# ‘PREMIUM COLLECTION AND INVESTMENT PATTERN OF INSURANCE COMPANIES’


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# RECOMMENDATION

*This is to certify that the thesis*

***Submitted by***

**RABINDRA NEUPANE**

***Entitled***

**'Premium Collection and Investment Pattern of Insurance Companies'**

*has been prepared as approved by this Department in the prescribed format of the Faculty of Management. This thesis is forwarded for examination.*

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# Declaration

I, Hereby declare that the work reported in the thesis entitled **'Premium Collection and Investment Pattern of Insurance Companies'**Submitted to office of Dean faculty of Management Tribhuvan University, is my original work done in the form of partial fulfillment of the requirements for the Master's of Business Studies (MBS) under the Supervision of**, Mr.**

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## CHAPTER I VIVA-VOCE SHEET

We have conducted the viva –voce of the thesis presented

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*And found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for*

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# ABBREVIATION

| | | |
|---|---|---|
| A.D | : | Anno domini |
| AICL | : | Alliance Insurance Company Ltd. |
| B.B.S | : | Bachelor in Business Studies |
| B.S | : | Bikram Sambat |
| Coeff. | : | Coefficient |
| Cor. | : | Correlation |
| CV | : | Coefficient of Variation |
| EICL | : | Everest Insurance Company Ltd. |
| EPS | : | Earning per Share |
| Etc. | : | And the other |
| FY | : | Fiscal Year |
| G.D.P | : | Gross Domestic Product |
| Govt. | : | Government |
| GoN. | : | Government of Nepal |
| $H_1$ | : | First Hypothesis |
| $H_o$ | : | Null Hypothesis |
| Inc. | : | Insurance |
| Inv. | : | Investment |
| Ktm. | : | Kathmandu |
| Ltd. | : | Limited |
| M.B.A | : | Master in Business Administration |
| M.B.S. | : | Master in Business Studies |
| MPS | : | Market Price per Share |
| N.C.C. | : | Nepal Commerce Campus |
| NICL | : | Neco Insurance Company Ltd. |

| | | |
|---|---|---|
| No. | : | Number |
| NRs. | : | Nepalese Rupees |
| P | : | Page |
| P.a. | : | Per annum |
| P.E | : | Probable Error |
| PICL | : | Premier Insurance Company Ltd. |
| Pvt. | : | Private |
| R | : | Coefficient of Determination |
| S.D.C. | : | Shankar Dev Campus |
| S.N. | : | Serial Number |
| SD | : | Standard Deviation |
| Sec. | : | Section |
| SICL | : | Sagarmatha Insurance Company Ltd. |
| T.U. | : | Tribhuvan University |
| -ve | : | Negative |
| % | : | Percentage |
| +ve | : | Positive |
| M. | : | Million |
| M.A. | : | Master in Arts |
| Rs. | : | Rupees |
| Vol. | : | Volume |
| Eng. | : | Engineering |
| Misc. | : | Miscellaneous |
| r | : | Coefficient of Correlation |
| Max. | : | Maximum |
| Min. | : | Minimum |

# CHAPTER-I

## INTRODUCTION

### 1.1Background of the Study

The world has become a small village due to globalization, liberalization and privatization. This topic is not beyond from it. Nepal is developing country having the population of about 27million. Population under property line is claimed as 31% GDP growth rate is expected to be 2.3%. More than 80% of the population is engaged in agriculture but the contribution of this sector to the GDP is yield by non-agriculture sector, whereas the population working under this sector is only 20.

The world is full of risk. Future is always uncertain and that uncertainty gives a birth of risk. No job and activities is free from risk in human life. Before conducting any activities, every person must play with risk because that activities may be fail or unsuccessful in future. Being a rational animal human being is always afraid of risk and they always wish to be safe and secured his present as well as future life. The development of consciousness in human being introduced ways and system for safety against future risk and uncertainty. One of the ways is the insurance. As the dawning of each new day brings different uncertainties, one needs to be more than prepared to handle the thorny patches in life. Insurance has the stability and resources to shield you from the volatile risks in everyday life. For the development of a country, the existence of financial market and capital market is regarded as an essence. The government and individuals firms are playing vital role in financial and capital market through investing the collected resources within the recognized and national sector like productive industry and financial area yet expecting reasonable benefits themselves.

Among such financial institutions and intermediaries, Insurance companies are also the major ones. Integrated and speedy development of the country is possible only when a competitive insurance service reaches nooks and corners of the country. Insurance companies occupy quite an important place in the frame work of every economy because it provides certainty to the industry, business and capital for the development of industry, trade and business investing the fund collected as premium. Insurance companies are capable of providing industrial finance, government finance

or even personal finance. They provide different finance through their own investment policy pattern based upon their own corporate objective and nature of the line of insurance business.

Insurance contributes to society by favourably affecting the apportionment of the factors of production, engaging in loss prevention activities, identifying losses serving as a basis of the credit structures, eliminating worry and providing a channel for investible fund Insurance policies are written by business organizations called 'insurer'. In order to function properly, these insurers must have large number policyholders who are obtained either by directly representatives or through agents". He again stated 'insurance is a technical business involving the skills of statistician, financial analysts. Engineers, physicians, economists, layers and others. Contracts must have been carefully drafted, underwriting restrictions must be determined, rates must be established equitable by analysis all the factors including public interest (Mehr and Enerson:1998:25)

## 1.2 Focus of the Study

Collection of fund is the major function of financial institutions. Insurance Companies are one of such financial institutions, which collect their fund from premium. Premium means a certain charged amount, which is paid by the insured to the insurer for bearing risk and uncertainty. There are two types of premium: - Gross premium and net premium. These two premiums further subdivided into two parts. They are single premium and level premium usually the insurance companies follow only one types of premium with accordance to their nature and corporate objectives.

As significant differences in the nature of insurance, mainly there are two types of insurance life and non-life. Life and non-life premium is non-refundable. For life insurance companies, they have to refund the premium that collected to insured with bonds. However, general insurance does not have such burden. That is why the premium collection of both businesses dealt in different headlines.

Investment is one of the major parts of all financial institutions. All financial companies invest their excess fund to the desirable sector with profit motive. Investment means to out-flow of the fund at adjustable return. For investing, investment pattern is the formulation of the investment strategy based upon the

organizational and financial character of the particulars firm itself. Investment policy will be the preliminary decision of selecting the proper investment sector based upon single or joint consideration of safety, liquidity, marketability, profitability, and stability or else. Usually, such investment pattern aims at arriving to the optimized or agreed mix of risk-return from the investment. Investment fund for the insurance companies are the excess amount after claims paid and managerial expenses.

i.e., Investment Fund = Premium Collection – (Claim Paid + Managerial Expenses)

The investment fund should be used in such sector that they could maximum return. But insurance company's investment portfolios are regulating by the Insurance Board of Nepal. Under the rules and regulation, every insurance company must invest their 75% investible fund declared as compulsory sectors and rest 25% in other sectors.

Premium collection and investment are the major tasks for every insurance company. So, success and failure of insurance companies depends upon these task. More premium collection means more income and more investment means more return. Therefore, this study is concentrate on the premium collection and investment position and pattern of Insurances Industry in Nepal. Companies are aimed at evaluating and analyzing the premium collection trend, investment sector and ratio.

## 1.3 Company Profile

Due to higher interest and believe of people towards, numbers of insurance companies also rises up. Now, 21 companies are working in Nepali market having different nature and ownership. The market structures of Nepali insurance companies are listed below:

*Table No. 1 - Market structure of Nepali insurance companies*

| Ownership | Nature of the Company | | | Total |
|---|---|---|---|---|
| | General | Life | Composite | |
| Government owned | - | - | 1 | 1 |
| Private Sector | 12 | 1 | - | 13 |
| Foreign | 2 | 1 | - | 3 |
| Joint Venture | 2 | 2 | - | 4 |
| Total | 16 | 4 | 1 | 21 |

*Source: Annual Report 2007, Insurance Board*

Since the establishment of first insurance company, Nepal Insurance Co. Ltd. in 1947, a number of insurance companies are established and operate. After the introduction of Insurance Act 1992, the number of private insurance companies came into existence.

Out of 21, five insurance companies are life insurance companies which are Rastray Beema Sasnthan, National life Insurance Co. Limited, Nepal Life Insurance Co. Limited, Life Insurance Corporation (Nepal) Limited and American Life Insurance. All other are general insurance companies. In this study, five general insurance companies having similar policy heads and established at almost same date are taken as sample in which primary and secondary data will be analyzed for the purpose of conclude the result accordance to the objectives. The short profiles of these insurance companies as a sample are given below.

**Premier Insurance Co. (Nepal) Ltd.**

Incorporated on 12th May 1994, Premier Insurance Company (Nepal) Ltd. has emerged as a renowned general insurance company. Presently it has three branches

in main cities of the country. New offices in other parts of the country are scheduled to be opened soon. Up to the end of fiscal year, 2063/64 it has authorized capital of 200 million in which 100 million was issued and 30 million was paid up.

Premier insurance is try to offer quality service on all aspects of insurance risk management and claims payment. It covers Fire insurance, Loss of profit insurance, Comprehensive household insurance, Marine insurance, Motor insurance, Burglary / Housebreaking insurance, Cash in transit insurance, Personal guarantee insurance, Overseas medical insurance, Engineering insurance, Aviation insurance, Public liability insurance etc.

**Everest Insurance Co. Ltd.**

It was established in 1994 as a public limited company. Presently it has eight branches in various cities of country. Up to the end of fiscal year, 2063/64 it has authorized capital of 150 million and the issued capital was 90 million which was fully paid up.

Regarding the insurance business it is also involved in to non-life insurance only, which includes Fire & allied perils insurance, Vehicle Comprehensive insurance, Aviation insurance, Marine transit insurance, duty insurance, Banker's blanket insurance, Cash in transit insurance, Burglary and house breaking insurance, etc.

**Sagarmatha Insurance Company Limited**

It is a native insurer operating in the field of non-life insurance business. It was organized as on the year 2051 but started its operation in year 2053. It is joint ventured with Calico Insurance Company Limited of Sirlanka. Presently, it has six branches up to the end of the fiscal year 2063/64. Its authorized capital is 200 million in which 102 million was issued and 56.1 million was paid up.

Regarding the insurance business, it is involved in to non-life insurance only, which includes Fire insurance, Marine insurance, Personal accident insurance, Cash in transit insurance, Hospital and surgical insurance, Aviation insurance, Motor

insurance, Engineering insurance, Workmen's compensation insurance, Fidelity guarantee insurance, Public liability insurance, Combined fire and theft insurance etc.

**Neco Insurance Company Limited**

It is also a major insurer operating in Nepalese insurance industry. It was established under the company act on the 1st of Poush, 2051(16th December 1995) and was authorized by Beema Samiti to commence business w.e.f. 17/2/2053 (30th May, 1996) with authorized capital of 200 million and the issued capital 100 million of which 50 million was fully paid up to fiscal year 2063/64. Presently, it has seven branches and contact offices.

Regarding the insurance, it is involved in to non-life insurance business, which includes Engineering insurance, Personal and group accident instance, Fire insurance, Motor insurance, Aviation insurance, Burglary and household insurance, Cash insurance, Marine insurance, Travel medical and Hospitalization insurance, Contractor's all risk insurance, Mountaineering and trekking insurance etc.

**Alliance Insurance Company Limited**

It is also an insurer operating within the Nepalese insurance industry. It was organized as on the year 2052 but started its operation one year later 2053. Presently, it has ten branches. Up to the end of fiscal year 2063/64 it has authorized capital was 150 million and the issued capital was 50 million of which 49.96550 was fully paid up.

Regarding the insurance business it is also involved in to non-life insurance only, which includes Fire insurance, Motor insurance, Aviation insurance, Marine insurance, Engineering insurance, Personal accident insurance, Cash in transit insurance, Burglary and house breaking insurance, Employ groups insurance, Goods in transit insurance, and Comprehensive shopkeeper insurance etc.

## 1.4 Statement of Problems

Nepalese insurance companies are the successful enterprises of Nepal, which are still running the insurance business without suffering any losses from the date of establishment until now. So not only national insurance companies, nowadays, more international insurance companies are also opened in our country to transact insurance business. Many investors and business person involved in insurance business, so there are 21 insurance companies established and operate their service and activities. Most of the companies are earning profit each year. However, it is not significant and satisfactory against the volume of transaction if we give an overlook in the balance sheet and profit and loss account. The volumes of transaction are increasing tremendously year by year but the growth of net earning is not in the same ratio. It is cut-throat competition in the market. The following question rise.

- Why insurance company are not earning more profit?
- How the insurance company are collecting premium?
- What is the position of insurance company in Nepal?

## 1.5 Objectives of the Study

Every study has their own objectives. There are so many objectives of this study, but the main is to find out the current situation of premium collection and investment position insurance companies. The specific objectives of this study are spelled out as:

1. To examine premium collection pattern.
2. To see the investment pattern of selected insurance company.
3. To identify major problems facing by the insurance company related to the premium collection and investment aspect.

## 1.6 Significance of the Study

Insurance is one of the most flourishing services even in the developing country like Nepal. There are 21 insurances companies existing in Nepal. Among which 16 are general insurance, 4 are life insurance and 1 underwrites composite business. The

experts said that the life insurance companies could easily collected more than one thousand million without suffering any difficulties that is why foreign life companies has also opened their branches in Nepal. As insurance companies are focusing only in urban and main city of the country, they are capturing each other's market. They do not try to issue new policy and create potential market. They are satisfied with the exiting position and do not get suitable and steady sectors to invest their fund for more return. Now, they are investing their fund in traditional sectors only. So, a new study is required on the topic of premium collection and investment.

The study is needed to frame out the premium collection and investment position of Nepalese insurance industry. Insurance companies need soundly mobilize its collected fund. Thus, it would be better to evaluate the condition of Nepalese insurance companies. It is also needed to disclose the utility of insurance in Nepalese prospects.

The study focuses the insurance market and probability of future expansion in Nepal and is concerned to trace the weak area to suggest fund, policy of insurance and scenario of premium collection and investment too. It is the study on collected premium under various policies and suggests what the weaknesses are and how to improve them. The study is important itself because it is the researcher's study of the heart of insurance system.

Now a day, insurance is overcoming commonly as almost business but the concept of insurance is not old in Nepal. Liberal economic policy breaks the monopoly system and brings competition in insurance business; private insurance companies have been started competitive and aggressive competition in this business. Because of such types of competition, management has to be made efficient; on the other hand, premium rate has been reduced.

Reduction in rate brings the strong possibility of reduction in profit volume, but at the same time it can make people motivate in insurance company and can know

about the current situation of insurance companies in Nepal. It also helps the researcher to research in new way and field of collecting premium and investment of fund, and series of the studies on other insurance companies in Nepal.

### 1.7 Limitations of the Study

The study aims at findings the facts and the trend of the investment and premium collection within the Nepalese insurance industry. Therefore, the scope is limiting within the insurance companies operating. Every activity has its own boundary, as the same way this study has also some boundaries, which cannot be ignored. These boundaries are called as limitations of this study. The limitations of the study are:

1. The whole study will deal with some selected (sample) insurance company's premium collection and investment pattern.
2. This study will be concentrated in premium collected from sample companies and the data will be collected from Insurance Board (Beema Samati), Nepal stock exchange, respective insurance company and website as www.bsib.org.np, www.nepalstock.com.np, and other sources. Research based on secondary data is not far from the limitation to inherent character.
3. The study will concern at list five years period's data and conclusion drawn confines only to the limit duration.
4. Time and resources constraints can be another factor that limited the scope of the study.

The generation and trustworthy of the study depends upon the reliability of responses or respondent and data provide from the source.

### 1.8 Organization of Study

This study has been organized into five chapters, which are as follows:

1. Introduction
2. Review of literature

3. Research Methodology
4. Presentation and Analysis of data
5. Summary, Conclusion and Recommendation

**First chapter** contained Introduction of the study. It is all about the background of the study, focus of the study, statement of the problems, objectives of the study, significance of the study, research hypothesis and limitations of the study

.

**Second chapter** deals with the review of literature. A literature review is an essential part of all studies. It is a way to discover what other researchers have covered and left in the area. It contains conceptual review of the study and review of related studies. Conceptual review covers theoretical review of terms and items used in thesis writing and review of related studies is all about the studies made before related to this topic.

**Third chapter** is research methodology. Research methodology is a systematic way to solve the research problem. In other words, research methodology describes the methods and process applied in the entire aspect of the study. It contained research design, source of data, data analysis tools, limitations of the methodology.

**Fourth chapter** deals with data presentation, tabulation and analysis of the study. In this chapter the study are presented and these data are analyzed. Base on these analyses data, major finding of the study are confined.

**Fifth chapter** contained summary, conclusion and recommendation of the study. In this chapter, the summary of the thesis after data interpretation and analysis is presented. Also from the summary conclusion of the thesis and recommendation for improvement or growth are presented.

# CHAPTER-II

# Review of Literature

## 2.1 Conceptual Framework

It covers theoretical review of terms and items used in thesis writing. The main source of this part is from review of books, booklets, annual reports etc. The following studies have been undertaken on conceptual framework:

### 2.1.1 Meaning of Insurance

Robert I. Mehr outline about the insurance through his books as, "Insurance is a useful device for solving complex social problems. Compensating Victims of industrial accidents is handled by compulsory workers, compensation insurance; and indemnifying innocent automobile accident victims is handled to some extent by financial responsibility laws with most people comply by furnishing evidence of ownership of automobile liability insurance. Some insurance is used to help, solve the financial problems of unemployment; old age, disability, death and medical care for the aged" (Mehr, 1986: 8). Insurance is affected with the public interest and is consequently subject to government regulation, mostly by the states.

"Insurance, in its pure insurance function may be likened to the springs of vehicle. It absorbs the shock and distributes it over all risks insured in the same class. It permits a free functioning of credit and industry generally but does not eliminate loss. The retarding effect of risk removed, but the cost and retarding effect of loss are still present. The burden of loss is still on society" (Mowhary and Blanchard, 1995: 4).

The rights and obligation of the parties to an insurance agreement are determined largely by reference to the general laws, which govern contracts. The agreement by which insurance is effected is contract in which the insurer in consideration of the payment of a specified sum by the insured agrees to make good the losses suffered through the happening of a designated unfavourable contingency. The insurance contract need not be in writing, but as a matter of business practice, such agreements are ordinarily written. Even social insurance, such as workers compensation, are written, through the terms appear in a state law rather than in private agreement. In its most basic form, the insurance mechanism is simply a process where in a group agree to share the losses that may occur to various members of the group in advance and the fund so created, augments by interest, and is used for the purpose

of paying losses and expenses. Further, the conditions surrounding the transfer of risks from individuals to the group are carefully set forth in detail, in a formal contractual agreement. The organization that brings the group together and manages its affair is called an insurer, and it is typically a stock or mutual corporation. (Bickelhaupt, 1983: 13)

Developing modern society plays various roles in a society. They bear a major character, the inevitable uncertainty surroundings. Due to the uncertainty and competition factor, the concept of insurance and its evolution was enforced and these days it is for more strengthening due to very competitive business environment and many dropped-down situations. Thus, the insurance seems as an auxiliary for the modern society and organized Business Company as well as individuals. Before familiarizing to the concept of insurance, it is essential to know about risk and risk management.

#### 2.1.1.1 Risk

Risk means uncertainty about future losses, or in other words, the inability to predict the occurrence or size of a loss. Generally, risk can be defined as the probability of unfavourable out comes. There are different meanings of risks. It can define at statistical terms and in insurance terms too. In the content of the insurance, it takes uncertainty of occurrence of economic loss. Everyone wants to save own self from the risk to unfavourable situation. Thus, the people want to safeguard lay insuring them to the insurance companies. If there is no risk in the world, then why anyone should be insured. Therefore, insurance is the tool for reducing risk. At the case of happening any damages and loss, it compensates the risk and provide fund for that loss. Insurance distributes the cost of the risk over a large group of individuals subject to the same risk, in order to reimburse the few who actually suffer form the risk (Bickelhaupt, 1983: 19).

#### 2.1.1.2 Risk Management

We have a clear concept of risk in the context of insurance. After it, the risk management concept also essential to understand. Risk management is the systematic and efficient handling of pure risks. In simple words, risk management is the planning, organizing, directing, coordinating and controlling process of risk. In practice risk management is the device and process of decision making for either personnel or organizational risky situation. Risk management is “a general management function that seeks to identify, assess and address the cause and effect of uncertainty and risk on an organization. The purpose of risk

management is to enable an organization to progress towards its goal and objectives in the most direct, efficient, and effective path" (Williams, 1995: 27).

#### 2.1.1.3 Insurance

Insurance has been introduced to safeguard the interest of people from uncertainty by providing certainty of payment at a given contingency. Insurance companies mean the enterprises that are involved in insurance business. It is quite hard to define insurance to satisfy from the viewpoint of insurance. "Insurance may be defined as a system of combining many loss exposures, with the costs of the losses being shared by all of the participants" (Dowrie and Fuller, 1950: 8). Insurance can be explained as a social device to accumulate funds to meet the uncertain losses arising through a certain risk to a person insured against the risk. For the economic growth of the country, insurance provides strong hand and minds, protections against loss of property and adequate capital to produce more wealth. Each member will have financial security against old age, death, damage, destruction and disappearances of his wealth. Through prevention of economics losses, insurance protects the society against degradation. Thus, the present, future, potential human, and property resources are well protected by insurance.

We can use the insurance as a total of risk management is often misleading concept. The word insurance some times is applied to a fund accumulated to meet certain losses, as well as to a simple transfer of risk. But the accumulated definition of insurance must include either accumulation of a fund or the transfer of risk but not necessarily both. In practice, insurance involves spreading loss over more than one entity within a present period. In fact, Insurance distributes the cost of the risk over a large group of individuals subjected to the some risk in order to reimburse the few who actually suffer from the risk.

### 2.2.2 Evolution of Insurance

The terms of insurance developed through the faith of cooperation. The origin of insurance is lost in antiquity. Evidence is on record that arrangements embodying the idea of insurance were made in Bobylonia and India at quite early period. In Rigved, the most sacred book of India, references were made to the concept 'Yogkshema' more or less akin to the well being and security of the people. The codes of Hummurabi and of Manu had recognized the advisability in present from was practiced prior to the twelfth century.

The earliest traces of insurance in the ancient world are found in the form of marine trade loans or carriers contract, which included an element of insurance. Evidence shows that the marine insurance is the oldest from of insurance. Traveller by sea and land were very much exposable to the risk of loosing their vessels and merchandise because the piracy on the open seas and highway robbery of caravans were very common. Besides, there were several risks. The risk to owners of such ships was enormous and, therefore, to safeguard them, the marine traders devised a method of spreading over them the financial loss, which could not be conveniently borne by the beginning, but now in modern age it has been converted into modified shape of premium. The Brogans sold the marine policies of the present forms in the beginning of fourteenth century, but the insurance development was not confined to the Lombard and to the Hans merchants, it spread through out Spain, Portugal, France, Holland and England.

After marine insurance, fire insurance developed in its present form. It originated in Germany in the beginning of the sixteenth century. It got momentum in England after the great fire in 1966 when the fire losses were tremendous. Gradually all the types of insurance were developed at this form.

### 2.2.3 Development of Insurance in Nepal

In our society, the concept of insurance can be traced down to the 'Guthi System' and joint family culture that has been prevalent since the ancient times. These systems have provided security and assistance to individuals and families in time of need. With the change in the economic and social perspectives and the increasing complexities of the up coming small-scale industries, an immense need for a domestic company was felt to insure against any loss that could arise due to mishaps in industries.

With the development of trade, commerce and industry, the necessity of insurance in our country was felt long age. However, there was no evidence of any organized form of insurance in Nepal until 1947. Society was organized and settled in an agricultural basis and the socio-economic organization took care of any problem or calamity confronted to the community. The fire insurance in Nepal, at first was started by "Mal Chalani Ra Beema." (Transport and Insurance Company). The "National fire insurance company" of Calcutta is the first insurance company to open branch in Kathmandu in 1958, to transact fire insurance business in Nepal. With the development of trade and industry, establishment of Nepal Rastra Bank (Central Bank), Nepal Bank Ltd. (Commercial Bank), Rastriya Banijya Bank

(Commercial Bank), Agricultural Development Bank, Co-operative Bank, Nepal Industrial Development Corporation, numerous other companies and corporations, the need of fire insurance in Nepal is growing in a manifold way. To meet ever-growing needs of fire insurance Indian branches such as 'Rubu, Oriental, Sterling General and Hindustan General' and the domestic insurance company 'Insurance and Transport Company' and 'Rastriya Beema Sansthan' are transacting fire insurance business.

Though there is no organized form of life insurance in Nepal, a kind of life that can be better termed "death insurance" is practiced since a long time. Like "insurance", there is "Guthee", which helps its member in facing financial burden out of death. Its policyholders are known as "Gutheear" instead of insured. Though they do not have policies in black and white, they have a kind of verbal understanding by which they can work smoothly without facing any difficulties. Gutheears pay a certain amount of money to the Guthee, in the same way as the insured pays premium to the insurer. Before 1951, Patna branch of Indian Life Insurance Company was exploring life insurance business. With the nationalization of Life Insurance Corporation of India. It is solely and wholly transacting life insurance business in Nepal. It established a branch office in Kathmandu in 1962. Thus, this corporation has a kind of monopoly in life insurance business. However a need for an insurance company that would incorporate every type of insurance function was also felt at the national level. This resulted to establishment of Rastrya Beema Sansthan on 15th December 1968. The company was established as a private company with an authorized capital of NRs. 10 million and capital issued was NRs. 2.5 million under the Nepal Company Act, 2021. The company started its business by insuring king Mahendra's Car. A year later, the company started operating with same name but under National Insurance Corporation Act, 2025. On February 21, 1973, five years after its establishment life insurance was introduced.

After the introduction of Insurance Act, 1992, the number of private insurance companies came into existence. There are altogether 21 insurance companies in Nepal, which are operating until now. The lists of companies are stated in company profile, introduction chapter.

### 2.2.4 Types of Insurance

All the insurance companies provided certainty against the risk. When they can define in the generic concept, it will take the form like social insurance and private insurance. But, we have divided the insurance in two parts as life insurance and general insurance. Life

insurance may be defined as the certain sum of money either on the death of the insured or on the expiry of a fixed period. Life insurance is concerned only about physical and mental accident risk. General insurance considers all insurance expect life insurance. However, we can classify the insurance as a life insurance and non life insurance. Some of exports and writers separator the insurance in different viewpoint i.e. forms the potential insurers view and other. When viewed from professional use insurance will take two board forms as life and non life insurance. We can to see all the insurance under the view of risk point.

#### 2.2.4.1 Life Insurance

Insurance provides protection against a wide variety of risks. However, life insurance provides sum of amount against the various risks relating to the human being body through issuing different policies. Life insurance is a financial instrument for providing post death resources to support survivors or pay obligations of the estate of the deceased. Generally, life insurance, as a type of insurance plan conducted by the insurers, is directly related with providing assurance against the economic part of total human life. “Life insurance contract may be defined as the contract, where by the insurer, in consideration of a premium undertakes, to pay a certain sum of money either on the death of the insured or on the expiry of a fixed period”. (Mishra, 1997: 49). Life insurance is particularly, concerned with that aspect of human life. Since the insurance of assurance of a person’s life is impossible because of the certainty of death of a person once born, life insurance only provides assurance against the economic aspects of human life, not the assurance against the life, itself. Life insurance provides future benefits against unseen future accident and it helps to live comport in retirement life. Life insurance never fulfil losses of human life, it measures in amount of various risk and provides sum of amount in accordance to policy. Life insurance plays a vital role in the society. Therefore, it is also known as social insurance too. Life insurance can be defined as “a contract by which the insurer, for a certain sum of money or premium proportionate to the age, health and other circumstances of the person. Whose life is insured if such person shall die within the period limited in the policy, will pay the sum specified to the persons in whose favour such policy is guaranteed.

The life insurance companies have proved to be a highly efficient means for channelling capital funds into those areas of the national economy, and into those uses, in which market demands have been strongest. They have responded quick and imaginatively to the changing capital requirements of the American economy Inc.

The fundamental function of the insurance business is to furnish protection against the financial demands occasioned by disability, old age and death. It has sometimes been termed “Income replacement insurance” because it provides such necessities as food, shelter and clothing if illness, injure, or death cuts off the income of the breadwinner. It is all of this and, as will presently be noticed, much more”. (Magee, 1985: 37).

Nepal insurance Act, 2048 (section 2-1) has defined life insurance as the contract of insurance, effected on human life on the basis of age to pay a fixed sum to the assured or his nominee, on death or on the happening of any contingency, dependent on human life in consideration of payment of a fixed instalment premium by the assured. Insurance companies provided various policies in accordance insured interest and desire. We can se following policy in life insurance commonly: Endowment policy, whole life policy annuity, term insurance, and survivorship policy.

Following insurance companies provide the life insurance service in Nepal.

