FINANCIAL PERFORMANCE OF INSURANCE COMPANIES IN NEPAL

By :
Rita Phooyal
Shaheed Smriti Multiple Campus
Ratnanagar, Chitwan
T.U. Registration No: 7-2-502-23-2003
Exam Roll No. 2390041

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RECOMMENDATION LETTER

This is to certify that the thesis

Submitted by

Rita Phooyal

Entitled

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

....	**................................**	**.............................**
Thesis Supervisor	Chairperson	Campus Chief
		(Mr. Gokarna Malla)

Date : ....

VIVA -VOCE SHEET

We have conducted the viva-voce examination of the thesis

Presented by

Rita Phooyal

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and found the thesis to 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 the degree of

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VIVA -VOCE COMMITTEE

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Member (Thesis Supervisor) ....

Member (External Expert) ....

Date : ....

DECLARATION

I, hereby, declare that the work reported in this thesis entitled ***"FINANCIAL PERFORMANCE OF INSURANCE COMPANIES IN NEPAL"***submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Degree of Master of Business Studies (M.B.S.) under the supervisor and guidance of Mr. Deepak Chandra Ghimire, Lecturer, Shaheed Smriti Multiple Campus, Ratnanagar, Chitwan.

21st March, 2013

(............................)

Rita Phooyal

Exam Roll No: 2390041

T.U. Registration Number: 7-2-502-23-2003

Shaheed Smritit Multiple Campus

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Rita Phooyal

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ABBREVIATIONS

B.S.	= Bikram Samwat
BVPS	= Book Value Per Share
CGY	= Capital Gain Yien
Co.	= Company
DPS	= Dividend Per Share
DY	= Dividend Yield
EICL	= Everest Insurance Company Limited.
EPS	= Earning Per Share
GDP	= Gross Domestic Production
HGICL	= Himalayan General Insurance Company
MPS	= Market Price Per Share
NEPSE	= Nepal Stock Exchange
NICL	= Nepal Insurance Company Limited
NICO	= Nepal Insurance Company
NLGI	= National Life and General Insurance
NLGICL	= National Life and General Insurance Company Limited
NPAT	= Net Profit After Tax
NW	= Net Worth
NWPS	= Net Worth Per Share
PICL	= Premier Insurance Company Limited
P/E Ratio	= Price Earning Ratio
R.B.S.	= Rastriya Beema Sansthan
SEE	= Standard Error of Estimate
TANP	= Trend Analysis of Net Profit
UICL	= United Insurance Company Limited

CHAPTER I

INTRODUCTION

1.1 Background of the Study

The rapid development in information technology and the advancement in transportation facilities have made the world as narrow as a village. The present world economy has been more competitive and complicated due to the globalization of economies and market. Every sort of change occurring in one sector of the world affects the other. Healthy economy is dependent on efficient transfer of funds from people who are net savers to firms and individuals who need capital. Economic efficiency is impossible without a good system for allocating capital within the economy. Nepal has predominantly a subsistent agricultural economy, which contributes about 40 percent of GDP and provides employment to more than 80 percent of the economically active population.

The improvements in transportation and communications that have resulted in global markets in goods and services have also created a world of international finance. "Money and capital flow across national boundaries. Financial transactions in the United States are influenced by international financial markets. When the U.S. stock market crashed on October 19, 1987, similar declines were taking place in the financial markets of most of the other countries of the world as well. The rise in interest rates in Japan and Germany during the first quarter of 1990 put increased pressure on interest rates and bond prices in the United States" (Weston and Copeland; 1992:16).

The active participation of private sector will play an important role in the development of the financial sector. It is essential to flow financial resources easily and in a simple manner to enhance the role of this sector in economic development that help to achieve desired results from the economic development. Because of various responsible causes the country has not been able to realize the desired outcomes; one of them is poor capital market condition. The capital market of Nepal is small and at early stage of growth. There is a problem of a symmetric information between management of newly established Nepalese companies and Nepalese investors who have poured their funds there in.

Human life is full of risks and uncertainties, which result in fear, anxiety and unpleasantness. Such risks and uncertainties may cause the loss of life and properties. Newspapers tell the stories everyday about bank robber

Human being always wishes to establish his/her present as well as future safe and secured but modern mechanical complexities developed in course of the growth of human civilization, makes his/her future unsecured and risky. The concept of insurance was development to reduce those risks. Insurance has proved itself as an effective device that could be a safeguard against such uncertainties and unfortunate happenings. Insurance may be viewed as a co-operative device to spread the loss caused by a particular risk over a number of persons who are exposed to it and who agree to ensure themselves against that risk.

Risk to human beings can be categorized into financial and non financial risks. The outcome of the financial risk can be measured in monetary value. However, the outcome of non-financial risk cannot be measured in monetary value. Losses of properties by fire, earthquake, flood and theft are the outcomes of financial risk. Dissatisfaction as a result of selection of a marriage partner, field of education, career, or not having children are the outcomes of non-financial risk.

Human beings always try to avoid and reduce the risk. Likewise, business also face numerous kinds of risks. Hence, they need to have a good understanding of the causes of risks and the methods of handling them. Risk cannot be completely eliminated, but there is a device to cover the loss of the financial risk which is known as insurance. Insurance is a technique to swap the risk of financial losses.

Insurance is a legal contract between two parties which protects people from risks arising from loss of life, or failure of business, or loss from other risks. It is the cooperative way of offering security against the possible risks and losses that may occur in future. Financial losses may occur in future due to unpredictable reasons. Insurance is a system which compensates the insured by transferring the risks to an organization known as the insurance company.

Insurance is based on the pooling system. A large number of people combine together to reduce or to compensate the future losses of any one of them. They contribute smaller amounts of money called premium. Pooling system helps in spreading out the risk over a large number of members. Insurance companies act as channels for collecting premium and indemnifying the losses.

Insurance has become the most important risk -handling method in modern age. The party doing insurance business is called the insurer. An insurer promises to indemnify the losses in return for a consideration called premium. Insured is a party who takes insurance policy against the risk of life and property. Premium is the expenses for the insured and income for the insurer.

“The insurance has proved as double-edged weapon for socio-economic development of the nation. In one way it provides financial security against the uncertainties to the person, industry, commerce and other assets. In the other way insurance business collects the scattered financial resources and injects the bulk amount of money in the productive sector, which helps for the growth of industrialization and commercialization. The proper development of the industrialization and commercialization make the better economic standard of the country. Only the efficient management and sound financial position of the company can achieve these sets of goals.” (Agrawal; 2060:69).

Insurance companies play vital role for the economic development of the nation as well as for the world’s economy. Whether the country is developed or non-developed, it is very important to mobilize the fund in different investment sectors. For economic development, financial sectors play foremost role, where they collect funds from customer by paying some percent interest and invest it to large industries and other business sector by taking some percent interest. The participation of insurance companies play even more important role for the economic development. Beside the economic sector, social culture, industrial and technology sector are also should be strong for the development and progress of a country.

Though the history of insurance company is not very old in Nepal but they have come long way to reach the present position. “The concept of insurance developed in ancient period in Nepal. The system of maintaining ‘Guthi’ can be taken as the beginning point for the development of insurance in Nepal. The income from such Guthi was used to build building and repairing temple and so on. But now they are converted into commercial phenomenon.” (Agrawal; 2060:69)

Insurance market in global perspective has been as important ingredient for economic development. In advance, countries insurance companies have played a very significant intermediary's role is mobilizing funds through the prudential combination of investment portfolio. However, in developing countries like Nepal, the role of insurance companies is still to be realized as an important vehicle of mobilizing the internal saving through various insurance schemes of life and non-life sectors in the economy. This can be done with proper and optimal combination of risks as an organized method. Insurance is a social device, which companies the risks of individual into a group, using funds contributed by members of the group to pay losses. Thus, the main function of insurance companies is to collect premium and mobilize such collected funds into various sectors of economy with an organized and institutional manners. The savings of individuals or institutional investors as investment in shares, debentures, bonds, mutual funds and other financial instruments which in turn are deployed for productive purpose in various sectors of the economy which have potential to yield a higher return on their investments. Investors purchase the stocks of the companies through the primary market i.e. initial offering or through the secondary market. Most of these investors are not aware of the financial strength of the companies and they do not analyze company's financial indicators before they invest their funds through secondary market. Thus, the financial performance of insurance companies is one of the key components which represent the status of the organization. The success and possibilities of growth and development of any organization depends upon the market performance of that organization. Many listed companies do not produce timely financial statement or annual report to the investors. The dubious and hazardous movement of share prices has no sound fundamental backing of analysis and relationship to past results revealed in limited calculated dividend yield, net worth and price multiples. The investor concludes that there has been a foul play using inside information. The reaction is based on the assumption of strong form of the market efficiency. The Security Exchange Act strictly prohibits the misuse of insider information but the regulating authorities can make no advance notice of how there is the use of inside information. It denotes that every investor should be well aware of the degree of risks in which they are investing or going to invest their saving funds. There are very few practices of analyzing this aspect in the

Nepalese context due to lack of adequate knowledge about the securities for investment. Most of the investors are investing their funds haphazardly without considering risk involved in their investments.

The basic finance functions must be performed in all types of organizations and in all types of economic systems. The unique about business organizations in a market economy is that they are directly and measurably subject to the discipline of the financial markets. These markets continuously value business firms' securities, thereby providing measures of the firms' performance. Financial performance is the process of identifying the financial strength and weakness of the concern. It is the process of critically examining in detail accounting information given in the financial statement by evacuating the relationship between component part of financial statement to gain better understanding of the firm's financial position and performance. Thus the financial analysis is the key point of the concern for the financial forecasting and planning.

Market price per share in one hand reflects the financial performance information of company and in other hand determines the returns to investors in the form of capital gain. The different variables such as earning per share dividend per share, net worth per share are also very crucial to analyze which affect market price and all these help to evaluate the performance of company. The role of insurance companies has been instrumental in the overall economic development of the country. They help to pool and utilize resources, reduce cost and risks, expand and diversify opportunities increase the locative efficiency of resources; promote the productivity and economic growth. These are the main part of economy of the nation.

Thus, the study of financial performance encourages saving, help channel saving into productive investment and encourages entrepreneurs to improve the efficiency of investment. The discipline of corporate management through competitive selection in the market for corporate control is a vital part of economic development and activities.

Financial performance analysis is the process of identifying the financial strength and weakness of the firm by properly establishing the relationship between the items of balance sheet and profit and loss account. It also helps in short term and long term forecasting and growth can be identified with the help of financial performance analysis. The dictionary meaning of 'analysis' is to resolve or separate a thing into its element or components parts for training their relation to the thing as whole and to each other. The analysis of financial statement is a process of evaluating the relationship between the component parts of financial statement to obtain a better understanding of the firm's position and performance. This analysis can be under taken by management of the firm or by parties out side the namely, owners, creditors, investors.

1.2 Statement of the Problem

Insurance has become part and parcel of the contemporary business world. On one hands it provides the financial security against future loss and on the other hands it provides capital to the business houses. By knowing this reality, the numbers of insurance companies are increasing in Nepal but at the same time, there are a numbers of constraints that hinders the development of insurance in Nepal.

The following are the reasons for low financial performance or less net amount earning:

With the adoption of liberal economic policy, the numbers of business companies are increasing tremendously in Nepal. These companies are providing banking services, insurance services and participating in development works such as manufacturing, processing and other various services. The competition in the insurance business has turned to the more intense. Moreover, increasing violence and terrorism has been threatening the insurance business. Therefore the insurance companies should be very much cautious about their business operation. In this ground the study deals with the following issues:

1. What is the fluctuation in market price of insurance companies?
2. How the major financial indicators (like EPS, DPS, and BVPS etc.) Influence the MPS?
3. What is the relationship between DPS and MPS?
4. What is the relationship between EPS and MPS?
5. What is the relationship between NWPS and MPS?
6. What is the trend of MPS?

1.3 Objectives of the Study

The main objective of this study is to trace out and analyze the financial performance of insurance companies in Nepal. The specific objectives of the study are as follows:

1. To study the trend of premium collection and payment of claim.
2. To examine the major financial indicators that has major influence on determining the MPS.
3. To analyze the relationship between major financial indicators (DPS, EPS and NWPS) with MPS.

1.4 Significance of the Study

Insurance business plays an outstanding role in the industrialization of the country. It is equality important to the individual and to the nations as well. Due to lace of full-fledged capital market, the insurance companies do not have sufficient investment opportunities. Insurance Companies also have to face intense competition in a limited market territory.

Development of a nation depends on the development of its economic growth. Insurance business in modern economic age play vital role in different sector of the nation. Insurance provides protection against the loss of goods and properties in exchange for a fixed premium. It is worth noting the premium is a very small amount in comparison to the value of property at risk. Business activities can be carried out without hesitation because insurance provided certainty of payment in case of loss. The main function of insurance companies is to collect small amount of money in the form of premium from various persons and organizations and mobilize such collected funds into various sectors of economy with an organized and institutional manners. It ultimately leads to the economic progress in the country. Thus there is capital formation. Insurance companies invest the capital and utilize it in different productive sectors of the country. It may invest the funds in the securities issued by government and other non-governmental organizations in the country. It also issues shares and debentures to public with the hope of capital gain and dividend. However, in the developing countries like Nepal, the role of insurance companies is still to be realized as an important vehicle of mobilizing the internal saving through various insurance schemes of life and non-life sectors in the economy.

In the context, the performance of market analysis would analyze the strengths, weaknesses, opportunities and threats of the selected insurance companies. The study no doubt will also have multi-dimensional importance for various areas which are as mentioned:

- Important to the policy makers, academic and professional people.
- Important to the shareholders, investors, customers, competitions personnel and other key stakeholders.
- This study helps these insurance companies to identify its hidden weakness regarding financial administration and the necessity the present study is justified.

Therefore, considering all of these facts, the study helps to provide some guidelines to investors, policy maker and future researcher as well.

1.5 LIMITATIONS OF THE STUDY

As every research has its own limitation, this study is not free from it. Basically, this study is done for the partial fulfillment of M.B.S. level. So it has some limitations, which are as follows:

i] The study based on the secondary data: therefore the accuracy of results and conclusions highly depends upon the reliability of these data..

ii] The evaluation is made through the analysis of financial statement published and presented by the company.

iii] The study is based on some of the selected insurance companies among various insurance companies.

iv] To some extent data published on website and that of insurance companies may differ. So, the data from website of the related insurance Companies are taken as authentic ones.

v] The study has to be conducted with time limitations being a partially requirement for an academic program.

1.6 Organization of the Study

The study has been divided into five different chapters namely, introduction, review of literature, research methodology, presentation and analysis of data and summary conclusion and recommendations. This study is thus divided to make the study simpler and easy to understand.

Chapter 1: Introduction

The first chapter deals with subject matter of the study. This study contains general background of the study, statement of the problem, objectives, significance of the study, research methodology, and hypothesis statement and limitations of the study.

Chapter 2: Review of Literature

In this chapter a brief review of the related studies and findings are presented and various related literature are quoted. Review of literature consists of the conceptual review, review of journal and review of thesis.

Chapter 3: Research Methodology

Methodology used for the purpose of the study in this chapter includes, research design, sources of data gathering procedure, data processing and financial and statistical tools used.

Chapter 4: Data Presentation and Analysis

Presentation and analysis of data is the heart of the study, which includes data presentation, interpretation, analysis and major findings of the study. This chapter analyzes the financial performances of the selected companies and comparison is also made between them. I have also included the major findings of the study in this chapter.

Chapter 5: Summary, Recommendation and Conclusion

The final and last chapter contains the summary of the entire study. The conclusion has also been presented and concrete measures are suggested in the form of the recommendation. Besides these, bibliography and appendixes are also included.

CHAPTER II

REVIEW OF LITERATURE

2 Conceptual Framework

This chapter deals with the review of literature related with the financial performance of insurance companies in Nepal. This chapter has been divided into two parts. The first part deals with the conceptual framework of the study while the second part is related with the review of previous studies.

