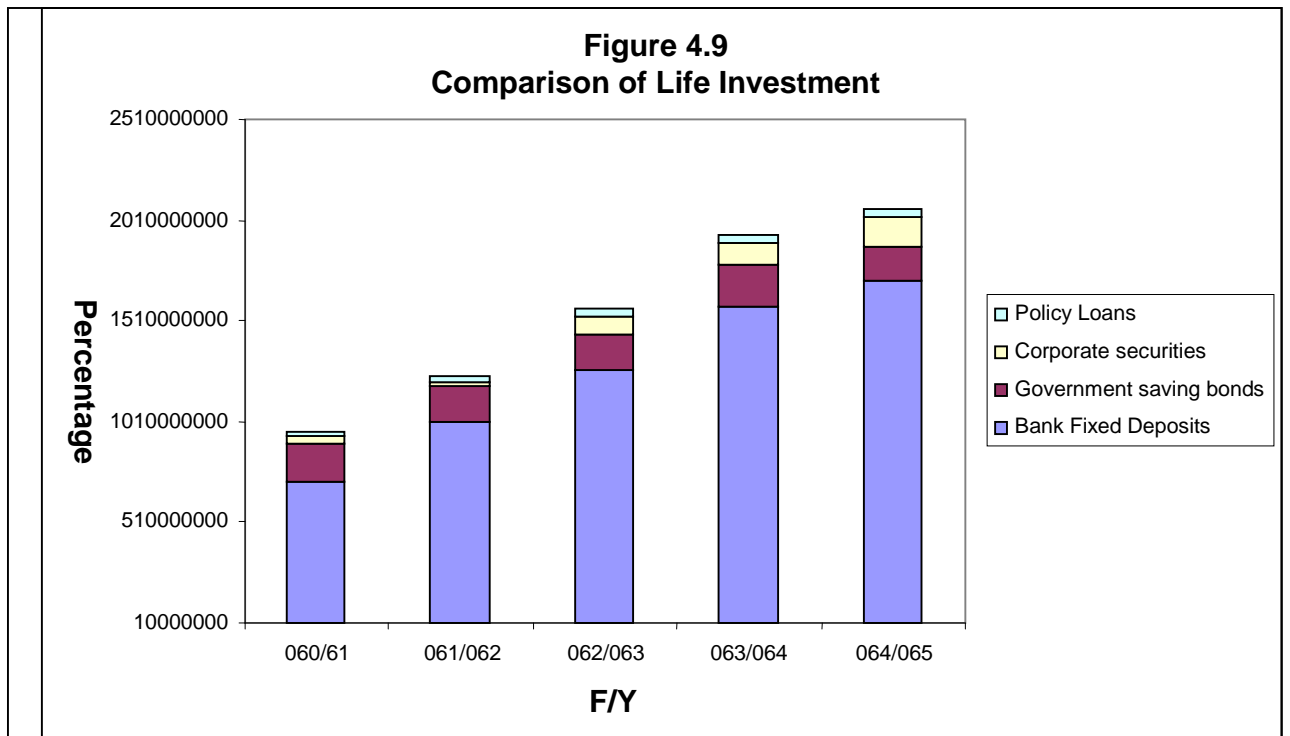
of last years. In other hand, such analysis help to know the priority sectors where the company prefers to invest more and more fund than other sectors. Following comparative chart shows the percentage increased or decreased in different years in different sectors.

Table 4.9
Comparison of Life Investment:

Sectors	060/61	061/62	% change	061/62	062/63	% change
Bank Fixed Deposits	709543000	1008067915	42.08	1008067915	1265033588	25.49
Government saving bonds	191298435	174298436	-0.09	174298436	174298436	0
Corporate securities	35500000	19945400	40.69	19945400	90595400	354.21
Policy Loans	18153740	28523122	57.12	28523122	37617187	31.88
Total	954495175	1230834873		1230834873	1567544611	

062/63	063/64	% change	063/64	064/65	% change
1265033588	1578927226	24.81%	1578927226	1712894220	8.48
174298436	211298436	21.23%	211298436	166227130	-21.33
90595400	106120225	17.14%	106120225	144775333	36.43
37617187	38980175	3.62%	38980175	37560224	-3.64
1567544611	1935326062		1935326062	2061456907	

Source: Annual Reports of NLIC, 060/61 to 064/65



The above table and diagram reveals that the life fund invested by NLIC is in fluctuating trend. The highest increment in bank fixed deposits in 60/61 to 61/62 i.e. 42.08% and lowest change in the year 063/64 to 64/65 i.e.8.48%. After the bank, deposit investment in government bond is the second priority of the company. The highest change in government bond is 21.33% in the year 63/64 to 64/65 and lowest change in the year 61/62 to 62/63 i.e.0 percentage.

In the context of corporate securities, the highest change in the year 061/62 to 062/63 by 354.21% and the lowest change in the year 62/63 to 63/64 by 17.14%. The minor portion of the investable fund is invested in policy loans. The highest change in its investment is 57.12% in the year 60/61 to 61/62 and lowest change is 3.62 in the year 62/63 to 63/64.

4.5 Analysis of Claim Paid by Insurance Companies

Insurance company insures compensation that if the accident, damage, death, disablement, theft happened to property and life of the policy holder with in the policy period. Delay in claim paying may damage the goodwill of the company. Customer may runaway from their hand. On the other hand if claim paid held the majority part of the total premium collection, insurance company can not arrange other management expenses and return to owners.