1. Rastray Beema Sasnthan
2. National life Insurance Co. Limited
3. Nepal Life Insurance Co. Limited
4. Life Insurance Corporation (Nepal) Limited
5. American Life Insurance

The scope of life insurance business is seen to be bringing because of its nature and popularity. Therefore, the various investors are interested to invest in life insurance business, although having restriction of Government and challenges of other affecting factors.

#### 2.2.4.2 Non Life Insurance

Non life insurance is also known as general insurance. It is a pure insurance because it can measure any risk in terms of money. General insurance is the insurance of property and liabilities risk of insured against some specified cost i.e. the premium. It includes property insurance, liability insurance and other forms of insurance. General insurance considers all the risks and it provides certainty against the risk through certain sum of money. General insurance responsible to payment of an amount to insured. But when the accident is held by

negligence of insured, where the insurer does not responsible to pay any amount against the risk. Insurer and insured may agreed to accept every kind of risk under their contract and the risk transfer through the assurance. But the " coverage written by the property and liability insurance insurers may be divided into five types, physical damage or loss, loss of income and extra expenses resulting from physical damage to property, liability, health and collateral.

We can classify the insurance into life insurance and non-life insurance. Nowadays, under life insurance also many types of policies are provided. In practice the insurers provides various types of non-life insurance policies, which are as follows.

## A. Fire Insurance

Fire insurance is the insurance against any loss of or damage to the property by fire. "Fire insurance is a device to compensate for the loss consequent upon destruction by fire". "Basic form of fire insurance offers protection to the insured against the destruction of physical property as a result of fire". (Welshman and Melcher, 1980: 213). There is hardly any material object, which is not susceptible to fire in varying degree. Hence, any movable and explosion of domestic boilers/gas and can be extended to cover riot & strike, malicious damage, storm & flood, earthquake, terrorism, electric short circuiting etc.

## B. Marine (Cargo) Insurance

Origin of insurance in the world took place in the form of marine insurance. Therefore, marine insurance can be say as the one of the oldest forms of insurance. It has developed with the early growth of trade. It was in progress during the middle ages in Italy and then in England. Marine insurance is concerned with overseas trade and commerce. The foreign trade involves transportation of goods from one country to another by ships. The sending of goods by sea involves risks of enemies, pirates, robbers and thieves. Therefore, marine insurance was developed to eliminate the risk in business.

"Marine insurance is a contract between the insurers and insured whereby the insurer undertakes to indemnify the insured in manner and to the interest thereby agreed marine losses incident to marine adventure. (Mishra, 1997: 315) Usually, marine insurance provides

the assurance / insurance not only against the natural disaster, but also against piracy and other manmade disaster. In practice, marine insurance provides insurance on ship insurance, cargo insurance and freight insurance.

In addition, under this, Delay in Start up (DSU) insurance can be arranged for protection against financial consequence of delay in commencement of operations caused by physical loss or damage during marine transportation.

### C. Aviation Insurance

The use of aircraft as a means of transportation has been increasing day by day. So, aviation insurance is related with the risk occurring due to the peril, hazards or risks created by the aircraft. It acquires the risk of passengers, cargo, plane and also aircraft liability and medical payments too.

### D. Motor Insurance

Every motorist runs the risk of incurring legal liability to pay compensation to third party for death, bodily injury, and property damage arising out of use of vehicle, with further heavy loss of accidental damage to vehicle itself. It covers full comprehensive policy and third party liability insurance too. This policy indemnifies vehicle owners against such contingencies. Private car, motorcycle, commercial vehicle owners can avail this insurance cover against comprehensive risks including third party personal injury and property damage and additionally riot & strike, earthquake, flood, personal accident to passengers, drivers etc.

### E. Loss of Profits Insurance

Standard fire policy provides protection only against material loss i.e. loss/damage to properly insured. But, fire causes more than material loss, which is loss of earnings, i.e., revenue/income during periods of interruption of business which necessarily follows damage by fire. Loss of profits insurance provides indemnity for such loss to make good net profit and standing charges.

### F. Comprehensive Household Insurance

This is an economical insurance scheme that covers the customer's residence including contents therein against the risk of fire and its allied perils, burglary/house break-ins and

risk against natural disasters like earthquake, floods etc. Additionally, this also covers personal accident of the insured or a nominated member.

### G. Burglary / Housebreaking Insurance

This is intended to cover loss/damage of stock/cash in safe by burglary/house breaking including damage to premises caused by burglars during such attempt. Burglary/house breaking stand for theft involving entry into/exit from insured premises by violent, forcible means, assault/threat to the insured/employee/members of family. Risk of theft can also be extended in specific cover.

### H. Cash in Transit Insurance

This cover is intended for banks, business houses, manufacturing organizations who deal in cash, periodically drawn from bank/other sources providing indemnity in respect of loss of such money carried by authorized employees while in actual transit from one place to another as specified in policy, i.e., from the time money is taken out from one place until delivered at other place (Money in transit by employees). Thus, risks covered are robbery, accident or fortuitous cause and riot/strike.

### I. Fidelity Guarantee Insurance

This cover is intended to provide indemnity to employer insured for financial loss sustained because of forgery, embezzlement, larceny, fraudulent conversion of money and goods committed by salaried employees in course of performance of their duties.

### J. Personal Accident Insurance

This insurance provides payment of compensation in the event of the insured sustaining death/disablement by bodily injury resulting solely/directly from accident caused by external violent and visible means. Individuals or groups including employees, students and professionals can be insured against death, permanent total / partial disablement, temporary total disablement (TTD). This cover can also be extended to include medical expenses incurred.

### K. Hospitalization / Medical Insurance

Life is uncertain; you never know what will befall you tomorrow. This cover is dedicated to take care of the insured's expenses incurred during his treatment in hospital/nursing home due to some illness or accidental incurred during domiciliary treatment. Therefore, this policy provides the financial support against the health problem to the insured.

## L. Overseas Med Claim Insurance

This is a travel insurance policy, which provides medical expenses for sudden and unexpected illness or accident whilst travelling outside the kingdom of Nepal. This insurance has policy limits and excesses. The policy limit is the maximum amount that insurers will pay for any loss and the excess is the first amount of each and every claim that the insured person is required to pay.

## M. Public Liability Insurance

Negligence of worker or defect in premises resulting into third party personal injury and property damage can be covered by this type of insurance. It is generally used in construction work, foreign employment, travelling and transportation, lease etc.

## N. Engineering Insurance

Engineering insurance is directly related with the risk against engineering tools and technique. It is of various natures depending upon the nature of the risk exposure e.g., construction/erection/boiler and pressure plants/machinery breakdown/electric equipment/certain forms can be extended to cover third party liability. Combined cover is also available for marine-cum-erection / storage-cum-erection.
Loss of profits following machinery breakdown or boiler explosion is also available. For construction phase risks, Advanced Loss of Profits (ALOP) is available to take care of financial consequences of delay in commencement of commercial operation caused by physical loss or damage to the contract works, including extra expenses to avoid or minimize a delay. Additional, contractual all risk insurance, Machinery all risk insurance and Broker insurance are also cover by this.

## O. Workmen Compensation & Employees Liability Insurance

This provides compensation to all workers engaged in any particular work against injury in the course of and out of employment. This cover could also extend to cover medical

expenses incurred. “Workmen’s compensation and employer’s liability insurance assumes the expenses of compensation and provides for medical, surgical and hospitalization requirements as determined by the compensation laws of the state”.

### P. Miscellaneous Insurance

A number of coverage’s written by casualty insurers are available that can not be classified neatly as liability, auto or crime insurance but nevertheless are important to those with the exposure that these forms are designed to protect. They are discussed under the innocuous heading of miscellaneous coverage and are written by property and liability insurance”. (Maher and Emerson, 1974: 344). Some of are banker’s blanket insurance, credit guarantee insurance, crop insurance theft insurance, boiler insurance, burglary insurance etc.

## 2.2.5 Investment

“Investment may be defined as the purchase by an individual or institutional investor of a financial or real asset that produces a return proportional to the risk assumed over some future investment period. Investment is the current commitment of the savings that compensates for the time involved, the expected rate of inflation and uncertainty involved. To stare in other words, an investment is a vehicle into which funds can be placed with the expectation that they will generate positive return and / or their value will be preserved or increased. Investment, in its broadest sense means the sacrifice of current dollars for future dollars. Two different attributes are generally involves: time and risk. The sacrifice takes place in the present and is certain. The reward comes later, if at all, and the magnitude is generally uncertain”. (Sharp, Alexander & Bailey, 2000: 85)

In pure financial sense, the subsequent use of the term investment will be in the prevalent financial sense of the placing of money in the hands of other for their use, in return for proper instruments entitling the holders to fixed income payment or the participation in expected profits. We can define the investment at manufacturing and trading forms as those long-term expenditures that aims at increasing plant capacity of efficiency or at building up good will, there by producing an increased return over a period.

For the financial institution, the investment and investment problems will revolve around the concept of managing the surplus financial assets in such a way, which will lead to the wealth maximization and providing a significant future source of income. Thus, resources in such a way as to make it work for providing benefits to the owners by increasing the total

assets simultaneously providing benefits to the supplier of the funds by letting the third party to use such resources. However, the investment needs be procedural task. It must follow a definite investment process. This definitely begins from the formulation of proper investment policy.

Insurer has responsibility and liability to pay certain indemnity and balance the fund at a certain specified time, with the accident or loss. Therefore, insurer's basic function is not only premium collection but also investment of collected fund. Hence, while calculating premium, it has to assume that the accumulated premiums are invested. The funds should be invested to earn at least assumed rate interest. The needs of investment of funds are for the payments of claims, to avoid financial deficit, to collect the funds and to give contribute to the national economy.

Further, to invest any funds requires sources of funds. Insurer also invests their fund different sectors. The funds with the insurers are accumulated from the various sources, which are explained in these forms.

i) Premium ii) Interest iii) Capital Gain iv) Saving in Expenses v) Non payments of claims

However, the insurer has advantages of investing above-mentioned sources of funds but they cannot invest all they are collected cash in profitable investment. It is so because of the primary function of the insurer, which is to provide financial assurance against insurable risks and the regulatory provisions governing them. In fact, insurer only gets a portion of their inflows as invisible fund after arranging for various items. For running, it is essential for three insured invest the fund. An insurance or insurer must mobilize its collected premium and other funds to profitable, secured and marketable sector. So, that it can earn a handsome profit, secured, and can be converted in to cash whenever needed.

#### 2.2.5.1 Principle of Investment

Generally, the investment depends upon principle of investment. All financial institution and intermediaries invest the collected fund under investment principles and policies. However, investment policy reformed and developed from the principle of investment. Therefore, so many determinants of principal of investment directly affect the investment policy.

Generally, policy will be a plan or a course of future action that is proposed to adopt regarding a particular field of activities. For our purpose, investment policy will also be the plan or course of future action that is purposed to adopt regarding the investment. The investment policy may be different according to the objective and nature of the organization. But, all the investment policies must be balanced as of risk return character and suggested to invest at liquidity, safety and profitable sectors. “While investment policies needed to be formed, the investors need to consider many factors. Usually these are the factors to be considered in investment planning decisions, security of principle stability of income and rate of return, marketability and liquidity”. (Shim and Siegel, 1989: 256).

Regarding the insurer investment policy and selection criteria, these will be the factors to be considered or simply we can mention following basic principle to be followed while investing the investible insurance fund.

#### 2.2.5.1.1 Safety & Security

The safety and security principle is a primary and basic principle of the investment policy. The insurer should never invest its funds in these securities, which are subject to much depreciation and fluctuation because a little difference may cause great loss. Therefore, insurers perhaps invest their funds in fixed deposits and treasury bills of NRB. The collected premium is a liability for an insurer; therefore, they are always conscious on security and safety of the investment. American life insurance association also enforced the principle of safety. The basic principle for limiting the investment to those with the high margin of safety not only is imposed on the companies by the system of state investments laws described presently, it has long been recognized as a paramount consideration by the insurance companies themselves. To obtain the security on investment insurer required sound matching in their investment portfolio. To maintain the secure investment holding, the insurer needs to analyses and concentrate on the secured lending. The secured investment provides the good / sweet return and liquid cash flow whenever required. “ in other instances, the safety of the investment assured by the high credit standing of the borrower as evidenced by his ability to meet the interest payments or to provide or continuous flow of dividends to investors. Further, the security of investment depends upon the legal claims of the lenders and value of the underlying security but also upon the

borrower's ability to manage its affairs efficiently and its willingness as well as ability to repay". Thus, safety and security principle is very important for an insurer (Dowrie and Fuller: 1950:41).

#### 2.2.5.1.2 Profitability

Generally, insurance companies or insurer obtains their name and era through paying claim in simple procedure and right time. In order to pay claim and maintain office expenses the fund is required. An insurance company can maximize its value of wealth and collection of fund through maximization of return on their investment. So, they must invest their fund where they can gain maximum profits.

The insurer must earn at least the assumed rate of interest; otherwise, they will suffer loss. The investment should be made in such securities, which yield the highest return consistent with the principle of safety. The insurer can reduce his future premium by earnings higher interest and thus, will be able to increases his business. it has been realized that the safety and the profitability is important for insurer investment.

#### 2.2.5.1.3 Diversification

An insurer should not lay all of the eggs in the same basket. This saying is very important to the insurer and so he/she should be always careful not to grant investment in only one sector. To minimize the risk, an insurer must diversify his/her investment in different sectors.

Diversification of investment helps to sustain loss according to the law of average because if securities of a company deprived, there may be appreciation in the securities of other companies. In this way, the loss can be recovered and the company may able to earn more profit. The diversification provides maximum security with high yield and better liquidity provided the diversification is done taking in to account of all these factors. Do not invest all the funds at one spread over the widest possible range to minimize unfavourable consideration and to gain favourable advantages. Under diversification, the law of average reduces the losses to minimum (Dowrie and Fuller:1950:29)

#### 2.2.5.1.4 Liquidity

The principle of liquidity is important for the insurance investment. Insurer has no information about when they need to pay the claim of their client. So, at any unseen time

there will be the requirement of fund. Thus, the insurer needed to invest under the principle of liquidity.

Liquidity represents convertibility of investment into cash with out undue loss of capital. The insurer needs to maintain working cash and bank balance order to carry out the normal transaction of receiving payments and making disbursements. Further, they need to finance the unforeseen claims occurring the form of matured contracts. Therefore, insurer needs to maintain the liquidity of their investment. (Dowrie and Fuller:1950:51)

#### .2.2.5.1.5 Marketability

Marketability is an important principle of investment policy. The principle of marketability suggests the insurer to invest in that sector where easy possibility cash convertibility exists.

Insurer may not have any information about the requirements of the funds to pay the claim of the insured. So, they need to invest in those sectors where marketability exists. Therefore, the convertibility or marketability principle must match will other principle as well as with the line insurance business and the nature of the required fund.

### 2.2.5.2 Investment Policy Under Different Insurance Companies

Usually, all the insurers follow the main principle of investment under investment policy, which is mentioned above. The principle of investment is based on nature of business and line of business. Therefore, they include the different investment policy to invest collected fund in accordance to the character, nature and time period of the policy.

Since life insurance and general insurance differ in their risk assurance character, their claims nature, volume and nature of their policy handling of each type, the timing of insurance claims related to payment of premium etc. Hence, the insurers obtain different investment policy on their investment of different policy fund.

#### 2.2.5.2.1 Life Insurance and Investment Policy

Life insurance business is a long period coverage insurance business. An insurer can mobiles the collected premium fund of the life insurance in long term. Because they do not require the funds in short term. “An important attribute of the insurance fund is that they are of ling term nature. The claims against them by the policyholders materialize in a regular

pattern over time i.e. usually upon the death of the insured or at the maturity of the endowment policy". (Mahat, 1981: 190).

Life insurance is a main source of collection of the funds. It can collect large amount of fund, so insurer needs policy to invest these funds. "The main objective in the management of the funds of life insurance companies is to have adequate funds with which to meet claims, which includes not only the death, disabilities, and annuity payments called for polices but also the demand for the cash surrender value by person cancelling their policies or for loans secured by the cash surrender value". (Dowrie and Fuller, 1950: 229). This aspect of insurance business desires the investment policy, because the fund of life insurance is liability for an insurer. Therefore, insurer has responsibility to invest profitable sector and securely also. "Thus, the fundamental purposes of the life insurance investment are: - (a) to make possible fulfilment of contractual obligation to policyholders, (b) to make availability of life insurance protection at low cost as possible. To meet these objectives an investment must give promise of (a) certain return on principle, (b) a stable and reasonable income yield". To attain the basic objective and strategy, the insurer should invest the life insurance fund under investment policy.

#### 2.2.5.2.2 Non Life Insurance and Investment Policy

Commonly, non life insurance companies or insurer follows the principle of investment on investing the fund. Insurer cannot predict correctly, when they required the fund. However, if the insured held accident then, the insurer is responsible to pay certain indemnity. Therefore, to match the convertibility or liquidity, insurer successful operation of the business and be prompt in claim payment, the insurer needs to hold major part of their inflows available to pay future losses and expenses. "Because accident, casualties and disasters are not all that predictable property and liability insurance companies must have reserve of funds to cover large claims and settlement if and when occurs". (Mishra, 1997: 305) To attain the attractively and maintain the goodwill insurer needs to make balance in their transactions. So, they collect reasonable and premium and pay the reasonable indemnity with accordance to the written policy. To transact all function of insurance company is they need certain amount / fund.

The main sources of collection of funds are premium and return on investment. Therefore, non-life insurance companies or insurer followed all the mentioned above investment principal and policies.

### 2.2.6 Premium

Premium is the certain amount of payment, which is paid by the insured to the insurer for bearing uncertain risk, peril or hazards. Usually, premium calculated under different method as considering different affected factor. “Premium can be ascertained either by numerical rating system, evaluates each and every item and marks are assigned to them according to their merits and degrees influencing risk”. (Robinson & Dwayne, 1968: 87). Insurer charges the premium differently accordance to nature of risk. Thus, the judgement and personal evaluation play vital role in rating/fixing premium. Therefore, various factor to influence the risk. The management and ownership are very important factor while risks are evaluated for rate fixing.

Generally, the insurer charges higher premium for higher riskier insurance and lower premium for less riskier insurance policy. The premium is always directly affected by the nature of risk expenditure of office, other expense and written period. But, “A strong case exists for reviewing the rates of premium and simultaneously to exercise greater control over expenditure to generate a reasonable surplus in their insurance business.” (Insurance News & Views, 2006: 11). Generally, only premium is one of the main sources of raising fund for insurer. So, insurer should obtain sound management for calculating premium amount and collection process. Different insurance companies or insurer may charge different premium to insured under their objective and goal with accordance to the policies, risk and uncertainty.

#### 2.2.6.1 Types of Premium and Calculating Process

We can find various premiums to paying insurer according to the policy. But the premium is fundamentally of two types. Net premium is calculated considering mortality and interest rate. Therefore, the rate of death of person and interest directly affect on the premium amount to calculating under net premium method. Similarly, the assumed interest rates the expenses of organization and the mortality rate directly affected calculation of premium under gross premium method. “The net premium is based on the mortality rate, the assumed interest rate, the expenses and the bonus loading”. (Mishra, 1997: 203)

To make easier calculation of the premium amount, the two premiums are further sub divided into two parts.

1) Single premium 2) Level Premium

## 1. Single Premium

According to single premium system, the amount of premium is not divided into instalment. The insured oblige to pay all premium amounts in humus basis. It makes difficult to insured because of paying heavy / large amount in one time. We can further define single premium as ‘it makes to a system to paying all amounts in only one instalment’. Net single premium is that premium is received by the insurer in a lump-sum and is exactly adequate, along with other return earned thereon, to pay the amount of claim wherever it arises whether at death or at maturity or even at surrender. It does not provide for expenses of management and for contingencies.

## 2. Level Premium

Life insurance is usually, issued on a level premium basis, which means that the same premium is charged through out the life of the contract. So, the level premium is paid periodically in instalment. The level premium system was once a starting yearly, quarterly and monthly. The level premium system was once a starting innovation because it was reasoned that due to the rising probability of death with age, it would be impossible to charge a flat premium that would compensate for the rising mortality costs. The first insurance policies were issued of r one yea only and were renewable at the end of this year at a higher rate, if the insured was still in good health. These contracts are still available and are known as yearly renewable policies. Usually, the level premium is suitable for the life insurance policies and for the purpose of limited income able person. Therefore, the level premium ideas are considered one of the most basis advances ever made in the development of life insurance. With this concept, it becomes possible to issue policies for longer and longer period until finally whole life contracts were made a regular part of the business. Actuaries using refined mortality statistics could calculate exactly how much had to be charged during the early years to the contract in order to make up for the rising mortality const of the later years.

Level premium is easily converted by the net single premium. Hence, the single premium of a given policy can be easily converted into level premium by establishing ratio between net level premium and net single premium. Because the net single premium is the present value of all claims and the present value of all net level premium is also equal to the total of present value of all claims. It means present value of all net level premium is equal to the net level premium is equal to the net single premium.

## 2.3 REVIEW OF PREVIOUS STUDIES

Various experts, authorities and master degree's students have conducted a number of researches relating to the insurance business. Among them, only few are related with the investment aspect of the insurer and insurer business. Although there are many research conducted in insurance fired we can find only little work in aspect of premium collection. Therefore, this may be the suitable and worthy attempt on this subject matter.

### 2.3.1 Provision of insurance Act on Premium collation and Investment

(Act No. 42 of 2049 B.S.) Date of the Royal seal and the publication: 2049.9.2 B.S. (16 December, 1992)

First amendment; 2052.9.20 (4 January, 1996), Second amendment: 2058.10.10 B.S. (29 Jan, 2002)

Only related terms and conditions are reviewed form insurance act 2049 as:

**Preamble**:

Whereas, it is expedient to establish an Insurance Board to systematize, regularize, develop and regulate the Insurance Business, in the twenty- first year of the regime of KING BIRENDRA BIR BIKRAM SHAH DEVA, the Parliament has made this Act.

**Definition:**

The main definition,

(a) "Board" means the Insurance Board constituted pursuant to Section 3.

(b) "Chairman" means the Chairman of the Board.

(c) "Member" means the Member of the Board and the word includes the Chairman.

(d) "Insurer" means a corporate body registered pursuant to Section 10 and the word includes the re-insurer.

(e) "Insurance Business" means Life Insurance Business or Non-Life Insurance Business and the word includes the re-insurance.

(f) "Life Insurance Business" means the business relating to a contract regarding to the life of any person under which he or his heir in the event of his death, will be paid a particular amount in case a specified amount is paid in instalment on the basis of his age.

(g) "Non-Life Insurance Business" means other Insurance Business other than the Life Insurance Business.

(h) "Re-Insurance Business" means re-insuring the portion of the risk that is excess of the risk to be hold by the Insurer.

(l) "Insurance Agent" means a person other than a salaried employee of an Insurer who has obtained a license pursuant to Section 30, to work on behalf of the Insurer based on commission.

(m) "Surveyor" means a person who has obtained a license pursuant to Section 30A, to make a financial valuation of the destroyed property and the word includes an adjuster and a person who makes a valuation of losses.

**Compulsory Reserve Fund**:

Every Insurer shall maintain a reserve fund as specified by the Board for the liability relating to its Insurance Business inside the Kingdom of Nepal.

**Insurance Premium to be paid Before Holding the Risk**:

No Insurer shall hold the insurance risk of any category of Insurance Business until it receives the premium of the Insurance to be obtained by it. It shall be deemed that the Insurer has undertaken the Insurance Business only after receiving the Insurance premium by it for holding the risk.

Provided that, if any practical difficulty arises due to any reason for paying the amount in a lump sum, this Section shall not be deemed to be prohibited to issue an Insurance Policy on the guarantee of a bank or the Nepal Government relating to the payment of the outstanding amount within a specified period

**Repeal and Saving**:

(1) The Insurance Act, 2025 is hereby repealed.

(2) All the actions taken and functions performed before the commencement of this Act shall be considered to have been taken or performed pursuant to this Act.

### 2.3.2 Review of Journals

#### 2.3.2.1 Insurance Industry and Risk Management in Nepalese Prospective

The insurance industry clings to tariffs as a way of generating their income rather than evaluating risks and pricing, not singled out for understanding for risk factors in each. Beema Samiti have been directly controlling over premium rate factor in fire and allied insurance and motor insurance portfolio. The decision of Beema Samathi is mandatory and has the force of law. This control over premium rates through tariff indicates that the industry is still nascent in the development of its underwriting skills, and cannot compete internally; we have yet pretensions of technical expertise to face market reality of risk management. The insurance industry is afraid that without tariff barriers, it will collapse. As long as the industry does not learn how to rate individual risk on their own merit, risk management will not gain a foothold.

Business that are profitable and unprofitable are both under the tariff regime. Motor business that is contributing to huge losses is still under tariff. Why not remove the tariff barriers and permit the industry to adopt a realistic rating for motor business that each company feels is good for it? By adopting a flexible rating, each company for its survival will learn how to treat good drivers with benefits and bad drivers with penalties. Companies are however, afraid that a non-tariff regime will let loose forces of indiscipline in the own den which they will not be able to control. It is a management problem and not customer made issue. Unless challenges are thrown and tougher market, conditions created for progress and survival. The industry cannot grow with sled maturity (Insurance Industry and Risk Management in Nepalese Prospective: 2006: Vo.14).

### 2.3.3 Review of Thesis

Various experts, authorities, MBS student have conducted a number of researches relating the insurance business. Among them, only few are related with the investment aspect of the insurance business. Although there are many research conducted in insurance field we cannot find the work in respect of premium collection.

Shailendra Shrestha (2002), ***"****A study on premium collection and investment position of National Life and General Insurance Company Limited"*. The study covered seven years period since 1994/95 to 2000/01. The main objectives of this study are to find out the position of National Life and General Insurance Co. ltd. in the insurance industry of Nepal.

Mr. Shrestha used both primary and secondary data to analysis his study. Like this, he uses different financial and statistical tools like ratio analysis, trend analysis, co-efficient of correlation, mean, standard deviation and 'T' test etc. Based on the analysis Mr. Shrestha finds many conclusions. His main findings are as follows.

1. Premium collection on first life premium to total life premium collection is rising and falling trend –this ratio is highest in FY1996/97 and lowest was in 1999/00. There was inconsistency in first premium collection.
2. Fire premium collection to total general premium collection ratio was varied from 23%to 34% and it indicates that fluctuation rate was not so diversified.
3. Marine premium collection to total general premium ratio varied from 1% to 4%, which indicated that the ratios were in approximately in stable order.
4. Miscellaneous Premium to total general premium collection had slightly fluctuated but in increasing order.
5. Life Premium collection to total premium collection was in increasing trend. The least contribution was 23.06% in 1994/95 and highest contribution was 51.3%in 2000/01.
6. Investment on different sectors were also fluctuating trend and major portion of life investment went to bank fixed deposit it contributed 88.23% in highest and 69.71%in lowest.

Recommendations by Mr. Shrestha

1. The company should collect more first life insurance premium and issue new policy.
2. The company should diversify its life investment and increase investment in policy loans.
3. The company should establish research and development department and increase the efficiency of employees.

There is close relationship between Mr. Shrestha studies as both studies are about premium and investment. Mr. Shrestha study used seven years data and taken only one insurance company NLGIC, but this study is conducted by taking three insurance companies and five years data. In addition, there is long gap between these two studies.

Tara Bahadur Thapa (2002), ***"****A comparative study on premium collection and investment pattern"*. For thesis study Mr. Thapa uses both primary and secondary sources of data. The period covered was for 2053/54 to 2057/58.The basic objective of that research is to examine how far the different insurance premium are collected and invested them properly.

The major findings of Mr. Thapa's study were as follows:

1. The premium collection rate of Nepalese insurance industry has been fluctuating trend.
2. The insurance industry has not consisted in the investment proportion of various investment sector and investment portfolio too.
3. Among the insurance policy, the ratio of premium collection is higher in fire insurance and lower in engineering policy.
4. The coefficient of correlation between premium and investment of Nepalese insurance industry has high degree of positive correlation with significant relationship.

Recommendations by Mr. Thapa

1. The entire insurance should follow the investment policy and improve its management, should maintain and make uniformity on premium collection under all insurance policies, and should try to reduce in claim paid amount.
2. The insurer should enforce the diversification among the investment portfolio.
3. Insurance premium fund should be invested in different sector other than HMG bond and bank fixed deposit.
4. Insurer should try to remove fluctuation or premium collection, investment and net income trend too.

There is close relationship between Mr. Thapa's study and this study because both studies are about premium and investment. Both studies use five years data to analyze premium and investment. There is large time gap between these two studies. The companies selected by Mr. Thapa are different form this study. Mr. Thapa conducted the study on descriptive way only, did not focuses on comparable tools like EPS and MPS, and study ignored problems facing by insurance companies and growth of insurance industry in Nepal.

