INVESTMENT AND LIQUIDITY MANAGEMENT OF INSURANCE COMPANIES IN NEPAL

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RECOMMENDATION

This is to certify that the thesis

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INVESTMENT AND LIQUIDITY MANAGEMENT OF INSURANCE COMPANIES IN NEPAL

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

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Supervisor	Chairperson, Research Committee	Head of the Department

Date: ……..……

VIVA-VOCE SHEET

We have conducted the viva-voce examination of the thesis presented by

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

Master's Degree in Business Studies (M.B.S.)

Viva-Voce Committee

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Member (Thesis Supervisor) ----------

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Member (Central Department of Management) ----------

Date: ----------

DECLARATION

I hereby, declare that the work reported in this thesis entitled **"Investment and Liquidity Management of Insurance Companies in Nepal"** submitted to Central Department of Management, University Campus, T.U., Kirtipur is my original piece of work done in the form of partial fulfillment of the requirement for the Master's Degree in Business studies under the supervision and guidance of Associate Professor Ajay Prasad Dhakal, Central Department of Management.

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TABLE OF CONTENTS

LIST OF TABLES

Page No.

LIST OF FIGURES

Page No.

ABBREVIATIONS

A/C	Account
B.S	Bikram Sambat
Ltd.	Limited
Co.	Company
C.V.	Co-efficient of Variation
DPS	Dividend Per share
EPS	Earning Per share
GON	Government of Nepal
HGICL	Himalayan General Insurance Company Limited
NICL	Nepal Insurance Company Limited
P.E. Ratio	Profit Earning Ratio
ROA	Return on Assets
S.D.	Standard Deviation

CHAPTER-I

INTRODUCTION

1.1 Background of the Study

Liquidity is the status and part of the asset, which can be used to meet the obligation. Simply it can he viewed in terms of liquidity stored in the balance sheet and in term of liquidity available through purchased funds. the degree of liquidity depends upon the relationship between cash assets plus those assets, which can be quickly turned into cash and the liability awaiting payment. Generally the definition of liquidity varies from countries to country. The definition of the term liquidity covers the whole lot of concepts regarding devices and its use (Pandey, 1995).

In the case of Nepal, liquidity denotes the money in use, in the current account, saving account, fixed account and the money in margin account of the economic system. But, this definition is not made by Nepal Rastra Bank Act 2058 (2002), the commercial Bank act 2031 (1974), and the Finance Company Act 2042 (1985). But the definition about liquid assets can be found out in the acts as "Liquid assets" means, the cash balance in the bank, the balance held by a bank in the Nepal Rastra Bank and liquidity appeared in economy.

The commercial Banks or financial institution should keep the stock of liquid assets according to the ratio of liability of deposit fixed by the hank according to section (25) of the Finance company Act 2042 (1985), the term liquid assets means the assets mentioned as follows:

- Nepalese bank notes and currencies deposited in the company.
- Deposit of the company in the hank or any other commercial banks.
- Bonds of government of Nepal.

- Any other assets as specified by the bank from time to time.

Similarly For the first time, Nepal Rastra Bank had implemented the monetary policy by issuing the rules of credit control in 31st Shrawan 2031(1974). These rules have defined the liquid asset of the commercial banks and regarded liquid assets as the cash stock of the commercial banks, short term and security short-term business securities, the government and the treasury bills. It is clear from it that the liquid assets mean the cash and the asset, which can he converted immediately in the lime of need.

When people earn money; they do one of two things with it; they either consume it or save it. Whenever, people do not consume all of their earnings, they can save some portion of it, which is called savings. Thus, savings are excess of income over consumption. Saving can be either hoarded which does not provide any yield to the saver or it can be used for investment to earn some return. Although, savings are a major source of investment, investments can also be made from borrowings. Hence, an investment is a commitment of money (saved and/or borrowed) that is expected to generate additional money.

The investment is a commitment of fund to some assets which takes place at present in an expectation to receive some direct benefits from those assets or to increase the value of those assets which takes place in the future. Scholarly definitions of investment help us to be more familiar with the meaning of the investment

Savings and borrowings are two major sources of investment. Investment is sacrifice of certain present value for uncertain future reward. Return, risk, time, money, and securities are major elements of investment. The basic objective of this thesis is to familiarize readers with the idea of investment environment: securities, security, market and financial intermediaries.

1.2 Focus of the Study

This study is to find out liquidity and investment position of insurance companies. Liquidity is the ability of a company to pay cash on demand. It is arrangement and allocation of fund in such aw ay that can be drawn immediately without any loss in principle. Liquidity means allocation of funds in close relation to their respective source.

Furthermore, it also examines investment of insurance companies. In insurance companies, investment is the allocation of funds to marketable securities. The investment portfolio is the aggregation of marketable securities such as shares, debentures, bonds etc. including government securities. It has low return in comparison to loan and advances. This study will examine investment of insurance companies.

1.3 Statement of the Study

Insurance companies collect money from public in form of insurance premium and return the money (with bonuses) after some time. Insurance company also needs to spend some money to meet their administrative expenses and current liabilities. To meet their expenses, they need to investment and maintain liquidity. So, investment decision and liquidity management are very important management decision because many factors affect these decisions. It seems that most of the Nepalese companies do not have the concept of investment decisions and liquidity management. In this study, following research will be analyzed

a. Is the composition of investment is appropriate?
b. Is the investment of these companies in assets is appropriate to its level?
c. What is the liquidity position of these companies?
d. Is the composition of liquidity appropriate?

e. What is the financial position of a company?

1.4 Objectives of the Study

This research study aims to fulfill certain objectives. Comparative analysis of investment and liquidity between different insurance companies is made for the following purposes:

a. To analyze the investment pattern of insurance companies;
b. To evaluate liquidity management system of insurance companies;
c. To sketch trend of profit of the insurance companies under study;
d. To analyze composition of investment of insurance companies;

1.5 Importance of Study

Investment analysis and liquidity management is important due to following reasons:

a. Investment decision decides the investment made it different assets.
b. Once the investment is made it is difficult to change.
c. Investment in assets decides should be made.
d. Liquidity is necessary to pay firm's contingent liabilities.
e. Liquidity is necessary to meet regular daily expenses.
f. Liquidity is necessary to overcome unseen incidents.

1.6 Limitations of the Study

Some of the limitations of the study are given below:

a. This study was based mainly on secondary data.
b. This study covered data of gives (2061/62 to 2066/67).
c. This study covered sample size (only 5 companies).

1.7 Organization of the Study

The whole study has been divided in 5 chapters. Which is presented as:

Chapter I: Introduction
Chapter II: Review of Literature
Chapter III: Research Methodology
Chapter IV: Data Presentation and Analysis
Chapter V: Summary, Conclusion and Recommendations

At the end of the chapter bibliography and appendices has been presented.

CHAPTER II

REVIEW OF LITERATURE

2.1 Conceptual Review

2.1.1 Liquidity

Liquidity is the status and part of the asset, which can be used to meet the obligation. Simply it can he viewed in terms of liquidity stored in the balance sheet and in term of liquidity available through purchased funds. the degree of liquidity depends upon the relationship between cash assets plus those assets, which can be quickly turned into cash and the liability awaiting payment. Generally the definition of liquidity varies from countries to country. The definition of the term liquidity covers the whole lot of concepts regarding devices and its use (Pandey, 1995).

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The definitions of liquidity given by different writes are as follows:

- According to R.S. Sayers "Liquidity is the bunkers ability to satisfy demand for cash in exchange for deposit.
- Manning decay defines: "An asset is completely liquidity if its owner can count with absolute certainly on leaning into cash at a very short notice and without loss".

As there are differing views of different writes about liquidity so is the issue of maintaining liquidity according to its principle i.e. *the real hills doctrine, the shiftability theory, the anticipated income theory and liability management theory.* Each principle describes the different ways to manage the liquidity. But the prediction of liquidity needs is always not earning and accumulating. So every institution should manage their liquidity in such a way that they will be able to ensure the fund-capacity to meet all normal business commitment at a reasonable price al all time. In this way, the earning of liquidity should refer to the money stock in the banks and financial institution and the assets that can be converted as soon as the demand made or the capacity of commercial banks to fulfill the need of depositors for cash.

Hence how much liquidity should exist in an economy in a particular period of

time depends on the policy of the central bank, the commercial hanks, the government and the common people. There cannot he two views that every institution should follow the instruction of NRB to maintain liquid assets, providing loan, advance or amount to be invested. To some extent, monetary policy can also be taken as one of die major strategies of central bank, to maintain enough liquidity in market i.e. foreign capital and internal loan (VanHorne, 1976).

2.1.1.1 Criteria of Measuring Liquidity

Every finance company maintains liquidity under the transformation of cash flows. In Nepalese context cash reserve ratio play potential role under the financing activities. According to Nepal Rastra Bank act of Bhadra 25,2058. Nepalese finance company has to maintain the cash under following headings:

- Each finance company has to maintain 7% cash reserve ratio into current and saving account.
- Each finance company has to maintain cash reserve ratio of 4-5 % under fixed deposit
- Each finance company has to maintain 2% cash in hand in their safety valve.

So, Nepal Rastra Bank, as the central bank of Nepal has issued directives of mainly of liquidity to all finance companies operating in Nepal. Nepal Rastra Bank can take strong direct action against any finance companies, which doesn't follow its directives instruction, related to criteria of measuring of bank liquidity from time to time in accordance with the need of situation of the country regarding the maintenance of cash.

Necessary Cash Balance and Liquid Assets Management

In realization and need of creating reliance among the depositors and investors towards finance companies and to enable them to pay the full amount as demanded by the depositors and investors after the expiry period of borrowing liabilities. This directive has been issued by Nepal Rastra Bank according to its act 2058 and as provided by its clause (46) & (79) and according to clause (25) of Finance Company Act 2042.