4.5.1 Life Claim paid to premium collection

It is the ratio that measures claim paid to premium collection. It is the portion of claim paid from the premium collection. Following equation is used to calculate the ratio:

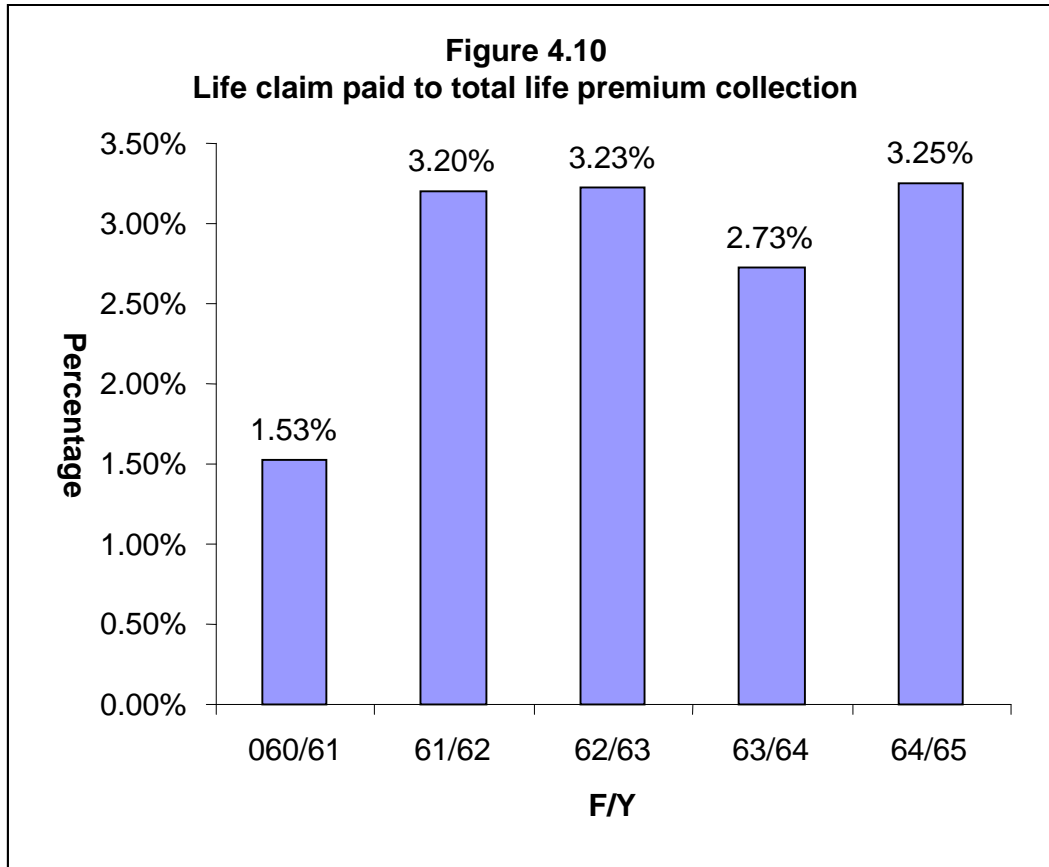
$$\text{Claim paid to premium collection} = \frac{\text{ClaimPaid}}{\text{Total Premium}}$$

Table 4.10

Life claim paid to total life premium collection

Years	060/61	61/62	62/63	63/64	64/65	Mean	S.D	C.V
Percentage	1.53%	3.20%	3.23%	2.73%	3.25%	2.78	0.43	15.47

Source: Annual Reports of NLIC, 060/61 to 064/65



Above figure and table show the amount of claims paid to the policy holder in different fiscal years. The percentage of claims paid is 1.53, 3.20, 3.23, 2.73, and 3.25 from the year 60/61 to the year 64/65 respectively. The highest claim paid was 3.25% in the fiscal year 64/65 and the lowest claim paid was 1.53% in the year 059/60. The average claim paid for the study period is 2.78 and the standard deviation is 0.43% which reveals that the claim paid in different years is little deviated. The C.V is 15.47 which indicate that there is little inconsistency in the life claims paid.

4.6 Analysis of Return on Investment

Profit is very important in any company. Insurance company also thinks about profit or return. It invests its fund in different sectors hoping for better return from it. The ratio reveals which of the investment sector earning in respect of investment on those sectors.

$$\text{Return on Investment} = \frac{\text{NetIncome}}{\text{TotalInvestment}}$$

Return from each sectors of investment and their trend in different fiscal years is analyzed below:

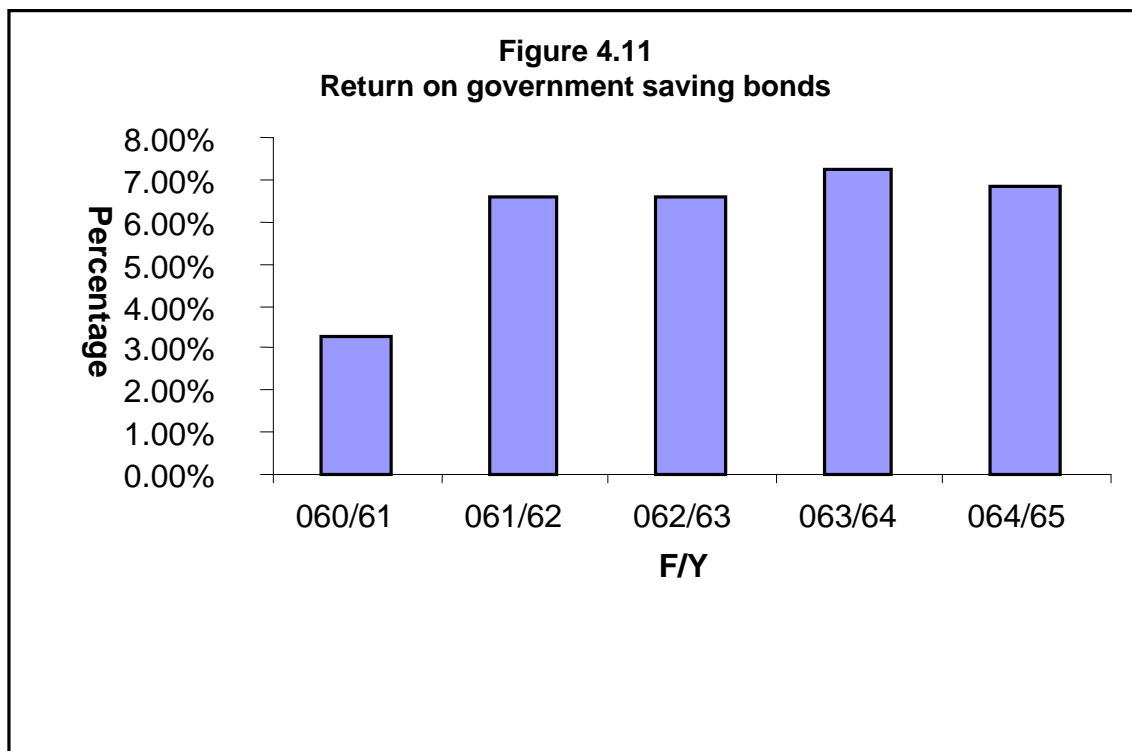
4.6.1 Return on government saving bond

Government bond is a sector for investment which is considered as risk less in comparison of other sectors of investment. The percentage of return of government saving bond and its trend in different years is analyzed below:

Table 4. 11
Return on government saving bonds

Years	060/61	061/62	062/63	063/64	064/65	Mean	S.D	C.V
Percentage	3.26%	6.59%	6.58%	7.23%	6.86%	6.10%	2.08	34.09

Source: Annual Reports of NLIC, 060/61 to 064/65



Above table and figure reveal the return on investment of life fund in government saving bond. The calculated returns fluctuate year to year. The percentage of return on government saving bond were 3.26%, 6.59%, 6.58%, 7.23% and 6.86% from the year 060/61 to 64/65 respectively. The highest return was in the fiscal year 63/64 i.e. 7.23% and the lowest return was in the year 3.26% in the year 060/61 .The average return on government saving bond was 6.10% and the standard deviation was 2.08. The C.V was 34.09%, which indicates that there is high consistency of return.

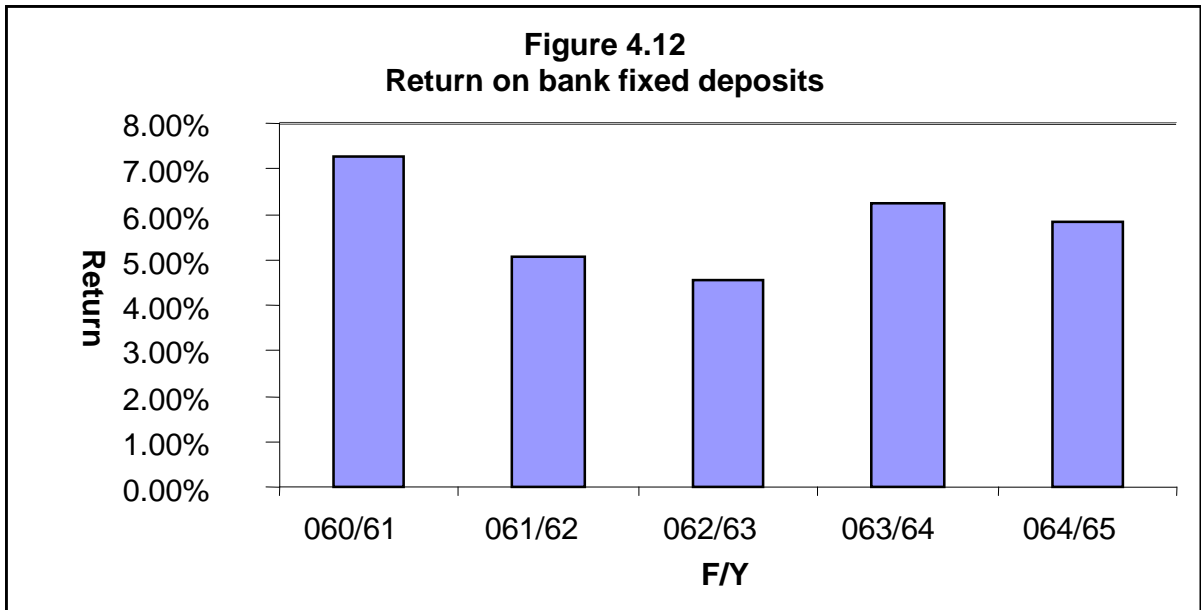
4.6.2 Return on Bank Fixed deposits

The major portion of the invest able fund is invested in bank fixed deposits. It may be due to the problem of risk and security in other sectors of investment. Bank fixed deposit covers the most of the portion of total invest able fund. The return on bank fixed deposits in different fiscal years and its trend is analyzed below:

Table 4.12
Return on Bank Fixed Deposits

Years	060/61	061/62	062/63	063/64	064/65	Mean	S.D	C.V
Return	7.26%	5.07%	4.56%	6.25%	5.82%	5.8	0.9	15.52

Source: Annual Reports of NLIC, 060/61 to 064/65



Above table and figure show the return on bank fixed deposits made by the company for the different fiscal years and their trend in various years. As per above analysis the return percentage during the study period were 7.26%, 5.07%, 4.56%, 6.25%, 5.82% from the year 060/61 to the year 64/65. The highest return was in the year 060/61 by 7.26% and the lowest return was in the year 062/63 by 4.56%. The average return on bank fixed deposit is 5.8% and the standard deviation is 0.9%. The C.V is 15.52, which indicate little consistency on the return of the company from fixed deposits.

4.6.3 Return on Policy Loan

Policy loans means to the loans, which are given to the policyholder on various conditions by the insurer or the Insurance Company. Among the total invest able fund collected from the policyholder as the insurance premium a little part is invested as policy loan. The return on such loan in different years and their trend of change is analyzed below with the help of a table and a graph:

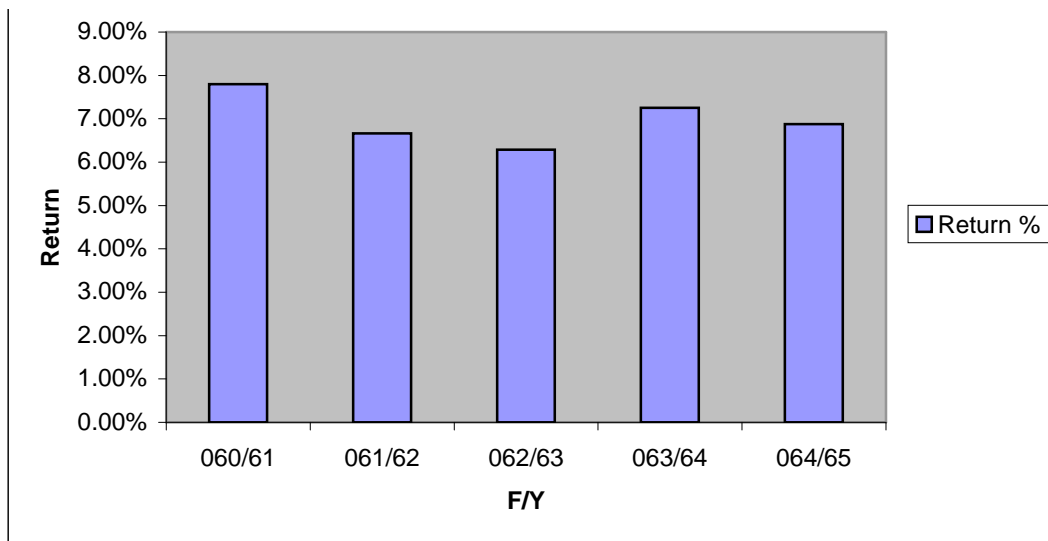
Table 4.13

Return on Policy Loans

Years	060/61	061/62	062/63	063/64	064/65	Mean	S.D	C.V
Return %	7.80%	6.66%	6.29%	7.25%	6.88%	6.98	0.27	3.87

Source: Annual Reports of NLIC, 060/61 to 064/65

Figure 4.13



Above table and figure, show the return percentage on policy loans in different years and their trend of change in different fiscal years. The return percentages are 7.80%, 6.66%, 6.29%, 7.25%, and 6.88% from the year 060/61 to the year 064/65

. Among the return percentage of various years the highest return was 7.80% in the year 060/61 and the lowest return was 6.29% during the year 062/63 .The average return on policy loans is 6.98 and the standard deviation is 0.27 which indicates that the return of various year are deviated by a little amount. The C.V. is 3.87, which reveal that there is consistency in the return on policy loans of the company for the study period.