Narendara Dev Adhikari (2000), ***"****A study on investment policies and practices"*. Thesis research work is concerned to find what are the main policies used to invest the collecting premium of insurance industries.

To conduct these researches, both primary and secondary sources of data have been used. The time period was six years from 2050/51 to 2055/56. In that study, Mr. Adhikari has pointed out various findings and recommends action. Mr. Adhikari used different financial and statistical tools like ratio analysis, cash flow, co-relation, standard deviation etc. The main findings and recommendations of Mr. Adhikari's study were as follows:

1. Major portion of investment was incepted within the head 'Government Securities' and 'Bank Fixed Deposit' of both life and non life insurance industries.
2. The portfolio falling within the compulsory sector had uniform return rate. However, in an average, the return form the 'Government Securities' was highest and the return from the policy loan was lowest.
3. Net investment income of the life assuror and the industry was around three fourth of the net premium collection and net investment income of the non-life insurer with the industry was around two fifth of the net premium collection.

Recommendations by Mr. Adhikari

1. The insurer should enforce the diversification among the investment portfolio.
2. The life assures should concentrates on the diverse portfolio holding as compare with the non-life insurers.
3. While investing within the particular sector, the insurer needs to consider the mutual inter-link, age of transaction too.

The relationship between Mr. Adhikari's study and this study is that both focus o investment. Investment policies and position are related in each other. Both studies use financial and statistical tools. There is more than seven years gap between these two studies and Mr. Adhikari study for whole insurance industry and this study take only three specific companies. Mr. Adhikari focused on investment policy only while this study is based on premium collection and investment pattern.

Shree Prasad Gelal (2006), ***"****A comparative financial analysis of Nepal Insurance Company and National Life and General Insurance Company Limited"*. This study was descriptive and analytical. Mr. Gelal used both primary and secondary data in his study and analyzed the financial position, liquidity position, profitability position and other

Mr. Gelal used five years data form 2058/59 to 2062/63 to analyze the study. He used mainly financial tools like ratio analysis, cash flow analysis to come in decision. After detailed study, Mr. Gelal found following conclusion:

1. Premium collection of both life and non-life insurance shows growing trend of insurance business in the recent year of the study period.
2. The net profit percentage of NIC found better than NLGI but the liquidity position of both companies are found better.
3. Current assets turnover ration of NLGL followed decreasing trend, which is the indication that the efficiency of utilizing current asset deteriorated over the period due to negligence of management. The average turnover on current assets of NIC was 24 paisa where as NLGI's return was 15 paisa.

4. Changes in insurance premium collection of NIC ranged about 18.4% to 36.64% where as the same of NLGI ranged about 17.10% to 61.97% high fluctuation was found in NLGI than NIC.

Recommendations by Mr. Gelal

1. Insurance premium fund should be invested in different sector.
2. Training to agents is essential before their appointment to attract the people.
3. NIC is advice to minimize the risk level by reducing debt participation and increasing equity proportion even through it is risk-oriented institution.

Mr. Gelal study focused two insurances companies and concerned with financial performance but this study takes three companies and is concerned with premium collection and investment pattern. He emphasized only on financial tools and ignored statistical tool.

Arjun Raj Pathak (2002), ***"****Evaluation of Financial Performance of Nepal Insurance Company and Himalayan General Insurance Co. Ltd"*. The primary objective of the study was to analyze and to evaluate the financial performance of NIC and HGIC.

Mr. Pathak used secondary data's only to evaluate the financial performance. He used the five years data since 1994/95 to 1998/99. His findings were as follows:

1. HGIC and NIC have not been following better policy to keep sound liquidity position.
2. Creditors of both companies are in safe side, investment in total assets of HGIC is higher than NIC. The degree of financial risk of NIC is higher than HGIC.
3. HIGC has mobilized its assets effectively than NIC.
4. The profitability ratio of both companies shows that the change in insurance premium collection of HGIC ranged about 6.6% to 196.84% where as the same of NIC ranged about 9.7% to 34.54% high fluctuations is found in HGIC than NIC.

Recommendation by Mr. Pathak

1. Both companies are suggested to increase their cash balance to meet their short-term obligation.
2. The total assets ratio can be improved by proper, effective and optimum utilization of total assets and avoiding unnecessary investment in total assets.
3. HGIO is suggested to increase total revenue and gross profit for its sustainability and met the competition.

The relationship between these two theses is only on the conceptual sector, as both studies are on insurance business. Mr. Pathak focuses on financial performance and he included premium collection an investment position. Mr. Pathak submitted that thesis on 2002 but he used data from the date of 1994/95 to 1998/99, which shows that Mr. Pathak did not give time to prepare the thesis. He focused his study on financial performance.

Besides these reviews of specified books, articles, master degree thesis, idea and material are taken from various web- sites, magazines, published and unpublished booklets, journals, broachers, news, financial statements etc are taken for the preparation of this thesis. Daily newspapers are another reliable and important source.

## 2.4 Research Gap

There is long gap between the previous researcher's and this study. This study uses three insurance companies which is selected different from previous researcher's. They did not focus on comparable tools likes EPS and MPS but this study use EPS and MPS. Previous researchers focused on investment policy only while this study based on premium collection and investment pattern of insurance companies. They used only financial tools and ignored statistical tools but this study used both financial and statistical tools. Previous researcher's study based on descriptive way only but this study used descriptive and analytical basis. This study takes primary data while previous researcher's studies are based only in secondary data.

# CHAPTER-III

# RESEARCH METHODOLOGY

Research methodology is a systematic way to solve the research problem. In other words, research methodology describes the methods and process applied in the entire aspect of the study. Research methodology refers to the various sequential steps (along with a rational of each steps) to be adopted by a researcher in studying a problem with certain objectives in view. Thus, the overall approach to the research is presented in this chapter.

## 3.1 Research Design

Research design is a plan, structure and strategy of investigation. It is a blue print for the collection measurement and analysis of data. Research design is the arrangement of

conditions and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. This is an ex-post facto or historical research design. Research design is more analytical and less descriptive. The4 relevant and needed data has been collected from various publications of various commercial banks and publication of Nepal Rastra bank. (Wolf k howard and pant, 2005:92)

### 3.2 Population and Sample

All 21 insurance companies are the population of this study and among them, only 5 are chosen as samples from total population. For selecting the samples, simple selection method according to nature and types of insurance facilities are used. In this study, five insurance companies secondary data are analyzed for the purpose of conclude the result accordance to the objectives. Here, Premier Insurance Company, Everest Insurance Company, Sagarmatha Insurance Company, Alliance Insurance Company, and Neco Insurance Company are taken to the study as a sampled among the insurances industries in Nepal, which short description is already presented in chapter first, company profile.

### 3.3 Nature and Source of Data

#### Primary Data

The sources of primary data are the opinion survey. The primary data can be collected from various insurance companies for the opinion on investment of insurance fund, its policy and premium and other relevant factors. Primary data can be collected through questionnaires, field visit and information received from the respondents.

#### Secondary Data

This study will mainly base on secondary sources of data. The data relating to premium collection and investment pattern of insurance companies can be collected different insurance companies and Beema Semite, Nepal Stock Exchange, government agencies and bodies. Published and unpublished books, journals, newspapers, reports, thesis articles etc are used the sources of the secondary data.

### 3.4 Data Collection Procedure

For primary data, information will be collected by developing a set of questionnaires. Information and data can be also collected from respondents through field visit. Secondary data are collected through annual reports, different books and publications, web sites, periodicals, newspaper etc.

### 3.5 Data Processing Procedure

The information or data obtained from the different sources are in raw form. From that information, direct presentation is not possible. Therefore, it is necessary to process data and converts it into required form. After then only, the data are presented for the study. This process is called data processing. For this study, only required data are taken from the secondary source and presented in the study. For presentation, different tables are used. Similarly, in some case graphical presentation is also made. As far as the computation is concerned, it has been done with the help of scientific calculator and computer software program.

### 3.6 Data Analysis Tools

In order to get the concrete results from this research the various collected data from primary sources and secondary sources have been coded and tabulated in required form. Tabulated data has been processed and analyzed in descriptive way by using mathematical tools, statistical tools and financial tools wherever necessary. Graphs and charts have also been presented to interpret the finding of the study. As per topic requirements, emphasis is given on statistical tools rather than financial tools. So for this study like Ratio analysis, Trend analysis, Percentage indices, Standard deviation, Coefficient of variation, Coefficient of determination F-test etc. are going to use.

**Financial Analysis Tools**

Generally, the financial analysis tools were used for the purpose of the assessment of the financial position to a particular organization. For the purpose of this study, ratio analysis, earning price per share (EPS), Market price per share (MPS), are performed in the study. Certainly, ratio analysis showed the position of premium collection, investment, return and their contribution on overall performance.

### 3.6.1 Ratio Analysis

The term ratio refers an arithmetical relationship between the components or variables. Ratio can be expressed as percentage, fraction and stated comparison between numbers. In simple word ratio analysis or financial ratio express, the relation between the accounting figures mathematically. It is an indictor for evaluating the financial position and performance of a firm.

As for this study, ratio analysis is used to present the position of the investment and its performance as compared with the overall position and performance of the insurer. In order to analyze, the investment pattern and performance of premium collection, followings rations are used.

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

$$\text{Investment to TPCR} = \frac{\text{Total Investments}}{\text{Total Premium}}$$

$$\text{Govt. Saving Bond to Total Investment} = \frac{\text{Govt. Saving Bond}}{\text{Total Investment}}$$

$$\text{Fixed Deposit to Total Investment} = \frac{\text{Fixed Deposit}}{\text{Total Investment}}$$

$$\text{Investment on Share to Total Investment} = \frac{\text{Investment on Share}}{\text{Total Investment}}$$

$$\text{Return on Premium} = \frac{\text{Return}}{\text{Premium}}$$

$$\text{Claim Paid to Premium Collection} = \frac{\text{Claim Paid}}{\text{Total Premium}}$$

$$\text{Investment on Emergency Investment Fund to Total Investment} = \frac{\text{Investment on BFD}}{\text{Total Investment}}$$

$$\text{PCMI to Total Premium Collection} = \frac{\text{Premium on Marine Insurance}}{\text{Total Premium}}$$

$$\text{PCFI to Total Premium Collection} = \frac{\text{Premium on Fire Insurance}}{\text{Total Premium}}$$

$$\text{PCMI-1 to Total Premium Collection} = \frac{\text{Premium on Motor Insurance}}{\text{Total Premium}}$$

$$\text{PCAI to Total Premium Collection} = \frac{\text{Premium on Aviation Insurance}}{\text{Total Premium}}$$

$$\text{PCMI-2 to Total Premium Collection} = \frac{\text{Premium on Miscellaneous Insurance}}{\text{Total Premium}}$$

$$\text{PCEI to Total Premium Collection} = \frac{\text{Premium on Engineering Insurance}}{\text{Total Premium}}$$

$$\text{Interest Earned to Total Investment} = \frac{\text{Total Interest}}{\text{Total Investment}}$$

**Statistical Analysis Tools**

Generally, the statistical tools are used for attaining accuracy on analysis and study. According to this study's objectives, here following tools are used.

### 3.6.2 Trend Analysis

In order to draw the valid conclusion of investment and premium aspect, trend analysis is used for showing the basic nature of investment and premium in the past years which gives us idea of pattern of investment and premium and clear the picture of future trends also.

### 3.6.3 Standard Deviation:

The standard deviation is the best tools to study fluctuation in any data. It is usually denoted by the letter sigma (δ). Karl Pearson suggested it as a widely used measure of dispersion and is defined as the positive square root of their arithmetic mean of

squares of the deviation of the given observations from their arithmetic mean of a set of value. It can be computed by using following formula.

$$S.D = \sigma = \sqrt{\frac{1}{n} \sum (X - \bar{X})^2}$$

Greater the magnitude of standard deviation, higher will be the fluctuation and vice versa.

### 3.6.4 Coefficient of Variation (CV)

It is defined as the standard deviation divided by the mean of expected return. CV is the relative measure of risk. It measures the risk associated with each unit of return. It should be used to compare investment or return when the standard deviation and expected values of companies or scheme differ.

$$CV = \frac{\sigma}{\bar{X}}$$

A project, scheme, or company with low CV has less risk per rupee than having high CV.

### 3.6.5 Coefficient of Correlation:

By this statistical tool, the degree of relationship between to variables is identified. In other words, this tool is used to describe the degree to which one variable is linearly related to other variables. Two or more variables are said to be correlated if change in the value of one variable appears to be linked with the change in the other variables. The correlation analysis refers the closeness of the relationship between the variables. Correlation may be positive or negative and ranges from -1 to +1. Simple correlation between interest rate and deposit amount, interest rate and credit or lending amount and interest rate (both deposit rate and lending rate) and inflation is computed in this thesis. For example, let us say that the correlation between interest rate and inflation is positive. It indicates that when inflation increases, interest rate also increases in same direction and vice versa. For our study following reference is used

Correlation may be positive or negative and ranges from -1 to +1. When r = +1, there is positive perfect correlation; when r = -1, there is perfect negative correlation; when r = 0, there is no correlation and when r < 0.5 then there is low degree of correlation.

When 'r' lies between 0.7 to 0.999 (or -0.7 to -0.999), there is high degree of positive (or negative) correlation.

When 'r' lies between 0.5 to 0.699, there is a moderate degree of correlation.

The simple correlation coefficient, r, is calculated by using following formula:

$$\text{Simple Correlation Coefficient (r)} = \frac{n\phi X_1 X_2 \,\mathrm{Z}(\phi X_1)(\phi X_2)}{\sqrt{n\phi X_1^{\,2}\,\mathrm{Z}(\phi X_1)^2}\sqrt{n\phi X_2^{\,2}\,\mathrm{Z}(\phi X_2)^2}}$$

$$\text{Alternately,}\quad r = \frac{Cov(X_1 X_2)}{VarX_1, VarX_2}$$

$$\text{Or,}\qquad r = \frac{x_1 x_2}{\sqrt{\quad X_1^{\,2} x \quad X_2^{\,2}}}$$

Where,

$$\text{Covariance } (X_1, X_2) = \frac{1}{n} \qquad (X_1 \,\mathrm{Z}\overline{X}_1)(X_2 \,\mathrm{Z}\overline{X}_2)$$

n = Total number of observations.

$X_1$ and X2 = two variables, correlation between them are calculated.

$$\text{Multiple Correlation Coefficient } (R_{1.23}) = \sqrt{\frac{r_{12}^{\,2}\,\Gamma\, r_{13}^{\,2}\,\mathrm{Z}2 r_{12} r_{13} r_{23}}{1\mathrm{Z}r_{23}^{\,2}}}$$

Where $r_{12}$ = correlation coefficient between variables one and two.

$r_{23}$ = correlation coefficient between variables two and three.

$r_{13}$ = correlation coefficient between variables one and three.

Multiple correlations are used for the measure of degree of association between one variable and a group of other variables as the independent variable. It lies between 0 and 1. The close it is to '1', the better the linear relationship between the variables. The closer it is to '0', the worse is the linear relationship.

### 3.6.6 Coefficient of Multiple Determination

The square of the multiple correlation coefficients is called coefficient of multiple determination. It is very useful tools to interpret the value of multiple correlation coefficients. The main significance of the coefficient of multiple determinations is to represent the portion of total variation sin the dependent variable that is explained by the variations in the two independent variables.

Coefficient of multiple determination = $R_{1.23}^2$

### 3.6.7 Hypothesis

Every researcher has to start with certain assumption and presumption through which subsequent study might prove and disapprove. A hypothesis helps the researcher in proceeding further and finding solution of the problem, which we want to study. The hypothesis helps in organizing the collected data in very systematic way and in fact it stands at the mid point of research directing towards particular way of finding tentative solution to the question of how and why.

So a hypothesis is conjectural statement of the relationship between two or, more variables. Again, a hypothesis is a provisional formulation or possible solution or tentative explanation or suggested answers to the problems facing the scientists. If the hypothesis is proved, the tentative solution of the problem is answered if not so alternative situation would need to be formulated and tested. Generally, hypothesis can be divided as null and alternative hypothesis.

**i)** Null hypothesis: It in simplest form means that there is no difference between two populations in respect of some property and that difference, if any is only accidental and unimportant. In other words, null hypothesis is a principle, which states that a person is innocent unless he is proved guilty. Generally, it is stated negatively and the object is to avoid personal bias of the investigator in the matter of collection of data. It is used to collect additional support for the known hypothesis. The null hypothesis is denoted by $H_o$.

**ii)** Alternative hypothesis: It is the set of alternatives to the null hypothesis. In other words, the complement of null hypothesis is called alternative hypothesis. It always represents all other possibilities that are not included in

null hypothesis. A researcher will determine which of the alternative course of action or solutions or explanations can be applied to the problem while finding out efficient alternative the researcher will of course, have to think in terms of money, manpower, predictability, area to be covered etc. the alternative hypothesis is denoted by $H_1$ or $H_a$.

### 3.6.8 F-test for Significance of Sample Correlation Coefficient

The Fisher's F-distribution is defined as a distribution of the ratio of independent chi-square variables each divided by the corresponding degree freedom. However, F-test ratio is used to examine the significance of the different between more than two sample means at the same time. The F-test enables us to test the significance of the difference between more than two samples. This technique can be used to conclude whether the regression equation provide significant result or not.

If '$S_1$ and $S_2$' are the sample variance of 'n' pairs of observations from normal population, the test statistics for significance of null hypothesis is given by

$$F = \frac{S_1^{\,2}}{S_2^{\,2}} \text{ if } S_1 \succ S_2$$

$$F = \frac{S_2^{\,2}}{S_1^{\,2}} \text{ if } S_2 \succ S_1$$

Or

$$F = \frac{\text{Variance between samples}}{\text{Variance within samples}}$$

# CHAPTER-IV

# Data Presentation and Analysis

## 4.1 Presentation, Analysis and Interpretation of Secondary Data

For the purpose of study and analysis, secondary and primary data are used. Based upon the data, interpretation and analysis are done for findings and conclusion.

All the theoretical concept of premium is mentioned in the above chapter, which may be enough for the theoretical idea. Therefore, here, only quantitative analysis are described, which is related to the premium collection and investment pattern and their composition. For this purpose, the trend analysis 'F' test, Mean, standard deviation and coefficient of variation are used and for comparison various ratio analysis are computed which will be give the actual proportion to the particular insurance company. This evaluation chapter is also separated into two parts as financial analysis and statistical analysis like wise evaluations of investment patterns.

### 4.1.1 Analysis through Financial Tools

#### 4.1.1.1 Earning Per Shares (EPS) of Insurance Companies

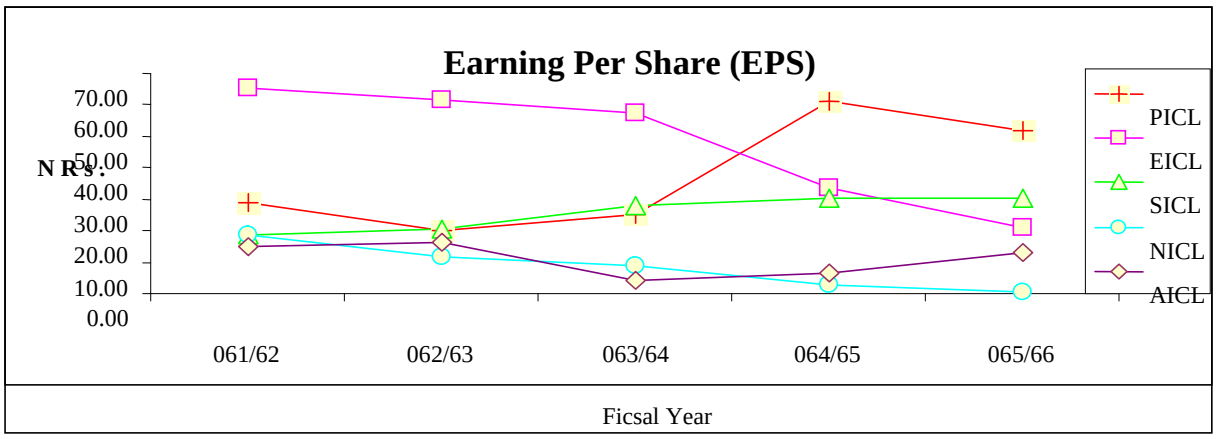
This ratio measures the net profit to number of shares of insurance companies that is earning per share (EPS). It shows the net income per share in a year of insurance company. Hence, from it the shareholder wealth can be measure. Increase in EPS increases the shareholder wealth and vice-versa.

*Table No. 3 -* ***EPS of Insurance Companies(Rs)***

| **Insurance company** | **Fiscal Year** | | | | |
|---|---|---|---|---|---|
| | **061/62** | **062/63** | **063/64** | **064/65** | **065/66** |
| PICL | 28.73 | 19.89 | 25.12 | 61.16 | 51.94 |
| EICL | 65.20 | 61.74 | 57.22 | 33.74 | 20.90 |
| SICL | 18.67 | 20.40 | 28.15 | 30.21 | 30.13 |
| NICL | 18.77 | 11.87 | 8.69 | 2.95 | 0.58 |
| AICL | 14.83 | 16.19 | 4.00 | 6.70 | 13.17 |

*Source: Appendix- VIII*

*Chart No.1 EPS of Insurance Companies*




From the above table and chart, we can find out the trend and position of earning per share of sample insurance companies. All companies have fluctuated nature of EPS. Premier insurance has EPS of Rs.28.73 in 061/62 that decrease to Rs. 19.89 in 062/63 and then increase toRs. 61.16 until 064/65 and again decrease to Rs.51.94 in 065/66. Everest insurance has decreasing nature of EPS as it decreases from 65.20 in 060/61 to Rs.33.74 in 065/66. Sagarmatha insurance has increasing trend of EPS from Rs.18.67 in 061/62 to Rs.30.13 in 065/66. Neco insurance has decreasing nature of EPS as it decrease from Rs.18.77 in 061/62 to Rs.0.58 in 065/65. Alliance insurance has fluctuated nature of EPS. Its EPS starts increase from 14.83 in 061/62and reach Rs.16.19 in 062/63, again decrease to Rs.4.0 in 063/64 and then increase to Rs.13.17 in 065/66.Everest insurance has highest EPS of Rs.65.20 in 059/60 while Neco insurance has the lowest Rs.0.58 in 065/66. Premier and Everest insurance have comparatively higher EPS while Sagarmatha has medium and Neco & Alliance has lower EPS. Since, EPS directly depends on the profit made by the company; Neco and Alliance insurance are unable to earn more return, which may be due to low premium collection or lower investment to premium ratio or poor policy on premium collection or investment pattern.

### 4.1.1.2 Market Price per Share (MPS)

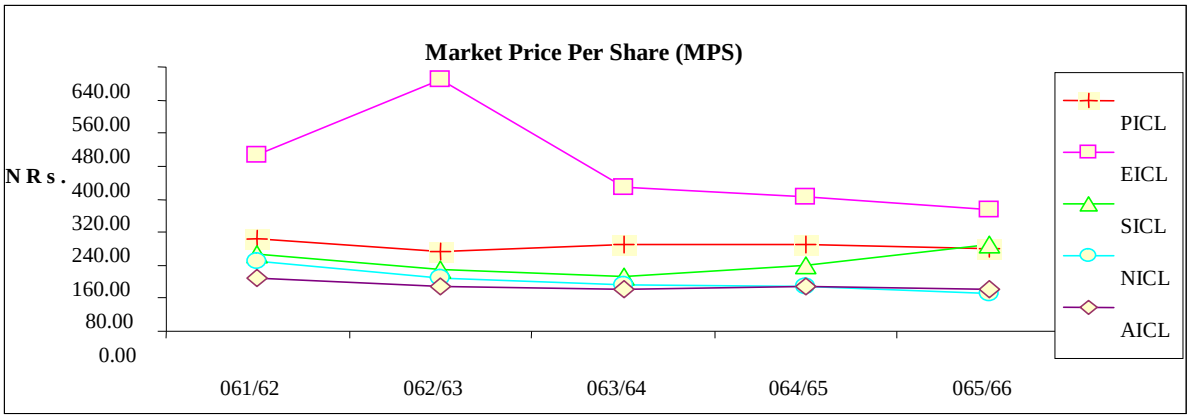
This ratio measures the current share value of insurance companies that is market price per share (MPS). It shows the net worth of share in a year of insurance company. Hence, from it the shareholder wealth can be measure. Increase in MPS increases the shareholder wealth and vice-versa.

***Table No. 4 - MPS of Insurance Companies(Rs.)***

| Insurance company | Fiscal Year | | | | |
|---|---|---|---|---|---|
| | 061/62 | 062/63 | 063/64 | 064/65 | 065/66 |
| PICL | 222.00 | 192.00 | 210.00 | 210.00 | 200.00 |
| EICL | 425.00 | 610.00 | 350.00 | 325.00 | 295.00 |
| SICL | 185.00 | 150.00 | 131.00 | 158.00 | 210.00 |
| NICL | 170.00 | 130.00 | 112.00 | 110.00 | 90.00 |
| AICL | 130.00 | 110.00 | 103.00 | 110.00 | 102.00 |

*Source:, Annual reports*

***Chart No.2 MPS of Insurance Companies***




From the above table and chart, we can find out the trend and position of MPS of sample insurance companies. All companies have fluctuated nature of MPS. Everest insurance has fluctuate nature of MPS as it has MPS of Rs. 425 in 061/62 and Rs. 610 in 062/63 and then began to decrease and reach Rs.295 in 065/66.The high vary in MPS is due to increase in number of share from Rs.3,00,000 to Rs. 6,00,000. Premier insurance has MPS of Rs.222 in 061/62 that decreases to Rs.200 in 065/66. Sagarmatha insurance also has flactuate trend of MPS, as it decrease from Rs.185 in 061/62 to Rs.131 in 063/64and began to increase from 064/65 reach Rs.210 in 065/66 after increasing number of shares. Neco insurance has decreasing nature of MPS as it decrease from Rs.170 in 061/62 to Rs.90 in 065/66. This may due to improper management, investment or policies. Alliance insurance has fluctuated

nature of MPS. It's MPS decrease from Rs.130 in 061/63 and reach Rs.103 in 063/65, then rise little to Rs.110 in 064/65 and again decrease to Rs.102 in 065/66.Everest insurance has highest MPS of Rs. 610 in 062/63 while Neco insurance has the lowest of Rs.90 in the fiscal year of 063/64. Premier, Everest, and Sagarmatha insurances have comparatively higher MPS, greater than Rs.200 which is higher than called up price of Rs.100 while Neco & Alliance has lower MPS and Neco has lower than Rs.100 in 065/66. Since, MPS directly depends on the profit and performance made by the company; Neco and Alliance insurance are unable to increase their market price per share due to various reasons.

#### 4.1.1.3 Evaluation of Premium Collection and Composition

Collected premium is the main source of an insurer for the purpose of investment. It shows the performance of the insurance company. Higher premium collection shows the higher volume of tractions. The entire insurer tries to collect higher premium for higher income from investment, which is the sign of success of insurance companies. Various financial ratio related to premium collection are calculated and their respective trend analysis are presented below.

#### 4.1.1.4 Ratio Analysis

##### 4.1.1.4.1 Return on Premium

It is the rate of average premium income. This ratio shows the portion of income or return on total premium collection. Return shows the performance and the earning capacity of an insurer in comparison to the premium collection. This ratio is calculated as

$$\text{Return on Premium} = \frac{\text{Return}}{\text{Premium}}$$

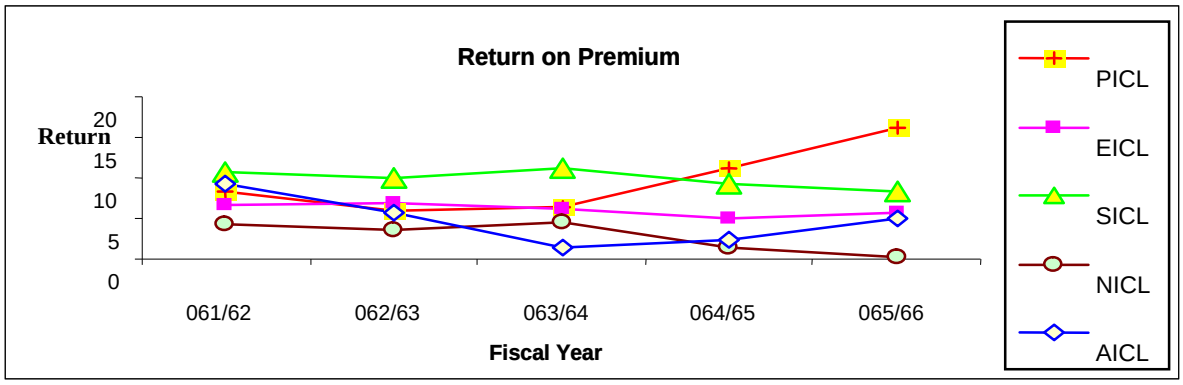
***Table No. 5 - Return on Premium of Insurance Companies***

| Insurance company | Fiscal Year | | | | | Mean | S.D. | CV |
|---|---|---|---|---|---|---|---|---|
| | 061/62 | 062/63 | 063/64 | 064/65 | 065/66 | | | |
| PICL | 8.41 | 5.97 | 6.41 | 11.29 | 16.22 | 9.66 | 4.23 | 43.75 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| EICL | 6.57 | 6.92 | 6.26 | 4.89 | 5.63 | 6.05 | 0.80 | 13.30 |
| SICL | 10.69 | 10.02 | 11.21 | 9.23 | 8.38 | 9.91 | 1.13 | 11.41 |
| NICL | 4.39 | 3.60 | 4.59 | 1.32 | 0.25 | 2.83 | 1.94 | 68.61 |
| AICL | 9.21 | 5.72 | 1.33 | 2.39 | 5.00 | 4.73 | 3.09 | 65.30 |

*Source: Appendix- V*

***Chart No.3 Return on Premium***




Above table and chart, show the ratio of return of premium of sample companies. According to table, except Premier insurance company, all other companies return is in descending order. Income on premium of Sagarmatha insurance company is higher i.e. 9.91 with low risk of 1.13% only while Neco insurance company earns only 2.83% with risk of 1.94% in average per annum. PICL has increasing trend in return on premium and the highest return is on 065/66. The trend of return of EICL is in increasing order until 062/63, reaches 6.92, and then began to decrease up to 064/65, drop to 4.89, and in 065/66, there is slightly increase in return i.e. 5.63. SICL has increasing trend until 061/62 and then began to drop in coming year and reach 8.38. The worst condition of return on premium is of Neco insurance, which return was 4.39 in 061/62and reaches to lowest 0.25 in 065/66.