Maintenance of Compulsory Cash Balance

Company shall have to deposit after opening an account in Rastra Bank and deposit 1% compulsorily of the total deposit received, liabilities loans (debt). However due to less banking habits and other constrains finance companies in Nepal have to maintain much more than actual requirement.

Maintenance of Liquid Assets

- Company shall have to retain 7% in the form of liquid assets of the total deposit liabilities. Liquid assets indicate the following properties.
- Cash in treasury.
- Investment in government bond.
- Investment in Nepal Rastra Bank's bond.
- Cash in the form of deposit.
- Cash in the form of deposit in the development bank of national level.
- Company shall have to retain in its treasury (in hand) or in current account of any commercial bank a minimum of 2% out of the 7% which company has to maintain.
- If company deposits more than the minimum compulsory cash (deposit) in that case the excess deposited amount can he adjusted or included for the purpose as provided in sub-clause (2).

Calculation of Compulsory Cash Deposit and Liquid Assets, Statistics and Details

- The compulsory cash deposit as per clause (1) and the computation of liquid assets will be done on daily average basis from week to week.
- In the case of fixed deposit in commercial banks and the development bank of national level, the computation of 90% in the maximum shall have to be done in liquid assets.
- While computing liquid assets as per clause (2) the amount shall have to be deducted which is equal to the amount borrowed against the mortgage of government or Rastra Bank's bond.
- The company according to schedule 3.1 shall have to send the details of compulsory cash deposit and liquid assets to the department of private bank and supervision of Rastra Bank (or Department of Private Bank and Supervision)

……...

……...Company Ltd.

Compulsory Cash Balance and Details of Liquidity

(Weekly Basis)

20 .... Year .... month .... from 20…… year .... month ....

S.N.	Particular	Sun.	Mon.	Tues.	Wed.	Thru.	Friday	Total	Average
1									
2									
3									
4									

Date: …….. CHIEF EXECUTIVE

VENALITY FOR NON-COMPLIANCE:

NRB supervises the liquidity position of each finance company under weekly fortnightly and monthly visit. For this purpose, weekly information statement for each working day as per Bai.A.Fa.No of shall compulsorily be submitted to NRB's inspection and supervision department within 15 days from the date of the end of the week Company shall have to retain 7% in the form of liquid assets of the total deposit liabilities. Liquid assets indicate the following properties.

According to clause (1) in case of failure of cash deposit or less deposit in Rastra Bank, penalty will be charged for that period and also in the less deposited amount as per Rastra Bank act 2058 clause 47 such penalties will be as following in every fiscal year:

- In the first case, the amount as ascertained by Rastra bank, calculated at the highest bank rate.
- For the second time, the amount, which stands as, calculated twice the sum in the less deposited amount as per bank rate.
- For the third time or times beyond that, the amount, which stands as, calculated thrice the sum as per bank rate.

Any actions could be taken according to the provision of Nepal Rastra Bank act 2058 clause 99 and 100 in the case of failure of managing liquid assets as mentioned in clause (2)

CANCELLATION AND REMEDIES:

- All the directives have been cancelled issued to different finance companies prior to this.
- All the activities/transactions carried out under the cancelled directives will be regarded as carried out or valid under this directives.

2.1.1.2 Principle Theories of Liquidity

Basically the principle theories are especially designed for the banking sectors but it seems not much difference between application of banking sector and finance sector. So in this prospect conflicts between objective of liquidity, safety and profitability relating to finance companies can also be highlighted from given theories. Hence economists have tried to resolve these conflicts by laying down certain theories from time to time. These principles or theories, in fact, govern the distribution of assets keeping in view these objectives. They have also come to be known as the theories of liquidity management, which are discussed as under:

- The real bills doctrine.
- The shiftability theory.
- The anticipated income theory.
- The liability management theory.

The Real Bills Doctrine:

The real Bills doctrine states that any financial company should advance only short-term self-liquidating productive loans to business firms. Self-liquidating loans are those, which are meant to finance the production, storage, transpiration and distribution. When such goods are ultimately sold, the loans are considered to liquidate themselves automatically such short-term self-liquidating productive loan passes three advantages. Firstly they possess liquidity that is why, they liquidate themselves automatically. Secondly since they mature in the short run and are for productive purpose, there is no risk of their running into bad debts. Thirdly, being productive such loans earn income for the bank.

The Shiftability Theory:

H.G Mouton who asserted that if any bank should maintain a substantial amount of assets that can be shifted onto the other banks for cash without material loss incase of necessity, then there is no need to rely on maturities propounded the shift ability theory of liquidity. According to this view, an asset to be perfectly shifted able must be immediately transferable without capital loss when the need for liquidity arises. But in general crisis requires that all banks should possess such asses which can be shifted onto the central bank which the lender of the last resort. This theory has certain element s of truth.

The Anticipated Income Theory:

H.V Porch developed the anticipated income theory in 1944 on the basis of the practice of extending term loans by the USA commercial banks of the practice of extending term loans by the U.S.A commercial banks. According to this theory, regardless of the nature and character of a borrower's business, the bank or any financial institution plans the liquidation of the long term loan from the anticipated income of the borrower. A term loan is for a period exceeding one year and extending to less than five years. It is granted against the hypothecation of machinery, stock and even immovable property. The bank puts restriction on the financial activities of the borrower while granting this loan. At the time of granting a loan, the bank takes into consideration not only the security but also the anticipated earning of the borrower .In fact; anticipated income is the main consideration.

This theory is superior to the real bills doctrine and the shiftability theory because it fulfills the theses objectives of liquidity, safety and profitability. Liquidity is assured to the bank when the borrower saves and repays the loans regularly in installment .it satisfies the safety principle because the bank grant a

loan not only on the basis of a good security but also on the ability of the borrower to term loan and is assured of a regular income. Lastly, the term loan is highly beneficial for the business community, which gets funds for medium-term.

The Liabilities Management Theory:

This theory was developed in the 1960's. According to this theory there is no need for banks to grant self -liquidating loans and keep liquidity assets because they can borrow reserve money in the money market in, case of need .A bank can acquire reserves by creating additional liabilities against itself, from different sources. These sources includes the issuing of tie, certificates of deposit, borrowing form other commercial banks, borrowing from the central bank, raising of capital funds by issuing shares, and by ploughing back of profit.

2.1.1.3 Technique of Liquidity Management

TRADITIONAL MODEL:

According to traditional model of liquidity management, it is related to strong liquidity in bank investment or to use control background to use as temporary sources of fund. As this idea is to swift liquid assets into cash and to meet the needs of banks for increased loans demand or deposit to withdrawal is also called as shiftability or assets conversion approach. This approach of liquidity is based on safety at the expresses of profitability under this approach storing of liquidity Can be Classified into four types (VanHorne, 1976).

Primary Reserves:

The primary reserve is that part of bank, cash or reserve, which can be arrange more than the required statutory such as cash reserve ratio (CRR) or statutory liquidity ratio (SLR). Here the excess statutory reserve can be used for working reserve to avoid impressing cash storage.

Secondary Reserve:

It includes storing of liquidity in short term government securities such as insuring in treasury bills. It also includes high quality securities with very low default risk.

Territory Reserve:

It is arranged to provide liquidity protection against long term requirement which is related to increase loan demand or reduce deposit inflow government securities with maturity period of one or two year are includes in it.

Investment Reserve:

The security with maturity period of more than 2 years is included on investment reserve.

LIQUIDITY MANAGEMENT MODEL:

Under the liquidity management any institution may generate liquidity by managing its profitability. Basically this approach is related to acquire funds and use them profitability. Although traditional model shows an important part of cash management, it doesn't help to show the appropriate utilization of fund. Therefore several models have been developed to determine cash balance and to maintain profit position .One of the technique of mixing the cash balance with loan investment is Baumol Model which is based on the high low cash balance .The following model are describe as follows: (VanHorne, 1976).

BAUMOL MODEL:

According to this model, minimizing the opportunity cost of holding cash and maximizing the return on the available fund, the cash balance should be maintained at a minimum level and the funds not required for immediate used be invested. Baumol model identifies the cash maintenance as analogous to inventory maintenance and demonstrates that the model of economics order quantity. Baumol model is based on the assumption that:

- Cash is used at constant rate.
- The periodic cash requirement is more or less save.
- There are some cost such as the opportunity costs that increase and other cost such as transaction cost that decrease cash balance.

Hence Baumol has conducted that minimum size is the amount of cash that is enough to start with at the beginning of a period to meet the cash need of that period transaction.

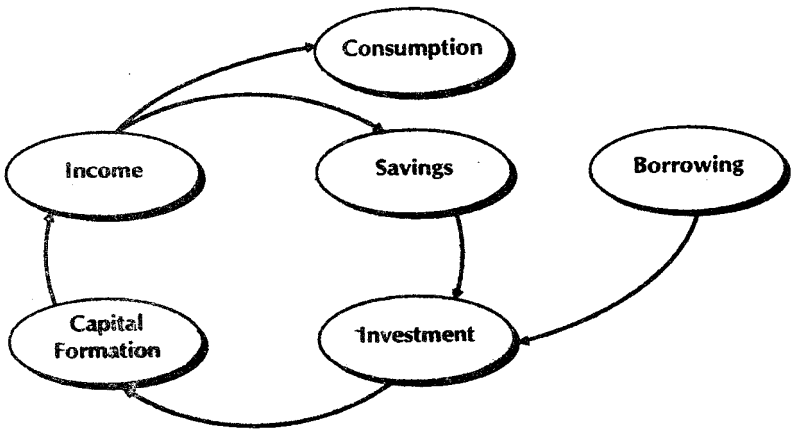
MILLER MODEL:

Due to high opportunity cost, all liquidity need should not be maintained in cash that bears no returns. It is necessary to maintain cash balance for transition and compensation balance requirement but the liquidity need for the other purpose doesn't need to be in cash. Therefore any financial institution can take advantage by appropriately balancing the available funds between cash and loan investment. The size of cash needs depends on the pattern & degree of regulating of inflows and outflows. Hence Miller have developed a model known as Miller model, which takes into account the realistic pattern of cash flows and prescribes when and how much to transfer format to investment account and vice-versa. This model is based on the assumption that the daily net cash flows receipt minus payments are random in size as well as in the matter of negative or positive flow. Hence this model set a range of high and low limits

within which cash balance is allowed to fluctuate and set the target cash balance in between these two limits.