4.7 Net rate of Investment for life Insurance companies

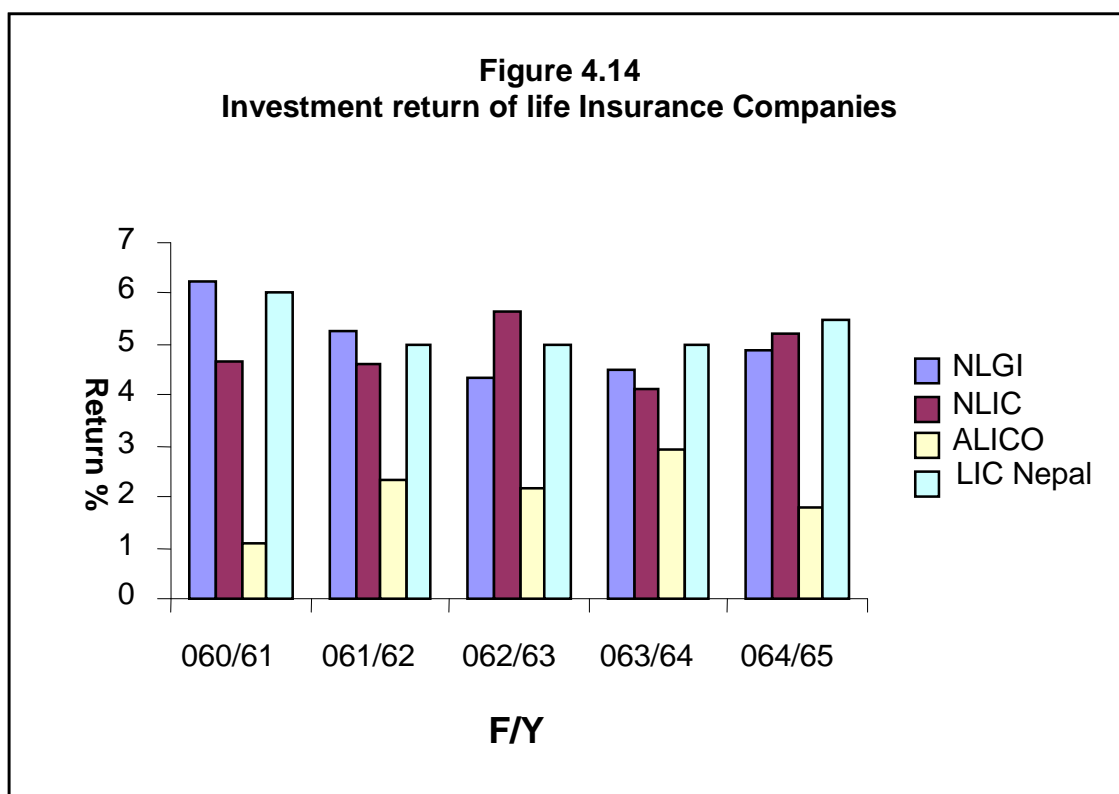
It is the ratio used to measure the net investment income. It shows the sectors of life fund investment and returns from it. It also makes the analysis of life fund investment. The calculation is made with four companies since RBS data are not available. It is computed using following equation:

$$\text{Net Rate of Investment Return} = \frac{\text{Net Investment Income}}{\text{Total Investment}}$$

Table 4.14
Net Rate of investment Return of Life Insurance Companies

Insurers	060/61	061/62	062/63	063/64	064/65	Average
NLGI	6.24	5.25	4.35	4.49	4.86	5.04
NLIC	4.69	4.62	5.63	4.15	5.21	4.86
ALICO	1.08	2.32	2.17	2.95	1.8	2.06
LIC Nepal	6	5	5	5	5.5	5.3
Industry	5.47	4.94	4.46	4.34	4.48	4.74

Source: Annual Reports of NLIC, 060/61 to 064/65



From the above Table and figure, it was clear that the average net rate of investment return of Insurance companies is around 5 percentages except ALICO Nepal. Among them NLIC has average rate of return of 4.86%, NLGI has 5.04%, ALICO has 2.06% and LIC Nepal has 5.3%. Among the above five insurance companies LIC Nepal has highest average rate of return i.e.5.3% and the lowest average return goes to ALICO by 2.06% only which is less than 50% of other companies average return.

Under this chapter various statistical calculation are studied which are related to the decision making for premium collection and investment pattern. The trend analysis, Coefficient of correlation and 't' test are used for the purpose to find out the tendency, relation and distinguish between premium collection and investment. For this purpose, following measures are analyzed.

4.8 Correlation Analysis

In this analysis product moment method has been used to find out the relationship between the premium collection and investment. Generally, the correlation analysis is used to describe the degree to which one variable related with another. Hence, in statistics, it is used in order to depict the co-variation between two or more variables. It helps to determine whether

- a) A positive or negative relationship exists.
- b) The relationship is significant or insignificant and
- c) Establishes causes and effects relationship if any.

The statistical tools, Correlation analysis is preferred in such studies to identify the relationship between premium collection and investment, whether the relationship is significant or not for the purpose of decision making under correlation, decision maker based on following interpretation terms.

- a When $r = +1$, there is perfect positive correlation.
- b When $r = -1$, there is perfect negative correlation.
- c When $r = 0$, there is no correlation.
- d When 'r' lies in between 0.7 to 0.999(-0.7 to -0.999), there is a high degree of positive or negative correlation.
- e When 'r' lies between 0.5 to 0.6999, there is a moderate degree of correlation.
- f When 'r' is less than 0.5, there is low degree of correlation.

4.8.1 Correlation between premium collection and investment of NLIC

The mentioned heading depicts the relation between the premium collection by NLIC and its investment. The above correlation between

premium and investment of NLIC reveals the solution of the question: Is there any relationship between premium collection and investment of NLIC? In other word is more premium collection means more investment by it? If there is relationship between these two variables, what relation exists, positive or negative relation?

Table 4.15

Correlation of Premium Collection and Investment of NLIC

Coefficient of correlation	Relationship	R ²	6*P.E (r)	Probable error P.E(r)	Significant or insignificant
0.89	Higher degree of positive relationship	0.7921	0.376	0.063	Highly Significant

Decision:

From the above computation and table, we can draw the conclusion that there is high degree of positive correlation between the premium collection by NLIC and its investment.

Again, the coefficient of determination (R²) is the measure of degree of linear association or correlation between two variables, one of which is the dependent variable and other is independent. In case of NLIC, the coefficient of determination is 0.7921 which means that the variation in independent variable (premium collection) explains 89.60 Variations in dependent variable (Investment).