From the above chart and table, it is clear that SICL and EICL have almost constant return with low risk, while NICL and AICL have fluctuate in return high (C.V.) risk. PICL had almost increasing trend of return with moderate risk.

#### 4.1.1.4.2 Claim Paid To Premium Collection Ratio

When the risk is accrued, it is the liability and responsible of insurance company to pay the claim. The large amount of claim force the insurer to bear loss. Therefore, the claim paid determines the insurers' profit and loss. Claim paid to premium collection

ratio is the average claim paid on premium. It is the extent to the ratio of cash outflow from claim to cash inflow as premium collection. It shows and measures the performance of risk evaluation and feasibility study of policy and premium charged calculation. Generally, low ratio seems the good performance and high ratio seems bad performance of company. It is calculate as:

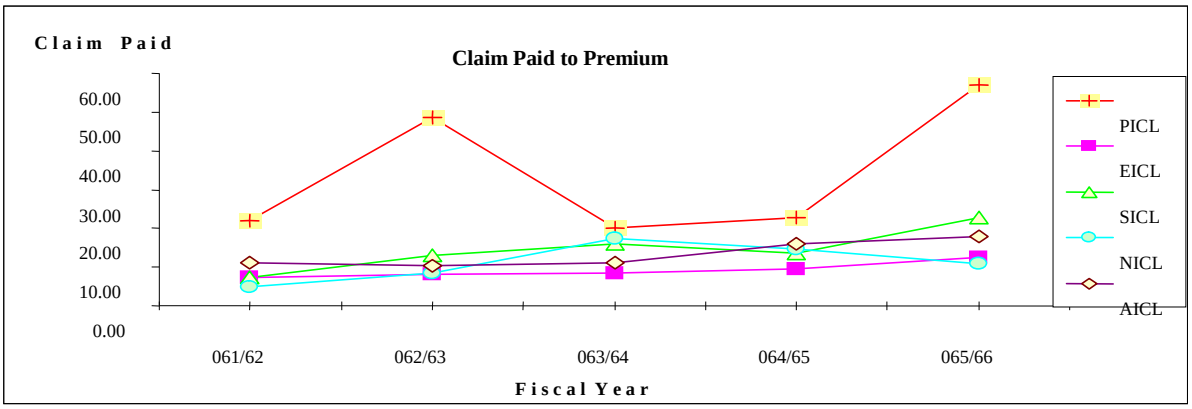
$$\text{Claim Paid to Premium Collection} = \frac{\text{Claim Paid}}{\text{Total Premium}}$$

***Table No. 6 - Claim Paid to Premium***

| Insurance company | Fiscal Year | | | | | Mean | S.D. | CV |
|---|---|---|---|---|---|---|---|---|
| | 061/62 | 062/63 | 063/64 | 064/65 | 065/66 | | | |
| PICL | 22.05 | 48.49 | 20.13 | 22.73 | 56.99 | 34.08 | 17.32 | 50.84 |
| EICL | 7.32 | 8.18 | 8.53 | 9.55 | 12.62 | 9.24 | 2.05 | 22.20 |
| SICL | 7.20 | 13.06 | 15.98 | 13.47 | 22.90 | 14.52 | 5.68 | 39.14 |
| NICL | 4.97 | 8.29 | 17.42 | 14.69 | 10.98 | 11.27 | 4.95 | 43.95 |
| AICL | 11.04 | 10.40 | 11.23 | 15.89 | 17.96 | 13.31 | 3.40 | 25.55 |

*Source: Appendix- IV*

***Chart No.4 Claim Paid to Premium***



From the table it is clear that the claim paid ratio of most companies is fluctuated every year except of Everest insurance. Its ratio is increasing according, but the percentage increase is very low. But in other companies the fluctuate difference is very high. Premier insurance paid higher claim while Everest is in low position. Looking at five years performance, the lowest claim paid is 4.97 by Neco insurance in 059/60while the highest by Premier insurance i.e. 56.99 in 065/66.

The above chart shows that the line of claim paid is little rise and fall in case of four insurance companies but in case of Premier the variation is very high and also the standard deviation, which shows variance and risk, is also high i.e. 17.32. From the calculation of C.V, all insurance companies are in moderate risk in term of claim paid. Thus from the above analysis, it is clear the companies have to bear low ratio of claim, except Premier insurance which pay average 34.08% yearly, in respect to premium collection, which is sign of good performance and success.

#### 4.1.1.4.3 Premium Collection on Fire Insurance to Total Premium Ratio

Fire insurance is the insurance against any loss of or damage to the property by fire. This ratio measures the proportion of fire insurance premium of total collected premium. It is calculated as:

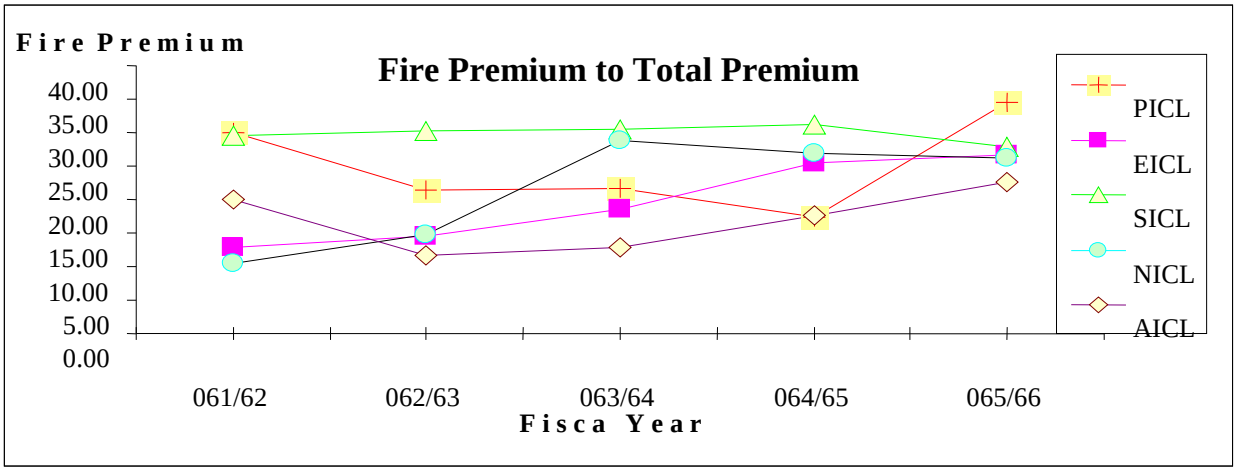
$$\text{PCFI to Total Premium Collection} = \frac{\text{Premium on Fire Insurance}}{\text{Total Premium}}$$

***Table No. 7 - Fire Insurance Premium Collection***

| Insurance company | Fiscal Year | | | | | Mean | S.D. | CV |
|---|---|---|---|---|---|---|---|---|
| | 061/62 | 062/63 | 063/64 | 064/65 | 065/66 | | | |
| PICL | 29.88 | 21.48 | 21.61 | 17.31 | 34.52 | 24.96 | 7.03 | 28.17 |
| EICL | 12.91 | 14.60 | 18.48 | 25.46 | 26.62 | 19.61 | 6.22 | 31.70 |
| SICL | 29.63 | 30.30 | 30.44 | 31.29 | 27.80 | 29.89 | 1.31 | 4.38 |
| NICL | 10.50 | 14.81 | 28.78 | 26.87 | 26.26 | 21.44 | 8.22 | 38.32 |
| AICL | 19.99 | 11.77 | 12.88 | 17.69 | 22.67 | 17.00 | 4.64 | 27.26 |

*Source: Appendix- I*

***Chart No.5 Premium on Fire Insurance***




Above table shows that the premium collection on fire insurance covers from 10% to 35% of total premium. Fire premium collection of insurance companies is varying from each other. It has fluctuated in every fiscal year. Neco insurance had collected lowest fire premium in 061/62 while Premier insurance had collected highest in 065/66. Everest insurance had collected premium on fire in increasing trend while other has fluctuate nature.

The line of premium collection on fire is in increasing order until 064/65 of Everest insurance, from 12.91 to 25.46, and Sagarmatha insurance, from 29.33 to 31.29, but it falls in 065/66 to 26.62 and 27.80 respectively. Neco insurance collected fire premium of 10.50% in 061/62 and has rise to 28.78 till 063/64 but if fell to 26.26 in 065/66. Similarly, the line of fire premium collection of Alliance insurance decreased from 19.99 to 11.77 from 061/62 to 062/63, but after that, it increased to 22.67 until 065/65 The trend of premium on fire of Premier insurance is decreasing from 29.88 to 17.31 until 064/65 and it increased to 34.52 in 065/66.

The mean value shows that fire premium of Sagarmatha insurance is more and Alliance insurance has low value. The standard deviation and CV show that Sagarmatha insurance has low variation and risk while Neco and Everest insurance have high variation and risk. Premium and Alliance have moderate variation and risk.

### 4.1.1.4.4Premium Collection on Marine Insurance to Total Premium Ratio

Marine insurance is a contract between the insurers and insured whereby the insurer undertakes to indemnify the insured in manner and to the interest thereby agreed

marine losses incident to marine adventure. The premium collection on marine insurance to total premium ratio shows the proportion or average of marines' premium. This ratio is calculated as:

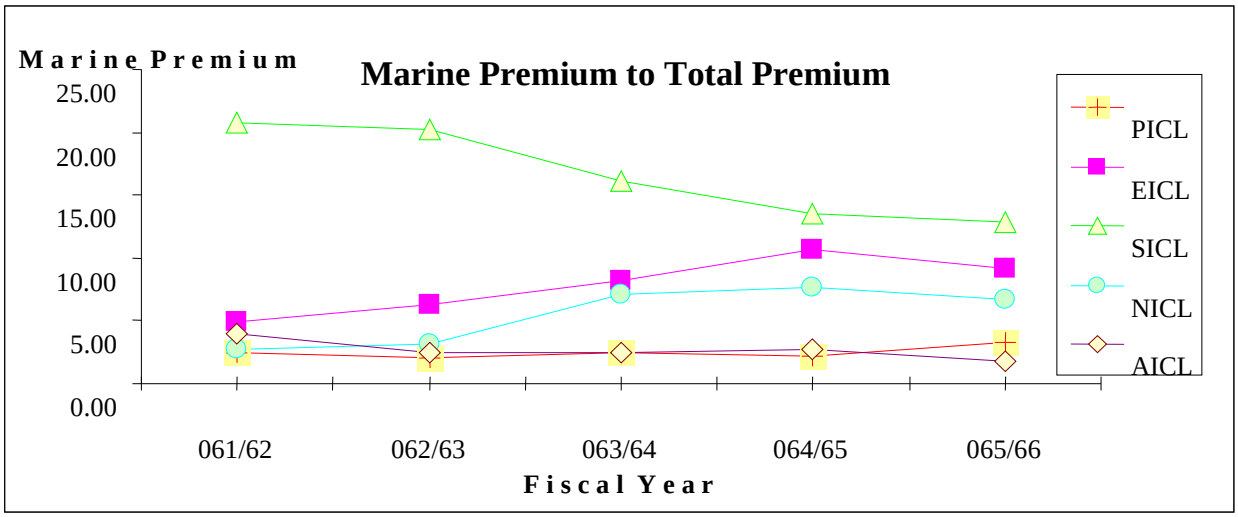
$$\text{PCMI to Total Premium Collection} = \frac{\text{Premium on Marine Insurance}}{\text{Total Premium}}$$

***Table No. 8 - Premium Collection on Marine Insurance***

| Insurance company | Fiscal Year | | | | | Mean | S.D. | CV |
|---|---|---|---|---|---|---|---|---|
| | 061/62 | 062/63 | 063/64 | 064/65 | 065/66 | | | |
| PICL | 2.53 | 2.01 | 2.50 | 2.12 | 3.22 | 2.48 | 0.48 | 19.20 |
| EICL | 4.86 | 6.25 | 8.26 | 10.71 | 9.10 | 7.84 | 2.31 | 29.50 |
| SICL | 20.80 | 20.18 | 16.16 | 13.47 | 12.85 | 16.69 | 3.69 | 22.11 |
| NICL | 2.68 | 3.15 | 7.08 | 7.67 | 6.72 | 5.46 | 2.35 | 43.10 |
| AICL | 3.95 | 2.40 | 2.48 | 2.80 | 1.80 | 2.68 | 0.79 | 29.53 |

*Source: Appendix- I*

***Chart No.6 Premium on Marine Insurance***




From the table it is clear that the amount of premium collected in marine insurance cover low percentage in total premium. The highest percentage is 20.80 of

Sagarmatha insurance in 061/62. Premier had collected lowest premium on marine insurance and did not cross even 5% while Sagarmatha had highest and cross 10% every year. Sagarmatha insurance has decreasing order, Everest and Neco have increasing trend till 064/65 and 063/64 respectively and then began to fall after that. Alliance and Premier have fluctuated in decreasing order.

The highest mean value of marine premium is 16.69 of Sagarmatha insurance and lowest of 2.48 of Premier insurance. Other insurance companies also have low mean value. Standard deviation and CV show low variation in marine insurance premium collection. From above analysis and evaluation it is clear that the percentage cover by marine insurance in Nepalese insurance company is low, i.e. its contribution is little in collecting premium. This may be due to land locked area.

#### 4.1.1.4.5 Premium Collection on Motor Insurance to Total Premium Ratio

Every motorist runs the risk of incurring legal liability to pay compensation to third party for death, bodily injury, and property damage arising out of use of vehicle, with further heavy loss of accidental damage to vehicle itself. It covers full comprehensive policy and third party liability insurance too. This policy indemnifies vehicle owners against such contingencies. The premium collection on motor insurance to total premium ratio shows the proportion or average of motor premium. This ratio is calculated as:

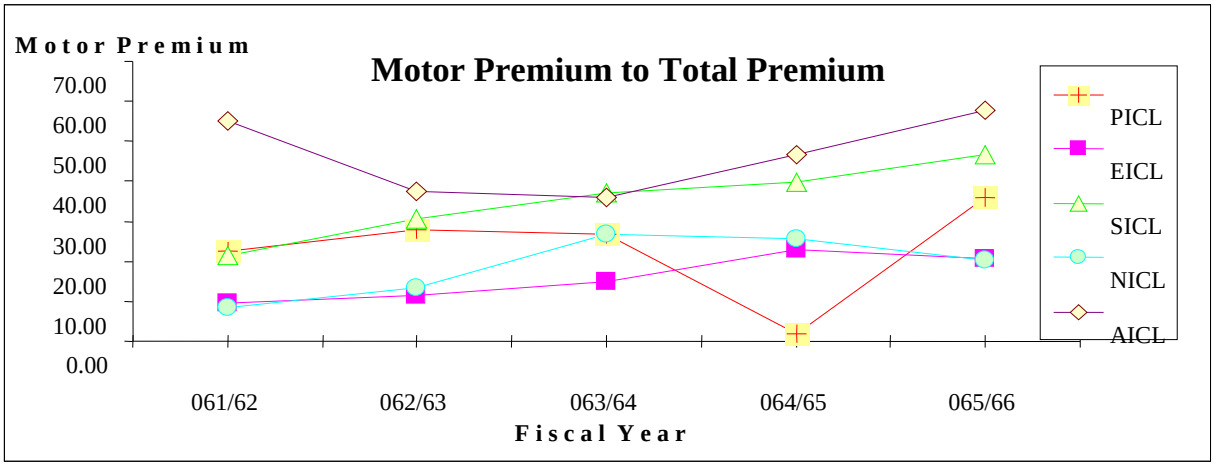
$$\text{PCMI to Total Premium Collection} = \frac{\text{Premium on Motor Insurance}}{\text{Total Premium}}$$

***Table No. 9 - Premium on Motor Insurance***

| Insurance company | Fiscal Year | | | | | Mean | S.D. | CV |
|---|---|---|---|---|---|---|---|---|
| | 061/62 | 062/63 | 063/64 | 064/65 | 065/66 | | | |
| PICL | 22.74 | 28.02 | 26.66 | 1.98 | 35.85 | 23.05 | 12.70 | 52.12 |
| EICL | 9.59 | 11.49 | 14.97 | 23.03 | 20.84 | 15.98 | 5.82 | 36.39 |
| SICL | 21.30 | 30.60 | 37.10 | 39.64 | 46.69 | 35.07 | 9.61 | 27.41 |
| NICL | 8.58 | 13.38 | 26.89 | 25.56 | 20.45 | 18.97 | 7.87 | 41.47 |
| AICL | 55.11 | 37.41 | 35.77 | 46.74 | 57.80 | 46.57 | 10.00 | 21.47 |

*Source: Appendix- I*

***Chart No.7 Motor Insurance Premium***




### 4.1.1.4.6 Premium Collection on Engineering Insurance to Total Premium

Engineering insurance is directly related with the risk against engineering tools and technique. It is of various natures depending upon the nature of the risk exposure e.g., construction/erection/boiler and pressure plants/machinery breakdown/electric equipment/certain forms can be extended to cover third party liability. The premium collection on engineering insurance to total premium ratio shows the proportion or average of engineering premium. This ratio is calculated as:

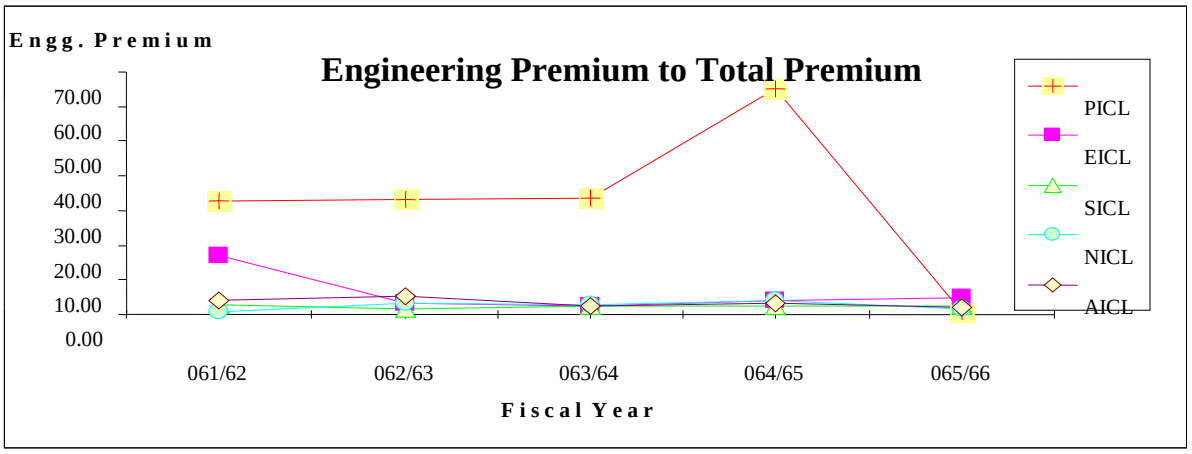
$$\text{PCEI to Total Premium Collection} = \frac{\text{Premium on Engineering Insurance}}{\text{Total Premium}}$$

***Table No. 10 - Premium on Engineering Insurance***

| Insurance company | Fiscal Year | | | | | Mean | S.D. | CV |
|---|---|---|---|---|---|---|---|---|
| | 061/62 | 062/63 | 063/64 | 064/65 | 065/66 | | | |
| PICL | 32.90 | 33.05 | 33.49 | 65.30 | 0.76 | 33.10 | 22.82 | 68.93 |
| EICL | 16.99 | 3.11 | 2.60 | 4.18 | 4.66 | 6.31 | 6.03 | 95.54 |
| SICL | 2.88 | 1.64 | 2.48 | 2.63 | 2.43 | 2.41 | 0.46 | 19.26 |
| NICL | 0.92 | 3.24 | 2.77 | 4.23 | 1.75 | 2.58 | 1.29 | 49.81 |
| AICL | 3.95 | 5.06 | 2.43 | 3.15 | 1.99 | 3.32 | 1.23 | 36.96 |

*Source: Appendix- I*

***Chart No.8 Premium on Engineering Insurance***




From the table and chart we can find that the contribution of engineering insurance in premium collection is also low. Only the Premier insurance had collected noticeable premium on engineering. Other insurance company are not worth mentioning in collecting premium in engineering, as only Everest insurance collect 16.99% of total in 061/62 and remaining company had not cross even 5%.Almost all insurance company had constant level in collecting engineering premium except of Premier as it is almost constant over three fiscal year i.e. till 064/65, it rise to 65.30% in 065/66 and massively decreased to 0.76% in 2065/66. The mean value of Premier insurance is 33.10, Everest has 6.03, Sagarmatha has 0.46, Neco has 1.23 and Alliance has 1.26.

The standard deviation and CV show that except Premier and Everest insurance, other insurance have low variation and risk in engineering insurance. From the calculation and chart, it is clear that although Nepal has difficult terrain, the concept of insuring in engineering risk is low. People are not fully aware about it.

#### 4.1.1.4.7 Premium Collection on Aviation Insurance to Total Premium Ratio

Aviation insurance is related with the risk occurring due to the peril, hazards or risks created by the aircraft. It acquires the risk of passengers, cargo, plane and also aircraft liability and medical payments too. The premium collection on aviation insurance to total premium ratio shows the proportion or average of aviation premium. This ratio is calculated as:

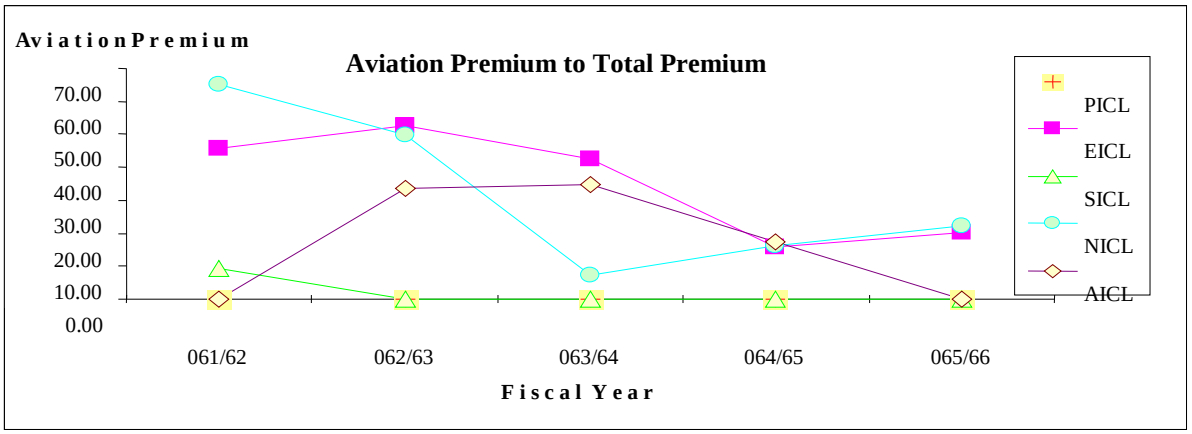
$$\text{PCAI to Total Premium Collection} = \frac{\text{Premium on Aviation Insurance}}{\text{Total Premium}}$$

*Table No. 11 - Premium on Aviation Insurance*

| Insurance | Fiscal Year | | | | | Mean | S.D. | CV |
|---|---|---|---|---|---|---|---|---|
| | 061/62 | 062/63 | 063/64 | 064/65 | 065/66 | | | |
| PICL | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| EICL | 45.86 | 52.60 | 42.60 | 15.91 | 20.16 | 35.43 | 16.35 | 46.15 |
| SICL | 9.37 | 0.00 | 0.00 | 0.00 | 0.00 | 1.87 | 4.19 | 223.6 |
| NICL | 65.01 | 49.70 | 7.13 | 16.13 | 22.29 | 32.05 | 24.33 | 75.90 |
| AICL | 0.02 | 33.48 | 34.74 | 17.33 | 0.00 | 17.12 | 17.06 | 99.65 |

*Source: Appendix- I*

*Chart No. 9 Premium on Aviation Insurance*




It means they were not able to collect premium in respective year while Premier has no provision of insuring in aviation insurance. Neco and Everest were collecting more than 40.00% in 061/62 but it seems decreasing then after. Alliance insurance collected 0% in 061/62 and it increased to 33.74% in 063/64 and then began to fall, reached to zero in 065/66.

The highest mean value of aviation premium is of Everest insurance, 35.43 %, while Premier has 0%, Sagarmatha has 1.87%, Alliance has 17.12% and Neco has 32.04%. Standard deviation and coefficient of variation show that there is great variation in collecting aviation premium.

#### 4.1.1.4.8 Premium Collection on Miscellaneous Insurance to Total Premium

A number of coverage's written by casualty insurers are available that can not be classified neatly as liability, auto or crime insurance but nevertheless are important to those with the exposure that these forms are designed to protect. They are discussed

under the innocuous heading of miscellaneous coverage and are written by property and liability insurance". Some of miscellaneous insurance are loss of profit, household, burglary, cash in transit, personal accident, medical, overseas, employees liability, banker's blanket, credit guarantee, crop theft, boiler insurance etc. The premium collection on miscellaneous insurance to total premium ratio shows the proportion or average of miscellaneous premium. This ratio is calculated as:

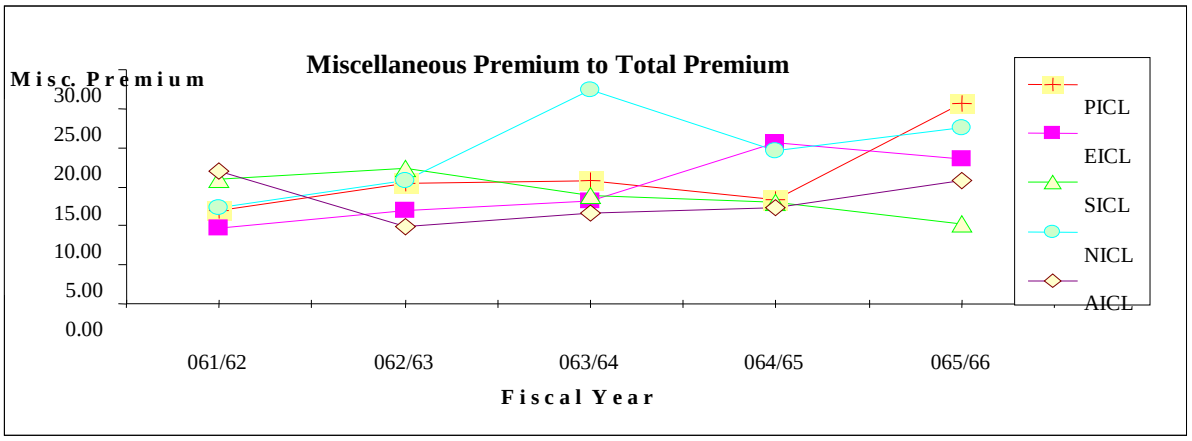
$$\text{PCMI to Total Premium Collection} = \frac{\text{Premium on Miscellaneous Insurance}}{\text{Total Premium}}$$

***Table No. 12 - Premium on Miscellaneous Insurance***

| Insurance company | Fiscal Year | | | | | Mean | S.D. | CV |
|---|---|---|---|---|---|---|---|---|
| | 061/62 | 062/63 | 063/64 | 064/65 | 065/66 | | | |
| PICL | 11.96 | 15.44 | 15.75 | 13.29 | 25.64 | 16.42 | 5.39 | 32.83 |
| EICL | 9.79 | 11.95 | 13.09 | 20.71 | 18.62 | 14.83 | 4.63 | 31.20 |
| SICL | 16.01 | 17.28 | 13.82 | 12.97 | 10.23 | 14.06 | 2.74 | 19.49 |
| NICL | 12.30 | 15.72 | 27.35 | 19.55 | 22.54 | 19.49 | 5.85 | 30.02 |
| AICL | 16.98 | 9.88 | 11.70 | 12.30 | 15.73 | 13.32 | 2.95 | 22.12 |

*Source: Appendix- I*

***Chart No.10 Premium on Miscellaneous Insurance***




Above table and chart show that the average premium collection in miscellaneous insurance is between 14 to 20. All insurance has overall constant premium collection with only little change in fiscal year. The highest percentage collected is 27.35 by Neco insurance in 064/65 while lowest is 9.79 by Everest in 061/62. Premier and Neco insurance had increase trend from 061/62 to 063/64 and it fell down after that while Premier insurance rose significantly to 25.64% in 065/66. Everest insurance

had increase trend, began at 9.79% and reached 20.71%, until 062/63 and it fell to 18.62% in 065/66. Sagarmatha had increased in collecting miscellaneous premium in 062/63but it fell then after and reached 10.23% in 065/66. Premium collecting in miscellaneous insurance of Alliance insurance was decreased from 16.98% to 9.88% in 062/63 but it began to rise then after and reached 15.73% in 065/66.