2.1.2 Concept of Investment

When people earn money; they do one of two things with it; they either consume it or save it. Whenever, people do not consume all of their earnings, they can save some portion of it, which is called savings. Thus, savings are excess of income over consumption. Saving can be either hoarded which does not provide any yield to the saver or it can be used for investment to earn some return. Although, savings are a major source of investment, investments can also be made from borrowings. Hence, an investment is a commitment of money (saved and/or borrowed) that is expected to generate additional money. Below figure depicts that investment is made either from savings or borrowings or both and investment contributes capital formation which may result income (Alexander, Sharpe, and Jeffery, 2002).



The investment is a commitment of fund to some assets which takes place at present in an expectation to receive some direct benefits from those assets or to increase the value of those assets which takes place in the future. Scholarly definitions of investment help us to be more familiar with the meaning of the investment. Some of them are presented below:

"Investment may be defined as the purchase by an individual or institutional investor of a financial or real asset that produces a return proportional to the risk assumed over some future investment period" (Amling, 2001).

"Investment, in its broadest sense, means the sacrifice of current dollars for future dollars. Two different attributes are generally involved: time and risk. The sacrifice takes place in the present and is certain. The reward comes later, if at all, and the magnitude is generally uncertain" (Sharpe and Bailey, 2000).

"An investment is a commitment of funds made in expectation of some positive rate of return. If the investment is properly undertaken, the return will be commensurate with the risk the investor assumes" (Fischer and Jordan, 2000).

Thus, every investment entails some degree of risk; it requires a sacrifice of certain present value for the uncertain future reward. Simply put, it is a current commitment of rupees for a period of time in order to derive future payments that will compensate for:

- *uncertainty* of future flow of funds,
- the expected rate *of inflation,* and
- the *time* in which the funds are committed.

The idea of investment is broad in scope and coverage. It generally involves real assets and financial assets. Real asset represents an actual tangible asset that may be seen, felt, held, or collected such as real-estate, gold, equipment, patents etc. They are used to produce goods and services. It tends to be most desirable during-periods of high inflation. On the other hand, financial assets are those assets which are no more than sheets of paper or, more likely, computer entries and do not involve directly in the productive activities. In other words, they are viewed as claims on real assets or the income generated by them. They are also called *'paper assets'.* Shares, debentures, preferred stocks are some examples of the financial assets. Investment in real asset is called real investment, whereas

investment in financial assets is financial investment.

Investment management is the professional management of various *financial assets* and *real assets,* to meet specified investment goals for the benefit of the individual and institutional investors. Investment management companies are growing in the world (Shrestha, Poudel and Bhandari, 2005).

2.1.2.1 Elements of Investment

Investment includes five elements: returns, risk, time horizon, money, and investment vehicles or investment alternatives:

Return: Investment is made with the primary objective of deriving a return. Return is the future reward for bearing risk. In other words, it is the difference between terminal (ending) value and initial (beginning) value plus cash received during the given period. The return can be measured in *relative* or in *absolute* terms. The cash return on an investment is called absolute return while percentage return on an investment is return in relative terms.

Risk: The variability of the actual return from the expected return associated with a given investment is called the risk of investment. There are different types of risk associated with an investment, such as maturity risk, default risk, liquidity risk etc. But some investment may be risk free. For example, investment in T-bill taken as riskless investment.

Time. Time is another important element of an investment. Time horizon of an investment may be a few days, months, years or even infinite. Time horizon of investment in money market instruments such as T-bills, certificate of deposits, bankers' acceptance etc. is less than one year. In contrast, time horizon of investment in capital market instruments such as common stocks, preferred stocks, bonds etc. is relatively longer.

Money: Every investment requires sacrifice of present money or resources. This money or resource comes either from savings or from borrowings. If an investor uses his/her own savings, s/he expects return for sacrifice of present money or consumption. Similarly, if an investor uses borrowings for investment, s/he requires returns higher than the interest on borrowings.

Securities: Securities are one of the most important element of an investment. Securities may be short-term, such as T-bills, commercial papers, certificates of deposits etc. or long-term such as common stocks, preferred stocks, bonds etc. These securities are often called financial assets which have claim on real assets or income of the issuers. Instead of securities, some investments may involve investment in real assets such as land, buildings, gold etc. (Mishkin, 1998).

2.1.2.2 Investment versus Speculation

Investment and speculation have to some extent similar meaning. Investments are at least somewhat speculative and speculation requires an investment. Both investment and speculation deal with purchasing and selling of different financial securities such as shares, debenture, T-bills, government bond, etc.

In reality, investment and speculation are somewhat different. Generally, investment involves sacrifice of certain present value for uncertain future returns over a long period and is not necessary to be marketable in short run. On the other hand, speculation is usually a more short-term phenomenon and it involves purchasing marketable securities with the expectation to get high rate of return within a short period. Investments are based on expectation of a certain stream of income and price changes but speculations are based on expectation of high change in prices of securities in future. An investment generally involves lower and stable level of risk with expectation of normal return whereas speculation involves a higher level of risk and a more uncertain expectation of return. Investment is associated with a long time horizon, while speculation is for a short time horizon. To make investment decision, we need

more information and a detailed analysis of different relevant factors whereas under speculation, decision is made on the basis of limited information and analysis. The motive of speculation is to achieve profits through price change or it focuses on capital gain within a short period. On the other hand, motive of investment is to achieve stable returns and capital appreciation over a long period of time. Investment and speculation can be distinguished with respect to the following factors: (Mishkin, 1998).

2.1.2.3 Investment versus Gambling

Gambling is an act of risk taking without the knowledge of the associated risk. It is the process of a very short-term investment in a game of chance. It is based on tips, rumors, hunches, etc. and it is an unplanned and non-scientific act. It involves the shortest time period and highest risk. Betting on horse riding, game of cards, lottery, etc. are the popular examples of gambling. Investment results in gambling are quickly resolved by the roll of the dice or the turn of a card. In gambling, artificial and unnecessary risks are involved, which often helps to increase the return. Investment involves careful planning, evaluating, and allocating funds in various securities with the principle of continuous return over a long period of time. Gambling is more risky than investment and speculation. Gambling decision is made without collecting and analyzing the information.

2.1.2.4 Investment Environment

The investment environment refers to various marketable securities available for purchase or sale and how and where these securities are traded. Investment environment mostly includes *securities, security markets* and *financial intermediaries.*

Securities

Securities are pieces of papers represent investors' claim to receive prospective future benefits. The securities are called financial assets which represents indirect claim to real assets held by someone else. Common stock, preferred stock, bonds, warrants, convertibles, options, rights, futures, treasury bills, commercial papers, etc. are the examples of securities.

Security Markets

The security market is a mechanism designed to facilitate the exchange of securities or financial assets by bringing buyers and sellers together. In short, security market is that area where securities are traded. Security market plays important role to create the liquidity. Some important types of security markets are as follows:

Primary market: In primary market newly issued securities are traded. Government and corporations issue different securities to raise funds in primary market. Generally, underwriters and/or issue managers are appointed to sell first hand securities in the primary market. Initial public offering (IPO), preferential issue, and rights issue are popular ways of offering new issue of securities in the primary market.

Secondary market: The secondary market is the market where previously issued securities are traded. In this market, most of the securities are sold and transferred from one investor to another. This market needs to be highly liquid and transparency because it provides the liquidity to the listed securities. The secondary markets can be organized stock exchange market, over the counter market (OTC), third market, and fourth market. Nepal Stock Exchange (NEPSE) which is organized stock exchange, is the secondary market of Nepal.

Money market: The *money market* is the market where short-term (up to one year maturity) securities are traded. Commercial paper, certificates of deposit, eurodollars, treasury bill, bankers' acceptance, etc. are money market instruments. Generally, money market instruments are low-risk, unsecured, zero coupon, and highly liquid.

Capital market: Capital market is the market where long-term securities are traded. In the capital market common stocks, preferred stocks, bonds, treasury bonds, mortgages etc. are traded. The capital market also facilitates the procedure whereby investors with excess funds can channel them to investors in deficit. The capital market provides both overnight and long term funds and uses financial instruments with long maturity periods.

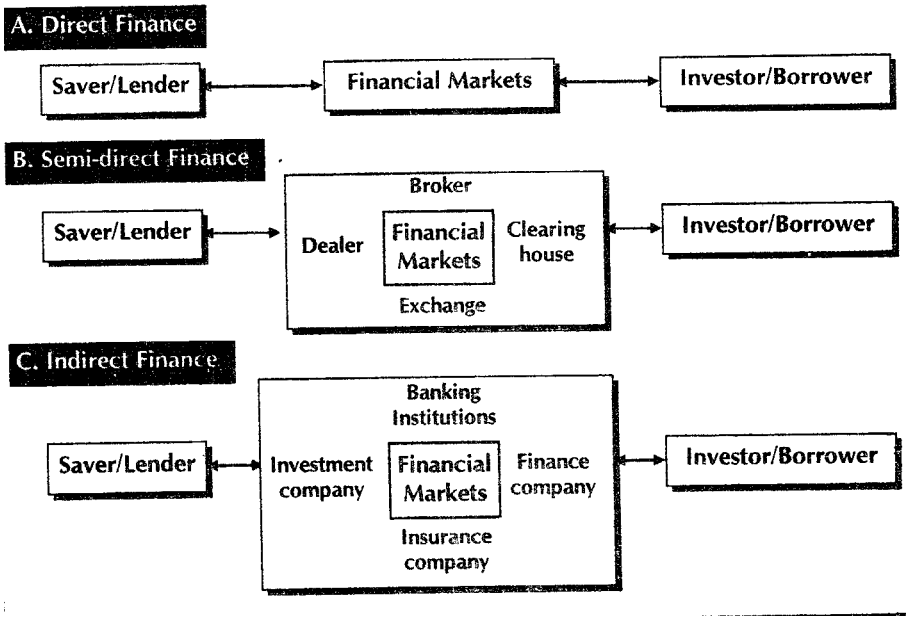
Financial Intermediaries: Financial institution creates linkage between two parities - saver and users. Commercial banks, saving and loan associations, saving banks, commercial and consumer finance companies, leasing companies, insurance companies, credit unions, pension fund, investment companies etc. are the examples of financial institutions. Financial institutions are the financial intermediaries.