Probable error is used to measure the significance of the relation between two variables. In case of this study the significance relationship between premium collection and investment is measured by calculating probable error of correlation

of coefficient . Since the coefficient of correlation (r) is greater than the 6 P.E (r), therefore we conclude that the relation between the two variables is significant .

4.9 Test Of Hypothesis

Test of hypothesis is a process of testing of significance regarding the parameter of the population on the basis of the sample drawn from the population. In testing hypothesis, we examine on the basis of the statistics computed from the sample drawn whether the sample drawn belongs to the parent population with certain specified characteristics or not.

In this topic, an effort has been made to test the significance regarding the premium collection and investment between two Insurance companies. The data of National Life insurance company and Nepal Life Insurance Company are used to test the hypothesis. Generally the following steps are followed for the test of hypothesis.

Following Steps have to be followed while formulating Hypothesis:

-) Setting Hypothesis.
-) Fixing the level of significance.
-) Computing the test statistics
-) Finding the critical region.
-) Deciding one tailed or two tailed test.
-) Making decision.

Null Hypothesis (Ho):

$\mu_1 = \mu_2$ i.e. there is no significant difference between the premium collection by Nepal Life Insurance Company and National Life Insurance Company.

Alternative Hypothesis (H1):

$\mu_1 \neq \mu_2$ i.e. there is significant difference between the premium collection by Nepal Life Insurance Company and National Life Insurance Company.

Where,

X1= National Life Insurance Company and

X2 = Nepal Life Insurance Company.

Table 4.16

Premium Collection of NLIC and NLIC (Amount in million)

Fiscal Year	National Life Ins.Co.	Nepal Life Ins.Company.
060/61	317	325
061/62	306	363
062/63	395	412
063/64	435	396
064/65	591	458
Total	2044	1954

Computation of Test Statistics‘t’

Total of National Life (X1) = 2044

Total of Nepal Life (X2) = 1954

Number of Years (N) = 5

Variance (S^2) = 7921.25

T-Test Value = 2.67

Degree of freedom = $n_1+n_2-2 = 5+5-2 = 8$

$\alpha = 5\%$

The tabulated value of t for 8 D.F. at 5% level of significance for two-tailed test is **2.306**.

Conclusion:

Since the calculated t is smaller than the tabulated t, it is not significant and H_0 is accepted and the H_1 is rejected which means that there is significantly difference between the total premium collection by Nepal Life Insurance and National Life Insurance Company.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Nepal is a developing country. It is moving towards economic revolution and trying to initiate the modern technology in every field. For the entire development of the country, the government recognized liberal economic policy and open competitive view. Thus after 1990's, financial intermediaries have been grown rapidly. Financial intermediaries consist of commercial banks, mutual bond and saving, finance company, insurance company etc.

Among the financial institutions and intermediaries insurance company is also the major one. The development of the country is possible only when competitive insurance services reach nooks and corners of the country. Insurance companies occupy quite an important place in the framework of every economy because it provides certainty to industry, business and capital for the development of the country. Industry in modern time is associated with every aspect of human activities.

National Life and General Insurance Company "NLGI" was incorporated in 2044 B.S. (1988 AD) under Nepal Company Act 2021 B.S. and Insurance Act 2025 B.S. of Nepal with prime objective to meet nations and nationals insurance requirements. It is operating successfully from the date of establishment to now.

There are nineteen insurance companies. Insurance business is very important for modern age. It gives financial security to individuals and business

enterprises. It is due to financial security given by insurance companies that make possible for old to come in this age.

Insurance is very important in the developing countries like Nepal. The average income per family is very low. Most of the families depend on the earning of of a single person. If the earner becomes ill, the family finds nothing to survive on. Life insurance may be good solution in such circumstance. Still, we can say that insurance is not getting enough popularity among people. The numbers of insurance policies undertaken are almost negligible. A deep study is needed to find out why insurance business has been unable to attract enough public attention. Even though 98% of life insurance markets remain untouched by life insurance companies. The experts said that the life insurance companies could easily collect more than one thousand million without suffering any difficulties.

Risk is the basis of insurance. It is meaningless to think the life without risk. Risk is existed in every place and time. Only way to get protection from the risk is insurance.

Premium collection and investment are the vital activities of the insurance companies. Success and failure of any insurance company depend upon these activities. As the topic of the study, "Position of Premium Collection and Investment of National Life Insurance Company Ltd." deals with the problems regarding the premium collection and investment. It also helps the management of other insurance companies, shareholders, investors, customers, competitors, personnel and other stakeholders can get necessary information. Researcher will also be benefited to research about the NLIC LTD.

5.2 Major Findings of the study

Insurance business plays the great role in the National Financial System. The growing numbers of the insurance companies are competing with each other to attract policyholders with different types of insurance policies. In this regard, National Life Insurance Company Ltd. Plays vital role for socio economic development within the nation either by transferring risks of by collecting scattered resources. In this study an attempt is made to provide independent view of the premium collection and Investment position of National Life Insurance Company. On the basis of the study some findings and recommendations are identified. The position of premium collection and Investment of the company has been already analyzed by using various financial and statistical tools. Based on the study some major findings are as follows:

) **Premium collection on first life premium to total life premium collection**

From the analysis, we found that the company's ration on first life premium to total life premium collection is in fluctuating trend. The highest ratio is 21.80% during the fiscal year 061/62 and the least ratio 17.35% during the year 062/63. The average ratio is 18.79% and the standard deviation is 1.75. The C.V is 9.31, which indicates that the ratio is little consistent and stable.