2.1 Concept of Financial Performance

A subjective measure of how well a firm can use assets from its primary model of business and generate revenues. This team is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation.

2.1.1 Concept of Insurance Companies

The development of sophisticated technology and different scientific innovation has changed the human life. It has made the whole world a global village. But it has also increased a great deal of risk in human life. More specifically risk denotes the uncertainty of loss. No human activity is free from the risk. Some sort of risk is beyond the human control but human being always wants safe and secured life. To reduce such type of risk and uncertainties the concept of insurance is developed. Insurance is a way of reducing uncertainty of future outcome. It provides financial security against risk.

Insurance is defined as a co-operative device to spread the loss caused by the particular risk over a number of persons, who are exposed to it and who agree to ensure themselves against that risk. Insurance gives relief from the risk. It performs the task of paying compensation for financial loss under the insurance, in return of little fixed amount if loss or damage has taken place. Insurance, in modern term, can be defined as a risk transfer mechanism whereby the one who is exposed to risks transfers all or some part of it to an Insurer. “The meaning of insurance as a mean of spreading over the many losses, which would otherwise be borne by the individual it provides, in effect a pool to which the many contributions, out of which the few who suffers losses, are compensated.” (Dinsdale; 1958:25)

“Insurance is created by insurer which is a professional risk bearer, assumes the financial aspects of risk transferred to it by insured. As a device for handling the financial aspects of risk, insurance is feasible because insurance is able to combine the risks of individuals into groups and pay losses with funds collected from its members.” (Athenian; 1981:25).

“Insurance is a provision made by a group of persons, each single in danger of some losses, the incidence of which cannot be foreseen that when such loss occurs to any of these, it shall be distributed over the whole group. Its elements therefore are foresight and cooperation.” (Bhargave; 2053:15).

“Insurance as a contract settled between the parties, one is insurance company and another is insured party who insure his properties as well as lives. They have stated as, it undertakes to indemnity to loss suffered (due to specified cases) by the other party known as the insured in consideration for a sum of money known as premium. Since the amount of the premium is generally small, insurance contract spreads the losses suffered by one person over a large number of persons. Everyone pays a premium those who suffer a loss are paid a sum of equivalent to loss (loss according to the term of contract) and those who do not suffer loss by the premium paid. The protection against unforeseen events is purchased through a contract of insurance.” (Shukla and Grewal; 1990:36).

From the above mentioned definition it is clear that the insurance reduces the risk and provides financial security in return of payment of a certain amount. Insurance is a powerful weapon to manage risk.

Hence, “Insurance is a contract where one party (the insurer) agrees to pay the other party (the insured or his beneficiary) a certain sum called premium upon a given contingency (the risk) against which insurance is sought.” (Mishra; 1996:36)

Thus insurance safeguard the interest of people form uncertainty by providing certainty by providing certainty of payment at a given contingency. Insurance companies constitute one of the most important components of financial structure. They play two vital roles in the economy, safeguard against the risk of loss of property and life and accumulation of resources. The former role is unique to them while the later is also significant because they mobilize funds of long-term nature.

Insurance company is an institution, which accepts the premium for specific probable events and pays on the loss. Insurance company is a firm legally registered as per the state rule and regulation (Insurance Act) and insures the insured to make payment to a specific event or losses. Like the commercial banks, insurance companies are also responsible and contribute for the economic growth to the nation. They attract the people form door to door to insure against the possible loss and invest the fund to the more productive sectors.

Insurance companies play vital role for the economic development of the nation as well as for the world’s economy. Whether the country is developed or non-developed, it is very important to mobilize the fund in different investment sectors. Though the history of insurance company is not very old in Nepal but they have come long way to reach the present position. The concept of insurance developed in ancient period in Nepal. The system of maintaining ‘Guthi’ can be taken as the beginning point for the development of insurance in Nepal. The income from such Guthi was used to build building and repairing temple and so on. But now they are converted into commercial phenomenon.

2.1.2 Historical Development of Insurance

Today's modern form of insurance is not the effort of fortnight. It has crossed a long series of time to develop insurance from ancient practices to modern insurance practices. From the very beginning of society, men have been following the way to share loss and profit, suffering and prosperity mutually with one another. “The concept of insurance is originated very early in Greece. There is a word "Yogakshem" in Rigveda, which means security. About three thousands years ago, racial insurance was in existence in the Arya community of India. But before four century BC there was the use of Bottomward banks under the marine insurance in Greece. Existence of life annuity was found during the period of Roman Emperor. At first, Church of England used to make religious guild. Later on forming the merchant guild, started to give protections to the members further, later on crafts guild began to work as subsidiary of the merchants' guild. In this way, the concept of insurance is evolved. The development of modern formal insurance can be described in the following phases.” (Bailey and Jeffery; 2002: 95)

First phase: Emergence of Marine Insurance

After the emergence of the concept of insurance, it was most commonly used for marine insurance. So, marine insurance is the first modern form of insurance in the history of insurance. In 1300 AD the first insurance contract, called "Polizza" was made in Italy. Later another word "policy" was developed from "Polizza". The concept of marine insurance was commonly used in Lombard of Italy and in Venice in 14 century. In fact the Lombard of Northern Italy had main role in thbringing the international extension of marine insurance in England. Later the Jewish of Lombard were banished, then they settled in different countries of Europe. The name of street, "Lombard Street" of London was named after the name Lombard. At that time this street was called the central point of the marine insurance.

“The significant role of Lioyd’s institution for the development of insurance cannot be ignored. The underwriters who took the marine risk used to carry out the work of marine insurance, meeting personally in the coffee house of Edberd Lioyd in the tower of street of England. Slowly the coffee house was successful to introduce itself as a centre of marine insurance. The Lioyd's institutions established in 1771, is the first institution to make formal marine insurance. Till now, this institution is the one of the most popular insurance company in the world.” (Bailey and Jeffery; 2002:101)

Second phase: Development of life insurance

After the development of marine insurance people used the concept of the insurance to provide security to their live. To talk about the modern life insurance, by an associate 16 persons, the first life insurance policy of the world was issued in the name of a person named "William Gybbons" in 1583 AD. It is recorded that insurance policy was issued for one year. One astronomer named Admand Heley submitted a 'Mortal Table' in 1693 AD to the royal security. This mortal table is useful tool for calculating insured mount. But the first time, life insurance institutions insured amount technology on the basis of data.

“In 1744 AD passing the Life Insurance Act created the foundation of the modern insurance. There after different laws enacted remove the defect that came to it on the basis of experience. With the cause of the difficulties that came to the business, many companies were closed and some of them went and mixing or merging with insurance company. There is no controversy that the Life Insurance Act 1870 was passed to control of the life insurance business for protection o the customers.

Before the beginning of the 19th century many life insurance were that already the established in the world. We find that the life insurance business in our neighboring country India had started with the establishment of the Mutual Association. In 1971, both the life and the non life insurance were nationalized in India; as a result, the Life Insurance Corporation for life insurance and General Insurance Company Ltd. for non-life insurance were established. During the region of Elizabeth I, the life insurance used to effect for only one year. After one year, if it was not renewed, the insurance automatically used to be cancelled. But the job of effecting long term insurance, started from 18 century has been thincreased continuously." (J. F. Bailey and V. Jeffery; 2002:105).

Third phase: Emergence of Fire Insurance

In the history of insurance, the fire insurance comes after the life insurance. However, there is some controversy about it. In the opinion of some people, the concept of the fire insurance had come after the marine insurance and then only after about two hundred years, the idea of the life insurance was communicated. The function of the fire insurance was done in 14 century. The beginning of the the fire insurance for the first time can be found in the municipality of the Hamburg in Germany in about 13 century. It is said that after the birth of life insurance the the fire insurance was developed.

"In 1666 AD after the fierce fire incident, many buildings were turned into ash in England. It is known from the history of insurance that many people were in difficulties. So the fire insurance was introduced with the main objective of the providing the financial protection to the people to save from the risk and the ruin. In 1680 AD Dr. Nicholas Barbon has started the fire business related with the fire insurance in England. The office of Barbon was called the fire office later named as Phoenix In 1782. Phoenix Insurance Company was established with the development of the fire insurance today many people, industry and businessmen are breathing the air of the safety." (Bailey and

Jeffery; 2002:106).

Fourth phase: Practice of Miscellaneous Insurance

After the fire insurance, many other types of insurance have come in use. Thus, by such insurance policies man is trying to be protected form many types of risks. "Under the miscellaneous insurance, fidelity guarantee insurance started from 1848, personal accident insurance from 1880, liability insurance from 1875, public liability insurance from 1877, burglar and house breaking insurance from 1903, motor insurance from 1911, and aviation insurance came in practice. Similarly in other insurance, the vocal can consider castle insurance, rain insurance, earth quake insurance, the vocal of the male singer and female singer, model beauty as miscellaneous insurance." (Bailey and Jeffery; 2002:107).

2.2 Types of Insurance

Insurance has been the most effective and strongest to save peoples, properly. It makes the security for the payment of the insured amount to those who have made life and non life insurance. Nowadays, insurance has become the pillar of alertness, courage and eagerness to develop the life and living standard of the common people, industrialist and traders of the world. Nowadays, various types of insurance have been practiced, which can be classified in following ways:

A) From the business point of view:

From the business point of view, the types of insurance are as follows:

Life Insurance

Life Insurance provides a protection for two major contingencies. A man insures his life either to make provision for leaving a certain sum for his dependents when he dies, which may happen he is able to say and accumulated sufficient amount. Life Insurance has several businesses and financial advantage. In Life Insurance it is provided that the insured interest amount is to become payable in the happening of death or in some cases on the attainment of certain age, whichever is earlier. Only the men having and insurance interest in the proposed life can obtain a policy on it. The concept of the life insurance is based on pooling the risks of many to a group, accumulation a fund by contribution form the members of the group and paying from this fund the losses of those who suffer loss.

"Life Insurance is a plan of compulsory saving and there will be all round development of nation from premium paid for that and the Life Insurance plan is helping to control the inflation. Because there are the factor of protection and investment in Life Insurance, It has gained much more popularity. Under this Insurance, if the insured remains alive, he himself, gets a payment of insured amount, if he is dead, his wished person, if its not wished for the wished person is death, the nearest person get the payment under the policy as per law." (Mishra;1996:36).

Non Life Insurance

Insurance, other than life and social insurance are called Non Life or General Insurance. The subject matter affected under it is in nature of properly. The Insurance Company provides indemnity to insured. Such compensation should be based on the actual value. This type of insurance includes marine, fire and miscellaneous types of Insurance.

a) Marine Insurance:

Marine insurance is oldest form of insurance. Human beings have always been fascinated by sea travel and therefore, exposed to dangers of storms, pirates and accidents at the sea. Historians suggest that some sharing of losses existed among seafarers as early as the 9th century. The origin of modern marine insurance is, however, associated with the evolution of trade through the sea. Originally, marine insurance was designed to protect the shipping companies and owners of cargo against perils of the sea. In modern times, however, it covers the risk of loss caused by perils on the land also.

In simple words, marine insurance is a legal contract between the insurer and the insured that provides protection against marine losses. The insurer also called the underwriter is an insurance company which indemnifies the insured against loss caused by perils of the sea.

The insured is generally a shipping company and merchants who hire ships for carrying their goods from one port to the other. It is a contract that covers the ship, the cargo, the freight and other liabilities and protects them against the risk of loss caused by perils of the sea The marine insurance contract is valid for a specified voyage or for a specified time, or for a specified voyage and time.

b) Fire Insurance

Fire is perhaps the most important gift of nature to human kind. It has important place in human life, because fire increases human knowledge, health, happiness and prosperity. However, it has also been a reason for the risk of human life and property. Therefore, fire insurance has evolved for protecting human lives and properties from the risks of fire.

Fire insurance is a contract of indemnity against loss or damage of the properties arising from fire during an agreed period of time and up to the specified amount. It is such an agreement whereby one party, the insurer, in return for a consideration called premium, undertakes to indemnify another party, the insured, against financial loss caused by an event of fire to the extent of actual loss or the insured amount whichever is lower. The insured party has to pay the premium and the insurance company agrees to indemnify the insured. The rate of premium depends on the level of estimated risk. Premium will be high if the risk is higher and it will be low if the risk is low.

Fire insurance covers only the loss incurred due to fire. It cannot be for profit making. It provides only protection. Therefore, the principles of investment and protection are not applied to fire insurance. In the fire insurance contract, however, the doctrine of causa proxima or the proximate cause is applied because only such loss is covered which directly arises through fire.

c) Miscellaneous Insurance

Miscellaneous Insurance business includes the various types of Insurance business such as Aviation Insurance. Motor Insurance, cash transit Insurance, workmen's complementation Insurance, Burglary and house breaking Insurance. Public liability Insurance, cattle Insurance, Medical aid scheme and so on.

d) Social Insurance

In modern age Social Insurance has an important place, the objective of this insurance is to provide the maximum social benefit to the society. This type of Insurance is specially, useful for the worker class and the owners of the factories. This sector posse's high risk because the workers work in the mill and factories, from it, the workers, officials and owners also many suffers loss. "Social Insurance provides the economic protection both to the official and owners. The main examples of Social Insurance are workmen's compensation Insurance, sickness Insurance, Pension Insurance, Maternity Insurance and Unemployment Insurance etc. Having regarded to the importance of this Insurance, in every developed country, this insurance has been generally made compulsory. This insurance was started form England. The burden of expenses of government and the owner of the factories has to bear the most of the portion of premium." (Ghosh and Agrawal; 2002:75)

B) From the risk point of view:

The insurance from risk point of view is classified in the following ways:

a) Personal Insurance

Under this personal insurance, the insurance is made to the subject related to the person's life. There is possibility of risk associated to dearth accidents and diseases. "The insurance, which is effected against such risks, with the objective of getting financial protection, is called personal insurance. Life insurance, personal accidents insurance and health insurance etc are the example of personal insurance." (Ghosh and Agrawal; 2002:75)

b) Property Insurance

Under this insurance, insurance of the different nature property is affected to compensate the property damaged or lost. This insurance company gives the compensation to the insured. "The insurance company gives only actual compensation to an insured on the basis of fact and event. The examples of property insurance are fire, marine, crop, cattle and burglary insurance" etc. (Ghosh and Agrawal; 2002:75)

c) Liability Insurance

Under this insurance, compensation is given to third person for loss or damage caused by negligence or other reason of the party. "The examples of liability insurance are motor insurance, public liability insurance etc." (Ghosh and Agrawal; 2002:75).

d) Guarantee Insurance

"Under this guarantee insurance, the insurance company gives the guarantee of faithfulness or the honesty of any employee or any other person and it accepts the liability of compensation on financial loss to the insured with the cause to dishonesty and fraud. The examples of guarantee insurance are credit right, fidelity guarantee insurance etc. If any event is found within the policy, then the insured has right to get compensation." (Ghosh and Agrawal; 2002:75)

2.3 Insurance Issues in Developing Countries

As the popularity of Insurance is growing rapidly, its market is expanding not only in developed countries but also in developing countries. For is favorable environment should be created by making essential laws and regulations. Nepal is a developing country it faces many problems. Some articles are to be reviewed about the issuers of developing country, which helps us to know the fact about developing countries.

In most of the countries there is insurance legislation in place, however, some countries are in the amending these existing laws. All of the countries have a law or decrease regarding compulsory or third part motor liability. "In most of the countries international insurance is a flourishing area and only in some countries are the roles of actuaries regulated. Some countries had provision for funds to protect insured. There is a real tendency in all the countries to widen the space between the insurance supervisory body and ministry of finance." (Laszlo; 1988:45).

"Many developing country consumers want to by their Life Insurance in a hard currency country consumers want to buy their Life Insurance in a hard currency country, even when domestic insurers offer quantity life product. At the same time, large foreign companies established on their domestic markets could effects a kind of dumping through the income they achieved on their capital funds and by subsidizing initial operation in developing countries from gain in other countries." (Stephen; 1989:115).