Intermediary works as an agent or catalyst to facilitate the join working of two parties to accomplish their individual objectives at a time. In these sense, the catalytic role play by the financial institutions can be defined as financial intermediaries.

"A financial intermediary is a financial institutions that acquires funds from one group of investors and make available to another economic unit. Thus, financial intermediaries play a very pertinent role in the economy by channeling funds from surplus saving units to deficit saving units" (Kolb and Rodrguez, 1996).

There are many ways in which financial transactions can occur between savers

and users or economic units and deficit units. The ways are *direct finance, semi-direct finance* and *indirect finance.* The primitive transaction allowed is only the example of a direct trade between two sides. In direct financing, there are no involvement of security market intermediaries and financial intermediaries. When the security market intermediaries (broker, dealer, investment banker, agent etc.) are involved, one may categorize this type of transaction as semi-direct.



Financial intermediaries are involved in indirect finance, where by the financial institution is a principal in the exchange either as the lender of borrower.

2.1.2.5 Investment Alternatives

A wide range of investment alternatives is available for both individual and institutional investors. Similarly, domestic and international instruments are available for investors as investment alternatives. These investment alternatives, first, we divide into two categories: *financial assets* and *real assets* (Bodie, Alex and Alan, 2006).

Financial Assets

Financial assets represent the ownership right on assets of a firm and claim on income of a firm. Simply it is the evidence of property right in a piece of paper. Thus, financial assets do not have physical form. Common stocks, preferred stocks, bonds, commercial papers, Treasury bills etc. are some examples of financial assets. Financial assets are more liquid than physical assets. They are traded in organized exchange or over-the-counter markets. Unlike real assets, financial assets do not have own productive capacity.

Money Market Instruments

The *money market* deals with securities or contracts with maturities up to one year. It is a well organized market designed generally for large amounts of money which serves for investment and borrowing activities to government, corporations and individual investors. The instruments or securities which are issued and trade in money market are called money market instruments. Money market instruments, generally are low-risk, unsecured, zero coupon and highly liquid. Commercial papers, certificates of deposit, Eurodollars, Treasury bills etc. are the most popular money market instruments.

Treasury Bills

Treasury bill (T-bill) is a short-term security issued by the government. In Nepal, Nepal Rastra Bank issues T-bill on behalf of Nepal Government. In other words, T-bill is a debt security of the government with a maturity up to one year. T-bills are originally issued with four maturities: one month, three months, six months, and one year. T-bills do not carry fixed interest rate. They are sold at discount from the par. The discount from par value represents return to the investors. For example, suppose Nepal Rastra Bank auctions a three months (13-week), Rs 100,000 face value T-bills. Essentially, the government promises

to pay back Rs 100,000 in 13-week. If you buy that T-bill, you will not receive interest as you would do with a coupon bond. Therefore, you pay less (say, Rs 98,000) than the face value of the T-bill. The difference between the discounted value you originally paid (Rs 98,000) and the amount you receive back (Rs 100,000) in three months is the return on T-bill. Investment in treasury bill is the most liquid and free from default risk and maturity risk.

Certificates of Deposits

Certificate of deposits (CDs) are time deposits issued by financial institutions i.e. banks and other depository institutions to the depositors. The CD evidences the deposit of funds at banks/ depository institutions. It also specifies the period of time and rate of interest on the deposit. The term of the deposit is normally less than one year. But, there are CDs of more than one-year maturity as well; they are known as term-CDs. The holders of the certificate receive principal along with interest at the time of maturity. But, if the holder needs money before the maturity s/he can sell it in the money market. The interests on CDs are initially set on the basis of size, maturity and prevailing money market condition. The credit risk associated with CDs depends directly on the credit-worthiness of the financial institutions that issue them.

Banker's Acceptances

A banker's acceptance (BA) is created to facilitate domestic and foreign commercial trade transactions. The name comes from the fact that banks accept ultimate responsibility for paying all the parties. Therefore, the default risk of banker's acceptance depends more on the credit worthiness of the bank than on the financial strength of the companies that conduct the commercial transactions. In other words, the buyer, to ensure payment to the seller requests its bank to issue a written promise on its behalf, authorizing the seller to draw a time draft (i.e. an order to pay a specified amount at a specified time) on the

bank in payment for the goods. Thus, the written promise becomes a liability of both the bank and the buyer of the goods. The yields on banker's acceptance are generally higher than those on Treasury bill of same maturity and below those on CDs and commercial paper. Like T-bills, bankers' acceptance is always sold at discount basis, and is also called pure-discount securities.

Commercial Paper

Commercial paper is a short-term debt instrument. Its maturity varies from a few days to a maximum of 270 days. Large, well-established and creditworthy companies can issue commercial paper. These companies do not offer an}' collateral to issxic commercial paper and merely make a promise to return money in due date; hence they are unsecured promissory notes. As commercial papers are sold by reputed companies, interest rates on these papers are relatively lower. Generally, commercial paper is sold on a discount basis. It means that the buyer pays less than face value and collects face value in the due date. The difference represents the interest on the investment. Commercial paper is not in practice in Nepalese money market so far.

Repurchase Agreements

Repurchase agreement is not a specific security. It is an agreement whereby a bank or security dealer or other financial institution sells specific marketable securities to a firm (or another financial institution) and agrees to repurchase them at a specific price at a specified point in time. For example, investor A might sell investor B a number of T-bills that mature in 90-days for price of Rs 1,000,000. As part of sales investor A signs a repurchase agreement or repo with investor B. This agreement specifies that after 60-days, investor repurchases these T-bill for Rs 1,020,000. Thus, investor A will have paid investor B Rs 20,000 in interest to use Rs 1,000,000 for 60-days. Repurchase agreements are also like collateralized loans. In above example, it is

collateralize loan from B to A. T-bill has been used as collateral. Generally, money market instruments used in repurchase agreements are of higher quality which reduces the risk to the lender.

Eurodollars

Eurodollars are deposits denominated in dollars but held in foreign banks or in foreign branches of U.S. banks. Similarly, short-term CDs denominated in dollars and issued by banks outside the U.S. are known as Eurodollars CDs or Euro CDs. Euro CDs are negotiable (i.e. can be traded) whereas Eurodollar deposits are non-negotiable which means that they can not be traded in the market. Eurodollar market is a wholesale or large money market in which amount of transactions involved are at least $100,000. Moreover, the scope of market is international and free from government regulation.

Capital Market Instruments

The capital market deals with securities or contracts which have longer maturity i.e. more than one year. The instruments or securities which are issued and trade in capital market are called *capital market instruments.* Common stocks, Preferred stocks, Treasury notes, bonds, etc. are major capital market instruments.

Treasury Notes and Treasury Bonds

Treasury notes and treasury bonds are two long-term debt instruments issued by government. Treasury notes have original maturities of ten years or less where as Treasury bonds have original maturity of more than ten years. As a result of longer term to maturity, both T-note and T-bond have interest rate risk or maturity risk but they are free from default risk and liquidity risk. Unlike T-bill, Treasury notes and Treasury bonds are coupon issues. T-note and T-bond generally, make coupon payments semi-annually. T-note is non-callable

whereas T-bond may have call provision allowing them to be 'called' during specified period (usually the period beings 5 to 10 years before maturity and ends at the maturity date) at any scheduled coupon payment date during this period.

Corporate Bonds

Corporate bond is a long-term security or long-term promissory note issued by a company, promising to pay interest and/or principal, on specific date, to the holders of the bond. Generally, bond issuer pays a fixed interest payment each period until the bond matures. This payment is known as the *coupon.* At maturity, the borrower pays back the bondholder the bond's face value (principal). While issuing a bond, the company must prepare an indenture, a legal document that provides the specific terras of the loan agreement. It includes a description of the bonds, rights of the bondholders, the rights of the issuing firm, etc. An investor who wants to have regular return purchases the bonds. The investor gets regular return in form of coupon interest.

Municipal Bonds

State and local governments can issue debt instrument to raise long-term fund which is known as municipal bond. They can issue municipal bonds to finance schools, highways, water system, and other infrastructure development projects. The interest earned on municipal bonds is also exempt from income tax. There are basically two types of municipal bond: *general obligation bonds* and *revenue bonds.* A general obligation bond is a debt instrument that is backed by the full faith and the credit of the government unit that issues them. Because the issuer can spend any of its tax revenues to pay interest and principal on these bonds. General obligation bonds can be issued only by the government units that have independent taxing authority. By contract, revenue bonds are used to finance revenue producing projects. Income generated by the projects such as

toll bridge, sport facilities may be used to pay bondholders.

Common Stocks

Common stock represents ownership of the company. Common stock certificates are legal documents that evidence ownership of the holders in a company. Thus, common stockholders of a company are its real owners. Their liability, however, is limited to the amount of their investment. Common stockholders have residual claim on income and asset. Common stock dividend is paid after payment of interest to the creditors, tax to the government, preferred dividend to the preferred stockholders. Similarly, in the event of liquidation, common stockholders have a residual claim on the assets of the company after the claim of all creditors and preferred stockholders are settled in full. Common stock does not have a maturity date. Shareholders, however, can sell their stocks in the secondary market. Investor who wants to earn higher return and ready to bear higher risk, purchases the common stocks.