) **Premium collection on renewal life premium to total life premium**

The analysis showed the ratio between renewal life premium and total life premium. The ratio varied between 78.20 to 83.18 %. The highest ratio is in F/Y

2063/064 and the least is in F/Y 061/062. The calculated CV is 3.77 % shows the satisfactory result and revealed that the company is suffering negligible risk.

) **Investment on government saving bonds to total life investment**

From the analysis, the ratios were in fluctuating trend. It was 16.32, 12.15, 9.68, 11.14 and 12.29 percent in F/Y 060/061, 061/062, 062/063, 063/064 and 064/065 respectively. The average investment is 12.31 Percent. The CV is 39.64 % that shows the inconsistency of investment in government saving bonds.

) **Investment in bank fixed deposit to total life investment**

From the analysis, it is clear that the majority portion of life investment is invested on fixed deposits. The lowest ratio of Company was 60.53 % in F/Y 2060/061 and the highest ratio is 72.01 % in F/Y 2064/065. The average investment was 68.87 %. The calculated standard Deviation is 17.8 and the CV is 25.85, which indicates that the investment is consistent.

) **Investment on policy loans to total life investments**

Analysis of data showed that, the least portion of total life investment went to policy loan. It is not more than 4.0 % during the study period. The ratio is in increasing trend. It was lowest in 060/061 with 1.55 % and highest in 064/065 with 3.12 %. The average investment is 2.34 and the CV is 15.38, which indicates that the ratio is not stable.

) **Life claim paid to total life premium collection**

From the analysis, it is clear that very least portion of total life premium collection went to compensation. The percentage of claims paid is 1.53, 3.20, 3.23,

2.73, and 3.25 from the year 60/61 to the year 64/65 respectively. The highest claim paid was 3.25% in the fiscal year 64/65 and the lowest claim paid was 1.53% in the year 060/61. The average claim paid for the study period is 2.78 and the standard deviation is 0.43% which reveals that the claim paid in different years is little deviated. The C.V is 15.47, which indicate that there is little inconsistency in the life claims paid.

J **Return on life fund investment in government saving bonds**

The analysis revealed that there was highly fluctuation in the return of government saving bonds. The percentage of return on government saving bond were 3.26%, 6.59%, 6.58%, 7.23% and 6.86% from the year 060/61 to 64/65 respectively. The highest return was in the fiscal year 63/64 i.e. 7.23% and the lowest return was in the year 3.26% in the year 060/61 .The average return on government saving bond was 6.10% and the standard deviation was 2.08. The C.V was 34.09%, which indicates that there is high consistency of return.

J **Return of life fund investment in bank fixed deposits**

As per above analysis the return percentage during the study period were 7.26%, 5.07%, 4.56%, 6.25%, 5.82% from the year 060/61 to the year 64/65. The highest return was in the year 060/61 by 7.26% and the lowest return was in the year 062/63 by 4.56%. The average return on bank fixed deposit is 5.8% and the standard deviation is 0.9% .The C.V is 15.52, which indicate little consistency on the return of the company from fixed deposits.

J **Return of life fund investment in policy loans**

The analysis revealed that the return percentage on policy loans in different years and their trend of change in different fiscal years. The return percentages are 7.80%, 6.66%, 6.29%, 7.25%, and 6.88% from the year 060/61 to the year 064/65. Among the return percentage of various years the highest return was 7.80% in the year 060/61 and the lowest return was 6.29% during the year 062/63. The average return on policy loans is 6.98 and the standard deviation is 0.27 which indicates that the return of various year are deviated by a little amount. The C.V. Is 3.87, which reveal that there is consistency in the return on policy loans of the company for the study period.

5.3 Conclusion

This study is undertaken to find out the premium collection and investment position of NLIC. The company's premium collection is in fluctuating position. Regarding the life insurance business, total premium collection is about 23 crore in the first year of the study period i.e. 060/61 where as it has been increased to 59 crore in the last year of the study period i.e. 064/65. There are five life insurers in the country. They are competing with full power. NLIC should also apply different strategy to compete in this market. In regard to premium collection amount it is in last position.

The average net rate of investment return of Insurance companies is around 5 percentages except ALICO Nepal. Among them NLIC has average rate of return of 4.86%, NLGI has 5.04%, ALICO has 2.06% and LIC Nepal has 5.3%. Among the above five insurance companies LIC Nepal has highest average rate of return i.e.5.3% and the lowest average return goes to ALICO by 2.06% only which is less than 50% of other companies average return. Comparatively NLGI has satisfactory rate of return on investment than other companies.

From the analysis of total life investment made by NLIC, it is found that it preferred bank fixed deposits as the first priority followed by government saving bonds. Bank fixed deposit contribute more than 70% of investment. Its second priority is to invest in government saving bonds which is approximately 10%. Other investment areas are corporate securities, finance fixed deposits, policy loans, staff loans and nongovernmental saving bonds.