Third world insurers may at this stage not gain much from a market opening in developing countries. "Physical presence of the insurance provider is usually needed to sell cover. But capital and or solvency required in developed counties for the establishment of subsidiaries of branches are usually considered prohibitively high by developing country insures. When it comes to large and targets risk for which over could be offered cress boarder via brokers.” (Marion; 1990:131)

“Insurance industry is developing countries often has a unique position within the socio-economic structure of many countries, in its capacity as one of the few indigenous service industries which is a major employer of the politically influenced middle or educated classes and which is often the biggest institutional investor in the said countries like Malaysia, India, China, Taiwan and South Korea. In such Insurance Companies usually lace of educate capitalization and the requisite technical skills and professional management needed to serve their clients and markets Insurance and Re-insurance requirement appropriately.” (Kamara; 1988:72)

Insurance Business in Nepal does not have long history. But it is a true fact that Insurance business has developed gradually. Insurance business can’t flourish in a small insurance market. But Nepal itself, a small country, has small market. This signs of worldwide liberalization in economic sector and the functions of public welfare have appeared in Nepal too.

2.4 Insurance Development in Nepal

The concept of insurance developed in ancient period in Nepal. The system maintaining 'Guthi' can be taken as the starting point for the development of insurance. The income from such guthi was used to built building, temple and repairing etc. So the concept of insurance was emerged with the religious view but not as commercial view.

The modern insurance business is relatively new in Nepal. Indian insurance companies initiated the insurance business from the late 1930 in Nepal. The Indian insurance companies were enjoying monopoly over the insurance business and had a well development business network in Nepal, later in 1948 (2004 B.S).The first Nepalese insurance company, 'Nepal Mal Chalani Ra Beema Company Limited' was established by Nepal Bank Limited. This pioneering insurance company has changed its name into Nepal Insurance and Transport Company Limited in 2016 and Nepal Insurance

Company Limited since 2048. The company started to provide only non life insurance. There was not only insurance company to carry out life insurance business until 2024. So, the government realized the necessity for the establishment of insurance company to execute life insurance business. As a result His Majesty's Government established Rastriya Beema Sansthan (Private) Limited in 2024 under the company Act. The government enacted Rastriya Beema Sansthan Act 2025 and Rastriya Beema Sanstha (Private) Limited Changed in to Rastriya Beema Sansthan under the Rastriya Beema Sansthan Act 2025. It has provided life and non life insurance service all over the country.

Now, the government has adopted liberal economic policy as a result many of the insurance company established after the restoration of democracy. At present 25 insurance companies are operating in Nepal. Among them two are composite companies transacting life as well as non-life insurance business, while there only eight life insurance companies and sixteen are non-life insurance companies. They are as follows:

Insurance Companies Providing Both Life and Non-Life Insurance Services:

Insurance Companies Providing Only Life Insurance Services:

1. Rastriya Beema Sansthan
2. National Life and General Insurance Company Limited
3. Nepal Life Insurance Company Limited
4. American Life Insurance Company Limited
5. Life Insurance Corporation (Nepal) Limited
6. Prime Insurance Company Limited
7. Asian Insurance Company Limited
8. Gurans Life Insurance Company Limited
9. Surya Insurance Company Limited

Insurance Companies Providing Only Non-Life Insurance Services:

1. Nepal Insurance Company Limited
2. Himalayan General Insurance Company Limited
3. United Insurance Company (Nepal) Limited
4. Everest Insurance Company Limited

5. Premier Insurance Company (Nepal) Limited
6. Neco Insurance Company Limited
7. Alliance Insurance Company Limited
8. Sagarmatha Insurance Company Limited
9. NB Insurance Company Limited
19. Prudential Insurance Company Limited
11. The Oriental Insurance Company Limited
12. National Insurance Company Limited
13.. Shikhar Insurance Company Limited
14. Lumbini General Insurance Company Limited
15 NLG Ins. Company Limited
16. Siddharth Insurance Company Limited

These insurance companies are functioning as per the norms and values of Insurance act 1992, and Insurance Rules 1993. These companies perform the works of fund creation, underwriting insurance of life and non-life property for the best security against the specified or non-specified risk; third party insurance.

2.5 Review of Legal Documents relating to Insurance

There are various legal documents or legislation relating to the regulation of insurance business in Nepal which has been reviewed in this part.

Insurance Act 1992

To develop systematize, control and to regulate the insurance market in Nepal the Insurance Act 1992 stands as a milestone. Especially following provisions have been contained in this Act.

- Provision to form insurance Board (Beema Samiti) as a supervisory body to systematic regularize, develop and to control the insurance business in the country.
- Provision for the members of the board and their designation, terms and conditions.
- Provision for duty power and responsibility.

- Provision for registration, cancellation and their liabilities of insurers.
- Restriction to grant loan, guarantee and security to directors of insurance companies
- Provision on accounting record keeping and submitting of necessary documents to authorized body (Beema Samiti)
- Provision to create necessary reserve for unexpected risks and outstanding liabilities.
- Provision on auditing the various fiscal documents.
- Restriction to accept the risks before getting premium.
- Compulsions to re insurance the risks beyond the retention limit of insurers.
- Provision for agents, brokers and surveyors responsibility and accountability to them and legal treatment to them if undesired activities will be conducted.
- Provision for separate funds under Beema Samiti.
- Provision for insurance tariff advisory committee.

Insurance regulation 1992

The insurance Regulation 1992 has been issued section (1), subjection (2) of insurance Act 1993; Later on in 1996, it has been made necessary amendment in this regulation. The main provision contained in the regulation will be listed as under

Provision for types of insurance Business which are:

- Life Insurance Business
- Non Life Insurance Business
- Re-Insurance Business
- Registration and Renewal of Insurance Companies.
- Approval of investment sector other than priority sector fixed by the board.
- Fixation of reserve funds of various insurance sectors.
- Limitation on management expenditure.
- Restriction to collect premium as accordance with tariff fixed by committee.
- Commission to be got by the agent
- Provision regarding surveyors

- Provision on claim paid procedure.

Insurance Board

Insurance Board is an organized supervisory body of government regulates insurance business at the country.

According to section 3 and subsection (c) of insurance Act 1992 functions, duties and power of board are:

- To offer necessary to HMG to formulate policies for systematizing, regularizing developing and controlling the insurance business.
- To formulate policies and fixed priority sectors for investing the insurance proceeds.
- To register and renew the certificate of insurers, insurance agents or surveyors and cancel such registration or make arrangement for doing so.
- To mediate in dispute between the insurer and insured.
- To formulate necessary criteria for protecting the interests of the insured and
- To perform or make arrangement for performing other necessary function related to the insurance business.

2.6 Review of Previous Studies

2.6.1 Review of Related Articles and Journals

There are limited articles available in Nepal regarding the financial performance of insurance companies.

R. S. Pradhan (1994), in his research article, *"Financial Management Practices in Nepal"*, focuses the major feature of financial management practices in the context of Nepal. Throughout the research the researcher has carried out a survey of 78 enterprises. He found that most of enterprises do not burrow from only one bank; they switch to different banks whichever offers lower rate of interest rate. He found out that the bank loan for less than 1 year is more popular in public sector while bank loan of 1-5 years is preferred more in private sector. The most important aspect of finance function according to him is working capital management. (Pradhan; 1994: 29-31)

R.R Bajracharya , in his research article, *"A Comparative Performance Study"*, expressed that deposits growth in commercial banks is not consistent. There is slow growth of deposit in local banks as compared to JVBs where as local banks are better in terms of mobilization of rural saving. In term of credit expansion, joint venture banks are more efficient than the local banks. Credit deposit is better in joint venture banks. The competition between the local and joint venture banks is not healthier. (Bajracharya; 2047: 125-133)

J. Agrawal (2000), in his research article, *" Nepal's Capital Market, What it that Insurance is a Key Factor in the Economic Development Take to Improve"*, of a Country. Insurance Companies not only shift the risks but also collect small-scattered capital and inject these in the development activities of long-term nature. It has director role to play in a developing country because of the fact the government is utilizing its entire means and resources for the all-sound development of the country. A slight mistake on the regulating of Insurance activities will create on adverse effect in the overall economy of the country. Hence, the supervision of insurance through regulation is a must in order to provide for insurance to establish and strengthen the national insurance market. Thus, insurance regulation facilities necessary control of insurers activities.

M. K. Shrestha (2002) in his article, *"Changing investment portfolio of Rastriya Beema Sansthan"*, attempted to analyze the investment portfolio holding pattern and its effects to financial performance of R.B.S. He found the dominant part for total volume of investment portfolio in development bonds of HMD/N and a very negligible figure of total investment in share of other companies. Due to this fact, the contribution of income from development bound to total incomes from the portfolios is dominant part. The creation by a sound investment project is very crucial to R.B.S. to minimize return rather than always taking same trading policy of investing in government securities, fixed deposits, certificates and others. But the time has come for the Sansthan to cope with increasing competition to tap profitable investment opportunities by taking initiating in new industrial ventures for encouraging capital formation in the country.

S. K. Shrestha (2001) in his article, *"Research in Nepalese Finance"* , stated that there is a no doubt insurance plays a vital role in the development of economy. It gives security to the insured and collected the resources and mobilizes it. To highlight the importance of insurance business Dr. Shrestha says that insurance plays the important role in trade and commerce. He specially focuses to the role of insurance is more sensitive in export marketing through his article. According to his views the role of insurance is more sensitive in export marketing and international trade to protect the risks and foreign exchange fluctuation risk etc. It is absolutely true that export trade is more risky that domestic trade. Generally as an exporter, he should be familiar with these risks involved in his trade. At last, he states that if the exporters are not aware of there facts they may have to face domestic exporters from exports risks by providing adequate insurance services to them, as they required. This would help a lot in the promotion of the country's export trade and to strengthen the country's balance of payment situation.

The government properties including corporation is insured to Government Company is priority basis. It is difficult to pursuer in such corporation and government offices, and so the environment is not very positive. Only lip service from Government, the economic growth of country is very slow. People cannot afford to pay insurance premium. The sense for insurance unawareness and unconscious mass is very high. Thus insurance business is very channeling. One has to create the market, tremendous market potentiality and opportunity is felt due to the unexplored market. Only the clue is to know and click on the right product and place with reasonable price to the right person. After the formation of Nepal Insurers' Association Companies can play their problems jointly to the government and should to forward for the interest and benefit of insures. The platform should be taken as an opportunity.

R. D. Pant (1999) in his article, *"The flow of funds in Nepal"*, has analyzed the flow of funds of Rastriya Beema Sansthan since 1975 to 1991. He found that the small volume of credit transaction of Rastriya Beema Sansthan in areas other than government bonds means that it has influence to determine the structure of demand in the economy. The saving that it has managed to mobilized; especially through life insurance is considerable. It has, however, been used the finance government budget deficit or to further increase fixed deposit liability of the commercial banks which is many occasions has excess liquidity at their disposal. Rastriya Beema Sansthan however, has no alternative either.

2.6.2 Review of Unpublished Thesis

There are not sufficient studies concerned with financial performance of insurance companies available in Nepalese context.

B. B. Raut (1997) in his thesis *"The financial performances of National Life and General Insurance Limited"* has found that the gap and issued about liquidity, premium collection and outstanding investment and other financial performance and make a package of recommendations as to improve liquidity position and premium collection to make a settlement of claim in time and to extend its branches to effective investment policy. Mr. Raut found the following major findings from the study:

- Regarding liquidity management, the NLGI is not in sound position.
- The company's outstanding premium is in increasing trend.
- The return on net-worth of NLGI is satisfactory because return on net worth is in increasing trend.
- The trend of earning per share is fluctuating.
- Investment of NLGI is not less than fifty percent of the total assets in every year of the study periods.

The recommendations are as follows:

- The NLGI should maintain the mutual relationship among the policyholders to collect premium on time.
- There should be proper management between the current assets and current liabilities to improve the liquidity position.
- Settlement of claims should be made in time.
- The company should make the effective investment policy.

R. Ghimire (1998) in his thesis *"A study on financial performance of finance company in the context of Nepal"* attempted to find out a detailed analysis such as practical, usable and valuable on the financial performance currently facing the randomly selected and listed finance companies namely NHDFCO, NSMCO, NFLCO and AFCO and to present the forward and backward linkage. The main objective highlighted by

Mr.Ghimire is to examine the financial performance of selected finance companies in terms of liquidity, activity and profitability, leverage capital adequacy and growth ratios. On the same ground he has tried to highlight on possible guidelines to improve the financial performance of finance companies. The following are the major findings of the study:

- Liquidity position of AFCO is comparatively better than that of other finance companies but is highly fluctuating liquidity position shows that the company has not formulated any stable policies.
- Regarding activity ratio NSMCO and AFCO are below the standard than that of other finance companies. It predicts that they have to tackle new techniques in coming days so that they can earn maximum return.
- Profitability position of NSMCO is comparatively not better than others. NSMCO must maintain its high profit margin in future.
- Leverage ratio of NH and MF is not adequate than that of other. And also not more risky and vice versa in AFCO, NSMCO and NFLCO capital adequacy ratio of NSMCO seems to have unable to keep adequate capital fund.
- Growth ratio of NSMCO has not been more successful to increase its net profit, earning per share and dividend per share in comparison to other finance companies so that NSMCO has not any effective strategy to win confidences of shareholders, depositors and all of its customers.

B. R. Sharma (1999) *"A study on Financial Performance of Rastriya Beema Sansthan and Nepal Life and General Insurance Limited"*, concluded by has found various financial indicators of these companies from the analysis. He finds the following major issues.

- Absolute value of premium collection has been increasing but it is in decreasing trend in respect of GDP.
- Net premium to claim ratio is gradually decreasing, claim outstanding and premium outstanding are increasing year by year since the overall liquidity position is weakening.
- Most of the parts of investment portfolio is composed of bulk fixed deposit account and HMG securities.

Based on the issues he gives various recommendations to the companies out of which main are as follows:

- They should make an effective program to take larger share in insurance market.
- They should increase their retention capacity.
- They should accelerate the outstanding premium collection speed.
- They should improve overall liquidity position.
- They should make effective investment portfolio.

D. Adhikari (2000), in his thesis *"Financial performances analysis of Nepal Insurance Company Limited"* his main objective is to analyze the financial performance of NICO. The main findings were as follows:

- Regarding the liquidity management, the NICO is in sound position.
- The NICO is unable to control its operating expenses at the minimum level.
- The net profit margin ratio of NICO is deteriorating year by year.
- The company has not adopted fixed policy to dividend payment.
- The NICO has not practiced risk diversified investment principle but adopted traditional investment portfolio.
- No perfect stability in cash inflows and outflows of NICO.

The recommendations were as follows:

- The NICO should sell the insurance policy mostly on cash and may extend credit only to those customers who have proven credit worthiness and financially strong as a result there will be no bad debt losses cost of credit management.
- Settlement of claims should be made in time. The company should extend its usiness area.
- The NICO should diversify its business portfolio.
- The company should expand its fixed assets.
- The NICO should diversify its business portfolio.

B. Sharma (2006), in his thesis *"A Study on Financial Performance of Rastriya Beema Sansthan and Nepal Life and General Insurance Limited"* attempted to find out the various financial indicators of these companies. The analysis concerned with financial performance of the company. He found the following major issues in his study.

- Absolute value of premium collection has been increasing but it is in decreasing trend in respect of GDP.
- Net Premium to claim ratio is gradually decreasing, claim outstanding and premium outstanding are increasing year by year since the overall liquidity position is weakening.
- Most of the pars of investment portfolio are composed of bulk fixed deposit account and HMG securities.

Acharya (2007), in his thesis *"An Evaluation of Financial Performance of Nepal Insurance Company Limited"* has found the following facts about Nepal Insurance Co. Ltd. His findings are:

- Liquidity management of NICL is in very week position.
- The company is not able to collect its outstanding premium efficiently.
- The Company's Re-Insurance Premium is in increasing trend.
- Profitability position of the Company is in satisfactory level.
- The Company's total assets are in increasing trend.
- Control of Management expenses and Agency commission is in increasing trend.