Preferred Stock

Preferred stock, also called preference share, represents the long-term equity investment. Preferred stockholder gets preference in income and assets over common stock holders. While distributing income preferred stock dividend is distributed after payment of interest but before distribution of common stock dividend. Similarly, in the event of liquidation, preferred stockholders' claim on assets comes before that of common stockholders. Preferred stock is a *hybrid* security which has combined features of both bonds and common stock. It is similar to bond in some respects and to common stock in others. Like common stock, preferred stock is legally considered as ownership capital, nonpayment of preference dividends does not force the company into bankruptcy and dividend is paid out of after-tax profit. On the other hand, like bonds, preferred stock has a par value, preferred stock dividends are fixed in amount and generally,

preferred stockholders have no voting right.

Derivative Securities

One of the most interesting developments in recent years has been the growth of derivative securities. Derivative security is the security whose value is derived from underlying assets. In other words, the value of any derivative security depends on value of another underlying financial or real asset. Options, futures, warrants, convertibles etc. are popular examples of derivative securities. Most derivative securities are considered to be riskier investments than traditional capital market instruments such as common stocks, preferred stocks, and bonds etc.

Options

Options are derivative securities that give the holders right to purchase or sell specified number of shares/ assets at a specified price within or on specified future date. However, the holder of an option is not under any obligation to exercise it. Options also have characteristics of contracts, because they are agreements between the option holder and writer to engage in a transaction involving a stated asset, at an agreed- price, in the future, if the option holder chooses to do so.

An option which gives the holder right to purchase the assets is called *call option* whereas the option which gives the holder right to sell is called *put option.* An investor who thinks that price of the assets goes up may purchase option. Similarly, the investor who thinks that price of the assets goes down purchases put-option. An *American option* can be exercised at any time before expiration whereas a *European option* can be exercised only on expiry date.

Future

A future contract (also called futures) is a real contract between two parties for future delivery of a financial assets or commodity at an agreed price, usually within one year. Future contract for financial assets is called financial future and for commodity is called commodity future. Futures are traded in future exchange centers or in some organized stock exchanges.

Basically, two groups of investors trade futures contracts: hedgers and speculators. A ledger owns or needs to buy the commodity that underlies the future contract and uses the future to reduce price uncertainty. Similarly, speculators have no need to trade commodities; they trade futures contracts to earn profit from short-term movements in commodities or other financial prices.

Warrant

A warrant is a long-term option issued by a company which gives the holder the right to purchase a specific number of shares of common stock at a stated price during a specified time period. Generally, warrants are issued along with bond or preferred stock. The stated price is called *exercise price* and the final date on which warrant can be used is called *expiration date.* Similarly, number of shares that can be purchased using a warrant is known as *exercise ratio.* They are used to attract investors to buy a firm's long-term debt and preferred stock at a lower rate than otherwise would be required. Thus, warrants are often used as "sweetener" to make the company easier to sell the associated security. Warrants also help to reduce flotation costs.

Convertible

Convertible securities are bonds or preferred stocks which can be converted into stated number of common stock within stipulated period of time. Number of shares that are received by converting a convertible is called *conversion ratio.*

The effective price to be paid for one share at the time of conversion is called *conversion price.*

A convertible bond can be converted into preferred stock and common stock while convertible preferred stock can be converted into common stock only. Convertible securities (bonds or preferred stocks) provide stable return. In addition, the investors may enjoy capital gains associated with common stock.

Indirect Investment

A direct investment gives the investors actual ownership of securities. But in contrast, the indirect investment gives ownership of an entity that owns actual securities. Indirect investment can be made through an investment company which is a type of financial intermediary. The investment company sells its own shares to raise money and uses it to purchase financial assets such as stocks and bonds. Hence, investment company is business that specializes in managing the financial assets for individual investors. There are three types of investment companies: unit investment trusts, closed-end funds, and mutual funds (Pradhan, 2004).

Unit Investment Trusts

A unit investment trust is a special type of investment company in which composition of its portfolio rarely alters over the life of the company. In other words, unit investment trusts owns a fixed set of securities for the life of the company. It is traditional type of investment company. To form a unit investment trust, a sponsor purchases a specific set of securities and deposits them with a trustee (such as bank/ finance company). Then a number of units (shares) are offered to the public. These units (shares) provide their ownership with proportional interests in the securities that were previously deposited with the trustee. Portfolio may not be needed for the trust because the composition of

portfolio rarely changed.

Closed-End Investment *Companies*

Closed-end investment companies (or closed-end funds) operate with a fixed number of shares outstanding and do not regularly issue new shares of stock. Closed-end investment companies raise capital in the same way as do other companies. They sell equity shares to public and use the proceeds to purchase different types securities issued by various companies. Unlike unit investment trusts, a closed-end investment company does not stand ready to purchase its own shares whenever one of its owners decides to sell them. Instead, its shares are typically traded either on an organized stock exchange or in the OTC market. Thus, an investor who wants to buy or sell shares of closed-end funds simply places an order with a broker, just like as shares of other companies.

Mutual Funds

Mutual funds is open-end investment companies (or open-end fund) which stand ready at all times to purchase its own share and issue new shares to investors. Thus, mutual fund trades directly with investors. Since capitalization of mutual fund is 'open'; the number of shares outstanding changes frequently.

Real Assets

The real assets are tangible assets which have physical form. The examples of real assets are land, building, gold, equipment, car, patents, etc. Real assets can be divided into real estate, precious metals, germs and collectibles.

Real Estate

When we think about real assets, real estate may come to our mind first. Land, developed property, houses etc. are various forms of the real estate. These assets have long been considered viable for long term investment opportunity and they

have often provided attractive returns. Real estate investment requires relatively large investment. Essentially real estate investments fall into two categories: direct ownership of real estate and indirect ownership through real estate investment trusts.

Precious Metals and Gems

Gold is one of the oldest investments and has long been considered a safe investment alternative. Other precious metals such as silver, platinum, and diamond have their advocates as well. Though, precious metals, and gems can produce very impressive returns, these investments are relatively riskier than real estate.

Collectibles

Collectibles such as fine art, status, stamps, old coins may be good investment alternatives for investors. They can produce very attractive returns to the holder or investors. However, investment in collectibles is riskier than investment in other real assets, such as real estate, precious metal, gems etc. (Pradhan, 2004).

2.2 A Brief Review of Previous Studies

The number of the financial analysis regarding the commercial banks as well as the financial performance of Nepal Rastrya bank has been found out in order to review this section But due to the short span of its establishment very few research have been made in the areas of the liquidity management of finance companies under Nepalese context, and basically most of them have focused comparative position and the financial management section as their relevant field.

2.2.1 Review of Empirical Works

Dr. Radhe S. Pradhan in his article about "Financial liquidity assessment and discriminate analysis "the financial ratio analysis to judge the liquidity position of the enterprise has become a conventional approach to deal with the problem. However, it does not mean to say that the ratio analysis is not useful in assessing financial liquidity .It is useful but seems inadequate.

It may sometimes produce misleading results, Moreover, the limitations of ratio analysis arise from the fact that methodology is basically unvaried. That is each ratio is examined in isolation. The combined effects of several ratios are based solely on the judgment of the financial analyst. Therefore, to overcome these shortcomings of ratio analysis, it is necessary to combine different ratios into a meaningful predictive model. For that purpose, the discriminant analysis has been proposed and Altman appeared to be the first person to use it in bankruptcy prediction context (Altman 1968) in this paper, an effort has been made to show how a discriminant analysis may be useful in assessing the financial liquidity position of the selected public enterprises of Nepal .The discriminant analysis has been used in the hope that it will yield useful, if not optimal result.

Insurance companies play a vital role for the economic development of the country. Therefore many journal, booklet, medical publish the news about the role, function and activities of insurance companies everyday. So some review about insurance companies published by many journal and publication are as follows.

“Insurance plays the important role in the trade and commerce. It is absolutely true that expect risks are unpredictable. These risks are to be insured to protect exporters. Various forms of insurance have been existence for hundreds of years, just as many of the terms used today are the same as they were many

years ago" (Shrestha, 1991).

Insurance is the major part of economic development of a country. Sound external economic environment is a must for the development of the insurance sector. Insurance in Nepal is still a native business its market is not matured. A week regulation mechanism calls for important. Insurance regulation and supervision were fundamental requirements for the sound development of insurance activities and those insurance activities, properly supervised, played an outstanding role in the process of the economic growth of every country. Supervision helps to check an outflow of foreign exchange, which could result from excessive resources to foreign insurance and re-insurance facilities. A sound national insurance and re-insurance market being an essential characteristic of economic growth. The average insurance depth (premium income as a percentage of the GDP) of the developed countries is about 4% to 6%. In Nepal, the insurance depth is only 1.40%. The figures reveal a wide gap between the development of Nepalese insurance markets and the demand and need for cover (Bhattarai, 2007).

"Nepalese insurance companies continued to face a growing magnitude of the problem in the collection of outstanding premium from the period of the company's establishment of the present years" (Shrestha, 1991)

"Current market of insurance industry in Nepal. The articles are the complete study of potentials of insurance in Nepal and problems facing by the insurance companies of Nepal. It reveals that there is keen competition in general insurance business. There are 13 general insurance companies in the small country like Nepal. So they have competition each other to capture others market without creating their own market and going to other sectors of insurance behind the traditional functioning. But the 99% of life insurance market remains untouched. The life insurance companies are far from each to

the majority public. There is future potential in the life insurance in Nepal" (Nepal, 2004).

The government properties including corporation is insured to government company is priority basis, it is difficult to pursue in such corporation and government offices, so the environment is not very positive. Only lip service from government, the economic growth of the country is very slow. People can not afford to pay insurance premium. The sense for insurance unawareness and unconscious mass is very high. Thus insurance business is very-very challenging. On has to create the market. Tremendous market potentiality and opportunity is felt due to the unexplored market. Only the clue is to known and click on the right product and place with reasonable price to the right person. After the formation of Nepal insurers Association, the companies can plead their problems jointly to the government and should to forward for the interest and benefit of insurance. This platform should be taken as an opportunity (Shrestha, 2062 BS).