Standard deviation and coefficient of variation have low value, which means that there is low variation and risk in collecting miscellaneous premium. From the above calculation and evaluation, we can conclude that insurance company were not able to collect significant premium in miscellaneous insurance.

#### 4.1.1.5 Evaluation of Investment Pattern and Composition

Investment may be defined as the purchase by an individual or institutional investor of a financial or real asset that produces a return proportional to the risk assumed over some future investment period. Investment is the current commitment of the savings that compensates for the time involved, the expected rate of inflation and uncertainty involved. To stare in other words, an investment is a vehicle into which funds can be placed with the expectation that they will generate positive return and / or their value will be preserved or increased. Here, quantitative analysis is mentioned which are related to the investment and investment pattern.

Analysis and evaluation of investment portfolio and pattern could be done efficiently through statistical and financial tools. Here, investment analysis is calculated through trend analysis and F-test. For the comparison of all respective matter of investment, the mean standard deviation and coefficient of variation is also used. Likewise, to evaluate the return on respective portfolios and investment ratio analysis is used. To attain the objective of study purpose all the concerned studies and analysed are used. This evaluation chapter purpose moves along with studies objectives therefore only those ratios are calculated and analysed, are very important to evaluate in investment policy and pattern, which are mentioned below.

##### 4.1.1.5.1 Return on Investment

For meeting the objective, every financial institution has to invest capital and get certain return on it. Return on investment shows the success and failure of company.

It is the rate of average investment income. It shows the proportion with respect to investment. It is calculated as,

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

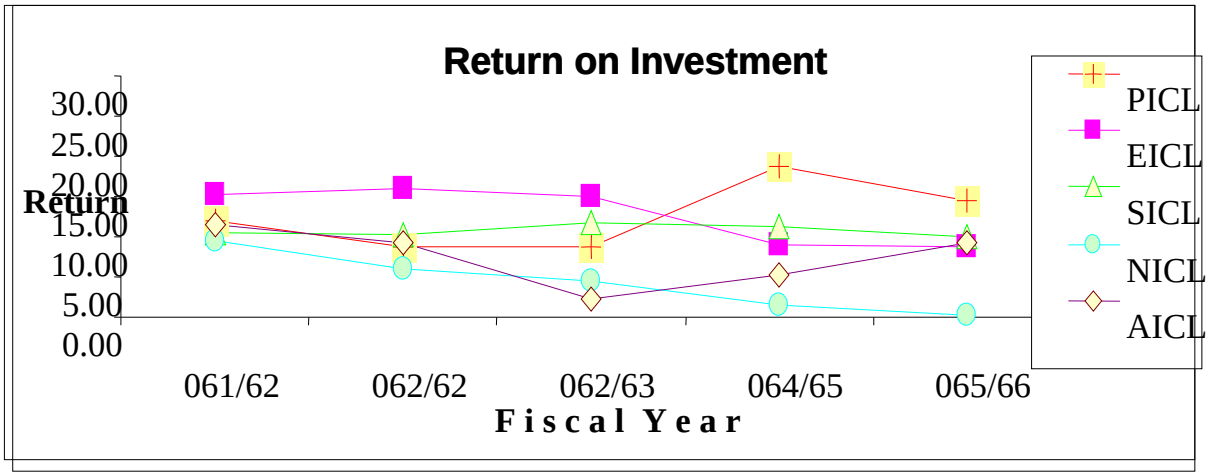
This ratio shows the performance of the investment and it indicates whole investment portfolio performance. Here the total investment consist the investment optional and compulsory sectors and the net income carried from profit and loss account.

***Table No. 13 - Return on Total Investment***

| Insurance company | Fiscal Year | | | | | Mean | S.D. | CV |
|---|---|---|---|---|---|---|---|---|
| | 061/62 | 062/63 | 063/64 | 064/65 | 065/66 | | | |
| PICL | 11.92 | 8.79 | 8.75 | 18.73 | 14.51 | 12.54 | 4.21 | 33.58 |
| EICL | 15.35 | 16.00 | 14.98 | 8.89 | 8.85 | 12.82 | 3.62 | 28.24 |
| SICL | 10.53 | 10.36 | 11.68 | 11.27 | 9.92 | 10.75 | 0.71 | 6.63 |
| NICL | 9.57 | 6.05 | 4.41 | 1.49 | 0.29 | 4.36 | 3.70 | 84.85 |
| AICL | 11.50 | 9.28 | 2.26 | 5.20 | 9.35 | 7.52 | 3.72 | 49.46 |

*Source: Appendix- VII*

***Chart No. 11Return on Investment***



The table and chart show that the return on investment varies between companies and differ year to year. The lowest return, 0.29 %, was of Neco insurance in 063/64 and the highest was 18.73 %, of Premier insurance in 062/63. The net return of all companies is in fluctuating nature. Premier insurance had return of 11.92 in 059/60but it fell to 8.75 in 061/62, again rose to 18.73 and finally fell to 14.51 in 063/64. Everest insurance had maximum of 16.00 in 060/61 and fell to 8.85 in 063/64. Sagarmatha has almost constant return in average of10.75. Neco had worst return on investment as return fell from 9.57 in 05960/ to 0.29 in 063/64. Alliance had decreasing nature from 11.50 to 2.26 up to 061/62 and it increased slightly to 9.35 in 065/66.

From the mean value calculate, it is shown that the return of all companies is not satisfied as it varies from 4.36 to 12.82. The standard deviation shows that there is low variation in return. Coefficient of variation show that except Neco and Alliance insurance have low return in high risk while other companies have higher return in moderate risk.

Thus from the calculated and analysed data, it is clear that the net profit on investment was not satisfied. Insurance companies should invest on the sector that is secure and give more return.

#### 4.1.1.5.2 Investment to Total Premium Collection

It is the rate of average investment to premium collection. This ratio measures the investment ratio in percentage. It helps to know what amount of premium collected is investment in different sectors in aggregate. Since in the beginning companies had to invest in capital and is include in investment, no exact figure can be drawn form this ratio. It is calculated as:

$$\text{Investment to TPC Ratio} = \frac{\text{Total Investments}}{\text{Total Premium}}$$

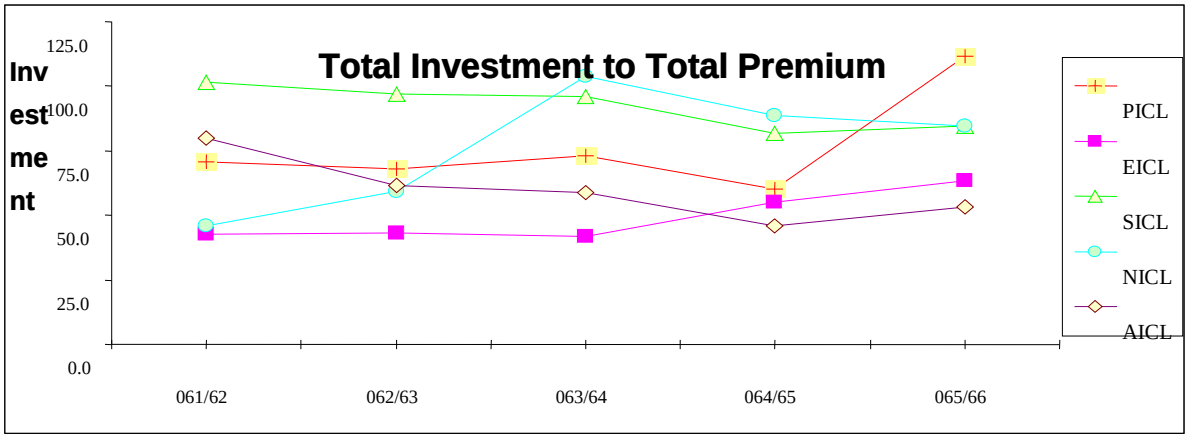
***Table No. 14 - Investment to Premium Ratio***

| Insurance company | Fiscal Year | | | | | Mean | S.D. | CV |
|---|---|---|---|---|---|---|---|---|
| | 061/62 | 062/63 | 063/64 | 064/65 | 065/66 | | | |
| PICL | 70.6 | 68.0 | 73.2 | 60.3 | 111.8 | 76.76 | 20.17 | 26.28 |
| EICL | 42.8 | 43.2 | 41.8 | 55.0 | 63.5 | 49.26 | 9.64 | 19.56 |
| SICL | 101.5 | 96.8 | 96.0 | 81.9 | 84.5 | 92.15 | 8.47 | 9.19 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| NICL | 45.86 | 59.51 | 104.08 | 88.69 | 84.50 | 76.53 | 23.46 | 30.65 |
| AICL | 80.12 | 61.58 | 58.84 | 45.97 | 53.45 | 59.99 | 12.73 | 21.22 |

*Source: Appendix- IIIA*

***Chart No.-12 Investment to Premium***




The above table shows the investment to total premium ratio of insurance companies. The table show the ratio of investment to premium ratio of all companies is above than 50%. Sagarmatha insurance company has highest investment ratio i.e. 92.15, in average. The lowest ratio is of Everest insurance that is 49.26, in average. Everest insurance and Sagarmatha have not much fluctuate in the ratio as it varies from 41.8 lowest in 063/64 and highest 63.5 in 065/66 of Everest and for Sagarmatha it varies from 101.5 in 061/62 and 81.9 lowest in 064/65. In case of other companies ratio varies more than 40%. Premier has 70.6 % of investment to premium ratio in 061/62and it reaches 111.8 % in 065/66 Neco insurance has increase nature from 061/62 to 063/64 (45.86 to 104.08), and it began to drop and came down to 84.50 in 063/64. Alliance insurance has inverse ratio form 061/62to 064/65 (80.12 to 45.97) and at the last fiscal year it slightly increases to 53.45 in 065/66.

The standard deviation and coefficient of variation of insurance companies has fluctuated from 8.47 to 23.46 and 9.19 to 30.65 respectively. Sagarmatha insurance has low SD and CV of 8.47 and 9.19, while Neco insurance has high SD and CV of 23.46 and 30.65. It means Sagarmatha has low variation at low risk and Neco has high variation with high risk.

Form the investment policy published by insurance board in 2060, it has been stated that all insurance companies must keep 50% of the collected premium amount in saving fund for payment of claim. So, companies could invest only 50% of their premium collection and other investment through shares and capital.

#### 4.1.1.5.3 Investment on Government Saving Bond to Total Investment Ratio

This ratio is the average government saving bond investment. It shows the proportion of investment on government saving bond. The entire insurer invests their fund making portfolio planning. Among the various areas of investment portfolio, it is the secured investment instruments. In this, the companies have not to bear risk in their investment. This investment has low but certain return and very low risk. The ratio measures the percentage of investment of particular insurer in government saving bond. This ratio is calculated as:

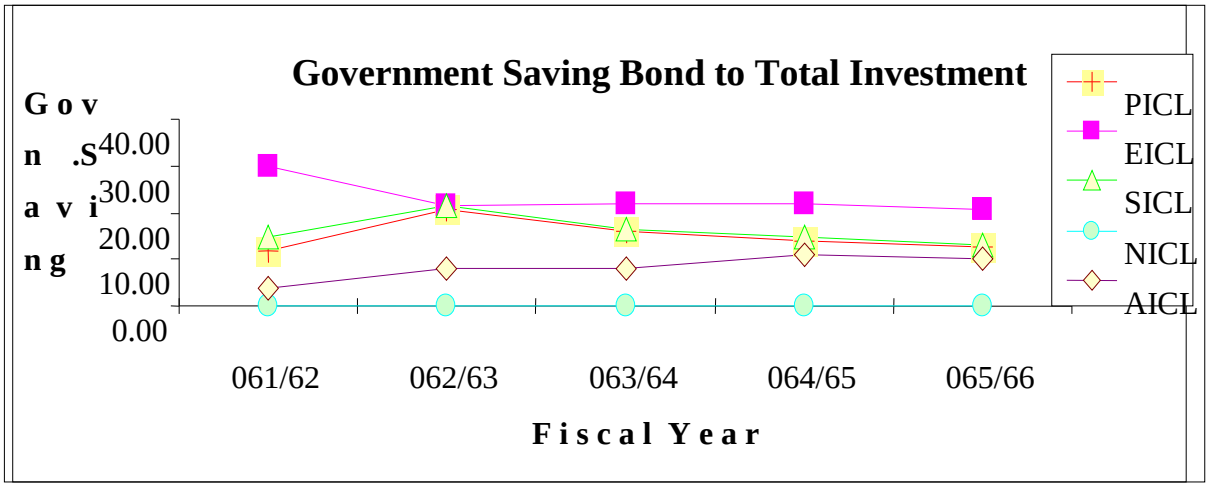
$$\text{Govt. Saving Bond to Total Investment} = \frac{\text{Govt. Saving Bond}}{\text{Total Investment}}$$

***Table No. 15 - Government Saving to Total Investment***

| Insurance company | Fiscal Year | | | | | Mean | S.D. | CV |
|---|---|---|---|---|---|---|---|---|
| | 061/62 | 062/63 | 063/64 | 064/65 | 065/66 | | | |
| PICL | 11.66 | 20.57 | 15.94 | 14.01 | 12.78 | 14.99 | 3.50 | 23.35 |
| EICL | 29.83 | 21.59 | 21.82 | 21.96 | 20.47 | 23.13 | 3.79 | 16.38 |
| SICL | 14.88 | 21.60 | 16.50 | 14.83 | 13.09 | 16.18 | 3.26 | 20.17 |
| NICL | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| AICL | 3.88 | 8.07 | 7.96 | 10.91 | 9.99 | 8.16 | 2.71 | 33.14 |

*Source: Appendix- II*

***Chart No.13Government Saving to Total Investment Ratio***




Above table shows the average percentage of government bond in total investment. According to table, Neco insurance company does not have invested in government in saving bond. Alliance insurance has lowest investment in government saving bond, which is about maximum of 10.91% of total investment. Everest insurance has the highest ratio of investment in government saving bond that are above 20.47%. All four companies has fluctuate nature in government saving bond. The mean investment in government bond of Premier insurance is 14.99%, Everest insurance has 23.13%, Sagarmatha insurance has 16.18%, Neco insurance has not invest in government bond and Alliance insurance has 8.16%.

The standard deviation and coefficient of variation of all insurance companies are almost in same range. The low value of standard deviation and coefficient of variation shows the investment in government saving bond has low or little variation and low risk.

**4.1.1.5.4 Investment on Fixed Deposit to Total Investment Ratio**

The banks fixed deposit is the main investment sector of Nepalese insurer. The entire insurers deposit their fund in fixed deposits. The investment on bank fixed deposits to total investment ratio is the average of investment on fixed deposit. It is the secured investment sector therefore, almost all insurer invest their higher fund in fixed deposits. The ratio is calculated as

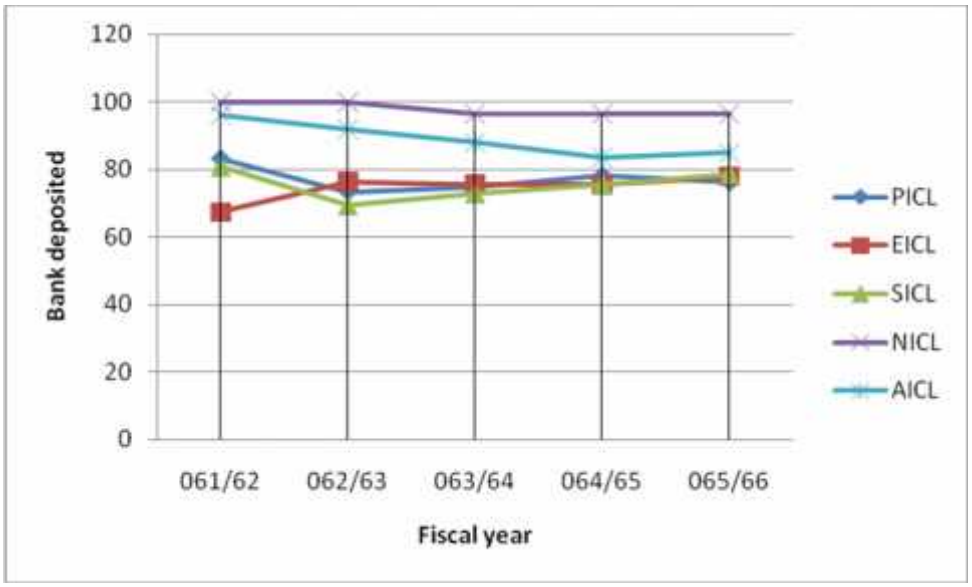
$$\text{Fixed Deposit to Total Investment} = \frac{\text{Fixed Deposit}}{\text{Total Investment}}$$

***Table No. 16 - Fixed Deposit to Total Investment Ratio***

| Insurance company | Fiscal Year | | | | | Mean | S.D. | CV |
|---|---|---|---|---|---|---|---|---|
| | 061/62 | 062/63 | 063/64 | 064/65 | 065/66 | | | |
| PICL | 83.17 | 73.38 | 75.07 | 78.10 | 76.26 | 77.20 | 3.76 | 4.87 |
| EICL | 67.33 | 76.20 | 75.53 | 75.38 | 77.87 | 74.46 | 4.11 | 5.52 |
| SICL | 80.74 | 69.37 | 72.87 | 75.61 | 78.55 | 75.43 | 4.51 | 5.97 |
| NICL | 100.00 | 100.00 | 96.45 | 96.47 | 96.47 | 97.88 | 1.94 | 1.98 |
| AICL | 96.11 | 91.93 | 87.98 | 83.54 | 84.92 | 88.90 | 5.16 | 5.81 |

*Source: Appendix- II*

***Chart No.-14Bank Deposit to Total Investment***




Above table shows that all insurance has highest percentage of investment in fixed deposit. All insurances have almost same range of investment in deposit. Neco insurance has highest investment in fixed deposit that varies from 96.45% to

100%. Everest insurance has lowest ratio of 67.33% in 061/62 and highest of 77.87% in 065/66. Primer insurance has 83.17% of ratio in 063/64 and decrease to 76.26% in 065/66. Sagarmatha insurance has decreasing nature in ratio of fixed

deposit, which varies from 80.74% to 69.37% in 062/63, and then increase to 78.55% in 065/66. Alliance insurance has also decreasing nature in investment ratio of fixed deposit, which falls from 96.11% to 83.54%.

The standard deviation and coefficient of variation values of premier insurance is 3.76 & 4.87, Everest insurance is 4.11 & 5.52, Sagarmatha insurance is 4.51 & 5.97, Neco insurance is 1.94 & 1.98 and Alliance insurance is 5.16 & 5.81. These value shows that Neco insurance has low variation in fixed deposit and Alliance insurance has highest variation. But all insurance has very low value which proof that there is low variation and risk in fixed deposit investment.

The greater percentage of fixed deposit investment shows that till now insurance companies are not investing in other sector having high return and high risk. For the development and growth, these companies should investment on other secure and highly return sector also.

#### 4.1.1.5.5Investment on Share to Total Investment Ratio

It is an average of share investment. This ratio shows the share of different company's share in total investment of particular insurer and insurance industries as well. It is calculated as

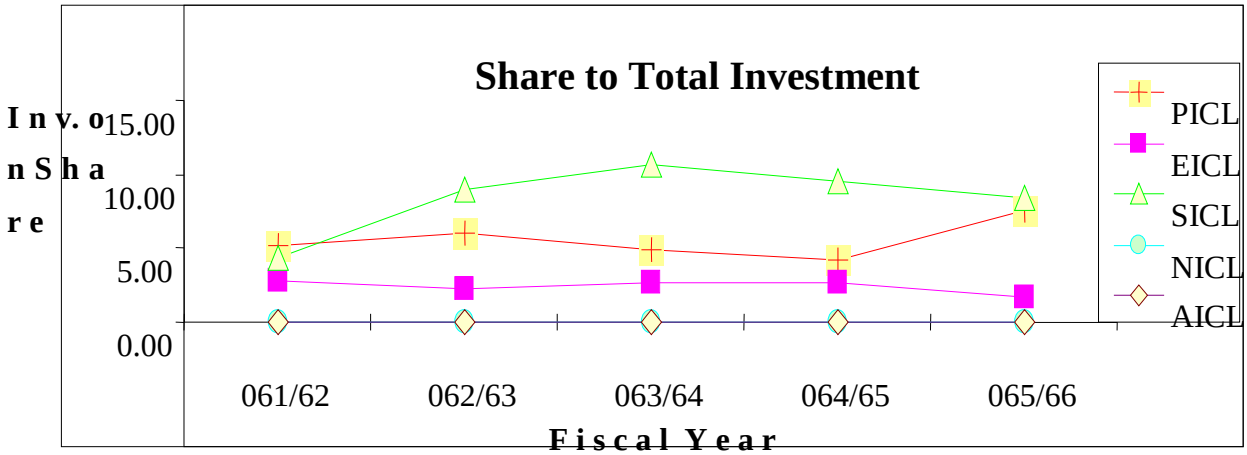
$$\text{Investment on Share to Total Investment} = \frac{\text{Investment on Share}}{\text{Total Investment}}$$

***Table No. 17 - Share Investment to Total Investment***

| Insurance company | Fiscal Year | | | | | Mean | S.D. | CV |
|---|---|---|---|---|---|---|---|---|
| | 061/62 | 062/63 | 063/64 | 064/65 | 065/66 | | | |
| PICL | 5.17 | 6.04 | 4.84 | 4.25 | 7.64 | 5.59 | 1.32 | 23.55 |
| EICL | 2.84 | 2.21 | 2.65 | 2.66 | 1.66 | 2.40 | 0.48 | 19.90 |
| SICL | 4.38 | 9.03 | 10.64 | 9.56 | 8.37 | 8.40 | 2.39 | 28.49 |
| NICL | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| AICL | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 | 0.00 | 15.32 |

*Source: Appendix- II*

***Chart No.15 Share Investment to Total Investment***




The above table and chart shows that Neco insurance has not invested in share while Alliance has very little percentage in share that is only 0.01%. Other insurance has fluctuated nature in investment in share but with little variation. Premier insurance has highest value of 7.64% in 065/664. Everest insurance has 2.84% in 61/62 band decrease to 1.66% in 064/65. Sagarmatha insurance 4.38% in 058/59 and increase to 10.64% in 063/64 and decrease to 8.37% in 065/66.

The standard deviation and coefficient of variation of different insurance are also in low values which tell that there is low variation in share investment ratio.

From the table of share investment to total investment we can see that almost all insurance has same amount of investment in share. The variation of percentage is due to the increase or decrease of total investment amount.

#### 4.1.1.5.6 Investment on Emergency Investment Fund to Total Investment Ratio

It is the average of investment on emergency investment fund to total investment ratio. It includes emergency fund and amount of insurance pool. This investment sector was started from fiscal year 061/62. Only three sample insurance companies have provision of this fund. It is calculated as

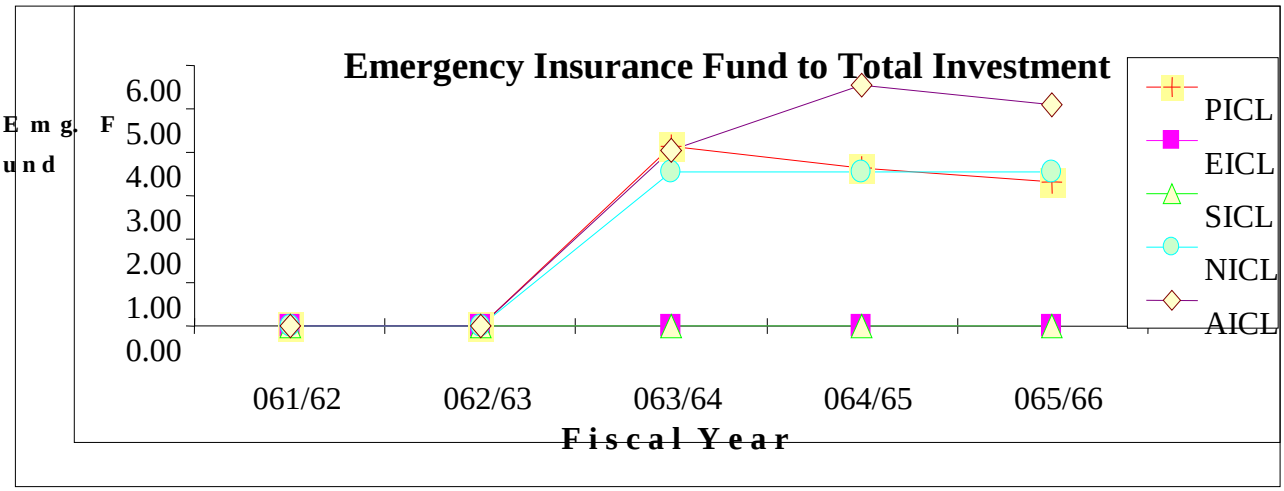
$$\text{Emergency Investment Fund to Total Investment} = \frac{\text{Investment on EIF}}{\text{Total Investment}}$$

***Table No. 18 - Emergency Investment Fund to Total Investment***

| Insurance company | Fiscal Year | | | | | Mean | S.D. | CV |
|---|---|---|---|---|---|---|---|---|
| | 061/62 | 062/63 | 063/64 | 064/65 | 065/66 | | | |
| PICL | 0.00 | 0.00 | 4.15 | 3.65 | 3.33 | 2.22 | 2.05 | 92.24 |
| EICL | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| SICL | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| NICL | 0.00 | 0.00 | 3.55 | 3.53 | 3.53 | 2.12 | 1.94 | 91.29 |
| AICL | 0.00 | 0.00 | 4.05 | 5.55 | 5.08 | 2.93 | 2.73 | 93.14 |

*Source: Appendix- II*

***Chart No. 16Emergency Investment Fund to Total Investment***




The above table shows that two insurance companies Everest and Sagarmatha have no provision of investment on emergency investment fund. Three insurance companies also have very low amount on this topic. All insurance companies have same amount of investment on this sector. The different on figure is due to the different on total investment amount from companies to companies in different fiscal year. Premier insurance has decreasing nature that falls from 4.15% to 3.33% since 061/62 to 063/64. Similarly, Neco insurance ratio is also decreasing from 3.55% to 3.53% from 063/64 to 065/66. Alliance insurance has fluctuate nature which has the ratio value are 4.05, 5.55 & 5.08 in 063/65, 064/65 & 065/66 respectively.

The standard deviation and coefficient shows that there is low variation in investment on emergency or insurance pool on total investment. From the appendix table of investment, we can see that all insurance companies have same amount on this head. The difference in ratio is due to different on total investment amount.