Based on the findings of the study, the researcher has given various recommendations to the company. Some of them are as follows:

- The Company should improve the liquidity position.
- The Company should activate its agents and development officer.
- Claims should be pain in time.
- Commission and management expenses should be controlled.
- Company should maximize investment return through optimal portfolio management.
- Business portfolio should be diversified.

2.7 Research Gap

Since the above mentioned studies offer limited findings, more extensive testing, and adjustment of necessary variables are needed in ordered to be more conclusive about the financial performance of insurance companies. Previous studies were directed to find the effect of the different financial ratios of firm on dividend per share to Market per share (i.e. dividend yield).Likewise many changes have taken place in the capital markets of Nepal after the completion of the Pradhan's study. Similarly, Singh's study is unable to present the exact condition of insurance companies in Nepalese market.

Presently, this study aims to attempt to study about financial performance of listed insurance companies in Nepal Stock Exchange. The previous relevant literature related to insurance business has just reviewed to support the study. In Singh's study, she failed to study the claim made towards the insurance companies. This study tries to fulfill this weakness. And there is also less research made in this topic especially in insurance sector.

Financial value has very big role to sustain any insurance companies. It is equally important to identify the relation of these financial ratios with capital gain yield and total yield. So, it tries to assess the market performance of insurance companies and by providing the proper atmosphere for the insurance market in our country. The present study is based on five years data of insurance companies, which tries to achieve its objectives by analyzing secondary as well as primary source of data. Thus, the earlier studies on these issues need to be updated and validated because of the many changes taking place in Nepalese insurance market. The current study is a supplement to overcome the weakness and limitation of previous studies.

CHAPTER III
RESEARCH METHODOLOGY

This chapter describes the methodology applied in this study. Research methodology is a systematic way to solve the research problem. It refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view. The chapter includes the research design, population and sample, nature and sources of data, analysis of data.

3.1 Research Design

This study covers quantitative methodology in a greater extent and also uses the descriptive part based on both technical aspect and logical aspect. Though the research tried to concentrate on quite a specified subject area, it could not ignore some other relevant areas of study, which may give further support to the research.

The study is related with market performance of listed insurance companies and it is based on fully secondary sources of data. Thus analytical research design has been used

3.2 Population and Sample

There are twenty-five insurance companies operating in Nepal Stock Exchange upto the end of fiscal year 2011/12 that are considered to be the total population of the study. But due to lack of time and resource factor, it is not possible to include all of them in the study. Hence, out of eighteen listed insurance companies, four insurance companies have been taken as sample. The study is based on 25 observations covering the fiscal year from 2007/11 to 2011/12.

(i) Himalayan General Insurance Company

Himalayan General Insurance Company Limited was established in 1988 under the company Act 1964 with an objective of undertaking non-life and re-insurance business in the country and aboard. The company had obtained permission to commence insurance business from insurance board under insurance Act 1992 and stated its business from November 1993. HGIC listed on stock exchange on 1994 A.D. the shareholding pattern of the company is 60% shares owned by promoters and 40% by general public. At the end of fiscal year 2010/2011, authorized capital, issued capital and paid up capital were Rs.1600000, Rs.600000 and Rs.300000 respectively, the market capitalization is Rs.57 million and the number of shareholders are 1875.

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

Premier Insurance company (Nepal) Limited was established under the company Act 1964 in 1992 (2048 B.S). The major objectives of the company are to carry out life and non-life insurance and re-insurance business in the country and abroad. The shareholding pattern of the company is 60 percent by the promoters and 40 percent by the general public. It was listed on stock exchange in 1995 A.D (2052 B.S)

The company has authorized capital Rs.100000000 issued capital Rs.60000000, paid up capital Rs.30000000, no. of shareholders are 8476 and market capitalization is Rs.57.6 million at the end of fiscal year 2010/11.

(iii) Everest Insurance Company Limited

Everest Insurance Company Limited was established in 1994 under the company Act 1964. The major objective of the company is to carry out life insurance and non-life insurance business in the country. The company is yet to get permission to operate life insurance business from insurance board and has operation only non-life insurance business. It was listed on the Nepal stock exchange in the year 1995A.D. the shareholders of EIC are 60 percent from promoters and 40 percent from general public. The total numbers of shareholders till fiscal year 2008/09 are 8112. The company has authorized capital Rs.100000000, issued capital Rs.30000000 and paid-up capital Rs.30000000, net profit Rs.18522285 and the market capitalization is Rs.183 million at the end of fiscal year 2010/11.

(iv) United Insurance Company (Nepal) Limited

United Insurance Company (Nepal) Limited was established in 1992 A.D (2049B.S) with an objective of providing non-life insurance services in the field of fire, marine, vehicle and miscellaneous insurance in the country and abroad. It was listed in the

Nepal stock exchange in the year 1994 A.D (2051/04/17 B.S. The shareholding pattern of the company is 51% form industrial promoters, 40% from general public and 9% from other sector.

The company has authorized capital Rs.100000000, issued capital Rs.60000000, and paid-up capital Rs.60000000, net profit Rs.3384836, market capitalization is Rs.82.8 million and the no. of shareholders are 4933 at the end of financial year 2010/11.

3.3 Nature and Sources of Data

The study is totally based on by different financial institutions. The website of NEPSE is www.nepalstock.com. website of SEBON is www.sebonp.com and similarly website of secondary sources of data. The main sources of such datas are Nepal Stock Exchange (NEPSE), Securities Board Office, Beema Samiti and Economic Survey published by Ministry of Finance. Besides these, the required data are also collected from various annual reports, various bulletin, journal, articles and other publications published Beema Samiti is www.bsib.org.np, www.beema.com.np etc. Similarly other data are obtained by performing discussion with the executive of Insurance companies and management experts of the respective companies.

3.4 Methods of Data Analysis

The data collected from various secondary sources has been analyzed by using various univariate and statistical tools. The collected data have been presented in different tables, figures and charts to trace out the situation of Financial performance of listed insurance companies.

3.4.1 Univariate Analysis

In the method of univariate analysis, a compression is made between the market price per share (MPS), net worth per share (NWPS), earning per share (EPS), dividend per share (DPS), dividend yield, price earning ratio, market book value ratio of insurance companies. The analytical procedure applied for assessing the performance of listed companies.

a) Market Price per Share (MPS)

MPS is that value of stock, which can be obtained by a firm from the market. Market values share is one of the variables, which is affected by the dividend per share and earning per share of the firm. If the earning per share and dividend per share is high, the market value of share will also be high. Market value of share may be lower or higher than the book value. If the firm is growing its earning power will be greater than cost of capital. For such firms market value of share will be higher than the book value. If the firm's earning capacity is lower than the cost of capital then MPS will be lower than the book value.

b) Earning Per Share (EPS)

EPS ratio is used to measure the profitability of a firm from the owner's viewpoint. The market value of shares of a company is dependent on the earnings of the company. EPS also measures the return of each equity shareholder. It can be calculated by dividing the net profit after tax by the total number of the common shares outstanding. It reveals the earning power of each share over the period basically in one year. It is calculated as under:

$$Earning \quad Per \quad Share(EPS) = \frac{Net \quad \Pr ofit}{Number \quad of \quad existing \quad equity \quad shares}$$

c) Dividend Per Share (DPS)

Dividend refers the percentage of earnings paid in cash to its stockholders. "As long as there are investment projects with returns exceeding those that are required, it will use retained earnings and the amount of senior firm has retained earnings left over after financing all acceptable investment opportunities, these earnings then would be distributed to stockholders in the form of cash dividends, if not there would no dividends" (Van Horne, 1990:328). DPS is the net distributed profit belonging to the shareholders divided by the number of ordinary shares outstanding. It measures the financial performance of the company. It is calculated as under:

$$DPS = \frac{Amount \quad paid \quad to \quad equity \quad shareholders}{Number \quad of \quad ordinary \quad shares \quad outs\tan ding}$$

d) Price Earning Ratio (P/E Ratio)

Price earning ratio reflects the price, which is currently paid by the market for each rupees of earning, which is currently reported earnings per share. The P/E ratio could be calculated by dividing the market value per share by earning per share. It is calculated as:

$$P/E \quad Ratio = \frac{Market \quad price \quad per \quad share(MPS)}{Earning \quad per \quad share(EPS)}$$

e) Market / Book Value Ratio

This ratio indicates such types of price, which the market is paying for the value that is reported from the net worth of insurance companies. In other words, we can say that it is the price that the outsiders are paying for each rupee shown to the balance sheet of the company. This ratio is calculated by dividing the market value per share by the book value per share as under:

$$Market / \quad Book \quad Value \quad Ratio = \frac{Market \quad price \quad per \quad share(MPS)}{Book \quad value \quad per \quad share(BVS)}$$

f) Dividend Yield

Dividend Yield ratio measures the relationship between the earnings belonging to the ordinary share holders. This ratio evaluates the shareholders' return in the relation to the market value of the share. It helps to decide whether to make investment or not in a common stock. Sometimes, lower dividends also produce higher yield and higher dividends also produce lower yield. Thus, dividend yield helps the investors to know the rate of return in the form of dividends. This is calculated by dividing the dividend per share by the market value per share as under:

$$Dividend \quad Yield = \frac{Dividend \quad price \quad per \quad share(DPS)}{Market \quad price \quad per \quad share(MPS)}$$

g) Capital gain yield

Capital gain yield means rate of return on investment as a result of changing the year end stock price of two year. Positive value of capital gain yield shows the positive rate of return where as negative value to capital gain yield indicates negative rate of return or capital loss. It is calculated as under:

$$Caital \quad gain \quad yield = \frac{Ending \quad price(P_1) \quad - \quad Begining \quad price(P_0)}{Begining \quad price(P_0)}$$

h) Total Yield

Total yield constitutes divided yield plus capital gain yield. It is the total rate of return on investments in stocks

3.4.1.1 Analysis of Premium

Insuran1ce Premium is the life of blood of insurance company. Insurance Company may flourish only with the significant increase in premium earning. Therefore, the analysis of premium is very crucial to get meaningful interference on market performance of insurance companies.

a) Analysis of Yearly Changes in Premium Earning

In this analysis the yearly percentage change in insurance premium is calculated as follows:-

Yearly % Change in Premium = $$\frac{Beginning\,Years \quad premium - \quad Ending \quad Years \quad \mathrm{Pr}emium}{Beginning\,Years \quad \mathrm{Pr}emium}$$

b) Total Claim to Net Premium Ratio

This ratio is measured to judge that how much net premium is paid for claim. More claim means less surplus form net premium and low claims means high surplus from the under writing of insurance policy. Total claim to Net Premium Ratio is calculated as follows:

$$Total \quad claim \quad to \quad Net \quad \mathrm{Pr}emium \quad Ratio = \frac{Total \quad Claim}{Net \quad \mathrm{Pr}emium} \times 100$$

3.4.2 Statistical Analysis

The Financial performance analysis of the Insurance Companies is analyzed with the held of statistical tools. The statistical tools used in this study are as following:-

a) Coefficient of Correlation (r)

The correlation is a statistical tool, which studies the relationship between two variables and correlation analysis involves various methods and techniques used for studying and measuring the extent of the relationship between the two variables. Two variables are said to be correlated if the change in one variable results in a corresponding change in the other vales. It measures the direction of relationships between two sets of figures. The correlation coefficient can be either in positive or negative and can have the value between -1 to +1. If both the variables are changing the same direction, then positive correlation exists. Where as when the variation in two variables take place in opposite direction, the correlation is said to be negative. In this study the correlation is calculated to examine the positive or negative degree relationship between earning per share and dividend, net worth and dividend, total earning and dividend, market price of stock and dividend and earning per hare and market price per share. It is calculated by following formula:

$$R = \frac{n\sum XY - \sum X \sum Y}{\sqrt{n\sum x^2 - (\sum X)^2}\sqrt{n\sum Y^2 - (\sum y)^2}}$$

The value of the correlation coefficient 'r' lies between -1 to +1 that is $-1 \leq r \leq 1$. If r=1; there is perfect positive relationship, if r=-1; there is perfect negative relationship and if r=0; there is no relation at all.

b) Coefficient of (multiple) Determination (R^2)

The coefficient of multiple determinations is a measure of the degree of linear association of correlation between two variables, one of which happens to be independent and other being dependent variable(s). It measures the percentage total variation in dependent variable explained by independent variable (s). The value of coefficient of multiple determinations can range from zero to one. If R^2 is equal to 0.81, it indicates that independent variables used in regression model explained 81 percent of the total variation in the dependent variable. It is calculated as:

$$R_2 = \frac{Explained \quad Variation}{Total \quad Variation}$$

c) Regression Analysis

The regression analysis is used to estimate the likely value of one variable form the known value of the other variable In other words, regression analysis is a mathematical measure of the average relationship between two or more variables in terms of original units of data.

It is the process of predicting the value of one variable, on the basis of known values of other variables. The main objective of regression analysis is to predict or estimate the value of dependent variable corresponding to a given value of independent variables. The analysis used to describe the average relationship between two variables is known as simple linear regression analysis. Simple regression analysis has been used in this study to determine the effects of aforementioned independent variable on dependent variable, i.e. dividend per share, earning per share and net worth per share.

The regression equations of y on x, which is used to describe the variation in the value of y of given change in the value of x.

The regression equation of y on x be

y = a + bx

Where,

y = dependent variable

a = regression constant

b = slope of regression liner or regression coefficient of y on x

x = independent variable

This model has been applied for analyzing the five years data form 2007/08 to 2011/12. Similarly the following regression model has been used to find out whether the dividend per share, earning per share and net worth per share of the insurance companies is related to market price per share of the companies or not.

In this equation, y represents the dependent variable i.e. market price per share and x represents independent variable such as dividend per share or earning per share or net worth per share.

The regression equation of x on y, which is used to describe the variation in the value of x of given change in the value of y, such line is drawn to find out the value of stocks by using two normal equations which are as follows:

$\sum y = Na + b \sum x$ ... (i)

$\Sigma xy = a \Sigma x + b \Sigma x^2$ ... (ii)

Where,

a and b are unknown

N = Number of observations in the sample

Multiple Regression Analysis

Multiple regressions is defined as the statistical device which is used to estimate (or predict) the value of tone dependent variable when the values of two or more independent variables are known or given. In multiple regression analysis, two or more independent variables are used to predict the value of dependent variables. It is a statistical technique for investigation the relationship between one dependent variable and a set of two or more independent variables. In this study, market price of the stock is influenced by several factors like earning made by firm, dividend distributed and price earning of past year etc. Thus, multiple regression models of MPS depend upon EPS, DPS and $P/E_{(t-1)}$ which is formulated as:

$Y = 1 \quad a + b_1x_1 + b_2x_2 + b_3x_3$

Where,

Y = market price per share

a = Regression constant

b_1, b_2, b_3 = Regression coefficient of the variables

x_1 = Earning per share

x_2 = Dividend per share

x_3 = Price Earning ratio of past year

Standard Error of Estimate (SEE)

Standard error of estimate is a measure of the reliability of the estimating equation, indicating the extent to which observed values differ from their predicted values of regression line. In other words, it is a measure of dispersion (or scatter or variation) about the regression line. The smaller the value of SEE, the closer will be the observed values to the regression line and the better will be the estimates based on the equation for this line. It is not possible to predict perfectly with the help of regression equation only. Therefore SEE makes it possible to ascertain how good and representative the regression line is as a descriptions of the average relationship between two series.

d) Time Series Analysis

The Time Series analysis will help to analyze the data in relation with time. In reflects the dynamic face of movement of a phenomenon over a period of time. The time series analysis will also help to forecast the numerical value of the variables for future based on past date. There are various methods of time series analysis variables but only least square method of trend analysis will be used to study purpose.

This method of least square is used to fit straight –line trend to forecast the trend value for future. The Straight-line trend is represented by the equation.

$Y= a+bx$

Where,

Y = Trend Value of variables

Y = Variables which is assumed to depend upon time

a = Y1 intercept of computed trend figure of the Y variable where Y=0

b = Slope of the trend line or the amount of change in Y variable that is associate with a change of one unit in X variable.

x = The variable which represents time (i.e. year, month, day etc.)