Development officers play dual role in insurance business. In insurance business a development officer plays the role of representative of customer when he speaks the voice of customer, at the same moment he is the representative of insurance company since he has to explain the ideas of insurance to customers. Whatever the role development officer play, the main thing of them is to win the heart of customers and make them aware and create the faith towards insurance. To fulfill this purpose all the staff of company should accomplish to customers, otherwise the faith earned by the company may loss. Thus, the management should as certain the problems faced by development officers and should eradicate them duly, if it really wanted to promote the insurance business. (Shrestha, 2062 B.S.)

2.2.2 Review of Thesis

Karki (2005), conducted a research entitled "A comparative study on the financial performance of finance companies in Nepal." It shows:

His studies primarily based on the two finance companies i.e. Universal finance & Capital market Ltd and Nepal Housing & Merchant finance. Its main objective is to find out comparatively the actual financial position of the finance companies. In this regard he has tried to focus on the major problems of finance companies whose stage are only at the growth level. As well as the fluctuation and instability of the finance company around the Kathmandu valley can also be the relevant problem in the today's context. Besides, he has also raised relevant problems on interest rates. Other problems, which he has focused, are:

- Financial problem faced by the finance companies.
- With the very few studies on the finance companies is also shown as one of the problems of declaring these studies.
- Nepalese finance companies seem to lack opportunities and counseling if they could overcome these difficulties they could easily attract the prospective entrepreneurs.
- Unfavorable economic situation is also focused on the lacking of the funds and the smooth operation of the finance companies.

Major findings:

- Two ratios i.e. current ratio and quick ratio are used to measure the liquidity position. The means of current ratio maintained by UFCM and NH & MF is found to be lower than the desired std ratio 2:1 which is not assumed as satisfactory.
- The means of quick ratio maintained by UFCM and NH & MF are found to be in std norms 1:1 but quick ratio of UFCM is higher than that of NH & MF although is UFCM better position then NH & MF according to the loans and advances to total deposit ratio but in term of total deposit NH &

MF is better than UFCM

- The overall profitability of NH & MF is better than that of-UFCM; UFCM has also been successful in achieving profitability, even though during the first year it had negative return. The company was forced to show its loss in subsequent year.
- Debt employed by is observed as 9.03 terms UFCM than its equity .so that d/e ratio of UFCM is in better position than NH & MF because the debt equity ratio of NH & MF is found to be very high.
- Overall impact of NH & MF is higher than UFCM Both companies coefficient of correlation between debt and profit shows their significant condition but NH & MF is greater than UFCM.
- Return on investment of NH & MF is in better position than UFCM, which means it has efficiently generated more profit from investment.
- NH & MF has contributed more than UFCM to the government for the development of nation in fracture due to the loss in the first year (2052/53) UFCM did not pay any taxes but later paid lax and in increasing amount.
- Interest is the major source of income for both the companies but on average UFCM is higher than NH & MF. Both companies should try to invest in other sectors. Interest expenses of both companies are increasing every year but staff expenses and operating expenses are decreasing gradually.

Finally, he recommended the finance companies to actively participate on the social matters and program in which today's finance companies are far behind. As well as he revealed the paramount field like agriculture for the involvement of the finance companies by opening up operating different branches and to raise the rural economy by making investment in the minimum possible low interest rate. In future companies should explore the areas by expanding their

business like leasing, bridge financing and venture capital financing a study done by Mr. Pushakar Neupane on "Prospect of finance companies in Nepal" shows:

He has tired to analyze the overall finance companies. His major objective is to find out the market demand of finance companies in Nepal with reference to the solvency position as well as investment and lending practice. In this regard he has tried to focus his studies on finance company as one of the supportive role in the economic development activities. In possible circumstances, researchers believe that it has to prove itself to be of the helping status for various concerns. He has tired to show problems regarding to:

- The role of finance company and commercial banks.
- Lack of performance of the finance companies in respect of the NRB regulation.
- Lack of investment opportunities which they turn out turn to be a serious matter and may turn out to be disastrous for financial sectors and thus for whole country.

Major findings:

- Short terms solvency position of finance companies will be satisfactory. If they continue the same trend and Long-term solvency position is concerned and it shows weaker trends as they were increasing highly the risky assets year by year in comparison to shareholder funds.
- A liquidity crisis in future is a case which may come some major credit defaults under finance companies as well as financial position and performance of the individual companies are concerned; the wide range of variation among them selves regarding some important financial ratios.
- The companies were found highly traditional on lending and investment practice fee based merchant bunking activities in satisfactory level.

Finally he recommended to use management practices, and on this ground he

has suggested to mobilized fund from non-resident Nepalese as working Nepalese are in high liquidity position in foreign countries.

Poudel (2002) conducted a thesis on "A Study on Investment and Liquidity Position of Joint Venture Commercial Banks in Nepal." His main objective was to evaluate liquidity and investment of commercial banks. He concluded, a commercial bank at its own judgement may decide to maintain an appropriate level of liquid assets. But the decision should be in relation to the sources of fund and statutory obligation. Nature of one source of fund may vary with others. The bank did not have constant and consistent liquidity along with consistent investment policy. Both the banks are adopting discretionary fund management approach. The banks are adhering to theory of suitability, while investing on marketable securities. Anticipating income approach is also adopted in case of long term loan.

Adhikari (2000) had submitted a thesis on the topic “Financial performance of Nepal Insurance Company Ltd.” His main objective was to analyze the financial performance of NICL.

The major findings were as follows:

- Regarding the liquidity management the NICL was in sound position.
- NICL was unable to control its operating expenses at the minimum level.
- The net profit margin ratio of NICL was deteriorating year by year.
- The company had not adopted fixed diversified investment principle but adopted traditional portfolio.
- The NICL had not practiced risk diversified investment principle but adopted traditional investment portfolio.
- There was no perfect stability in cash inflows and outflows of NICL

The recommendations were as follows:

The insurance company 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 debts loss.

- Settlement of claims should be made in time.
- The company should extend its business area.
- NICL should diversify its business portfolio.
- The company should expand its fixed assets.
- NICL should diversify its business portfolio.

Raut (1945), conducted a research entitled "The Financial Performance of National Life and General Insurance company limited" had found the gap and issues about liquidity, premium collection and outstanding investment and other position and premium collection to make a settlement of claim in time and to extend its branches to effective investment policy. This study had given emphasis to the financial tools (mainly with ratios) and had ignored the importance of statistical tools.

- Regarding liquidity management, NLGI was not in a sound position.
- The company's outstanding premium hand an increasing trend.
- The return on net worth of NLGI was satisfactory because the return on net worth had an increasing trend.
- The trend of earning per share was fluctuating.
- Investment of NLGI was not less than 50% of the total assets in every year of the study period.

The recommendations were as follows:

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

Gelal (1998), conducted a thesis entitled "A Comparative Financial Analysis of Nepal Insurance Company Limited and National Life and General Insurance Company Limited" had analyzed the financial performance of the two insurance companies. This study was descriptive and analytical too. He had analyzed the financial position, liquidity position, profitability condition, and the market situation of NLCI and NLGI. In this study, he had recommended that the insurance premium fund should be invested in different sectors rather than government bonds in order to enhance the life standard of people and thereby increase the insurance premium and expand insurance activities in the rural area by the establishment of branches or appointment of argents. He had advised NICL to minimize the risk level by reducing participation and increasing equality proportion even though, it is a risk oriented institution (Gelal, 1998).

Pathak (2002) conducted a thesis on "Evaluating Financial Performance of Nepal Insurance Company and Himalayan General Insurance Company Ltd." Found out the following finding.

- HGICL and NICL have not been following better policy to keep their liquidity position.
- Cash position to meet their current liabilities of NICL is poor than HGICL.

- The net profit margin of HGICL Shows an increasing trend whereas NICL's trend is fluctuating.
- EPS of NICL is higher than EPS of HGICL.
- P.E. ratio of HGICL is better than NICL.

In his study, he has recommended the following measures:

- Both the companies should decrease their current assets and increase their cash balance.
- HGICL is suggested to increase the total revenue and gross profit for its sustainability and to meet the different sector than the Government of Nepal board in order to enhance the life standard of poor people thereby increasing the insurance premium, advertisement and publicity should be increased to make the people aware about the insurance.
- For the development of insurance business, the insurance companies should have social responsibility oriented rather than premium oriented.

Acharya (1998), conducted a research on "An Evaluation of Financial Performance of NICL" for the fiscal year 1990/91 to 1996/97 has found out the following facts about NICL during his research period.

- Liquidity management of NICL is very weak.
- The company is not able to collect its outstanding premium efficiently.
- The company's re-insurance premium is in an increasing trend.
- Profitability position of the company is in a satisfactory level.
- Control of management expense and agency commission has an increasing trend.

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

- The company should improve its liquidity position.
- The company should activate its agents and development officers.
- Claims should be paid on time.
- Commission and management expenses should be controlled.
- The company should maximize investment return through optimal portfolio management.
- Business portfolio should be diversified.

2.4 Research Gap

There is a gap between this research and previous researches. However, the many researches have been done on investment and liquidity management of various commercial and development banks. But no any researches have been found of insurance companies on same topic. So, to fulfill this gap, this research study has been conducted. Previous researches have been conducted on liquidity performance of specific insurance company. But no any researches have been found of insurance companies' investment and liquidity management.

CHAPTER III

RESEARCH METHODOLOGY

The main objective of this study is to find out the investment and liquidity position of insurance companies. A simple and suitable research methodology of the study is followed so as to fulfill the stated objective as well as to make it easier in visualizing the total study clearly. This chapter includes research design, population and sample, sources of data, data collection techniques and data analysis tools.

3.1 Research Design

The company's liquidity and investment position have been evaluated. This study attempts to analyze liquid funds of the companies. Company's internal data of past five years have been analyzed by using ratio analysis. Hence, the research design tends to be descriptive and analytical.