5.4 Recommendations

The study is analyzed reviewing the secondary data from the annual reports, articles and reports from Beema Samiti. Financial and statistical tools are applied to reveal the problems. Following recommendations are provided on the basis of the findings from the analysis:

i) First premium of life insurance hold significant role in total life premium collection. It is regular amount that the policyholder should pay to the company till the expiry of time or his death. So if the company will success to collect more and more first life premium collection it automatically increases the amount of total life premium collection in the following years. So the company should focus on it and make strategy to collect more first life premium collection.

ii) There are five companies to undertake life insurance business. Among them Rastriya Beema Sansthan held majority portion of the life industry. It occupies about 32% of total business. After that ALIGO occupy second position with 26%. Then NLIC, LIC (Nepal), and NLGI (life) occupy respectively third, fourth and fifth position with 16%, 15% and 12% respectively. The analysis shows that the company is not in good position with regard to premium collection. So the company should make new and attractive strategy to increase the current market share of the life insurance industry.

iii) Every insurance company should invest 75% of its invest able fund toward compulsory sectors set by insurance board of Nepal, rest 25% can be diversified. So after maintaining this rule NLIC can diversify its life fund in other sectors like bank fixed deposits, corporate securities and others .

iv) The least portion of life fund investment goes to policy loans. It is also one kind of secured loan because original life policy is pledge to get policy loan and the loan is given only limit 90% of surrender value. Company earns about 11% interest rate, which is more than investing in other sectors.

v) Settlement of claim should be made on time. Delay in the settlement of the claims may affect the reputation of the company. Further attention has to be adequately provided toward the faithfulness of the insured in connection with the claims arising due to the specified events.

vi) The company should increase the efficiency of the employees. Various programs should be held to develop the skill of the employees so that it finally results in the overall development of the company.

vii) The company should establish separate research and development department. This department looks the present and potential business opportunities in the market.

viii) The company should appoint more agents to increase its business. The insurance business is more competitive than the past years. It should learn from the competitors. In the life insurance industry, it has lost its position. The newly established companies have overcome its premium collection amount. So it is highly recommended that the company should appoint more capable agents and announce new schemes to increase the efficiency of the agents.

ix) The company is suggested to expand insurance activities in rural areas by the establishment of branches or by the appointment of agents according to its potentiality.

x) Advertisement is necessary to increase business. In this competitive market it plays vital role .So it is highly recommended to create effective advertisement to increase its business.

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Appendix 1

Correlation Between premium collection and investment of NLIC

	X	Y	X ²	Y ²	XY
1	3	95	961	9025	2945
0	3	123	900	15129	3690
9	3	156	1521	24336	6084
3	4	193	1849	37249	8299
9	5	206	3481	42436	1215
02	2	773	8712	12817	3317
			5		2

Here X= 202, Y= 773, XY= 33172, X²= 8712, Y²= 128175

X= Premium collection Y= Investment

$$\begin{aligned}
 \text{We know that } r &= \frac{[n \sum XY - \sum X \cdot \sum Y]}{[\sum X^2 - (\sum X)^2] \cdot [\sum Y^2 - (\sum Y)^2]} \\
 &= \frac{[5 \cdot 33172 - 202 \cdot 773]}{[5 \cdot 8712 - 40804] \cdot [5 \cdot 128175 - 597529]} \\
 &= \frac{[165860 - 156146]}{[43560 - 40804] \cdot [640875 - 597529]} \\
 &= \underline{.9714}
 \end{aligned}$$

$$\begin{aligned} & [2756.43346] \\ & = \frac{9714}{10929.85} \\ & = 0.89 \end{aligned}$$

$$R^2 = 0.7921$$

$$\begin{aligned} \text{P.E. (r)} &= 0.6745 \cdot (1 - r^2) / n \\ &= 0.6745 \cdot (1 - 0.7921) / 2.24 \\ &= 0.14023 / 2.24 \\ &= 0.063 \end{aligned}$$

$$\begin{aligned} 6 \text{ P.E. (r)} &= 6 \cdot 0.063 \\ &= 0.376 \end{aligned}$$

Appendix 2

T-test for Premium collection Of NLIC and NLGIC (life)

Where X1= NLGIC, X2= NLIC

(Rs. In Lakh)

Fiscal Year	National Life Ins.Co.	Nepal Life Ins.Company.
060/61	317	325
061/62	306	363
062/63	395	412
063/64	435	396
064/65	591	458
Tot al	2044	1954

Computation of Test statistic “t”

(X1)	(X2)	d1=X1-435	(d1) ²	d2=X2-396	(d2) ²
317	325	-118	13924	-71	5041

306	363	-130	16900	-33	1089
395	412	-40	1600	16	256
435	396	0	0	0	0
591	458	156	24336	62	3844
X1=2044	X2=1954	d1= -132	d1 ² =56760	d2= -26	d2 ² =10230

Here,

$$N1= 5, A1=435, A2=396, d1= -132, d1^2=56760, d2= -26, d2^2=10230$$

$$X1 = A1+ d1/n = 435-132/5= 408.8$$

$$X2 = A2+ d2/n = 396-26/5 = 390.8$$

$$S^2 = \frac{1}{n1+n2-2} [\frac{d1^2-(d1)^2}{n1} + \frac{d2^2-(d2)^2}{n2}]$$

$$= 1/8(56760-3484.80) + (10230-135.20)$$

$$= 1/8(53275.2+10094.8)$$

$$= 7921.25$$

$$t= \frac{x1-x2}{s^2(1/n1+1/n2)}$$

$$= \frac{408.8-390.8}{s^2(1/n1+1/n2)}$$

$$7921.25 * 0.4$$

$$= \frac{18}{56.29}$$

$$= 0.32$$