### 4.1.1.5.7 Interest on Investment Ratio

It is an average of interest earned on total investment. This ratio represents the return from interest in total investment. Total interest earned to total investment ratio reflects the extent to which insurer is success to earn interest as income on total investment. This ratio actually reveals the earning capacity of insurance companies by investing its all collected premium and other capital fund. Higher the ratio higher will be the income as interest. For getting the higher return from investment as interest companies, have to deposit their fund in fixed deposit or to grant loan as high percentage of rate of interest. However, as they investment all their fund in deposit or loan they are not able to investment in other sector of portfolio, which is not good policy. So all the companies should first make portfolio planning and then only invest their fund. This ratio is calculated as:

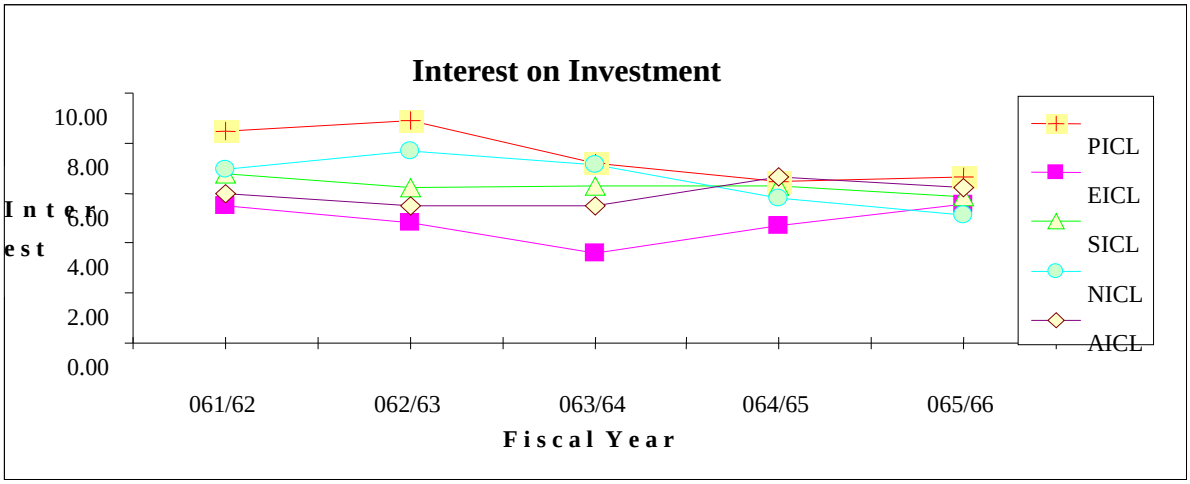
$$\text{Interest Earned to Total Investment} = \frac{\text{Total Interest}}{\text{Total Investment}}$$

***Table No. 19 - Interest Earned on Total Investment***

| Insurance company | Fiscal Year | | | | | Mean | S.D. | CV |
|---|---|---|---|---|---|---|---|---|
| | 061/62 | 062/63 | 063/64 | 064/65 | 065/66 | | | |
| PICL | 8.46 | 8.90 | 7.17 | 6.48 | 6.67 | 7.54 | 1.08 | 14.30 |
| EICL | 5.50 | 4.81 | 3.61 | 4.67 | 5.55 | 4.83 | 0.79 | 16.33 |
| SICL | 6.77 | 6.23 | 6.29 | 6.28 | 5.84 | 6.28 | 0.33 | 5.26 |
| NICL | 6.94 | 7.69 | 7.13 | 5.81 | 5.11 | 6.54 | 1.05 | 16.06 |
| AICL | 5.97 | 5.49 | 5.50 | 6.66 | 6.21 | 5.97 | 0.50 | 8.34 |

*Source: Appendix- VI*

***Chart No. 17 Interest Earned on Total Investment***




Above table and chart, show the return on deposit or loan, i.e. interest on investment ratio. From the table it is clear that none of the insurance companies is in good stand in earning form interest, as the highest percentage of interest ratio is of Premier insurance, which was 8.90 in 062/63. The lowest interest earned, 3.61%, is by Everest insurance in 063/64. All the companies have little variation in interest earned.

The mean value of all insurance companies is almost same with little different. The lowest value, 4.83%, is of Everest and highest value, 7.54%, is of Premier. Sagarmatha has 6.28, Neco has 6.54 and Alliance has 5.97 of mean value. Sagarmatha insurance has lowest standard deviation of 0.33, coefficient of variation of 5.26 and Premier insurance has highest SD of 1.08, and Everest insurance has highest CV of 16.33. These values show that all insurance companies have little variation in earning interest with little risk. Among them Everest insurance has medium variance in interest earned with high risk, means low return which could push it in risk.

**Statistical Analysis**

Uses of financial tools only are not considerable for analysis and evaluation of this study. So, some statistical analysis tools should also to use for analysis. Under this term various statistical mathematics like, Trend analysis, coefficient of correlation and F-test are used for the purpose to find out tendency, relation and distinguish between premium collection and investment pattern. For this purpose, following measurers are analyzed.

### 4.1.1.6 Trend Analysis

Variation of quantities with time can be systematically studied and analyzed by presenting on the graph is called trend analysis or time series analysis. It enables researcher to forecast the future behavior of the variable under study, changes in the values of different variables and past behavior of a variable in trend analysis.

Here for trend analysis of premium collection and total investment in million of different insurance are taken.

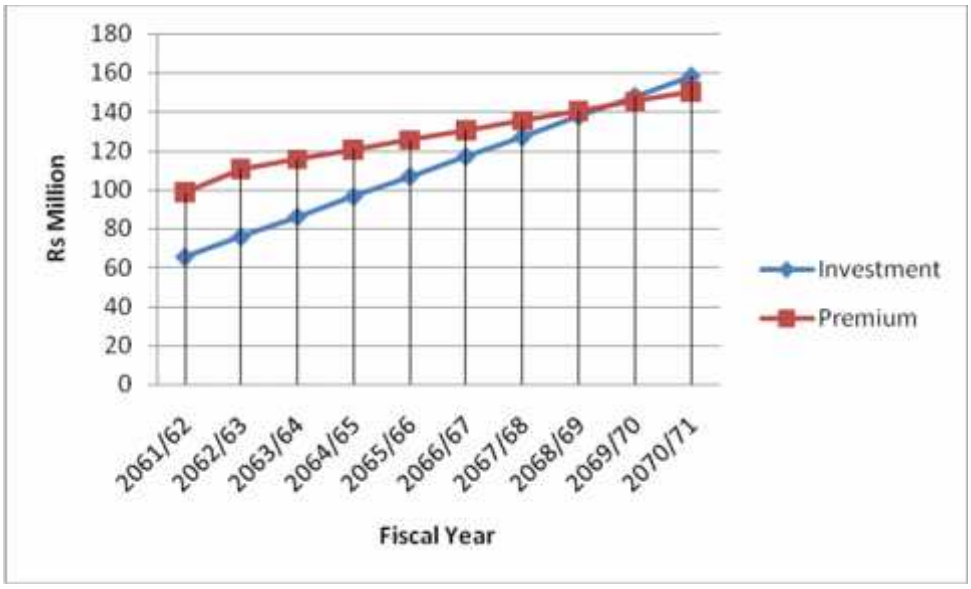
***Table No.20 Trend value of Premium Collection and Investment Pattern of Premier insurance company***

Rs in million

| Fiscal year | Investment | Premium |
|---|---|---|
| 2061/62 | 65.75 | 98.50 |
| 2062/63 | 76.04 | 110.727 |
| 2063/64 | 86.332 | 115.71 |
| 2064/65 | 96.62 | 120.693 |
| 2065/66 | 106.91 | 125.67 |
| 2066/67 | 117.202 | 130.66 |
| 2067/68 | 127.132 | 135.64 |
| 2068/69 | 137.78 | 140.63 |
| 2069/70 | 148.072 | 145.61 |
| 2070/71 | 158.36 | 150.61 |

*Source: Appendix- III*

***Chart No.19 Trend value of Premium Collection and Investment Pattern of Premier insurance company***




The above table clearly shows that investment and premium both are increasing trend. Other thing remaining constant the investment and premium will be 158.36 million and 150.61 respectively at the end of 2070/071.

***Table no 21Trend value of Premium Collection and Investment Pattern of Everest insurance company***

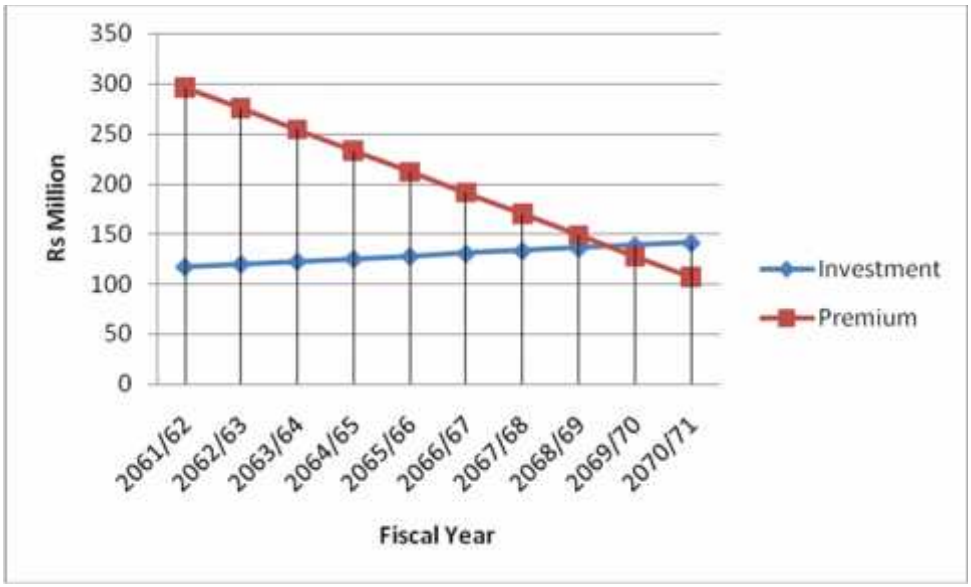
Rs in million

| Fiscal year | Investment | Premium |
|---|---|---|

| | | |
|---|---|---|
| 2061/62 | 117.33 | 296.09 |
| 2062/63 | 120 | 275.04 |
| 2063/64 | 122.65 | 253.99 |
| 2064/65 | 125.31 | 232.94 |
| 2065/66 | 127.97 | 211.89 |
| 2066/67 | 130.63 | 190.89 |
| 2067/68 | 133.29 | 169.79 |
| 2068/69 | 135.95 | 148.74 |
| 2069/70 | 138.61 | 127.09 |
| 2070/71 | 141.27 | 106.64 |

*Source: Appendix- III*

***Chart No.20 Trend value of Premium Collection and Investment Pattern of Everest insurance company***




The above table clearly shows that investment is increasing trend but premium is decreasing trend. It show that premium collection is no good policy. Other thing remaining constant the investment and premium will be 141.27million and 106.64respectively at the end of 2070/071.

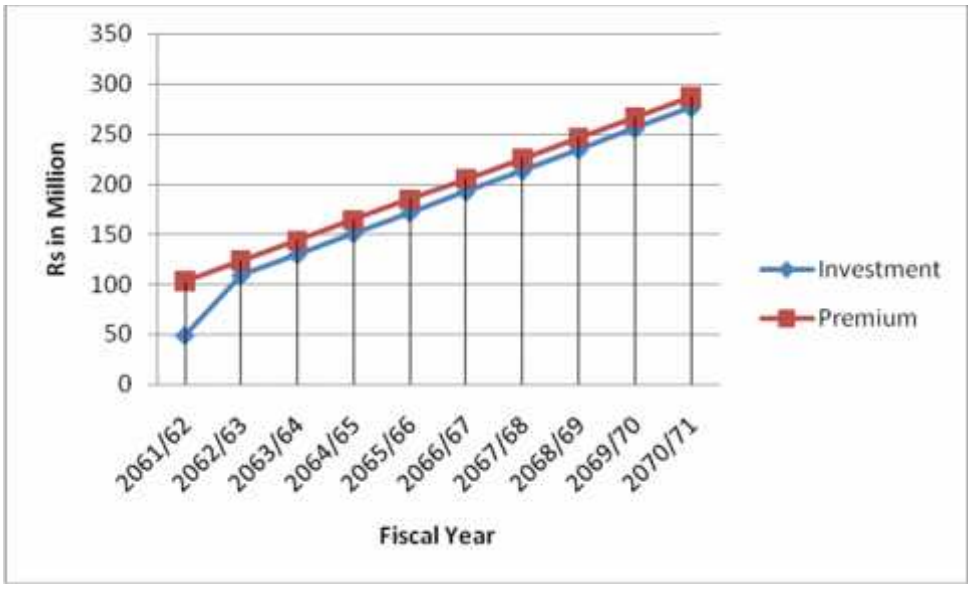
***Table no. 22 Trend value of Premium Collection and Investment Pattern of sagarmatha insurance Company***

Rs in million

| Fiscal year | Investment | Premium |
|---|---|---|
| 2061/62 | 48.44 | 102.8 |
| 2062/63 | 108.38 | 123.29 |
| 2063/64 | 129.37 | 143.78 |
| 2064/65 | 150.36 | 164.26 |
| 2065/66 | 171.35 | 184.75 |
| 2066/67 | 192.34 | 205.24 |
| 2067/68 | 213.33 | 225.73 |
| 2068/69 | 234.32 | 246.22 |
| 2069/70 | 255.31 | 266.71 |
| 2070/71 | 276.3 | 287.2 |

*Source: Appendix- III*

***Chart No. 21 Trend value of Premium Collection and Investment Pattern of sagarmatha insurance company***




The above table clearly shows that investment and premium both are increasing trend. Other thing remaining constant the investment and premium will be 276.3million and 287.2respectively at the end of 2070/071.

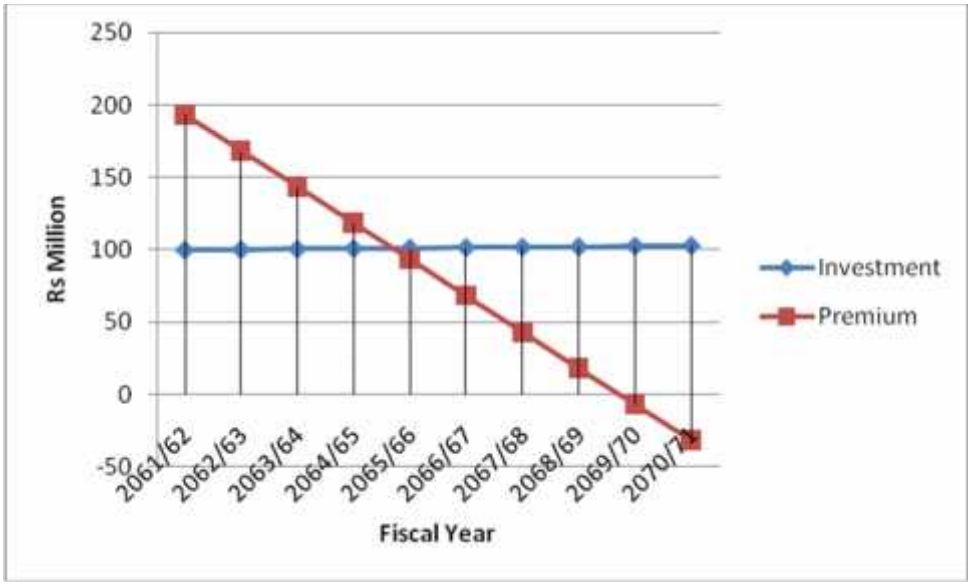
***Table no 23 Trend value of Premium Collection and Investment Pattern of Neco insurance company***

Rs in million

| Fiscal year | Investment | Premium |
|---|---|---|
| 2061/62 | 99.93 | 193.31 |
| 2062/63 | 100.25 | 168.3 |
| 2063/64 | 100.57 | 143.29 |
| 2064/65 | 100.89 | 118.28 |
| 2065/66 | 101.21 | 93.27 |
| 2066/67 | 101.54 | 68.26 |
| 2067/68 | 101.86 | 43.25 |
| 2068/69 | 102.18 | 18.24 |
| 2069/70 | 102.5 | -6.77 |
| 2070/71 | 102.82 | -31.78 |

*Source: Appendix- III*

***Chart No. 22 Trend value of Premium Collection and Investment Pattern of Neco insurance company***




The above table clearly shows that investment is little increasing trend but premium is decreasing trend. It show that premium collection is no good policy. Other thing remaining constant the investment and premium will be 102.82 million and -31.78respectively at the end of 2070/071.

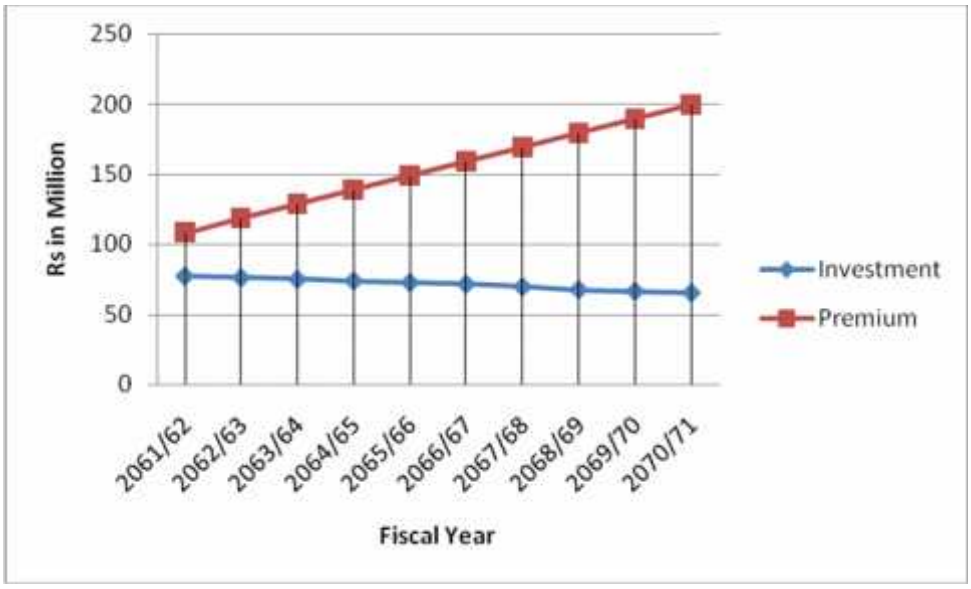
***Table no 24 Trend value of Premium Collection and Investment Pattern of Alliance insurance company***

Rs in million

| Fiscal year | Investment | Premium |
|---|---|---|
| 2061/62 | 77.07 | 108.09 |
| 2062/63 | 75.98 | 118.58 |
| 2063/64 | 74.89 | 128.67 |
| 2064/65 | 73.8 | 138.76 |
| 2065/66 | 72.71 | 148.85 |
| 2066/67 | 71.62 | 158.94 |
| 2067/68 | 69.71 | 169.03 |
| 2068/69 | 67.8 | 179.12 |
| 2069/70 | 66.71 | 189.21 |
| 2070/71 | 65.62 | 199.3 |

*Source: Appendix- III*

***Chart No. 23 Trend value of Premium Collection and Investment Pattern of Alliance insurance company***




The above table clearly shows that investment is decreasing trend but premium is increasing trend. It shows that investment policy is not good. Other thing remaining constant the investment and premium will be 65.62million and 199.3 respectively at the end of 2068/069.

#### 4.1.1.7 Correlation and Determination Analysis

By this statistical tool, the degree of relationship between to variables is identified. In other words, this tool is used to describe the degree to which one variable is linearly related to other variables. Two or more variables are said to be correlated if change in the value of one variable appears to be linked with the change in the other variables. The correlation analysis refers the closeness of the relationship between the variables. It helps to determine whether, i) a positive or a negative relationship exists, ii) the relationship is significant or insignificant and iii) establish causes and effects relation if any. The statistical tools, correlation analysis is preferred in this study to identify the relationship between premium and investment, whether the relationship is significant or not. Detail calculation is shown in appendix VII and X.

##### 4.1.1.7.1Correlation between Average of Net Return and Investment of Insurance Companies

Generally, the profit earned strongly depends upon the investment. If the investment amount is high then definitely profit will be high. In this investment is assumed as independent variable an net profit is dependent variable. From the appendix IX,

Coefficient of Correlation, r = -0.188578

Coefficient of Determination, $(R^2) = (-0.188578)^2 = 0.035561643$

Probable Error (P.E) = 0.291045

6 X P.E = 6 X 0.280522 = 1.7454965

Therefore, from the above-calculated data, we can conclude that, as the coefficient of correlation between premium and investment of insurance companies is -0.188578, which is low degree of negative correlation. It means they have inverse relation. The coefficient of determination is 0.291045, means the variation in independent variable (investment) explains 29.1045% of the variation in return and remaining by other factors. As coefficient of determination is less than the value equal to 6 X P.E, there is insignificance relationship between average net return and investment..

#### 4.1.1.7.2Correlation between Average of Premium Collection and Investment of Insurance Companies

This correlation gives the relationship between the average of premium collection and investment to all insurance companies in which average premium and investment are from the mean value of all companies in the particular year.

From the appendix X,

Coefficient of Correlation, r = -0.265

Coefficient of Determination, $(R^2) = (-0.265)^2 = 0.070225$

Probable Error (P.E) = 0.280522

6 X P.E = 6 X 0.280522 = 1.6831346

Therefore, from the above-calculated data, we can conclude that, as the coefficient of correlation between average premium collection and investment of insurance companies is -0.265, which is low degree of negative correlation. It means they have

inverse relation. The coefficient of determination is 0.070225, means the variation in independent variable (premium) explains 7.02555% of the variation in investment and remaining by other factors. As coefficient of determination is less than the value equal to 6 X P.E, there is insignificance relationship between average premium collection and investment.

### 4.1.1.7.3Correlation between Premium Collection and Investment of Insurance Companies

This relation is between the premium collection and investment of particular insurance company within the five years period. It gives the correlation between premium collection and investment of companies through which we can compare and analysis its relationship.

***Table no 25 Correlation Between Premium and Investment***

| **Insurance company** | **Coeff. of Cor.** | **Relationship** | **$R^2$** | **Probable Error** | **(r) 6 x P.E** | **Remarks** |
|---|---|---|---|---|---|---|
| PICL | 0.332 | Low degree +ve | 0.11 | 0.2684 | 1.6104 | Insignificant |
| EICL | -0.126 | Low degree –ve | 0.01 | 0.2968 | 1.7808 | Insignificant |
| SICL | 0.988 | High degree +ve | 0.97 | 0.0071 | 0.0426 | Significant |
| NICL | -0.786 | High degree –ve | 0.61 | 0.1154 | 0.6924 | Insignificant |
| AICL | 0.614 | Mod.degree+ve | 0.37 | 0.1881 | 1.1286 | Insignificant |

*Source: Excell Calculation*

From the above table, Premier insurance has correlation of 0.332, which is low degree of positive correlation. Coefficient of determination is 0.11 and probable error is1.6104. Hence, the relation is insignificant in case of Premier insurance. Everest insurance has -0.126 of coefficient of correlation, which is also low degree negative correlation. Coefficient of determination of 0.015 shows that 1.5% of the independent variation explains the variation of investment. Probable error is 1.7808, therefore the relation is insignificant. Sagarmatha insurance and Neco insurance have correlation of 0.988 and -0.786, which are high degree positive and negative correlation respectively. They have coefficient of determination of 0.976 and 0.617 and probable error of 0.0426 and 0.6924 respectively. It means Sagarmatha and Neco insurance have significant and insignificant relation between premium collection and investment. Alliance insurance has 0.614 values as correlation, so it has moderate degree of positive correlation. It has coefficient of determination of 0.376 means

73.6% of independent variation is explained by variation in investment. It has P.E of 1.1286, which is greater than value of correlation that means the relation between premium collection, and investment of Alliance insurance is insignificant.

#### 4.1.1.7.4Correlation between Net Profit and Total Investment of Insurance Companies

This relation is between the premium collection and investment of particular insurance company within the five years period. Generally, the profit earned strongly depends upon the investment. If the investment amount is high then definitely profit will be high. In this, investment is assumed as independent variable and net profit is dependent variable.

***Table no 26 Correlation between Net Profit and Total Investment***

| **Insurance company** | **Coeff. of cor.** | **Relationship** | **R2** | **Probable Error** | **(r) 6 x P.E** | **Remarks** |
|---|---|---|---|---|---|---|
| PICL | 0.853 | High degree +ve | 0.72 | 0.0823 | 0.4938 | Significant |
| EICL | -0.123 | Low degree –ve | 0.01 | 0.2971 | 1.7826 | Insignificant |
| SICL | 0.958 | High degree +ve | 0.91 | 0.0247 | 0.1482 | Significant |
| NICL | -0.934 | High degree –ve | 0.87 | 0.0385 | 0.231 | Insignificant |
| AICL | -0.138 | Low degree –ve | 0.01 | 0.2959 | 1.7754 | Insignificant |

*Source: Excell Calculation*

The table presents the relationship between investment and net profit earned by insurance companies. Premier, Everest, Sagarmatha, Neco and Alliance insurance companies have 0.853, -0.123, 0.958, -0.934 and -0.138 respectively. Premier and Sagarmatha have high degree positive relation, Everest and Alliance have low degree negative relation and Neco insurance has high degree negative correlation between investment and net profit. So, profit earned mostly depends on investment other thing remaining constant.

The coefficient of determination between investment and net profit earned of Premier, Everest, Sagarmatha, Neco and Alliance insurance companies are 0.727, 0.015, 0.917, 0.872 and 0.019 respectively. These calculation indicates the

percentage of variation in independent variable (investment) explaining the variation in dependent variable (return) of insurance companies.

From the table, significant relationship exists in case of Premier and Sagarmatha insurance. The significant relation shows the reliability of relationship between investments and net profit. Everest, Neco and Alliance companies have insignificant relationship between investment and net profit. It means there may have existed numerous errors, so the relationship shows insignificant.

#### 4.1.1.7.5 Correlation between Claims Paid and Total Premium Collection of Insurance Companies

This relation is between the premium collection and investment of particular insurance company within the five years period. . If the transaction of insurance (premium collection) is high then automatically its claim paid will also be higher. Therefore, it may have negative or positive relation. For finding out the relation, the coefficient of correlation is determined. In this term, we assume premium to be the independent variable and claim paid to be dependent due to its nature.

***Table no 27 Correlation between Claim Paid and Total Premium***

| **Insurance company** | **Coeff. of cor.** | **Relationship** | **$R^2$** | **Probable Error** | **(r) 6 x P.E** | **Remarks** |
|---|---|---|---|---|---|---|
| PICL | -0.233 | Low degree –ve | 0.05 | 0.2853 | 1.7118 | Insignificant |
| EICL | -0.142 | Low degree –ve | 0.02 | 0.2956 | 1.7736 | Insignificant |
| SICL | 0.918 | High degree -ve | 0.84 | 0.0472 | 0.2832 | Significant |
| NICL | -0.854 | High degree –ve | 0.72 | 0.0815 | 0.489 | Insignificant |
| AICL | 0.661 | Mod. degree+ve | 0.43 | 0.1697 | 1.0182 | Insignificant |

The above table shows the relationship between premium collection and claim paid of five insurance companies. The coefficient of correlation of Premier, Everest, Sagarmatha, Neco and Alliance insurance companies are -0.233, -0.142, 0.918, -0.854 and 0.661 respectively. Hence, low degree –ve correlation exists in case of Everest and Premier insurance companies while high degree +ve and –ve relation in case of Sagarmatha and Neco companies respectively. Alliance insurance company has moderate degree of correlation between claim paid and premium collection.

From this analysis, we can conclude that premier and Everest insurance pay high claim while Sagarmatha collects and pay high claim, Neco collects low premium but pay comparatively low claim and Alliance collect premium and pay medium amount of claim.

The coefficient of determination measures the degree of linear association or correlation between premium and claim paid. The Premier, Everest, Sagarmatha, Neco and Alliance insurance companies have determination of 0.054, 0.020, 0.842, 0.729 and 0.436 respectively. Hence, claim paid of Everest explains least i.e. 20% and Sagarmatha highest 84.2% by variation of premium collection and remaining by other factors.

The probable error measures the significance of the relationship between premium and claim paid. From the table we can see that the relationship between claim paid and premium collection of Premier, Everest, Sagarmatha, Neco and Alliance insurance companies are 1.7108, 1.7736, 0.2832, 0.481and 1.0182 respectively. So, comparing with coefficient of correlation 'r' except Sagarmatha insurance all other companies have insignificant relation as 6 x P.E. > r.

#### 4.1.1.8 Test of Hypothesis

A hypothesis is a tentative generalization, the validity of which remains to be tested. According to Webster, a hypothesis is a proposition, condition or principle, which is assumed, perhaps without belief, in order to draw out its logical consequence and by this method to test its accord with facts that are known or may be determined.

Here, test of hypothesis is a process of testing of significance regarding the parameter of the population based on sample drawn from the population. Generally, following steps are followed for the test of hypothesis.

- Formulating hypothesis
  - Null hypothesis
  - Alternative hypothesis
- Computing the test statistic
- Fixing the level of significance

- ❖ Finding critical region
- ❖ Deciding two tailed or one tailed test
- ❖ Making decision

#### 4.1.1.8.1"F" Test for Premium Collection

**First Hypothesis**

Null Hypothesis

$\mu_1 = \mu_2 = \mu_3 = \mu_4 = \mu_5$

There is no significant difference between total premium of Premier insurance, Everest insurance, Sagarmatha insurance, Neco insurance and Alliance insurance companies.

Alternative Hypothesis

$\mu_1 \neq \mu_2 \neq \mu_3 \neq \mu_4 \neq \mu_5$

There is significant difference between total premium collection of Premier insurance, Everest insurance, Sagarmatha insurance, Neco insurance and Alliance insurance companies.