The f1ollowing two simultaneous equations to be solved to find out the value of a&b.

$\Sigma Y= Na + b\Sigma x$

$\Sigma XY= a\Sigma x + b\Sigma x^2$

Where,

N represents numbers of years.

When $\Sigma x=0$

Then, $a= \Sigma y/N$

$b= \Sigma xy/ \Sigma x^2$

In next chapter, we will study the Trend Analysis of Earned Premium and Trend Analysis of Net Profit.

CHAPTER IV

PRESENTATION AND ANALYSIS OF DATA

This chapter is fully devoted to analyze the various issues of the study in the context of selected listed insurance companies of Nepal. The chapter contains two parts. The first part of this includes analysis of financial performance of insurance companies, behavior of NEPSE index, and analysis of premium earning of insurance companies and relationship of MPS with Market indicators while the second part includes major findings of the study.

4.1 Analysis of Financial Performance of Insurance Companies

Financial Performance of companies is a broad subject which can be examined in various ways. The current owners of the company, the potential investors, employees, creditors, government, customers etc. analyze the financial performance in their own ways based on their own interests. Although it is not possible to fulfill the interests of all the stakeholders about the financial performance of the companies, this study tries to help more or less all of them by examining the performance of the companies which are listed in NEPSE Ltd. This study specifically provides higher attention to the investors and the analysis is also directed in the best of the investors.

4.1.1 Analysis of Market Price Per Share

Market price per share is the price at which shares are traded in the stock Financial. Those shares are transacted in the secondary Financials which are already issued to the public. Organized stock exchange centers are known as secondary Market where trading of the stocks are conducted. Market value in the secondary Market is determined by supply and demand factors and reflects the consensus opinion of investors and traders concerning the value of the stock (Cheney and Moses, 1993:417-418) The Market price per share of listed companies are a good measure of performance. A higher Market price per share indicates the better performance of the company and vice versa. Whether a Market price per share is high or low it is difficult to determine. For this, the Market analyst has to compare it with the book value per share and also with the Market price share of other companies.

Table 4.1

Market Price per Share of Insurance Companies

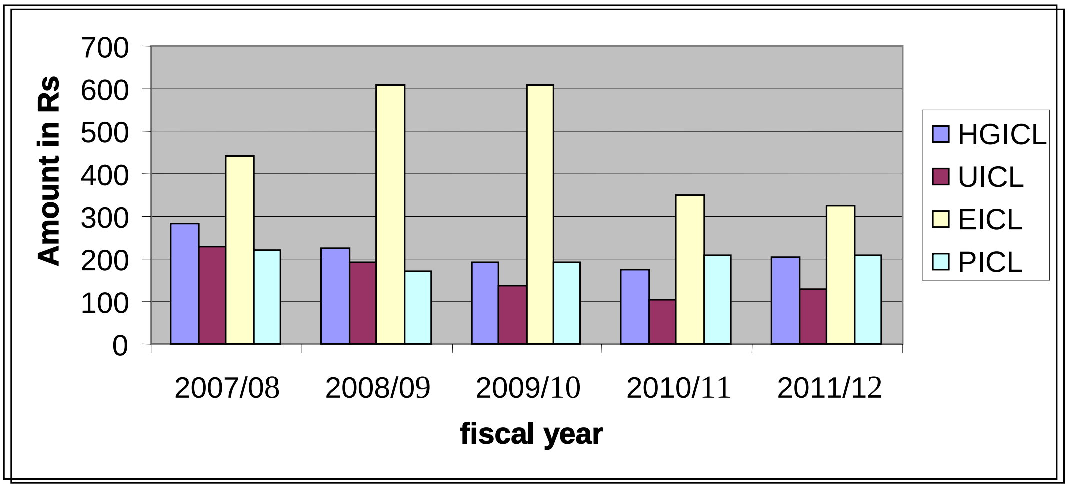
Year	HGICL	UICL	EICL	PICL
2007/08	285.00	228.00	440.00	220.00
2008/09	225.00	190.00	610.00	170.00
2009/10	190.00	138.00	610.00	192.00
2010/11	175.00	105.00	350.00	210.00
2011/12	205.00	128.00	325.00	210.00
Average	**216.00**	**157.80**	**467.00**	**200.40**

(Sources (:Appendix-1)SEBO Journal 2011/12)

Table No 4.1 Shows that the Market price per share of sampled insurance companies from 2007/08 to 2011/12. The MPS of HGICL is Rs.285, Rs.225, Rs.190, Rs.175, and Rs.205 in 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively. The MPS of UICL is ranging from Rs.105 to Rs.228 for the year 2010/11 and 2007/08. The MPS of EICL is Rs.440, Rs.610, Rs.610, Rs.350 and Rs.325 in 2007/08, 2008/09, 2009/10, 2010/11 and 2011/2012 respectively. Similarly, PICL has same MPS for the year 2008/09 and 2009/10 i.e. Rs.210. The lowest MPS of PICL is Rs.170 in 2008/09. The MPS of insurance companies are ranging from Rs.105 to Rs.610 of UICL and EICL. The MPS of EICL is better then rest of companies. The MPS of PICL, EICL and HGICL is fluctuating ups and down and the MPS of rest of the companies have normal trend. The range of average MPS is Rs.157.80 to Rs.467.00 among the companies and it has decreasing trend from year 2007/08 to 2011/12.

Figure 4.1

MPS of Insurance Companies



4.1.2 Analysis of Dividend per Share

Dividend per share is the amount availed to the holders of each common stock by the company. Evaluation of performance of listed companies in terms of dividend per share (DPS) is considered as an appropriate measure which shows the companies' earnings and dividend paying capacity. DPS is the net distributed profit belonging to the shareholders divided by the number of ordinary shares outstanding. It measures the Financial Performance of the Company. It is calculated as under:

$$DPS = \frac{Amount \quad paid \quad to \quad equity \quad shareholders}{Number \quad of \quad ordinary \quad shares \quad outs\tan ding}$$

Dividend per share includes dividend decision in earning per share. Although the behavior of companies towards dividend payment is disappointing in Nepal. The joint venture banks, other Market institutions, and some other companies have brought greater revolution in this trend. They are competing for paying larger amount of dividends in recent years.

Table 4.2

Dividend per Share of Insurance Companies

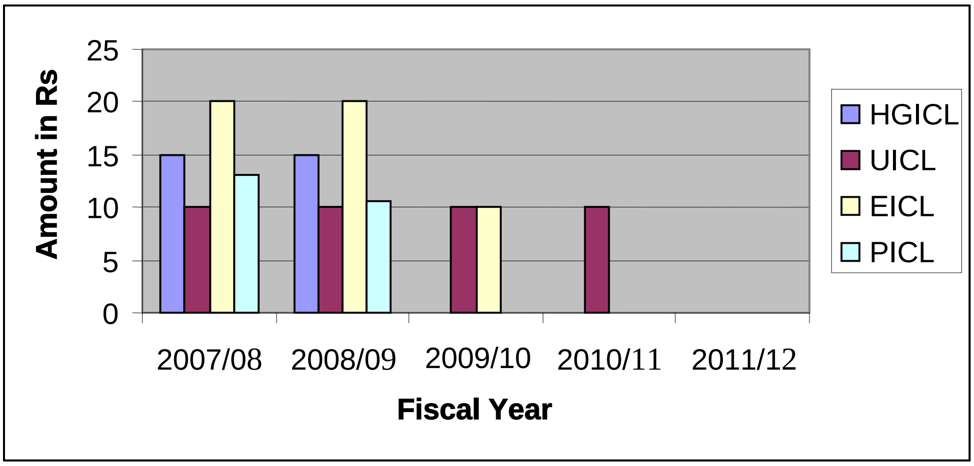
Year	HGICL	UICL	EICL	PICL
2007/08	15.00	10.00	20.00	13.00
2008/09	15.00	10.00	20.00	10.53
2009/10	0.00	10.00	10.00	0.00
2010/11	0.00	10.00	0.00	0.00
2011/12	0.00	0.00	0.00	0.00
Average	6.00	8.00	10.00	4.70

(Sources: Appendix-II(Annual Report of insurance companies from 2007/08 to 2011/12)

Table 4.2 shows that the DPS of insurance companies from 2007/08 to 2011/12. The dividend per share of HGICL is Rs.15.00 in 2007/08 and 2008/079 and rest of the year i.e since 2009/10 to 2011/12, it has not paid any dividend to its share holder. UICL has paid fixed dividend per share of Rs.10.00 for continuous four year i.e. from 2007/08 to 2010/11. Similarly EICL has paid dividend per share of Rs.20.00 for two years i.e. in 2007/08 and 2009/10 and decreased by Rs.10.00 in 2009/10. There was no dividend distributed by EICL for two years of 2010/11 & 2011/12. PICL paid dividend per share of Rs.13.00 and Rs10.53 in 2007/08 and 2008/09 respectively; no dividend was paid since 2009/10 to 2011/12. The dividend per share ranges from Rs.20.00 to Rs.10.00 of HGICL, UICL, EICL and PICL for five years period. UICL has regularly paid dividend for four years of Rs.10.00. It indicates that UICL has good performance among the five insurance companies. EICL and PICL has fluctuating trend of DPS for five years period. The average DPS of four insurance companies is Rs.6.00, 8.00, 10.00 and 4.70 respect it ranges from Rs.10.00 to Rs.4.70. It has been unable to maintain average DPS during the year 2010/11 to 2011/12.

Figure 4.2

DPS of Insurance Companies



4.1.3 Analysis of Earning Per Share

Profit is the life blood of any company. Although the company can run without profit in short period. It can not run and exist over the long run. Therefore, sufficient earning is necessary for the company to satisfy its owners. Earnings of the share holders is the residual amount which remains after deducting all the expenses, interest, taxes and dividends to preferred shareholders from the revenue Earning per share is the amount available to the holders of each share.

It is good measure of Financial Performance because it integrates all the major Market ratios and provides holistic information. Overall Market model states EPS as follows:

$$Earning \quad Per \quad Share(EPS) = \frac{Net \quad \Pr ofit}{Number \quad of \quad existing \quad equity \quad shares}$$

Table 4.3

Earning Per Share of Insurance Companies

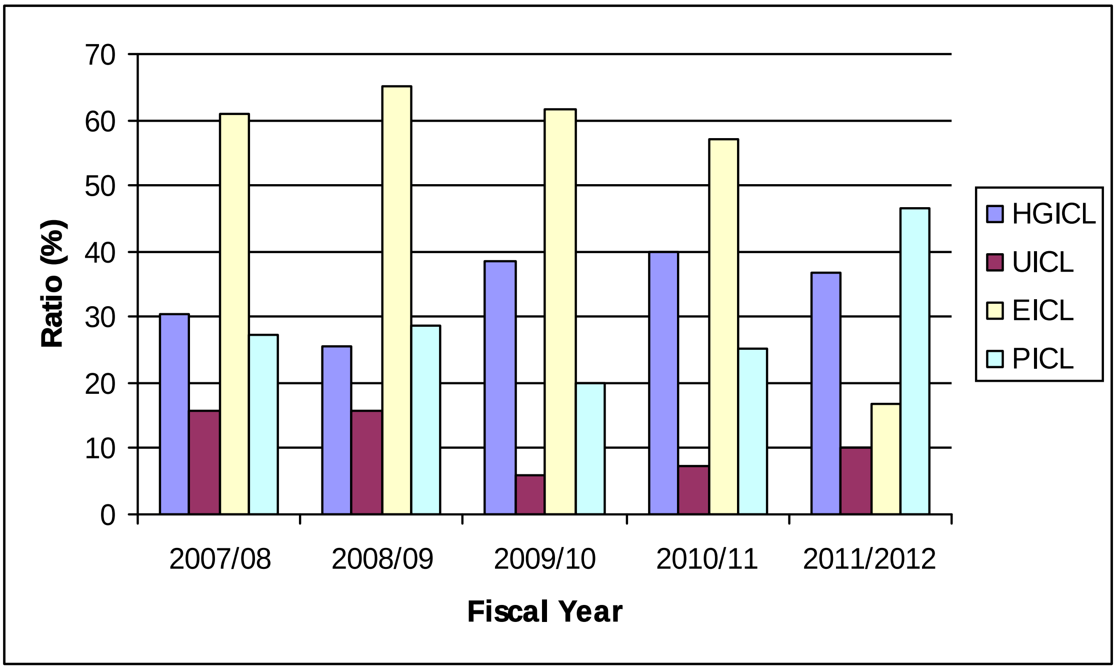
Year	HGICL	UICL	EICL	PICL
2007/08	30.30	15.65	61.05	27.35
2008/09	25.50	15.69	65.20	28.73
2009/10	38.41	5.97	61.74	19.88
2010/11	39.86	7.24	57.22	25.12
2011/2012	36.70	10.16	16.87	46.68
Average	27.67	22.10	44.04	33.26

Sources: (Appendix-IV) Annual Report of insurance companies from 2007/08 to 2011/12)

Financial performance of listed companies in terms of EPS can be clearly seen in table 4.3. From the table, it can be conclude that the the highest earning per share of HGICL is Rs.39.86 in 2010/11 and lowest is Rs.25.50.Similarly, PICL has average range of EPS as compare to UICL and EICL. PICL has increasing trend of EPS. UICL has lowest EPS Rs.5.97 in 2009/10. It has very much fluctuating trend during five years. PICL has increasing trend of EPS. Financial performance of EICL in terms of EPS is very much better than rest of four companies. It is ranging from Rs. 16.87 to Rs. 65.20 in 2011/12 and 2008/09 respectively. But the growth rate of EPS of EICL is lesser then HGICL. Higher EPS shows the better earning capacity of the company. Higher earning per share not only can satisfy its existing shareholders but also attracts to the potential investors. EICL has proved this statement in comparison with other insurance companies. The average EPS is 31.77, which is maintained by the company in the year 2007/08 only. In the year 2008/09, 2009/10, 2010/11 and 2011/2012 the EPS are 27.02, 32.88,32.37, and 29.17 which are below the average.