3.2 Population and Sample

There are 25 insurance companies operated in Nepal. They are:

S.N.	Companies	Date of establishment
1	Nepal Insurance Company Ltd.	2004/06/8
2	The Oriental Insurance Company Ltd.	2024/5/30
3	Rastriya Beema Sansthan	2025/9/1
4	National Insurance Company	2030/9/17
5	National Life Insurance Company	2044/9/23
6	Himalayan General Insurance Company	2050/4/6
7	United Insurance Company Nepal Ltd.	2050/7/6
8	Premier Insurance Company Nepal Ltd.	2051/1/8
9	Everest Insurance Company Ltd.	2051/2/17

10	Neco Insurance Company	2053/2/17
11	Sagarmatha Insurance Company Ltd.	2053/3/12
12	Alliance Insurance Company Ltd.	2053/4/4
13	N.B. Insurance Company Ltd.	2057/10/10
14	Nepal Life Insurance Company Ltd.	2058/1/4
15	American Life Insurance Company	2058/4/18
16	Life Insurance Corporation Nepal Ltd.	2058/4/23
17	Prudential Insurance Company Ltd.	2059/1/20
18	Shikhar Insurance Company Ltd.	2061/7/2
19	Lumbini Insurance Company Ltd.	2062/3/31
20	N.L.G. Insurance Company Ltd.	2062/5/23
21	Siddhartha Insurance Company Ltd.	2062/12/23
22	Asian Life Insurance Company Ltd.	2064/11/5
23	Surya Life Insurance Company Ltd.	2064/12/6
24	Gurans Life Insurance Company Ltd.	2064/12/18
25	Prime Life Insurance Company	2065/1/24

Among them 5 have selected using judgement technique (very old and very new as well more transactable insurance and less transactable insurance). All these 5 insurance companies deal with non-life insurance.

1. United Insurance Co. Ltd.
2. Nepal Insurance Co. Ltd.
3. Everest Insurance Co. Ltd.
4. Himalayan General Insurance Co. Ltd.
5. Neco Insurance Ltd.

3.3 Sources of Data

Secondary data will be used for the purpose of study. They will be collected from Beema Samiti. An informal inquiry has been conducted at different places. According to the need and objectives, the secondary data have been compiled, processed, tabulated and where necessary graphs are drawn for better presentation.

3.4 Data Collection Technique

The main sources of data for the purpose of the study are published financial statements. Thus, the data were mainly based on secondary sources. The data were obtained after convincing to the concerned authority. Informal interview were conducted to obtain more information in support of published data. All other available published materials concerning the study will also be used.

3.5 Data Analysis Tools

Financial and statistical tools are used to analyze the data. Ratio analysis is mainly used. Statistical tools such as correlation coefficient is used. A brief description of the tools are given below:

3.5.1 Ratio Analysis

Numbers in the financial statement doesn't provide any meaningful information until they are evaluated. Hence ratio analysis will be done to evaluate the firm's performance in comparison with competitor's performance. Financial ratio analysis is designed to determine the relative strength and weakness of business operation. It also provides a framework for financial planning and control. Financial manager needs the information provided by analysis both to evaluate the firm's past performance and to map of future plans. Financial ratio analysis concentrates on financial statement analysis, which highlights the key aspects of firms operation. Liquidity ratio is analyzed as:

$$\text{Liquidity ratio} = \frac{\text{Current assets} - \text{Inventories}}{\text{Current liabilities}}$$

$$\text{Probability ratio} = \frac{\text{Net profit}}{\text{Total assets}}$$

$$\text{Net to gross premium ratio} = \frac{\text{Net premium}}{\text{Gross premium}}$$

$$\text{Re-insurance to gross premium ratio} = \frac{\text{Re} - \text{insurance premium}}{\text{Gross premium}}$$

$$\text{Fixed deposit to investment ratio} = \frac{\text{Fixed deposit}}{\text{Investment}}$$

$$\text{Share and debenture to investment ratio} = \frac{\text{Share and debenture}}{\text{Investment}}$$

$$\text{Government security to investment ratio} = \frac{\text{Government sec urity}}{\text{Investment}}$$

3.5.2 Trend Analysis

One of the most important tasks before the economist and businessman is to estimate future. Growth rate analysis will be carried out to ascertain rate in the past. Trend analysis will be adopted to ascertain future. It predicts the future behaviour of data and helps to find out future growth factor. Hence, trend analysis will be taken as a tool to evaluate the future financial position of the companies. The equation used to obtain the trend values is : $y = a + bx$.

Where x = X – middle year

Y = dependent variable

b = annual growth rate

a = Y – Intercept

CHAPTER-IV

DATA PRESENTATION AND ANALYSIS

The data alone can't give any information. The data when analyzed provides some information. This chapter is mainly focused on the analysis of data. The data when analyzed shows the strength and weakness of organization.

4.1 Investment

Investment operations are important to business operations. Insurers are required to generate reserves for claims that might arise. It is essential that insurance companies invest these funds rationally with the combined objectives of liquidity, maximization of yield and safety. Returns on investment from life insurance funds influence to a large extent. It has to ensured that the insurer must at all times maintain a prescribed minimum level of solvency as a protection to the policy holders. In view of public interest, investment of insurance fund is regulated. Many countries do not have regulations to guide such investment., but they do have provision setting out minimum level of assets and securities for the purpose of determining solvency level of insurance companies.

The pattern of investment is governed by provision of the insurance act or by its laws. Accordingly, its composition or percentage of share may vary according to time to time or amendment of by laws depending upon the situation of the economy. Majority of investment is made in Government and other approved securities, while investment are also made in the form of loans to government organization, public enterprises, in buying of shares, buying of immovable properties, loans to its policy holders and fixed deposit with approved banks. The ratio is specified according to the decision of board or act of the company or by laws.

There are various investment alternatives for companies. They are as follows:

a. Equity Securities

Equity securities represent ownership shares in a corporation. Equity shares are traded in organized exchanges. Common stock and preferred stock represents equity securities. Common stock is a source of long term financing. Common stock certificates are legal documents that proves ownership in a company that is organized as a corporation. They are also marketable financial instruments.

Preferred stock represents the long term source of financing under which stockholders are entitled to get fixed amount of dividend out of the earning of the company after payment of debenture interest and tax. Preferred stock also called as preference share, is a hybrid security. Dividends are paid after tax. Preference shareholders have no voting right. But preference shareholders have claims on income and assets prior to common stockholders except that of creditors.

b. Debt securities

Debt securities are those on which interest has to pay and they have certain maturity period. Debt securities can be divided into two parts. They are as follows:

Short term debt securities mature within a year or less. They are traded in money marked; it consists of negotiable certificate of deposit, commercial paper, banker's acceptance and treasury bill. Negotiable certificate of deposits is issued by commercial banks with a minimum face value of Rs. 100,000. Commercial paper is a promissory negotiable notes issued by large, well known corporation. Banker's acceptance is used by importer to secure trade credit from exporter. The accepting bank guarantees payment form borrower. Treasury bills are obligation issued by government, sold at discount from face value.

Intermediate and long term debt securities mature more than one year. It is traded in over the counter market. It consists of government securities,

municipal securities and corporate bonds. Government securities are fixed income securities issued by government. It is unlikely to default on interest or principal repayment. It consists of treasury notes, treasury bonds and saving bonds. Municipal security is debt obligation issued by state or local government. It consists of revenue bonds and general obligation bonds. Corporate bonds are issued by corporation. Many types of corporate bonds exist. They differ in the way of principal and interest payment are made and in the collateral used to back the bonds.

c. Real assets

Real assets are non-financial assets. It consists of precious metals, real estate, and collectibles. Precious metals include gold, silver, platinum and other metals in the form of coins, bullions. Its market is individual dealer. Real estate includes single and multifamily residences, land, and commercial property. Collectibles include diamond, prints, fine art, coins, stamps etc.

d. Mutual fund:

Investment companies that sell shares of common stock that represent an ownership interest in a portfolio of domestic and or foreign securities. it is traded in over the counter market and direct transaction with individual funds.

e. Fixed deposit account:

Fixed deposit account in bank and financial institution is another alternative of investment of insurance companies. Bank and finance company pays high rate of interest on fixed deposit than normal saving account. It has some finite maturity period.

Table No. 1

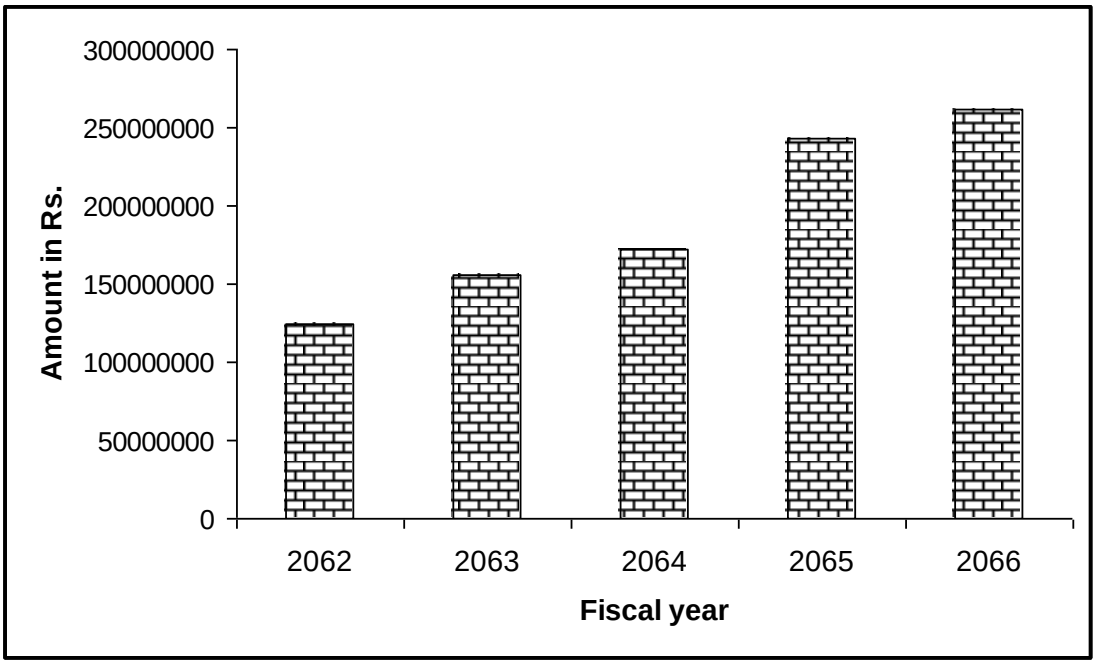
Investment of United Insurance Company (Nepal) Ltd.