**Computation of Test Statistics 'F', from appendix XI**

Correction Factor (C.F.) = 81,476

Total Sum of Square (SST) = 1, 73,973

Sum of Square (SSC) = 1, 42,846

Sum of Square (SSE) = 31,127

$F_{0.05}$ (Calculated) = 22.95

$F_{0.05}$ (Tabulated) = 2.87

**Decision**

The tabulated value of $F_{0.05}$ for $\mu_1 = 4$, and $\mu_2 = 20$ is 2.87. Since the calculated value of $F_{0.05}$ at 5% level is very greater than tabulated value, $H_o$ is rejected. There is significant difference between premium collections of all insurance companies.

From this test, we can conclude that the premium collection ratio also differs for all insurers. There is no equality in premium collection. For the differentiation of premium, numerous factors play vital role, which may be transaction size, insurance policy, service system, agent commission etc.

#### 4.1.1.8.2"F" Test for Investment

**First Hypothesis**

Null Hypothesis

$\mu_1 = \mu_2 = \mu_3 = \mu_4 = \mu_5$

There is no significant difference between total investment of Premier insurance, Everest insurance, Sagarmatha insurance, Neco insurance and Alliance insurance companies.

Alternative Hypothesis

$\mu_1 \neq \mu_2 \neq \mu_3 \neq \mu_4 \neq \mu_5$

There is significant difference between total investment of Premier insurance, Everest insurance, Sagarmatha insurance, Neco insurance and Alliance insurance companies.

**Computation of Test Statistics 'F', from appendix XII**

Correction Factor (C.F.) = 190.783

Total Sum of Square (SST) = 17742.1

Sum of Square (SSC) = 10969.8

Sum of Square (SSE) = 6772.34

$F_{0.05}$ (Calculated) = 8.099

$F_{0.05}$ (Tabulated) = 2.87

**Decision**

The tabulated value of $F_{0.05}$ for $\mu_1 = 4$, and $\mu_2 = 20$ is 2.87. Since the calculated value of $F_{0.05}$ at 5% level is very greater than tabulated value, $H_o$ is rejected. There is significant difference between total investments of all insurance companies.

From this test, we can conclude that the total investment ratio also differs for all insurers. There is no equality in investment. For the differentiation of investment, numerous factors play vital role, which may be transaction size, investment policy, investment sectors, collection of premium etc.

### 4.1.1.8.3"F" Test for Claim Paid

**First Hypothesis**

Null Hypothesis

$\mu_1 = \mu_2 = \mu_3 = \mu_4 = \mu_5$

There is no significant difference between total claim paid of Premier insurance, Everest insurance, Sagarmatha insurance, Neco insurance and Alliance insurance companies.

Alternative Hypothesis

$\mu_1 \neq \mu_2 \neq \mu_3 \neq \mu_4 \neq \mu_5$

There is significant difference between total claim paid of Premier insurance, Everest insurance, Sagarmatha insurance, Neco insurance and Alliance insurance companies.

**Computation of Test Statistics 'F', from appendix XIII**

Correction Factor (C.F.) = 109.954

Total Sum of Square (SST) = 3613.54

Sum of Square (SSC) = 1671.93

Sum of Square (SSE) = 1971.93

$F_{0.05}$ (Calculated) = 4.305

$F_{0.05}$ (Tabulated) = 2.87

**Decision**

The tabulated value of $F_{0.05}$ for $\mu_1 = 4$, and $\mu_2 = 20$ is 2.87. Since the calculated value of $F_{0.05}$ at 5% level is very greater than tabulated value, $H_o$ is rejected. There is significant difference between claims paid of all insurance companies.

From this test, we can conclude that the claim paid ratio also differs for all insurers. There is no equality in claim paid. For the differentiation of claim paid, numerous factors play vital role, which may be transaction size, insurance policy, service system, collected premium, claim paid system etc.

### 4.1.1.8.4"F" Test for Net Profit

**First Hypothesis**

Null Hypothesis

$\mu_1 = \mu_2 = \mu_3 = \mu_4 = \mu_5$

There is no significant difference between net profit of Premier insurance, Everest insurance, Sagarmatha insurance, Neco insurance and Alliance insurance companies.

Alternative Hypothesis

$\mu_1 \neq \mu_2 \neq \mu_3 \neq \mu_4 \neq \mu_5$

There is significant difference between net profit of Premier insurance, Everest insurance, Sagarmatha insurance, Neco insurance and Alliance insurance companies.

**Computation of Test Statistics 'F', from appendix XIV**

Correction Factor (C.F.) = 2556.27

Total Sum of Square (SST) = 3376.31

Sum of Square (SSC) = 3056.14

Sum of Square (SSE) = 320.165

$F_{0.05}$ (Calculated) = 47.727

$F_{0.05}$ (Tabulated) = 2.87

**Decision**

The tabulated value of $F_{0.05}$ for $\mu_1 = 4$, and $\mu_2 = 20$ is 2.87. Since the calculated value of $F_{0.05}$ at 5% level is very greater than tabulated value, $H_o$ is rejected. There is significant difference between net profits of all insurance companies.

From this test, we can conclude that the net profit ratio also differs for all insurers. There is no equality in net profit. For the differentiation of net profit, numerous factors play vital role, which may be transaction size, insurance policy, service system, agent commission, claim amount, premium collection, investment sector etc.

**Contribution of Insurance Business in GDP**

Insurance companies are the major financial institutions. Integrated and speedy development of the country is possible only when a competitive insurance service reaches nooks and corners of the country. Insurance companies occupy quite an important place in the frame work of every economy because it provides certainty to the industry, business and capital for the development of industry, trade and business investing the fund collected as premium.

Insurance companies are capable of providing industrial finance, government finance or even personal finance. They provide different finance through their own investment policy pattern based upon their own corporate objective and nature of the line of insurance business. Therefore, insurance companies have played a vital role in increasing gross domestic product (GDP). The following table shows the GDP of insurance companies from fiscal year 052/053 to 064/065.

(Figure in NRs. 10 million)

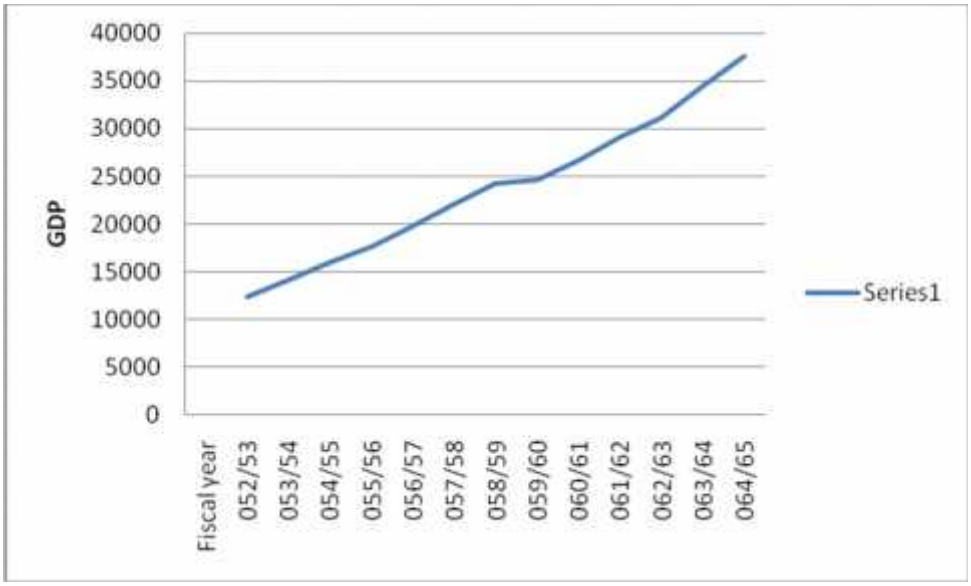
***Table no 28 GDP on Nepalese Economy by Insurance Companies***

| Fiscal Year | GDP (from non- agricultural sector only) | Total Gross Insurance Premium | Percentage (b/a x 100%) |
|---|---|---|---|
| 052/53 | 12440.7 | 92.22 | 0.74 |
| 053/54 | 14249.2 | 123.61 | 0.87 |
| 054/55 | 16078.5 | 137.22 | 0.85 |
| 055/56 | 17730.3 | 161.25 | 0.91 |

| | | | |
|---|---|---|---|
| 056/57 | 19764.5 | 161.57 | 0.82 |
| 057/58 | 22112.0 | 183.15 | 0.83 |
| 058/59 | 24299.3 | 219.25 | 0.90 |
| 059/60 | 24599.4 | 316.24 | 1.29 |
| 060/61 | 26644.2 | 372.78 | 1.40 |
| 061/62 | 29077.2 | 446.50 | 1.54 |
| 062/63 | 31081.0 | 579.13 | 1.86 |
| 063/64 | 34504.2 | 641.19 | 1.86 |
| 064/65 | 37554.37 | 726.09 | 1.93 |

*Source: Insurance board (htpp://www.bsib.org.np) 2007*

***Chart No.23 GDP by Insurance Companies***




From the above presented table, it is clear that the amount contribution by insurance companies in GDP is increasing every year. But, the percentage of GDP by insurance companies to total GDP by non agricultural sector has fluctuate nature. It is due to the unequal increase with respect to each other. In the condition the amount increased in total GDP is very much than amount increase in GDP by insurance. It means percentage increase in total to insurance is differing. Therefore, in some fiscal years the percentage of GDP from insurance is decreased by some values. In fiscal year 052/53, the GDP of insurance companies is only 0.74% of total while it increase year by year and reach 1.29% in 059/60. After that, the input in GDP by insurance

companies increases by greater amount and reach 1.86 in 062/63. The insurance board has estimated of 1.86% of GDP by insurance in 063/64 and projected of 1.93% in 063/64.

In conclusion, we can say that insurance companies are also the main source of GDP which role cannot be neglected. From the trend of line graph, it is clear that its involvement in GDP will increase year by year.

**Existing Problems for the Growth of Nepalese Insurance Companies**

It is, no doubt, obvious to have progressive approach by any institution. However, if the different circumstances come to play anti-role for their healthy growth, that is, of course, unpleasant condition. As far as the problems for the growth of Nepalese Insurance Companies are concerned, it comes to be necessary to cite some points in this context. These are as follows:-

**1. Limited scope for business**: - The volume of business is, undoubtedly, one of the key factors to check about any company's economic condition. The limited resources, land locked background, inefficient utilization of exited resources & political unsuitability etc. are seemed responsible for playing anti-role in the context of not getting proper opportunity for increasing business activities in the Insurance field.

**2. Great competition among existed companies**:- The interest of getting business of the present existed so many General Insurance Companies comes to meet with each other due to lack of volume of insurance business in the market. The popular sentence that one's gain is other's loss comes to be suitable in Nepalese Insurance field.

**3. Lack of awareness**: - The backbone of development of Insurance field is awareness about the importance of its coverage. In Nepalese context, it is seen that people get their property insured only coming under Bank or other financial institution's compulsion. As far as getting, their personal property insured is concerned they show their passive reaction about that. Only, the nominal case comes to be seen in that case.

**4. Educational level**: - Education, undoubtedly, plays vital role for the growth of any sector. Moreover, this level is found low (below 50%) in Nepal. Naturally, this found

unpleasant (condition) educational average is affecting adversely for the growth of Insurance Development in Nepal. On the one hand, we find poor condition about overall educational performance, the other side; the government policy is not conducive to develop the influence of Insurance education.

**5. One sided economic condition**: - The paradox of Nepalese economic condition is to be one sided in nature. In spite of being maximum part of Nepal "rural", the economic condition is found centred on limited town. Naturally, the existed insurance companies in town are facing tight competition as well as unhealthy.

In this way, these sorts of problems are generally seen in Nepalese Insurance Market Field. Fro the long lasting growth and development of insurance companies all sectors should work together and try to overcome the problems.

## 4.2 Presentation, Analysis and Interpretation of Primary Data

Primary data are the first hand data, which are relevant for analysis in a meaningful manner. Thus, primary data are collected for the first time from the related field and possessing original character. Primary data are also called field data.

This chapter concentrates on using the aforementioned methodology to meet the objectives of the study and set forth a logical and qualitative framework to recommended probable solution to the problems that is in herein within investment and premium collection aspect of the insurance industry. For this proposes, some the collected questionnaire answers are analyzed and studied. The questioner was distributed to the management and the respective insurers. The respondents were regarded as the representative of the entire management for the purpose of analysis and classification of the primary data, a simple ranking method is used where ever felt appropriate. While ranking, rank 1$^{st}$ was assumed as top most prioritised and the last number imparted for the query was assumed as last prioritised. Where the ranking was not possible or necessary, a simple objective (yes / no) question was used. For classification of the views, percentage method was used, considering the total number of respondent as 100%. Further, such classification was supported with the graphical and tabular presentation, wherever necessary.

A sample of questionnaires is attached in the Appendix – XVII**.** The number of respondents for the queries has differed due to the differentiation regarding the

formation of the insurers. So, the number of respondents for each query is shown in sample questionnaire separately. Altogether, views of 60 respondents including staff, experts and concerned persons of sample insurance companies, insurance board, and Rastrya Beema Sasthan are taken in preformatted questionnaire sheets.

The focus of study is on premium collection and investment and the problems faced by insurance companies, so questionnaires are prepared for fulfilling the objectives.

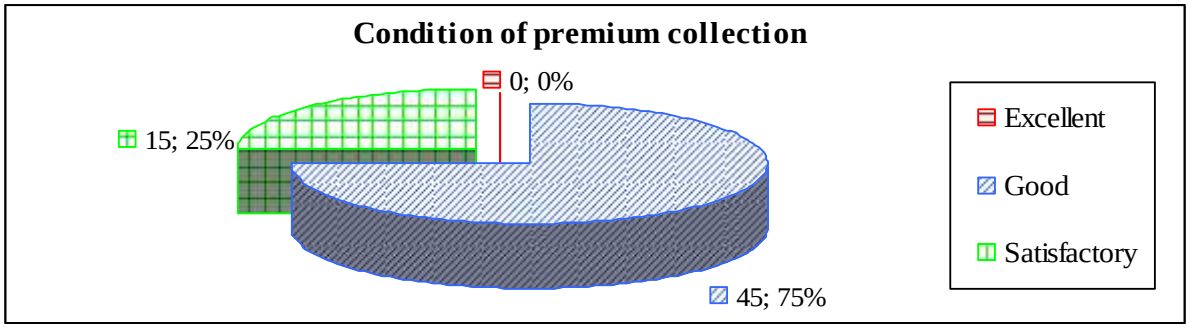
**Evaluation of Viewer Regarding the Premium Collection Aspect**

To evaluate the insurer views relating to the premium collection aspect of the insurance companies, a set of questioners was used, which contents number of questions relating to premium and its collection system. The questioners are concerned with present premium collection system, premium rate, premium collection ratio etc. In this aspect, the queries and the views of respondents regarding those queries are presented as such.

### 4.2.1 Condition of the premium collection at present situation

This query was intended to find out the condition of premium collection of Nepalese insurers. Nowadays, there is high competition in every field of business, so insurance is not far from this. Therefore, because of high competitive market, every insurance company have to labour more. The competition has directly affected the premium collection. The following chart shows the number of person and percentage in the favour of options given in the opinion survey.

***Chart No.24 Premium Collection Condition of Insurance Companies***

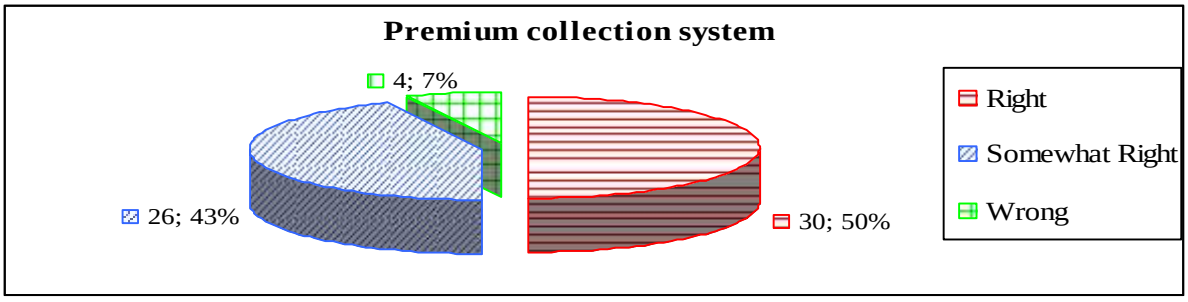


According to the viewers, around 75% of the companies are in good situation in collecting premium where about 25% are in satisfactory situation. No one company is in excellent situation in collecting premium.

### 4.2.2 Premium collection system of insurance company

The system of collecting premium is differing to each other according to their objective and policy. However, they cannot run off from the act. This query was intended to find out the condition of premium collection system Nepalese insurer. This question is theoretical aspect. There are so many factors, which the question was attended. The following chart shows the number of person and percentage in the favour of options given in the opinion survey.

***Chart No. 21Premium Collection System of Insurance Companies***



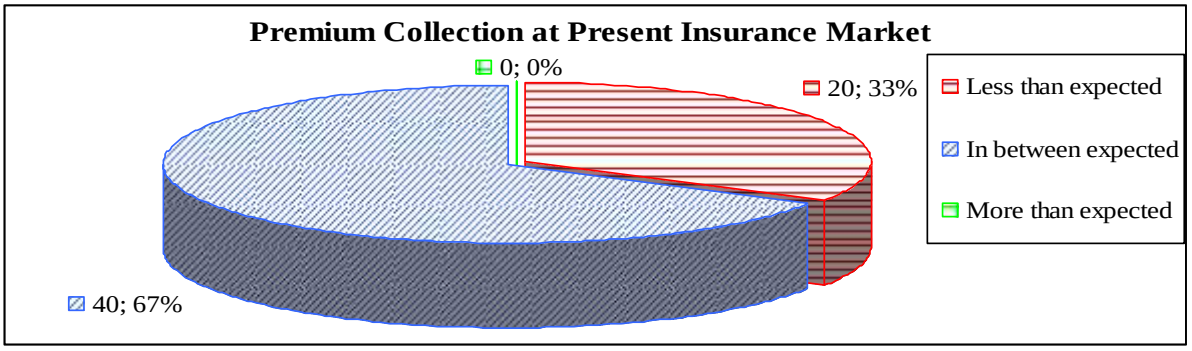

Among the entire viewers, 50% are in the favour of first option 'Right, around 43% are in the favour of 'Somewhat Right' and about 7% are in the favour of 'Wrong'. From this view, it can be concluded the premium collection system of insurance companies is not in good stead, it should be made corrective so that companies can collect more premium through best system and method.

### 4.2.3 How is the collection from premium at present insurance market

This query was intended to find out the collection trend and present collection ratio of premium at Nepalese insurer from market. This opinion gives us the position of premium collection of Nepalese insurance company and whether they are able to

meet their target or not. The following chart shows the number of person and percentage in the favour of options given in the opinion survey.

***Chart No. 22 Premium Collection at Present Market***

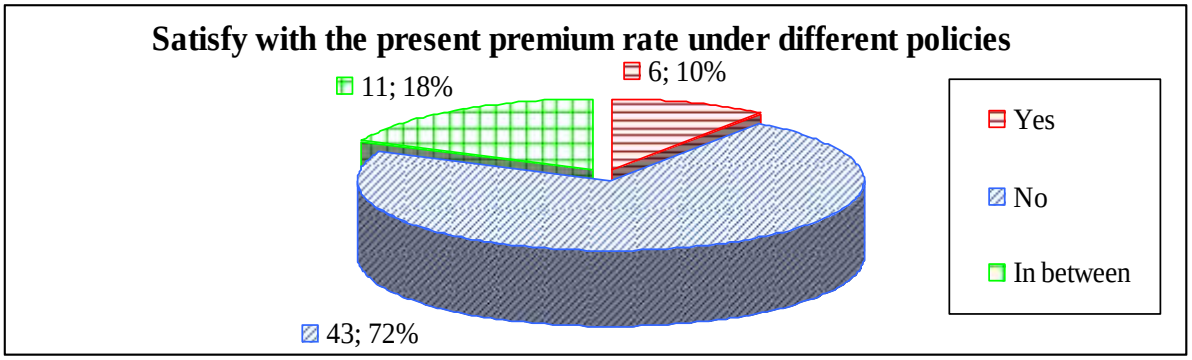



Among the viewers, around 67% of the viewers have found that they are able to collect the target premium in between expected, that is they are just to meet the target. Other 33% found that their target of collection of premium is less than expected. No one is in the view of premium collection more than expected.

### 4.2.4 Insurance company's satisfaction with the rate of premium

In order to find out the views of insurer regarding the premium rate on different heads or policy, this question is included in the query. As insurance board directly regulate and fixed the rate of premium under different policies, this query is forwarded to know the opinion about whether they are satisfied or not. The following chart shows the number of person and percentage in the favour of options given in the opinion survey.

***Chart No.23Premium Rate at Different Policies***

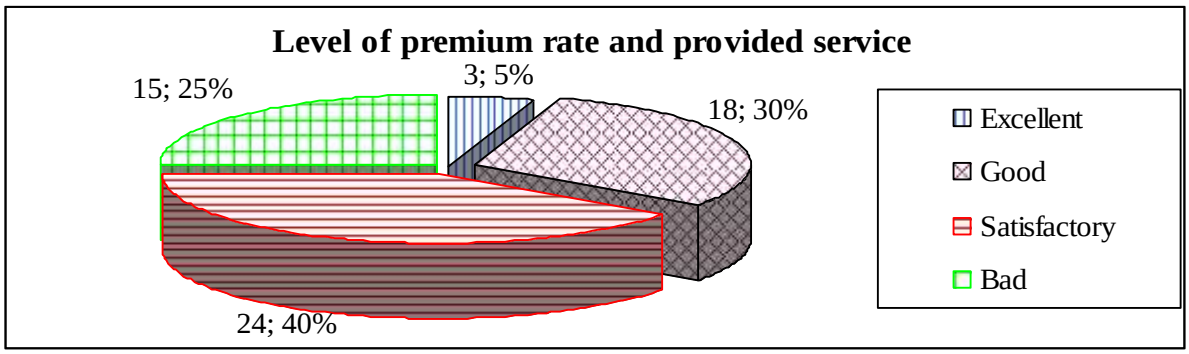



From the above chart, it is clear that more than 72% of the viewers are not satisfied with the present rate of premium. Only 10% in the favour of present rate and 18% of the persons think that they are in between. So, with the above data collected, we can conclude that most of insurer want change in premium rate which should be fixed by formulating a committee including them.

### 4.2.5Customer/clients satisfaction with premium rate and provided service

Premium is the amount that the customer has to pay for being insured. The rate of premium varies between the same nature of company not exceeding and below the range fixed by the insurance act. In order to find out whether customer or clients are satisfaction with premium rate and service provided by insurance companies this query is included. This type of question is verbally asked to the persons coming for service to the concerned companies. The following chart shows the number of person and percentage in the favour of options given in the opinion survey.

***Chart No.24Level of Premium Rate and Provided Services***




The above chart and table shows that only 5% of the customers are fully satisfy with premium rate and provided service by the insurance companies. About 18% of the viewers have good experience of service provided by the companies and the

premium rate while more than 40% have satisfactory level. More than 25% people are badly responses by the insurance companies and are not satisfy with the present rate of premium and trend of collecting premium.

## Evaluation of Insurer Views Regarding the Investment Pattern Aspect

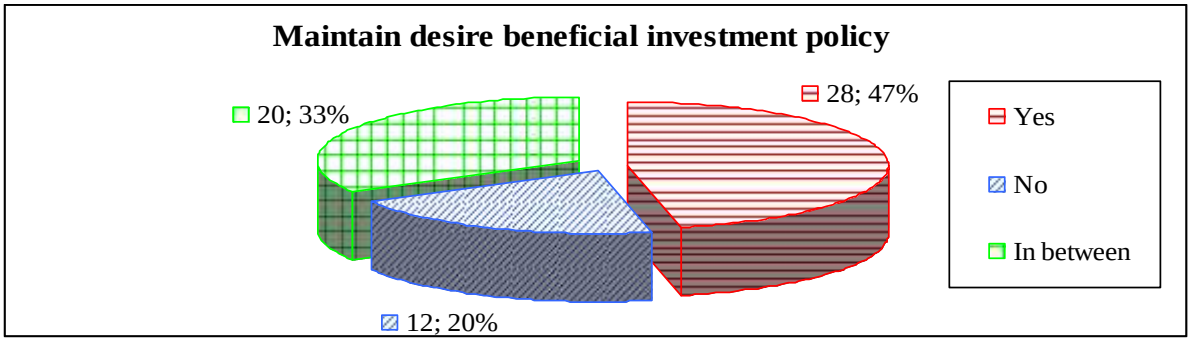
### 4.2.6Concerned with investment management and portfolio

For success, plan, policies and effective management must be well designed and applied. To find out how well insurance companies are aware about it, this query is intended. Through this question, the weight given by the insurer to their functioning is, as financial institution through investment management can be known. Here, 100% of insurers are in the favour of option 'significant concern'. It means all of the companies invest their fund according to the investment management and portfolio.

### 4.2.6.1 To maintain desired / maximum beneficial investment policy

This question was intended to find out the present status of the insurer related to the investment policy and their perception regarding the present environment. Here, the opinions of the viewers are segregate in term of maintaining desired level of investment policy. The following chart shows the number of person and percentage in the favour of options given in the opinion survey.

***Chart No.25 Following Beneficial Investment Policy***



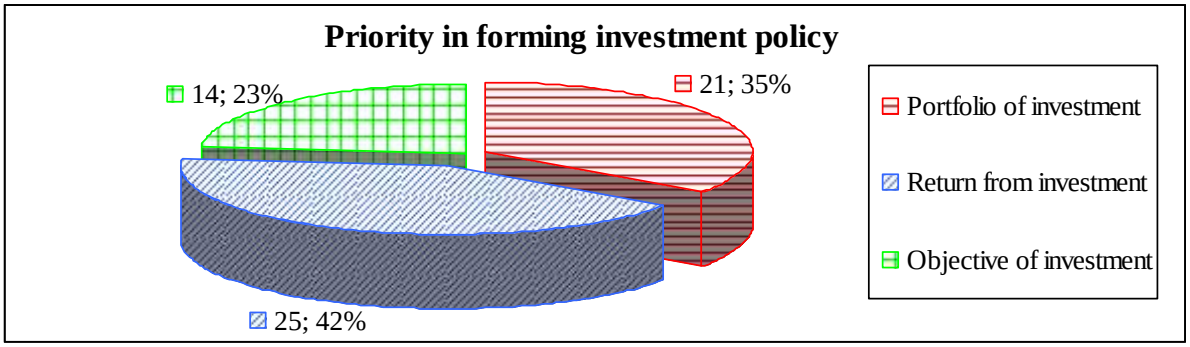

From the chart above, we can say 47% of the viewers think that insurance companies are success to maintain the desired beneficial investment policy as they have planned

to implement. About 33% are in between and 20% of the viewers are in against regarding to maintain desire beneficial investment policy.

### 4.2.6.2Priority in formulating investment policy

As different companies give focuses to different terms and conditions, to find the views of insurer regarding the priority in forming investment policy, this query is mentioned in questionnaires. The following chart shows the number of person and percentage in the favour of options given in the opinion survey.

***Chart No.26 Priority in Forming Investment Policy***

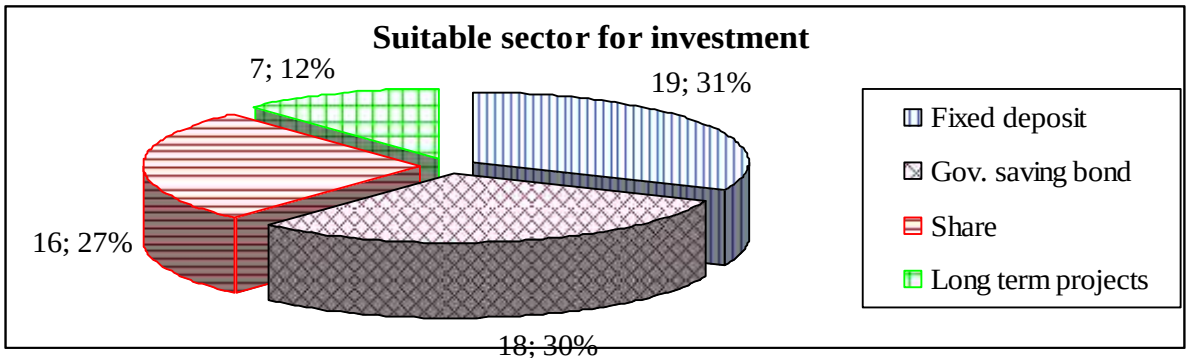



Above chart shows that about 35% of the viewer are in the favour of giving priority in portfolio while forming investment policy. About 42% think that they should focus on return from investment and 23% are in the opinion of objectives. Therefore, viewers are totally diversified in the case of giving more priority while formulating investment policy.