Figure 4.3

EPS of Insurance Companies



4.1.4 Analysis of Price Earning (P/E) ratio

P/E ratio of a company is simply obtained by dividing the Market price per share by earning per share. This ratio establishes the number of times the price of a stock exceeds the earning per share.

$$P/E \quad Ratio = \frac{Market \quad pirce \quad per \quad share}{Earning \quad per \quad share}$$

The P/E ratio reflects the price currently being paid by the Market for each rupee of currently reported EPS. In other words, the P/E ratio measures investors' expectations and the financial performance of a firm. As a general, the higher the P/E ratio, the better it is for

Table 4.4

Price Earning (P/E) Ratio of Insurance Companies

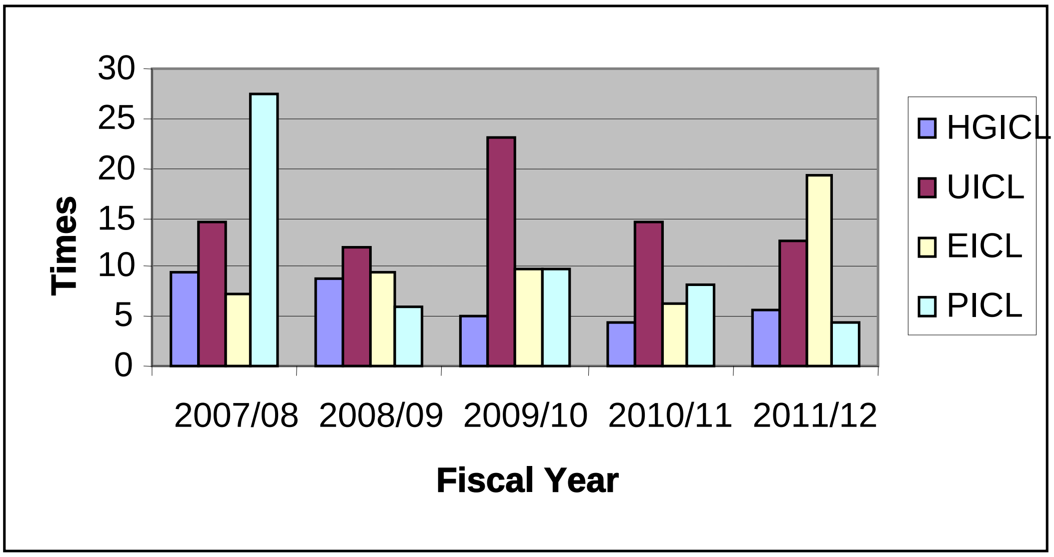
Year	HGICL	UICL	EICL	PICL	Average
2007/08	9.40	14.57	7.21	27.35	10.30
2008/09	8.82	12.11	9.35	5.92	7.24
2009/10	4.95	23.12	9.88	9.65	9.52
2010/11	4.39	14.50	6.17	8.36	8.35
2011/12	5.59	12.60	19.27	4.50	10.82
Average	6.63	15.38	10.38	7.29	9.25

(Sources:Appendix-III (Annual Report of insurance companies from 2007/08 to 2011/12)

The price earning ratio of listed insurance companies is presented in the above table 4.4. It shows that price earning ratio of HGICL, UICL, EICL, PICL from 2007/08 to 2011/12. The highest P/E ratio of HGICL is 9.40 times on 2007/08 and it is in decreased in following year. But again it increase in 2011/12 of 5.59 times. UICL has better P/E ratio in comparison to other companies during the study period. The trend of UICL is normal i.e. not so fluctuating. The price earning ratio of EICL is 7.21, 9.35, 9.88, 6.17, and 19.27 times in 2007/08, 2008/09, 2009/10, 2010/11, 2011/12 respectively. It has highest price earning ratio is 19.27 times in 2011/12. Similarly, the price earning ratio of PICL is in fluctuating nature .The lowest P/E ratio of PICL is 4.50 times in 2011/12. P/E ratio reflects investors expectations about the growth in the firm’s earning. From this analysis, it is clear that UICL has highest P/E ratio than other four companies. The highest P/E ratio is 23.12 times of UICL in 2009/10. During the study period, the average P/E ratio is 9.25 times, which is maintained by UICL and EICL only. P/E ratio in the year 2009/1 is not so difference in the average. In 2008/09 and 2010/11, company has unable to maintain the average P/E ratio which is below the average ratio.

Figure 4.4

Price earning ratio of Insurance Companies



4.1.5 Analysis of Net Worth Per Share

Net worth is the owner's equity in the company. It is also known as book value of the company. The book value per share is computed by dividing the amount of total shareholders' equity, which is called net worth, by the number of shares outstanding (Weston & Brigham ,1996: 675). This figure represents the asset value per share after deducting liabilities and preferred stock. (Cheney & Moses, 1993:417).Book value is a historical cost amount.

It represents the real or actual value of the common stock. Generally, Market price of stock is greater than book value of the stock. This clearly indicates that higher net worth per share is the signal of better companies. Therefore, it is a good measure of financial performance of listed insurance companies.

Table 4.5

Net Worth Per Share of Sampled Insurance Companies

Figrue in Rs.

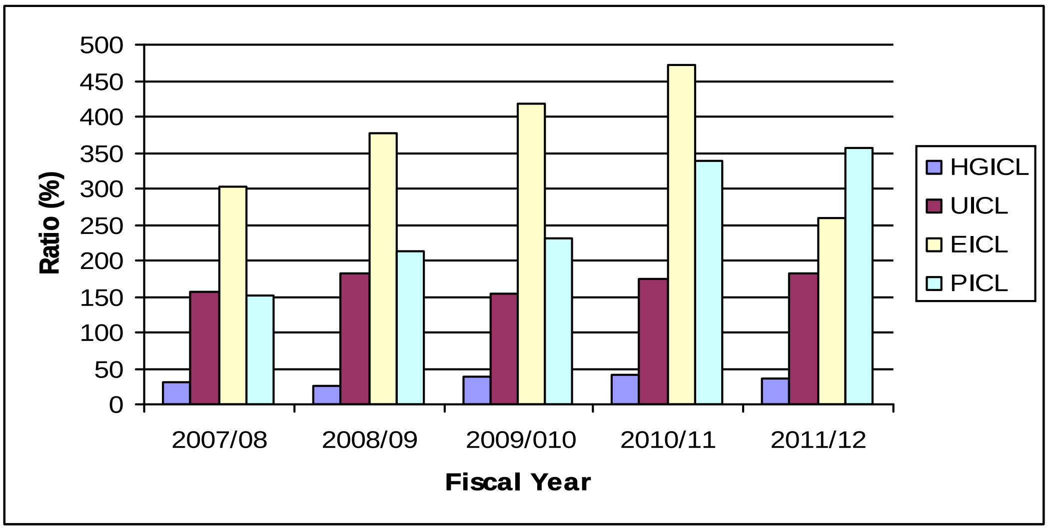
Year	HGICL	UICL	EICL	PICL
2007/08	30.30	155.62	302.78	150.03
2008/09	25.50	183.33	375.98	213.77
2009/010	38.41	153.25	416.93	231.23
2010/11	39.86	175.25	470.82	339.25
2011/12	36.70	181.23	259.65	357.28
Average	34.15	169.74	365.23	258.31

((Sources : Appendix-IV(Annual Report of insurance companies from 2007/08 to 2011/12)

Table No. 4.5 represents that the net worth per share of HGICL, UICL, EICL, and PICL from 2007/08 to 2011/12, is shown in table 4.5. The trend of net worth per share of HGICL has very low NWPS trend for five years in comparison with four companies. The NWPS of UICL from 2007/08 to 2011/12 is Rs.155.62, Rs.183.33, Rs.153.25, Rs.175.25 and Rs.181.23 respectively. The highest NWPS is Rs.183.33 in 2008/09. EICL has highest NWPS is Rs.470.82 during year 2010/11 and it good trend of NWPS for five years. Similarly, The NWPS of PICL is in increasing trend which is clearly seen from above table. The lowest NWPS is 150.03 and highest NWPS is Rs.357.28 in 2007/08 and 2011/12 respectively. Overall, it indicates that the range of NWPS from Rs.25.50 to Rs.470.82. EICL has better of financial performance in terms of NWPS for five years period. These all indicates that values of NWPS vary widely from one company to another.

Figure 4.5

Net Worth Per Share of Insurance Companies



4.2 Assessment of Return to Investors

Investors in the common stocks expect larger amount of dividend and also to gain from the stock price increment. Higher dividend and the stock price increment increase the returns of the investors. Investors thus get returns on their investment in the form of dividend yield and capital gain yield. This study tries to analyze the rate of return to investors as dividend yield, capital gain yield and total yield from the listed insurance companies.

4.2.1 Analysis of Dividend Yield

Dividend yield is the rate of return in the form of dividend. It is a relative term which is calculated by DPS/MPS. Only higher dividends or lower dividends do not matter to investors. So it is essential to determine the rate of return on their investment. Dividend yield is an appropriate measure which helps to decide whether to make investment or not in a common stock. Sometimes lower dividends also produce higher yield and higher dividends also produce lower yield. Therefore, dividend yield helps the investors to know the rate of return in the form of dividends.

Table 4.6

Dividend Yield of Sampled Insurance Companies

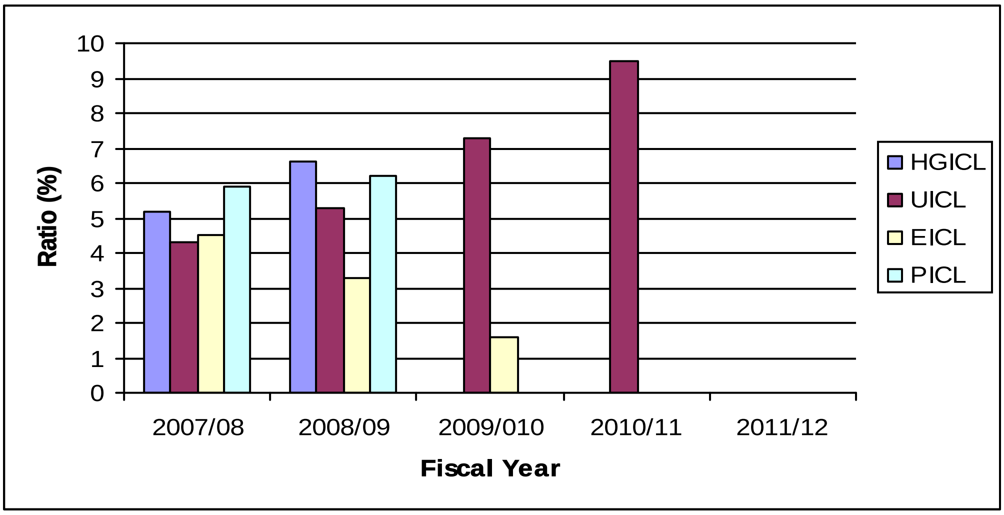
(in %)

Year	HGICL	UICL	EICL	PICL
2007/08	5.2	4.3	4.5	5.9
2008/09	6.6	5.3	3.3	6.2
2009/010	0.00	7.3	1.6	0.00
2010/11	0.00	9.5	0.00	0.00
2011/12	0.00	0.00	0.00	0.00
Average	2.36	5.28	1.88	2.42

Sources: Annual Report of insurance companies from 2007/08 to (Appendix-VII) (2011/12)

Returns to investors as dividend yield of insurance companies are presented in table 4.6. In the table, it is clearly seen that dividend yield of UICL has given for three years i.e. on 2007/08 to 2010/11 at 4.3%, 5.3% , 7.3% and 9.5% respectively. Similarly EICL has dividend yield of 4.5%, 3.3% and 1.6% from 2007/08 to 2009/10. PICL has 5.9% and 6.2 % dividend yield in 2007/08 and 2008/09. It has no dividend yield for rest three years. Overall, UICL has dividend yield for first four years regularly. There is higher dividend yield of 9.5% in comparison to other companies. The trend of dividend yields of EICL is in decreasing trend. UICL has higher dividend yield than rest insurance companies.

Dividend Yield of Sampled Insurance Companies



4.2.2 Analysis of Capital gain yield

Price of stock is determined through the demand and supply of the stock at the stock Market and such price is known as the Market price of the stock. If the Market price of the stock increases, the investors are benefited from the capital gain. Similarly, decrease in the Market price produces capital loss to investors. Capital gain is the profit from the stock price appreciation, and capital loss is the loss from stock price depreciation. Rate of return as capital gain is capital gain yield which is calculated by dividing the capital gain by the beginning stock price.

In an efficient stock, the Market price of stock increases or decreases based on the dividend decision of the company. Investors are directly benefited from dividend yield if earnings are paid as dividend, but they are compensated by capital gain yield if earnings of the company are retained. In Nepal, the capital gain yields to the investors from the listed insurance companies are shown in table 4.7.

Table 4.7

Capital gain yield of Insurance Companies

(in %)

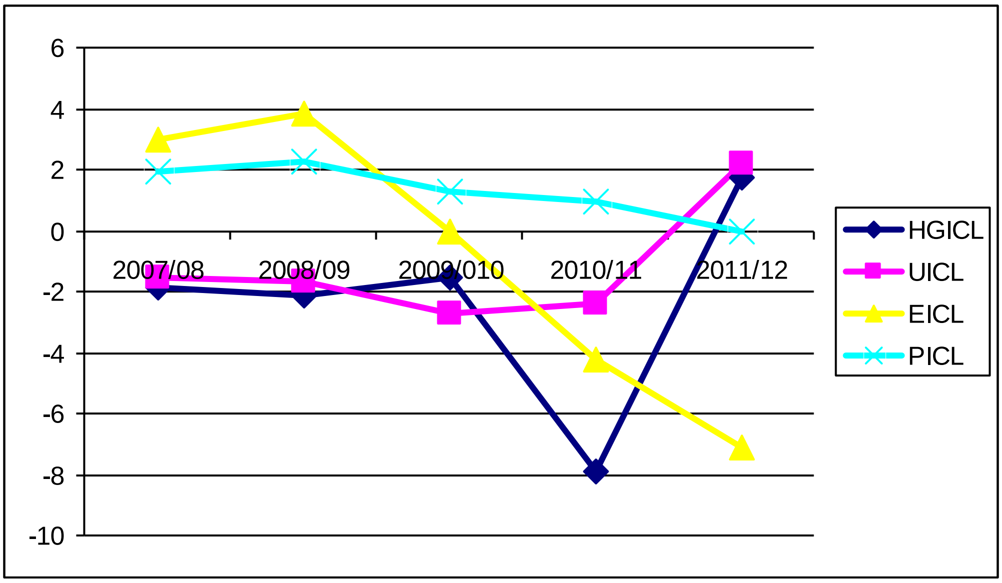
Year	HGICL	UICL	EICL	PICL
2007/08	-1.86	-1.57	2.96	1.95
2008/09	-2.10	-1.67	3.86	2.27
2009/010	-1.55	-2.74	0.00	1.29
2010/11	-7.90	-2.39	-4.26	0.93
2011/12	1.71	2.19	-7.10	0.00
Average	2.34	1.23	0.90	1.28

(Sources: Appendix-VI)

Returns to investors as capital gain yield of five insurance companies is presented in above table. In the table, it can be evidently seen that dividend yield in 2007/08 of two companies' i.e. HGICL and UICL is -1.86% & -1.57% respectively. Investors received 1.71 % as capital gain yield in 2011/12 of HGICL and rest of the year it has negative yield i.e. capital loss. UICL also carry same figure for continuous three years from 2008/09 to 2010/11 but it has 2.19% capital gain yield in 2011/12. Similarly, EICL has capital loss of -4.26% & -7.10% in 2010/11 & 2011/12 respectively. However in 2008/09 it has 3.86% of capital gain yield. There is no capital gain or capital loss yield in 2007/08. Similarly, PICL has positive capital gain yield for three years i.e. 2.27%, 1.29 % and 0.93% in 2008/09, 2009/10 and 2010/11. The trend of capital gain yield of PICL is in increasing but all of sudden there is no capital gain yield in 2011/12. When the capital gain is compared over a period of time for individuals companies, it may be observed that it has increased in, HIGCL and UICL in recent years. It indicates that the growth rate of capital gain yield is higher in these three companies.

Figure 4.7

Capital gain yield of Insurance Companies



4.2.3 Analysis of Total yield

Total yield constitutes dividend yield plus capital gain yield. In other words, returns to investors are in two forms; dividend yield and capital gain yield. Investors are attracted to the stocks of that company which provides high total yield to them. Not only may the higher rate, even the two kinds of yields not be important for them, because the other yield may be negative, too. Sum of both yields is the total rate of return to them on their investment. It is calculated by dividing dividend plus capital gain by the initial stock price of the year.

Table 4.8

Total yield of Insurance Companies (in %)

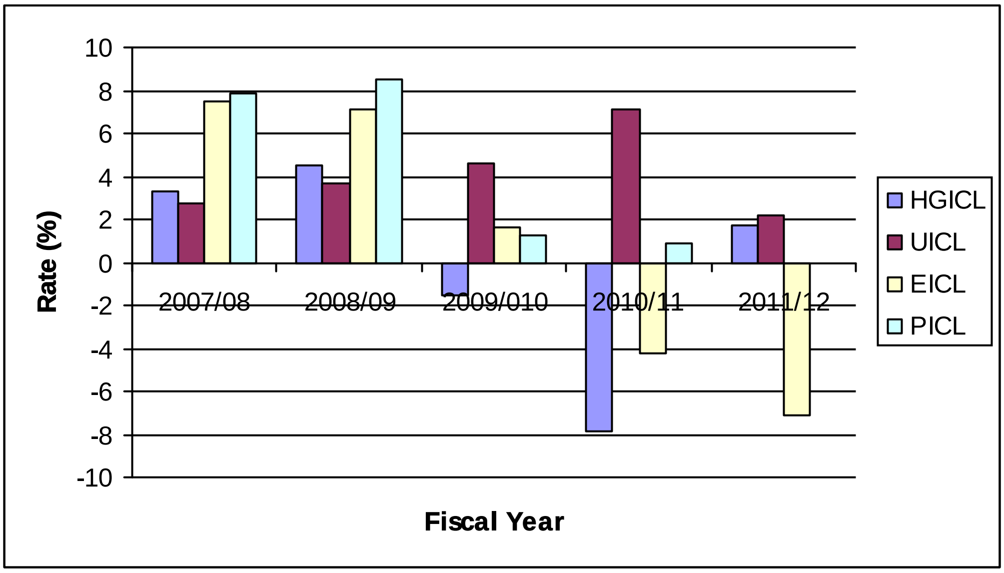
Year	HGICL	UICL	EICL	PICL
2007/08	3.34	2.73	7.46	7.85
2008/09	4.5	3.63	7.16	8.47
2009/010	-1.55	4.56	1.6	1.29
2010/11	-7.9	7.11	-4.26	0.93
2011/12	1.71	2.19	-7.10	0.00

(Source: Appendix VII)

Table 4.8 shows the total yields of, HGICL, UICL, EICL and PICL for five years. The total yield of HGICL has 3.34%, 4.50% total yield in 2007/08 and 2008/09 and start decreasing for two years but. in 2011/12, it is increased to 1.71%. UICL has total yield of 2.73% and 2.19% in 2007/08 to 2011/12. Since 2007/08 to 2011/12, it has positive total yield. The total yield of EICL is in decreasing trend. PICL has also fluctuating total yield for five years and total yield of PICL of all in positive figure i.e. 7.85%, 8.47%, 1.29% and 0.93% from 2007/08 to 2010/11 but it has nil in 2011/12. It has good performance in terms of total yield. It indicates that investors have received higher return from PICL than rest of companies. The average total yield is 5.01% which is not maintained by the company in the year 2007/08, 2008/09, 2009/10. All four companies has positive yield expect EICL even though four companies unable to maintain the average total yield during the period.

Figure 4.8

Total yield of Insurance Companies



4.3 Net Profit Trend

Time Series Analysis will help to analyze the data in relation with time. It reflects the dynamic pace of movement of a phenomenon over a period of time. Time Series Analysis will also help to forecast future based on past data. There is various method of time series analysis but only least square methods of trend analysis is used in this study as described in research methodology chapter.

The Net Profit trend equation of HGICL, UICL, EICL & PICL are shown in below table. The value of ‘a’, ‘b’ and net profit trend equation are given below:-

Table No 4.9

Calculation of Net Profit Trend Equation

	HGICL	UICL	EICL	PICL
a	10.24	6.194	8.866	15.726
b	0.8128	(1.098)	1.05	(7.05)
Net Profit Trend Equation	Y =10.24+0.8128x	Y=6.194+(1.098x)	Y=8.866+1.05x	Y=15.726+7.05x

(Sources :, Appendix A,VIII,IX,X,XI)

Table no. 4.9 shows that the values of ‘a’ and ‘b’ of, HGICL, UICL, EICL & PICL..

UICL has the lowest profit trend i.e. Rs.1.382 million per year that is in negative figure. Similarly, HGICL has Rs.2.71 million, EICL has Rs.0.003 million, and PICL has Rs.3.32 million profit trend. It shows that the net profit trend of UICL & EICL is in decreasing trend of while PICL have a better position of net profit growth trend.

4.3.1 Earned Premium Trend

The earned premium trend equations of HGICL, UICL, EICL & PICL are shown in below table. The values calculated from regression analysis are presented in table given below:-

Table 4.10

Calculation of Earned Premium Trend Equation

	HGICL	UICL	EICL	PICL
a	29.74	28.38	26.92	20.76
b	5.83	4.60	1.52	4.11
Net Profit Trend Equation	Y =29.74+5.83x	Y=28.38+4.60x	Y=26.92+1.52x	Y=20.76+4.11x

(Source; Appendix XII,XIII,XIV,XV)

Table no.4.10 shows that the values of slope of regression line (a) & regression coefficient (b) of, HGICL, UICL, EICL & PICL. The highest earned premium trend is Rs.5.83 million per year of HGICL. EICL has the lowest premium earned i.e. Rs.1.52 million per year., UICL has Rs.4.60 million, and PICL has Rs.4.11 million premiums earned per year. It shows that the premium earned trend is in decreasing trend of EICL. It indicates that HGICL and PICL have a better position of premium trend in comparison to rest of three insurance companies.

4.4 Relationship of MPS with Market Indicators (DPS, EPS & NWPS)

The relationship of MPS with various Market indicators like EPS, DPS and NWPS is evaluated through two methods. The first one is calculation of correlation coefficient between EPS and MPS, DPS and MPS and NWPS and MPS. Similarly the second is to derive multiple regression equation of EPS, DPS and P/E $_{(t-1)}$ on MPS.

4.4.1 Relationship between Market Price Per Share and Earning Per Share

Earning is the life blood of the company. It can not run and exist over the long period without earning. EPS is the amount available to the shareholders each share. Earning of the shareholders is the residual amount which remains after deducting all the expenses, interest, taxes and dividends to the preference shareholders from the revenue. To determine the relationship between EPS and MPS of insurance companies, a statistical tool is used.

The earning per share and Market price per share of insurance companies are presented in table 4.15. From the table, it can be seen that there is no perfect relationship between EPS and MPS. The average EPS and average MPS of insurance companies in 2005/06 are Rs.31.62 and Rs.331.00 respectively. In 2006/07, the average EPS of insurance companies was decreased to Rs.27.02

4.4.2 Relationship among MPS on EPS, DPS and NWPS

The below table shows the correlation coefficient of MPS with EPS, DPS and NWPS of sampled insurance companies. According to this, the MPS of EICL with their respective EPS, DPS and NWPS are positively correlated. In case of HGIC, its MPS has strong positive relation with its DPS whereas it has negative relation with EPS and NWPS. Similarly, the MPS of UICL is positively influenced by its EPS and DPS and negatively influenced by its NWPS.

Table 4.11

Relationship between MPS and Financial Indicators

Stocks	MPS	EPS	DPS	NWPS
Himalayan General Insurance Co.	0.12	-0.7722	0.8680	-0.3505
United Insurance Co. (Nepal)	0.53	0.9243	0.3796	-0.5539
Everest Insurance Co.	0.75	0.6649	0.6038	0.2760
Premier Insurance Co.	0.66	-0.1668	0.1841	-0.3088

As per the calculation, EPS and NWPS of PIC have negative influence in the movement of stock price whereas DPS has positive influence on it. Thus, the above calculation summarizes that the EPS of UIC has highest positive relationship with its MPS, DPS of HGIC has highest positive relationship with its MPS and even in case of NWPS; EIC has highest positive relationship between NWPS and MPS. Similarly, all three indicators EPS, DPS and NWPS of EIC have highest degree of negative correlation with its MPS as compared to the corresponding indicators of rest of the insurance companies. Then, EPS and NWPS of DPS of PAC have least degree of positive relation with their respective MPS whereas EPS and NWPS of PIC have again the least degree of relationship with its MPS.

4.4.3 Relationship among MPS on EPS, DPS and P/E ratio of last year

Market price per share depends upon more than two variables. The multiple regression analysis is performed to explain the relationship among MPS, EPS, DPS and P/E ratio of last year. Here the dependent variables market price per share (MPS) and independent variables earning per share (EPS), dividend per share (DPS) and price earning ratio of last year of sampled insurance companies are taken for analysis.

Table 4.12

Relationship of MPS on EPS, DPS and $P/E_{(t-1)}$

Regression equation: $Y = a + b_1 x_1 + b_2 x_2 + b_3 x_3$

Insurance Companies	Constant 'a'	Regression Coefficient			SEE
		b1	b2	b3	
HGICL	94.42	5.7317	3.936	(1.552)	49.156
UICL	104.408	3.747		2.472	65.338
EICL	302.284	6.8685	4.731	9.460	102.650
PICL	173.226	11.777	(11.304)	(3.146)	75.649

Note: *Y and x_1, x_2, x_3 represent the MPS, EPS, DPS and $P/E_{(t-1)}$ respectively*

The above result of multiple regression analysis shows the relationship of MPS on EPS, DPS and $P/E_{(t-1)}$of sample four insurance companies. The regression coefficients (b) of earning per share (EPS) of all insurance companies are positive, which indicate that the EPS and MPS have the positive relationship. It indicates that one rupee increase in EPS leads to increase in MPS by Rs.5.731, Rs.3.747, Rs.6.868 & Rs.11.777, of HGICL, UICL, EICL and PICL respectively keeping other variables constant.

Similarly, the regression coefficients (b) of dividend per share (DPS) of HGICL, EICL have positive, which indicate that with an increase of one rupee in DPS the MPS will increase by Rs.3.96 and Rs.4.731 respectively keeping other variables constant. In case of PICL the beta coefficient (b) of DPS is – 11.304, which indicates that one rupee increase in DPS leads to decrease in MPS by rs.11.304. But in case of UICL and DPS is constant during the period of study so the beta coefficient cannot be computed and the analysis is not made.

On the other hand, P/E ratio of last year, keeping other three variables constant, MPS will increase by .2.472 and 9.460 times UICL & EICL respectively. Likewise, there are negative relations or negative beta coefficient of rest other companies. It indicates that P/E ratio will decrease by 0.53, 1.55, & 3.14 times of UICL, EICL and PICL respectively. This analysis also helps to know the financial position of the companies which provide higher or lower return to their investors It is preferable to state the rate of reliability for the predication of the regression model with the help of standard error of estimate (SEE). The lesser the standard error of estimate is the better will be the predication. The SEE of GICL, UICL, EICL and PICL are 49.156, 65.338, 102.650, and 75.649 respectively.

4.5 Major Findings

From the analysis of data collected from various secondary sources following findings have been made:-

1. The average EPS of EICL is Rs.65.20. It is highest among the selected insurance companies and comparatively satisfactory during the period of study. But other do not have satisfactory EPS, UICL has the lowest average EPS of Rs.5.97.
2. The DPS indicates that the most of companies are not paying dividend regularly. Only UICL and EICL have paid regular dividend during the period of study. PICL has not paid dividend in the year 2008/09. HGICL, It implies bad message among the investor of insurance companies because it increases the risk for them.
3. The MPS of insurance companies are ranging from Rs.105 to Rs.610 of UICL and EICL. The MPS of EICL and is better then rest of companies. The MPS of PICL, EICL and HGICL is fluctuating up and down and rest of the companies has normal trend.
4. The price earning ratio of PICL is fluctuating. The lowest P/E ratio of PICL is 4.50 times in 2009/10. P/E ratio reflects investors expectations about the growth in the firm’s earning. From this analysis, it is clear that UICL has highest P/E ratio than other four companies. The highest P/E ratio is 23.12times of UICL in 2007/08.
5. The range of NWPS of five insurance companies for year 2008/09 to 2009/10 from Rs.25.50 to Rs.470.82. EICL has better performance in terms of NWPS for five years period.
6. The average P/E ratio is quite low and ranges from 6.17 to 23.12 times during the period of study. UICL has highest P/E ratio of 23.30 times but it has high degree of fluctuation. EICL has lowest average P/E ratio of 6.17 times.
7. The average growth rate on MPS of sampled insurance companies during the period of 2008/09 to 2009/10 is higher than the average growth of EPS during the period. Therefore, the result indicates that the growth on MPS and EPS of stocks of the companies are not consistence.
8. The relationship between MPS and EPS , MPS and DPS, MPS and NWPS,

show mixed result i.e. some insurance companies have positive correlation and some have negative correlation, which indicates that there is no specific trend in this regard applicable for all insurance companies.

9. HGICL has highest in premium earning. It is able to earn more amount of premium than other four companies. It shows that it is able to achieve more competitive efficiency in collection of insurance premium. UICL & EICL has poor premium collection. It seems the negligence of agents, brokers and development officer for not helping to the company for collection despite receiving the insurance commission in huge amount.

The trend of premium earned is in decreasing way except in the case of HGICL.

1. The established insurance companies have good track record of their financial position and the newly established insurance companies are penetrating the market. Most of all the insurance companies are operating in profit although some of them suffered from losses during their initial stages. The investor's attitude towards the shares of these insurance companies seemed to be positive.
2. The relationship among MPS on EPS, DPS and P/E(t-1)of sample five insurance companies show the mix result. The earning per share (EPS) of all insurance companies are positive, which indicate that the EPS and MPS have the positive relation existed. Similarly, P/E ratio of past year, MPS will increase by .2.472 and 9.460 times of UICL & EICL respectively keeping other three variables constant. Likewise, there are negative relations or negative beta coefficient of rest other companies

CHAPTER V

SUMMARY, CONCLUSIONS AND RECOMMENDATION

5.1 Summary

Insurance business is carried out with the objective of offering financial protection to human beings from losses out of control and situations unforeseen. Today, the popularity of insurance business is growing day by day. It is considered as a great achievement in the financial world with its purpose of providing the protection to man made progress, to discourage fear of possible accident and to encourage progress and developments. Insurance business also provides capital for the economic development of the nation. In this way the Insurance business plays the integral role in the national marketing system. The growing number of Insurance companies is competing with each other to attract policyholders with different types of Insurance policies. In this regard, the Insurance companies that we have studied have played a vital role for socio-economic development of the nation either by providing financial security against risk or collection of capital for scattered resources.

Financial analysis is the key tools for marketing strategies and starting point for making plan before using sophisticated forecasting and budgeting procedures. The values of this approach are the quantitative relation which can be used to diagnose strengths and weakness in the firm's financial performance. Such analysis is the considerable thing for the common stockholders, investors, bondholders and others.

Marketing Strategies of any concern is directly or indirectly influenced by the Financial Analysis. Thus it is a base for a firm's survival growth and expansion. In this study, an attempt is made to provide independent views of the financial analysis of NGICL, HGICL, UICL, EICL and PICL. The main objectives of the study were:

1. To highlight and analyze various aspects relating to financial performance of Insurance companies in Nepal
2. To examine the major financial indicators that has major influence on determining the MPS.
3. Examining the relationship between dividend and market price of Stock
4. To study the trend of premium collection and payment of claim and utilization of

available resources.

The analysis is based on the financial statement from fiscal year 2007/08 to 2011/12. Various financial as well as statistical tools via-financial ratio & trend analysis are used to accomplish the stated objectives. The study is mainly based on secondary data that have been first processed and analyzed comparatively. Then, based on major findings a package of workable recommendation is offered to improve the future financial performance and focusing on the challenges ahead of these companies.

5.2 Conclusion

The study shows that average market price of share of the sampled companies are seemed to be influenced by the combined effect among the analyzed financial indicators like EPS, DPS and NWPS. But these indicators are not alone to influence the price of share and there are other external factors such as economic conditions, political conditions and other major events occurred in the country are also The relationship between DPS with EPS, NPAT and NW are positive responsible in all these finance companies. Whereas relationship between DPS with average stock price is in improving condition with compare to previous year. Market price of share of listed companies is higher than net worth per share. There exist vast difference between MPS and NWPS. This situation clearly indicates that the investors are not comparing book value and market value of share. The position of companies in terms of dividend yield is not consistent over the period. However, investors have received higher dividend yield from EICL and PICL.

5.3 Recommendations

On the basis of the findings and issues which have been analyzed in the study, following useful recommendation have been made:

1. Makert Value is the important factor to the company. The market value of share is the function of various financial and economic variables as well as internal and external factors. Besides earning and dividend, the company's financial and investment policy, product development, market expansion policy, and competition etc. would largely determine the value of its shares.

Therefore, investors should also consider these variables while making the Investment decision.