### 4.2.6.3Suitable sector for investment

More premium collection only cannot neither fulfil the companies' objectives nor meet the target of companies' profit. Therefore, for getting the objective and increasing the wealth of companies, every company should invest their collected fund in most profitable, liquid able and secure sector. So, to know in which sector today insurance companies are investing, this query is prepared. The following chart shows the number of person and percentage in the favour of options given in the opinion survey Suitable Sector for Investing Fund

**Chart No.27 *Suitable sector for investment***

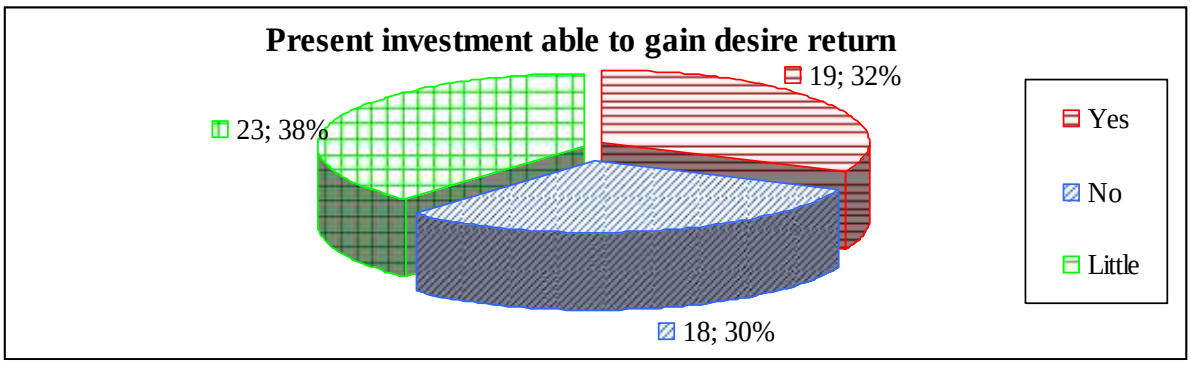



The above chart shows that the investment sector is different for different insurance companies. About 31% of the viewers are interested to invest the collected premium and fund in fixed deposit while 30% wants to invest in government saving bend, 27% in share of different companies and 12% in long-term projects. The upper three sectors are the use to insurance companies, which get more weight. 12% of the viewers are interested to invest in new sector like long-term projects.

### 4.2.6.4 Able to get desired return from investment

Choosing the best method and sector of investment only does not fulfil the objective of the companies. To determine the success, one should look into the return of investment that the company. Thus, this query is intended to find out whether insurance companies are able to get the desire return form the investment or not.

***Chart No 28 Gaining Desired Level of Return from Investment***

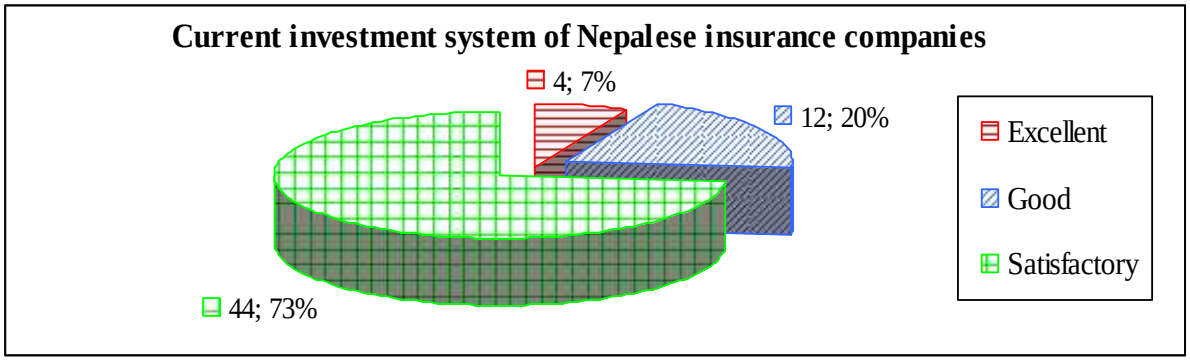


Among the observed query around only 32% of the viewer, think that they are getting the desired level of return from present return. Besides these about 30% of viewer are in against and suggest improving the investment policy or sector as they have seen that the return from the investment in present context is not sufficient. About 38% of the viewers give opinion that only little return is gaining from present investment so need to improve this situation.

#### 4.2.6.5 Current investment situation of Nepalese insurance companies

This question intended to find out the weight given by the insurers to the current investment system of Nepalese insurance companies. Now a days we are facing critical crises and worse situation in national economy, which directly affect the insurance companies also. For finding how well companies are taking this situation, this query is forwarded. The following chart shows the number of person and percentage in the favour of options given in the opinion survey.

***Chart No 29 Current Investment System of Insurance Companies***




Among the observed query, around 73% are in the favour of the option satisfactory. It means Nepalese insurance companies are facing problems from current situation. Other 20% viewer think that the current system of investment is good and only 7% are in the favour of excellent option. This observation and figure clearly shows that the current investment systems of Nepalese insurer are not so bad and excellent and good, it is about in satisfactory position.

**Evaluation of Insurer Views Regarding the Current Situation, Problems Facing and Others Aspect**

### 4.2.6.6Role of insurance business for economic growth of country

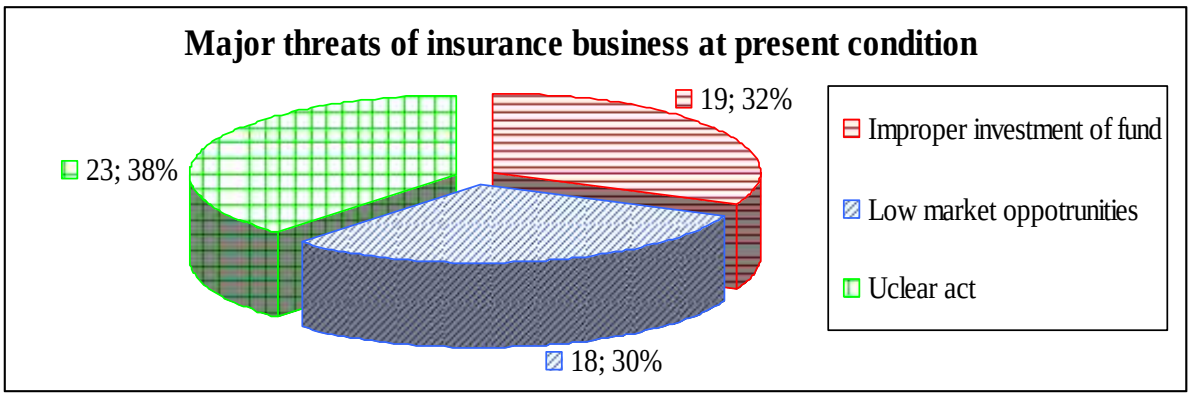
In order to find out the contribution of insurance companies in Nepalese economy, this query is included. As every business or financial institution helps to develop the economy situation of the country, insurance companies are not separate from it. Insurance companies have great role in developing economic condition as it provides investment fund and large number of employment opportunities.

All the viewers have the same opinions regarding the role of insurance company in economic growth of country i.e. significant role. No body has said of insignificant and minor role. Therefore, we can conclude that insurance companies have great deal of role in economic growth of the country.

### 4.2.6.7 Major threats of insurance business at present condition

Due to the liberal and global economic system, every financial and business company are facing new threats and problems and looking after the opportunities bringing by it. In the similar way Nepalese insurance companies also have many threats, to find out the major, this query is prepared. The following chart shows the number of person and percentage in the favour of options given in the opinion survey.

***Chart No 30 Major Threats of Insurance Companies***



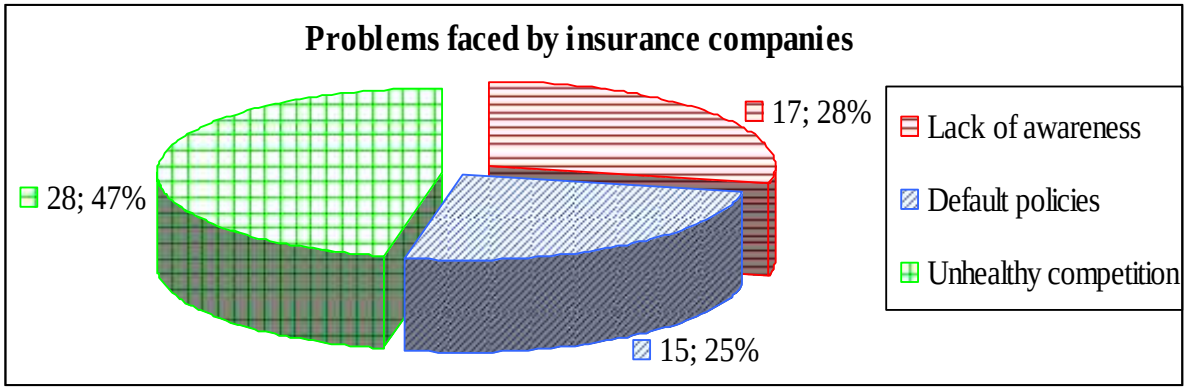

The above chart and figure show that 32% of the viewer accept improper investment of fund as major threats while 30% take low market opportunities as threats and

highest percentage of 38 think unclear act published by government regarding insurance business is major threats. So, different viewers accept different types of threats as major.

### 4.2.6.8 Problems facing by insurance companies

Due to many national and international conditions and situations, many problems are emerging as the day and month passing on. Nepalese insurance companies have to face many problems on their operation and policies. In order to find out the major problems facing by these companies, this query is included. The following chart shows the number of person and percentage in the favour of options given in the opinion survey.

***Chart No 31Problems Facing by Insurance Companies***



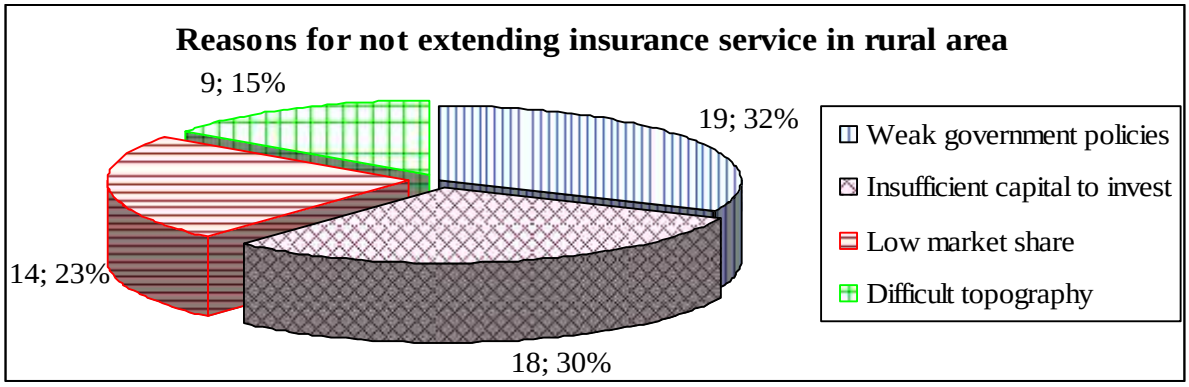

Among the viewers, 28% accept lack of awareness as major problems by insurance companies while 25% think the main problem is default policies of government and companies too. Rest 47% of the viewer consider unhealthy competition is the main problems, which the insurance companies are facing now. As the numbers of companies are increasing day by day, companies are practicing unhealthy competition for their existence and growth.

### 4.2.6.9 Reasons for not focusing rural area by insurance companies

As most of the insurance companies focus only in the urban area, this question is forwarded to find out the actual reasons for it. Rural area also has great market

opportunities and needs insurance companies. However, Nepalese companies are giving not priority for this. Therefore, I asked this question to the some experts and general people to find out the actual reason. The following chart shows the number of person and percentage in the favour of options given in the opinion survey.

***Chart No 32 Forces not to extend Insurance Service in Rural Area***

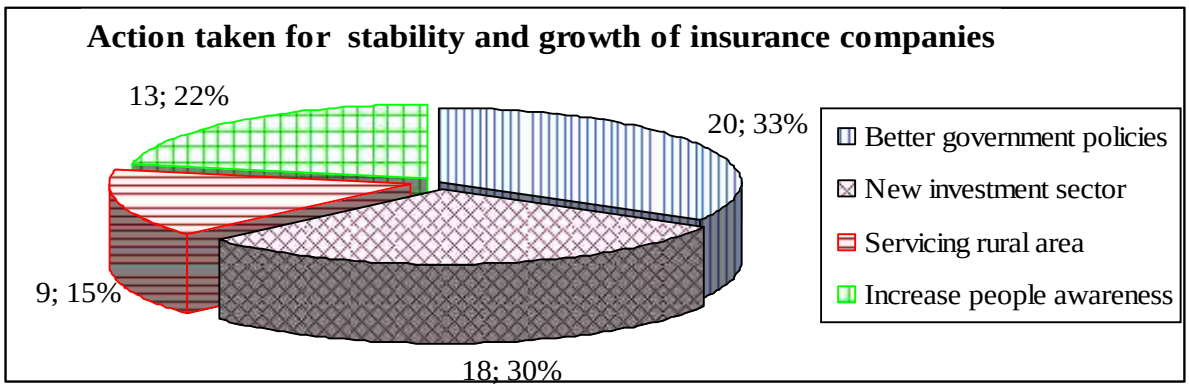



From the chart presented above, we can say that neglecting services in the rural area is not of only one reason. All the reasons presented above play role for it. According to it, 32% of the viewer think that it due to weak government policies, 30% think that of insufficient capital to invest, 23% suppose due to the low market share and only 15% people emphases on the difficult terrain and topography.

### 4.2.6.10To be done for the stability and growth of insurance companies in Nepal

Insurance companies are also considering as the major financial transaction institution. They have play a very much role in developing economy condition of the country and provides better services, recover damages, control on risk, contribution on gross domestic product (GDP), they should be control, supervise and develop significantly and effectively. To query about the most essential factor, this question is included here. The following figure and chart show the number of persons in the favour of options in the opinions survey.

***Chart No 33 Improvement for Stability and Growth of Insurance***




The above figure and chart tells us that we should take necessary step for the growth and stability of insurance companies. About 32% of the viewers suggest for the better government policies, 30% of viewer think to invest the fund in new area, 15% of people suggest extending the insurance service to rural area also and 22% of viewer suggest improving on people awareness about insurance need and importance.

### 4.3 Major Findings of the study

This chapter concentrated on drawing the conclusion of all analysis and providing suggestive package of premium collection and investment aspect of Nepalese insurance industry with the help of secondary and primary data.

In accordance to the study and analysis of 'Investment pattern and composition' and 'premium collection and composition', it will be clear that the Nepalese insurance industry were not following generally accepted principles of investment and the investment components. Likewise, they have not similarity in premium chargeable rate and collection rate too, under different policies, since establishment to till now.

Based on secondary data presentation and analysis some important findings were as follows:

- Earning per share of insurance companies is fluctuate nature. Sagarmatha insurance has only increasing trend in EPS. Everest insurance has highest EPS of Rs.65.20 in 061/62 while Neco insurance has the lowest 0.58 in 065/66 Premier and Everest insurance have comparatively higher EPS while Sagarmatha has medium and Neco & Alliance has lower EPS.
- Market value of share of insurance companies are differ form each other and their trend is also fluctuate by the year passes. Premier, Everest, Neco and Alliance

insurance's MPS are decline from the beginning year of 061/62 to ending year 065/66. Only the Sagarmatha insurance has increasing trend as its MPS reach Rs.185 in 061/62 to Rs.210 in 065/66. The variation in market price is due to increase in number of shares and high competitions among companies.

- The insurance industry has not consisted in the investment proportion of various investment sector and investment portfolio too but they have similarity in investment sectors, however the return on premium and interest earn to total premium collection ratio of insurance industry are in fluctuate trend in study period.
- Among the insurance policy, the ratio of premium collection is higher in fire insurance and motor insurance and lower in marine and engineering policy.
- Claim paid ratio is increasing according, but the percentage increase is very low in respect to increase in premium collection.
- Return on investment is not satisfied, as the maximum return is only 18.73% and minimum is 0.29%. The average of return on investment of insurance of five years is about 9.60%. Interest earned on investment is also lower that is only 6.23% in average.
- Investment on premium shows that more than 50% of premium amount is investment in different sector. The percentage is up to 111% due to investment from other source like capital and share.
- The trends of investing the fund of insurance companies are limited. They are investing in only specified or certain sectors. The bank deposit amount covers more than 75% of total investment, then in government bond, share and emergency investment fund respectively. So, they extend their investing sectors for more return and profit.
- The trend analysis of Aggregate premium collection and investment shows that there is increasing trend in premium collection and investment amount but has fluctuating trend in respective policy.
- The coefficient of correlation between investment and average net profit earned seems to be high degree of positive and significant relationship in case of Premier and Sagarmatha insurance, low degree negative and insignificant relationship in case of Everest and Alliance insurance and high degree negative and significant relation in Neco insurance.

- The coefficient of correlation between premium and investment of Nepalese insurance industry has low degree of negative correlation with insignificant relationship.
- The analysis of correlation between premium collection and investment of sampled companies show different relationship among the companies. Except Sagarmatha insurance, other insurance have insignificant relationship.
- The coefficient of correlation between net profit and premium collection of insurance companies show that Premier and Sagarmatha insurance have significant relationship while other three companies have insignificant relationships.
- The analysis of correlation between premium collection and claim paid of sampled insurer and industry has negative relationship. However, Alliance insurance has moderate degree of positive relationship and the probable error shows insignificant relationship between premium collection and claim paid except significant relationship of Sagarmatha Insurance.
- The test of hypothesis of total premium amount of five-sampled insurer has significantly different. It indicates that the premium amount of companies has differed.
- The test of hypothesis of total investment amount of five sampled insurance companies has significantly different. It indicates that the investment amount of companies has differed.
- 'F ' Test for claim paid of insurance industries seems that, there is significant difference in claim paid. Hence, the claim paid is also differ among the Nepalese insurer.
- The test of hypothesis 'F' statistic of an income earned is significant different at 5% Level of significance. It means there is variation in income earned ratio of Nepalese Insurance Industry.
- From the analysis of GDP in Nepalese economy by insurance companies is increasing year per year. However, the ratio is not satisfied in respect to total GDP.
- Various problems are existing for the development and growth of insurance companies in which main are limited scope for business, great competition among existed companies, lack of awareness, educational level and one-sided economic condition.

Based on empirical investigation i.e. primary data, data were collected, presented, and analyzed. Some important findings can be drawn from the investigation, which were as follows:

- In the case of premium collection condition of Nepalese insurance, there are variations of view. 75% of the insurers are side of good, 25% are in side of satisfactory and none is in side of excellent. But, 50% of the viewers are satisfied with the premium collection system and rest 43% and 7% are in side of somewhat right and wrong system.
- However, almost, of the insurer can collect the premium under their target. Only 33% of the insurer cannot collect under target and 67% are able to collect in between target. However, more than 72% of the insurance are not agree with the premium rate that is issued by Beema Samittee (Government of Nepal).
- Regarding customer's satisfaction of service and premium rate, different result has come out. About 5% have excellent service while 30% are in good side, 40% are in satisfactory side and 25% are satisfied with present premium rate and services.
- The premium collection rate of Nepalese insurance industry has been fluctuating trend under all respective policy in each year and differentiation in investment amount with respective investment sector (optional and compulsory).But almost of the insured chargeable rate of premium is based on Beema Samittee's regulation. However, as for life insurance, premium is calculates personal character sticks of insured person under based on Beema Samittee' regulation and policy.
- Almost of the companies followed the investment policy at investing a fund but some insurer give less importance on investment policy and they invest their fund only accordance to government rules and regulation and management desire. Although the entire insurer concerns with investment management and they heartily accepted if too.
- All the insurer or insurance industry prefers the portfolio to investment a fund and they accept its essence in investment. However only 47% of insurer utilizes and maintain the maximum beneficial investment policy among the insurer. Among the investment sectors 31%of the insurer addressed their importance in fixed deposit, 30% are in side of government saving bond and rest favoured to make combination of investment sectors. Their views show the higher preference to bank fixed deposits of insurer.

- Giving priority while forming investment policy, more than 35% are in side of portfolio, 42% concerned with the return form investment and 23% give priority to objectives. So, most companies now are focusing on the return from the investment.
- Regarding the earning desired return from the investment, 32% are able to get desired level of earning while 30 are unable to reach desired level and 38% earn only little in desired earning.
- From the data collected from the viewer, 7% think that current investment system of insurance companies is excellent while 20% think of good and remaining 73% are only satisfied with present investment system.
- Like other business, insurance business has also very much contribution on economic growth. There is no different view on it. Viewers think improper investment of fund, low market opportunities and unclear act as major threats of current insurance business in Nepal.
- The major problems indicated are lack of awareness, default policies and unhealthy competition and the focus is on unhealthy competition among companies.
- Viewers pointed 32% on weak government policies, 30% on insufficient capital to invest, 23% on low market share and remaining 15% in difficult topography as the reasons for not extending insurance business in rural area.
- 33% of companies expect better government policies, 30% think to invest in new sector, 15% desire to extend business in rural area and 22% want to increase people awareness for the stability and growth of insurance companies.

# CHAPTER-V

# Summary, Conclusion and Recommendation

## 5.1Summary

Insurance contributes to society by favourably affecting the apportionment of the factors of production, engaging in loss prevention activities, identifying losses serving as a basis of the credit structures, eliminating worry and providing a channel for investible fund. Insurance has been introduced to safeguard the interest of people from uncertainties by providing certainty of payment at a given contingency.

According to nature, characteristic and objective of the insurance company, they are also referred to as financial intermediaries. In the 21st century's business age, it plays vital role through beating and providing certainty. Therefore, insurance is an assist of world's economy.

As significant differences in the nature of insurance, mainly there are two types of insurance life and non-life. Life and non-life premium is non-refundable. For life insurance companies, they have to refund the premium that collected to insured with bonds. However, general insurance does not have such burden. That is why the premium collection of both businesses dealt in different headlines. Insurer charges the premium differently accordance to nature of risk. Thus, the judgement and personal evaluation play vital role in rating/fixing premium.

Investment means to out-flow of the fund at adjustable return. For investing, investment pattern is the formulation of the investment strategy based upon the organizational and financial character of the particulars firm itself. Investment policy will be the preliminary decision of selecting the proper investment sector based upon single or joint consideration of safety, liquidity, marketability, profitability, and stability or else. Usually, such investment pattern aims at arriving to the optimized or agreed mix of risk-return from the investment. Investment fund for the insurance companies are the excess amount after claims paid and managerial expenses. Premium collection and investment are the major tasks for every insurance company. More premium collection means more income and more investment means more return. Therefore, this study is concentrate on the premium collection and investment position and pattern of Insurances Industry in Nepal. Companies are aimed at evaluating and analyzing the premium collection trend, investment sector and ratio.

In the context of Nepal, insurance business is one of the business, which has not any loss and it suffered at profit from establishment date to till now. But the trend of premium collection investment and profit earned are fluctuated. There is no informality rate of premium of insurance policy, which regulates by government (Beema Samati) is also unscientific. It is needed to restudy and reanalysed as for present condition and situation. The insurance act 2049-aimed regulation should be clear enough to guide the investment – related matter to a direction. The regulatory

limits relating the investment should be promptly changed according to the change in over all economy and money capital condition.

After the formation of Nepal insurance association, the companies can place their problems jointly to the government and go forward for the interest and benefit of insurers. This platform should be taken an opportunity.

Insurance business is found in urban area only. In Nepal, there is the possibility of extending the insurance business in remote area. This party can be taken as an opportunity.

Among the 21 insurance companies, the study has been taken to evaluate the premium collection and investment pattern of industry through the sample basis. The study analysed the annual report of five years starting from 058/59 to 063/64 of Premier, Everest, Sagarmatha, Neco and Alliance insurance are taken for the purpose of the study. Primary and secondary data are collected from relevant sources and to revel the problems, financial as well as statistical tools are applied. The recommendation is provided based on findings from analysis.

In this study, an attempt is made to find out and provide independent views of the premium collection and investment pattern of insurance companies. For the presentation, analysis and evaluation primary and secondary data from the various sources are taken like annual reports of respective companies and other applicable sources as well as journals, articles, newspaper related to concerned subject matter. Necessary help is taken from insurance board, Nepal stock exchange, and relevant web sites.

## 5.2 Conclusion

As there is no any evidence of establishment of insurance companies, people were engaging in Guthee. In Nepal, the history of insurance companies began only after the 2024 under the Nepal Company Act, 2021. A year later, the company started operating with same name but under National Insurance Corporation Act, 2025. On 2030, five years after its establishment, life insurance was introduced. However, due to unclear act and policy only few companies came into existence. The growth of insurance business starts effectively only after the Nepal insurance act 2049. After

the 2049, a number of insurance companies are established and working which is going today also. Altogether, there are 21 insurance companies until 2064.

Ratio analysis and trend analysis show that as the transaction amount is increased, the increase in percentage is not so satisfactory. Increase in premium collection has fluctuate nature and investment fund is low in comparison to others financial companies. Nepalese insurance has followed traditional policy. They are not innovating modern and developed method and policy heads for collecting premium. Under only limited insurance heads, they are providing services. Similarly, in very few sectors, insurance companies are investing their fund. They have seen only the fixed deposit and government saving fund as save and risk free sectors. Some insurance companies have net return low than interest received from deposit.

Similarly, EPS and MPS of insurance companies are not satisfactory in respect to other financial institution like bank and finance. Even some insurance companies have lower rate of income than interest received form fixed deposit and market share value lower than called up price. For increasing these sectors, better performance and result should be drawn out.

Because of poor performance of premium collection and mobilization i.e. investing in suitable sectors, insurances companies are unable to meet the target and are unable to contribute great percentage in GDP. As the amount, contribution in GDP is increasing and the role of insurance companies in economic growth is significant but percentage increase is not in ascending trend. Insurance companies occupy only 1.86% of total GDP until 063/64.

Although, Nepali insurance industry runs smoothly with profit, they faced various problems. The main problem is cut throat competition because of the liberalisation and privatisation. Under rating, price-cutting and unhealthy competition are the problems of insurance business in Nepal. Submission procedures for claim and premium are not clear to clients. Thus, there is delay in claim settlement. The volumes of transaction are increasing tremendously year by year but the growth of net earning is not in the same ratio. It is because of private waiting under raining and cut-throat competition in the market.

## 5.3 Recommendation

The recommendation are made as per the analysis of primary, secondary, and valid findings from study as well as relating information about Nepalese insurance industry. They have barrier from government rules and regulation and through other relevant side these correctives action needs to be introduced:

- All insurance companies must take some steps to decrease the inconsistency. Therefore, the companies must start research and development programme train their work force effectively and scientifically.
- The entire insurer should follow the investment policy and improves its management. In addition, should maintain and make uniformity on premium collection under all insurance policies and should try to reduce in claim paid amount.
- The insurer should enforce the diversification among the investment portfolio. In past, the insurer did not seem to enforce the diversification. Such diversification will be able to manage level for rising and minimised yield in the long run.
- From the analysis of study and research on interview, field observation of Nepalese insurer, following facts are concluded there is no sound policy and separate department for investing a fund but it is necessary to manage. Therefore, the entire insurer should manage a separate department for the purpose investment and gain return with out risk.
- As immediate corrective measure, they should look for increased net rate of investment return in aggregate. In present condition, some of the insurers are in worse position that their return is lower than market rate of return from bank fixed deposits.
- The entire insurer should improve their premium collection system and investment systems too and try to increase customer service by providing different facilities and to withdraw unnecessary process of insurance and followed scientific insurance system.
- Insurance premium fund should be invested in different sector other than HMG bond and bank fixed deposits is order to inherence the life standard of people thereby increase the insurance premium.
- Premium earning and changes in premium analysis suggests insurer to be competitive in the market as their premium earnings percentage followed fluctuate

trend almost all the year during the study period. Thus, the Nepalese insurance industry draws the attention of marketing division / department.

- Insurance companies should maintain their claim paid ratio as for size of the transaction because the claim paid ratio directly affected to the income generate.
- Insurance companies are suggested to expand insurance activities in rural area by the establishment of branches or by the appointment of agents according to its potentiality.
- The insurance companies should introduce new policies and attractive strategy to make ease for the development of insurance business.
- Nepalese insurance business should be social responsibility oriented rather than premium oriented in order to develop this business at present situation.
- The insurance act and regulation should be clear enough to guide the investment related matter to a direction. The regulatory limits relating the investment should be promptly changed according to the change in over all macro economic and money capital market condition.
- The rules and regulation relating the investment aspect of life and non life insurance industry must be differentiating according to the differentiating nature of the future use of the invested funds, occurrence of the invested funds, and the invisibility of such funds.
- Attractive premium collection schemes, better services to clients, good facilities to agents, fast and reliable service, development of scientific and realistic method and process should be followed for collecting more premiums. Similarly, new, less risky and more profitable investment sector should be developed for making the investment pattern more safety and returnable.

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