2. For the purpose of improving the outstanding premium collection, insurance companies should sell the insurance policy mostly on cash and may extend credit only to those customer who have proven credit worthiness and financially strong.
3. The agent of the company should help to the company for outstanding premium collection. The company should make regular meetings with agents and request them to co-operate in making the clients to pay the outstanding premium The Company should select those agents who are more trust worthy toward the company, because the role of the agent is more important for insurance business for the collection of outstanding premium as well as overall development of the company.
4. This analysis clearly shows the insignificant relationship between market price and influencing other variables. It means the shareholders are making investment without considering the company's financial performance and positions. It shows that the investors are not rational. Thus it is better for the investors to understand the market and study the financial position and performance of the insurance companies before making investment.
5. Increase in company size with expanding fixed assets is desirable. These companies should utilize its funds to expand fixed assets, which can help the company be financially stronger. Only the financially strong company attracts the potential customers and increases its business. It makes shareholders as well as other relative parties' confidence toward the company.
6. The study shows that its business in some convenient areas of the country and it seems necessary to establish branches in other areas which enhance insured convenience as well as companies' business opportunities. For that purpose, they should appoint a large number of agents in different places. Radio and Television advertisement, talk programmers, seminars, handouts and pampering may be used as promotional devices for the sake of promoting its Insurance market.
7. In an efficient market the basic goal is to make the market aware about the performance of companies. So certain steps, which can bring the clear picture of their financial performance in the investors' mind is necessary. So, the flow of information should be made available to the investors to take correct decision.
8. The present trading system adopted by NEPSE, should be modernized so that

distant investors can trade with each other through modern technology. It increases the velocity of the market and lessens the costs and risks associated with physical delivery.

9. It is also recommended to the concerned body to carry out further research on Financial and market analysis of insurance companies for the betterment the companies.
10. To grab the present and future potential business opportunities in the market, these companies should establish research and development department. So that the company would be able to get the more profitable opportunities in the market.

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Calculation of Market price per share

Here,

APPENDIX-I

Market Price Per Share of Insurance Companies

Year	HGICL	UICL	EICL	PICL
2007/08	285.00	228.00	440.00	220.00
2008/09	225.00	190.00	610.00	170.00
2009/10	190.00	138.00	610.00	192.00
20010/11	175.00	105.00	350.00	210.00
2011/12	205.00	128.00	325.00	210.00
Average	216.00	157.80	467.00	200.40

APPENDIX-II

Net Profit and Number of Share of the Companies

Year	HGICL		UICL		EICL		PICL	
	Net Profit	No. of Share	Net Profit	No. of Share	Net Profit	No. of Share	Net Profit	No. of Share
2007/08	9090000	300000	4695000	566215	18315000	300000	8205000	300000
2008/09	7650000	300000	8883913.4	566215	19560000	300000	8619000	300000
2009/10	11523000	300000	3380303.6	566215	18522000	300000	5964000	300000
2010/11	11958000	300000	4099396.6	566215	17166000	300000	7536000	300000
2011/12	11010000	300000	5752744.4	566215	5061000	300000	14004000	300000

Where,

$$EPS = \frac{Net \quad \Pr ofit}{No. \quad Of \quad Share} \quad ,$$

$$HGICL = \frac{9090000}{300000} = 15.0 \quad etc.....$$

Appendix-III

Calculation of P/E Ratio

Year	HGICL		UICL		EICL		PICL	
	EPS	MPS	EPS	MPS	EPS	MPS	EPS	MPS
2007/08	30.3	285	15.65	228	61.05	440	27.35	220
2008/09	25.5	225	15.69	190	65.2	610	28.73	170
2009/10	38.41	190	5.97	138	61.74	610	19.88	192
2010/11	39.86	175	7.24	105	57.22	350	25.12	210
2011/12	36.7	205	10.16	128	16.87	325	46.68	210

Where,

$$P/E \quad Ratio = \frac{MPS}{EPS} = \frac{285}{30.3} = 9.4059$$

Appendix-IV

Calculation of Net worth Per share

Year	HGICL		UICL		EICL		PICL	
	Total Net Worth	Total Share	Total Net Worth	Total Share	Total Net Worth	Total Share	Total Net Worth	Total Share
2007/08	9090000	300000	88114378.3	566215	90834000	300000	45009000	300000
2008/09	7650000	300000	103804196	566215	112794000	300000	64131000	300000
2009/10	11523000	300000	86772448.75	566215	125079000	300000	69369000	300000
2010/11	11958000	300000	99229178.75	566215	141246000	300000	101775000	300000
2011/12	11010000	300000	102615144.5	566215	77895000	300000	107184000	300000

Where,

Net worth per share of HGICL = $\frac{Total \quad Net \quad Worth}{No. \quad of \quad Share} = \frac{9090000}{300000} = 30.3$ etc.....

Appendix-V

Calculation of Dividend Per share

Year	HGICL		UICL		EICL		PICL	
	DPS	MPS	DPS	MPS	DPS	MPS	DPS	MPS
2007/08	15	285	10	228	20	440	13	220
2008/09	15	225	10	190	20	610	10.53	170
2009/10	0	190	10	138	10	610	0	192
2010/11	0	175	10	138	10	610	0	192
2011/12	0	205	0	128	0	325	0	210

Eg. : Dy(%) = $\frac{15}{285} \times 100 = 5.2$ etc.

Appendix-VI

Calculation of Regression Analysis

Year	HGICL		UICL		EICL		PICL	
	Beginning MPS	Ending MPS	Beginning MPS	Ending MPS	Beginning MPS	Ending MPS	Beginning MPS	Ending MPS
2007/08	290	285	231	228	427	440	215	220
2008/09	285	225	228	190	440	610	220	170
2009/10	225	190	190	138	610	610	170	192
2010/11	190	175	138	105	610	350	192	210
2011/12	175	205	105	128	350	325	210	210

$$= \frac{285 - 290}{290} \times 100 = -1.86 \text{ etc.}$$

Appendix-VII

Calculation of DY, CGY, TY

Year	HGICL			UICL			EICL			PICL		
	DY	CGY	TY	DY	CGY	TY	DY	CGY	TY	DY	CGY	TY
2007/08	5.2	-1.86	3.34	4.3	-1.57	2.7	4.5	2.96	7.46	5.9	1.95	7.85
2008/09	6.6	-2.1	4.5	5.3	-1.67	3.63	3.3	3.86	7.16	6.2	2.27	8.47
2009/10	0	-1.55	-1.55	7.3	-2.74	4.56	1.6	0	1.6	0	1.29	1.29
2010/11	0	-7.9	-7.9	9.5	-2.39	7.11	0	-4.26	-4.26	0	0.93	0.93
2011/12	0	1.71	1.71	0	2.19	2.19	0	-7.1	-7.1	0	0	0

Where, DY= Dividend Yield

CGY= Capital Gain Yield

TY = Total Yield

Dividend Yield (DY) = $\frac{Dividend \quad price \quad pers \quad share}{Market \quad \Pr ice \quad per \quad Share}$

Capital gain yield (CGY) = $\frac{Enging \quad \Pr ice - \quad Begining \quad \Pr ice}{Begining \quad \Pr ice}$

Appendix-VIII

Calculation of Net Profit Straight line trend of HGICL

Let straight line trend be,

Y = a + bX ………. (i)

YEAR (X)	Net Profit (Y)	x = X - $\overline{X}$	x^2	xY
1	9.09	-2	4	-18.2
2	7.65	-1	1	-7.65
3	11.523	0	0	0
4	11.958	1	1	11.96
5	11	2	4	22

$\sum X = 15$	$\sum Y = 51.221$		$\sum x^2 = 10$	$\sum xY = 8.128$

Where,

$$\text{Mean } \left(\overline{X}\right) = \frac{\sum X}{n} = \frac{15}{5} = 3$$

$$a = \frac{\sum Y}{n} = \frac{51.221}{5} = 10.2442$$

$$b = \frac{\sum xY}{\sum x^2} = \frac{8.128}{10} = 0.8128$$

Putting the value of a & b in equ. (i)

Y = 10.2442 + 0.8128 x

For estimation of profit for coming year

x = 3

Therefore, Y for 6 years = 10.2442 + 0.8128 x 3

= 12.68

= 12.68 x 1,000,000

= 12680000

Appendix-IX

Calculation of Net Profit Straight line trend of UICL

Let straight line trend be,

Y = a + bX ………. (i)

YEAR (X)	Net Profit (Y)	$x = X - \overline{X}$	x^2	xY

1	8.86	-2	4	-17.7
2	8.88	-1	1	-8.88
3	8.38	0	0	0
4	4.1	1	1	4.1
5	5.75	2	4	11.5
$\sum X = 15$	$\sum Y = 35.97$		$\sum x^2 = 10$	$\sum xY = -11$

Where,

Mean $\left(\overline{X}\right) = \frac{\sum X}{n} = \frac{15}{5} = 3$

$$a = \frac{\sum Y}{n} = \frac{35.97}{5} = 6.194$$

$$b = \frac{\sum xY}{\sum x^2} = \frac{-11}{10} = 1.098$$

Putting the value of a & b in equ. (i)

Y = 6.194 + (- 1.098) x

For estimation of profit for coming year

x = 3

Therefore, Y for 6 years = 6.194 + (- 1.098) x 3

= 2.9

= 2.9 x 1,000,000

= 2900000

Appendix-X

Calculation of Net Profit Straight line trend of EICL

Let straight line trend be,

Y = a + bX ………. (i)

YEAR (X)	Net Profit (Y)	$x = X - \overline{X}$	x^2	xY
1	18.32	-2	4	-36.64
2	19.56	-1	1	-19.56
3	18.52	0	0	0
4	17.17	1	1	17.17
5	5.06	2	4	10.12
$\sum X = 15$	$\sum Y = 78.63$		$\sum x^2 = 10$	$\sum xY = -28.91$

Where,

$$\text{Mean } \left(\overline{X}\right) = \frac{\sum X}{n} = \frac{15}{5} = 3$$

$$a = \frac{\sum Y}{n} = \frac{78.63}{5} = 15.726$$

$$b = \frac{\sum xY}{\sum x^2} = \frac{-28.91}{10} = 2.891$$

Putting the value of a & b in equ. (i)

Y = 15.726 + -2.891 x

For estimation of profit for coming year

x = 3

Therefore, Y for 6 years = 15.726 + (- 2.891) x 3

= 7.05

= 7.05 x 1,000,000

= 7050000

Appendix-XI

Calculation of Net Profit Straight line trend of PICL

Let straight line trend be,

Y = a + bX ………. (i)

YEAR (X)	Net Profit (Y)	$x = X - \overline{X}$	x^2	xY
1	8.21	-2	4	-16.42
2	8.62	-1	1	-8.62
3	5.96	0	0	0
4	7.54	1	1	7.54
5	14	2	4	28
$\sum X = 15$	$\sum Y = 44.33$		$\sum x^2 = 10$	$\sum xY = -10.5$

Where,

Mean $\left(\overline{X}\right) = \frac{\sum X}{n} = \frac{15}{5} = 3$

$a = \frac{\sum Y}{n} = \frac{44.33}{5} = 8.866$

$b = \frac{\sum xY}{\sum x^2} = \frac{10.5}{10} = 1.05$

Putting the value of a & b in equ. (i)

Y = 8.866 + 1.05 x

For estimation of profit for coming year

x = 3

Therefore, Y for 6 years = 8.866 + 1.05 x 3

= 12.02

= 12.02 x 1,000,000

= 12020000

Appendix-XII

Calculation of Net Profit Straight line trend of HGICL

Let straight line trend be,

Y = a + bX ………. (i)

YEAR (X)	Net Premium Earned (Y)	$x = X - \overline{X}$	x^2	xY
1	21.6	-2	4	-43.2
2	16.57	-1	1	-16.57
3	32.68	0	0	0
4	37.58	1	1	37.58
5	40.27	2	4	80.54
$\sum X = 15$	$\sum Y = 148.7$		$\sum x^2 = 10$	$\sum xY = 58.35$

Where,

Mean $\left(\overline{X}\right) = \frac{\sum X}{n} = \frac{15}{5} = 3$

$$a = \frac{\sum Y}{n} = \frac{148.7}{5} = 29.74$$

$$b = \frac{\sum xY}{\sum x^2} = \frac{58.35}{10} = 5.835$$

Putting the value of a & b in equ. (i)

Y = 29.74 + 5.835 x

For estimation of profit for coming year

x = 3

Therefore, Y for 6 years = 29.74 + 5.835 x 3

= 47.245

= 47.245 x 1,000,000

= 47245000

Appendix-XIII

Calculation of Straight line trend of UICL

Let straight line trend be,

Y = a + bX ………. (i)

YEAR (X)	**Net Premimum Earned (Y)**	**x = X - $\overline{X}$**	**x^2**	**xY**
1	22.53	-2	4	-45.06
2	21.77	-1	1	-21.77
3	23.48	0	0	0
4	35.38	1	1	35.38
5	38.75	2	4	77.5
$\sum$X = 15	$\sum$Y =141.91		$\sum x^2$=10	$\sum$xY=46.05

Where,

$$\text{Mean } \left(\overline{X}\right) = \frac{\sum X}{n} = \frac{15}{5} = 3$$

$$a = \frac{\sum Y}{n} = \frac{141.91}{5} = 28.382$$

$$b = \frac{\sum xY}{\sum x^2} = \frac{46.05}{10} = 4.605$$

Putting the value of a & b in equ. (i)

Y = 28.382+ 4.605 x

For estimation of profit for coming year

x = 3

Therefore, Y for 6 years = 28.382+ 4.605 x 3

= 42.197

= 42.197 x 1,000,000

= 42197000

Appendix-XIV

Calculation of Straight line trend of EICL

Let straight line trend be,

Y = a + bX ………. (i)

YEAR (X)	Net Premium Earned (Y)	x = X - $\overline{X}$	x^2	xY
1	20.92	-2	4	-41.84
2	29.78	-1	1	-29.78
3	26.77	0	0	0
4	27.43	1	1	27.43
5	29.7	2	4	59.4
$\sum$X = 15	$\sum$Y =134.6		$\sum x^2$=10	$\sum$xY=15.21

Where,

Mean $\left(\overline{X}\right) = \frac{\sum X}{n} = \frac{15}{5} = 3$

$a = \frac{\sum Y}{n} = \frac{134.6}{5} = 26.92$

$b = \frac{\sum xY}{\sum x^2} = \frac{15.21}{10} = 1.521$

Putting the value of a & b in equ. (i)

x Y = 26.92+ 1.521

For estimation of profit for coming year

x = 3

Therefore, Y for 6 years = 26.92+ 1.521 x 3

= 31.483

= 31.483x 1,000,000

= 31483000

Appendix-XV

Calculation of Straight line trend of PICL

Let straight line trend be,

Y = a + bX ………. (i)

YEAR (X)	Net Premium Earned (Y)	$x = X - \overline{X}$	x^2	xY
1	12.82	-2	4	-25.64
2	16.43	-1	1	-16.43
3	20.72	0	0	0
4	24.51	1	1	24.51
5	29.53	2	4	58.7
$\sum X = 15$	$\sum Y = 103.83$		$\sum x^2 = 10$	$\sum xY = 41.14$

Where,

Mean $\left(\overline{X}\right) = \frac{\sum X}{n} = \frac{15}{5} = 3$

$$a = \frac{\sum Y}{n} = \frac{103.83}{5} = 20.766$$

$$b = \frac{\sum xY}{\sum x^2} = \frac{41.14}{10} = 4.114$$

Putting the value of a & b in equ. (i)

Y = 20.766+ 4.114 x

For estimation of profit for coming year

x = 3

Therefore, Y for 6 years = 20.766+ 4.114 x 3

= 33.108

= 33.108 x 1,000,000

= 33108000

Appendix-XVI

Relationship of MPS on EPS, DPS and P/E $_{(t-1)}$

Regression equation: $Y = a + b_1 x_1 + b_2 x_2 + b_3 x_3$

Insurance Companies	Constant 'a'	Regression Coefficient			SEE
		b_1	b_2	b_3	
HGICL	94.42	5.7317	3.936	(1.552)	49.156
UICL	104.408	3.747		2.472	65.338
EICL	302.284	6.8685	4.731	9.460	102.650
PICL	173.226	11.777	(11.304)	(3.146)	75.649