Investment	2062	2063	2064	2065	2066
GON securities and debenture	13988500	5500000	26682849	0	0
Bank fixed deposit A/C	81600000	104630000	108500000	0	0
Finance fixed deposit A/C	19606000	27100000	29746530	0	0
Share/debenture	9458000	5458000	12970000	0	0
Real estate	0	0	0	0	0
Short term investment	15211180	5712362	164959	80963928	0
Mutual fund	0	0	0	0	0
Long-term investment	0	0	0	162039544	262155103
Others	3571428	3571824	4571428	0	0
Total investment	124752500	155972186	172635766	243003522	262155103

Source: Beema Samiti.

The above table 1 shows the investment of United Insurance Co. (Nepal) Ltd. in different years. It shows that this insurance company had only invested in GON securities and debenture, bank fixed deposit and finance fixed deposit. Short term investment, long-term investment, other sectors, share and debentures and bank's fixed deposit account. It is found that, this insurance company had not invested in real estate, and mutual fund in the year 2062 B.S. to 2066 B.S. It also showed investment trend is fluctuating in different years.

Diagram 1: Total Investment of United Insurance Co. (Nepal) Ltd.



Fixed Deposit to Investment Ratio of United Insurance Company

Rs. in crore

Particular	2062/63	2063/64	2064/65	2065/66	2066/67
Fixed deposit	9.99	11.70	12.11	0	0
Total investment	12.47	15.59	17.26	24.30	26.62
Ratio (%)	80.12	72.05	70.16	0	0

United Insurance Company has been growing fixed deposit base level 9.99 core to 12.11 crore in 2062/63 to 2064/65 and last 2 years. No investment this topic. Above table shows the ratio of fixed deposit and total investment a/c has been decreasing trend.

Share and Debenture to Investments Ratio of United Insurance Company

Rs. in crore

Particular	2062/63	2063/64	2064/65	2065/66	2066/67
Share and debenture	0.94	0.546	1.30	0	0
Investments	12.47	15.59	17.26	24.30	26.62
Ratio (%)	7.53	3.51	7.53	0	0

This company invested in 2062/63 0.94 crore, 2063/64 0.546 crore and 2064/65 1.30 crore and last 2 years no investment on this topic. This ratio is in increasing and decreasing trend in study period.

Government Security to Investments Ratio of United Insurance Company

Rs. in crore

Particular	2062/63	2063/64	2064/65	2065/66	2066/67
Government security	1.40	0.55	2.66	0	0
Investments	12.47	15.59	17.26	24.30	26.62
Ratio (%)	11.25	3.53	15.41	0	0

United Insurance Company has been invested on government securities. This ratio is 11.25% in 2062/63, 3.35% in 2063/64, 15.41% in 2064/65 and last 2 years has not been invested on government security.

From the above analysis we come to know that government security give less profit so company transfer investment on other topic.

ROA of United Insurance Companies in Different Year

Company	2062	2063	2064	2065	2066
United Insurance	0.033	0.0498	0.00026	0.0054	0.025

Source: Annex-VI.

United Insurance Company (ROA) decreasing pattern. In 2062 ROA is 0.033 and 2066 ROA is 0.025. So this company invested other options And the company liquid assets increasing. But company ROA is very weak.

The fruitful suggestions will be provided to improve the weak condition of the company other wise the company will suffer from dangerous situation.

Liquidity Ratio of United Insurance Company in Different Year

Company	2062	2063	2064	2065	2066
United Insurance	0.052	0.254	0.578	0.701	0.555

Source: Annex-VII.

United Insurance Company liquidity position, growing and decreasing every year and liquidity position of United Insurance Company heartily industry average, for company will be improve liquidity position. Form the above analysis the short term solvency for of United Insurance is very weak. The company should depends upon other sector to meet its short-term obligation. The company should depend upon investment in GON securities and fixed deposit account to raise the needed funds for satisfying it short-term creditors. This is not an appropriate way of meeting its short-term obligation because it takes some times to convert the such investment into cash from and the company should incurred some amount of costs in conversion process.

Table No. 2

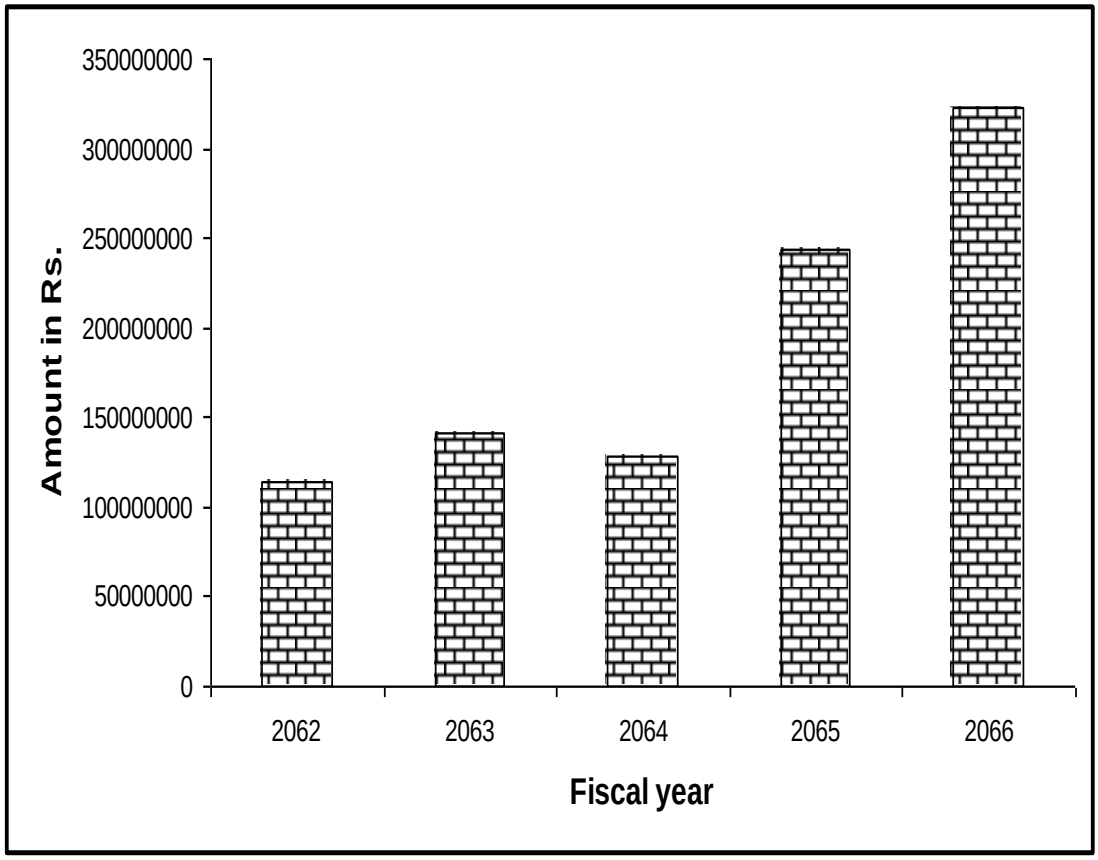
Investment of Everest Insurance Company Ltd.

Investment	2062	2063	2064	2065	2066
GON securities and debenture	25000000	25000000	4000000	0	0
Bank fixed deposit A/C	85820500	110332500	71411375	0	0
Finance fixed deposit A/C	0	0	47700000	0	0
Share/debenture	3032300	23472597	5629599	0	0
Real estate	0	0	0	0	0
Short term investment	0	0	0	0	286857510
Mutual fund	0	0	0	208455219	0
Long-term investment	0	0	0	0	36486916
Others	0	0	0	35111916	0
Total investment	113852800	141679797	128750974	243567135	323344426

Source: Beema Samiti.

The table 2 shows the investment made by Everest Insurance Company Ltd. in different years. It shows that insurance company had only invested in GON securities and debenture, bank fixed deposit. account, finance company fixed deposit account and shares. Short term investment, long-term investment. It is also seen that insurance company had not invested in real estate and mutual funds. It also shows that investment was in increasing trend upto 2066 B.S. Investment was increasing trend.

Diagram 2: Total Investment of Everest Insurance Company Ltd.



Fixed deposit to Investment Ratio of Everest Insurance Company

Rs. in crore

Particular	2062/63	2063/64	2064/65	2065/66	2066/67
Fixed deposit	8.58	11.03	11.20	0	0
Total investment	11.38	14.17	12.87	24.36	32.35
Ratio (%)	75.34	77.89	87.04	0	0

Everest insurance company has been growing trend invested in fixed deposit. So, show above table fixed deposit ratio is growing trend 75.34% in 2062, 77.89% in 2063 and 87.04% in 2064, and last 2 years. No invested of fixed deposit.

Share and Debenture to Investments Ratio of Everest Insurance Company

Rs. in crore

Particular	2062/63	2063/64	2064/65	2065/66	2066/67
Share and debenture	0.3	2.35	0.56	0	0
Investments	11.38	14.17	12.87	24.36	32.33
Ratio (%)	2.64	16.48	4.35	0	0

This company invested 2062/63 0.99 crore, 2063/64 0.546 crore and 2064/65, 1.30% crore and last 2 years. No investment on this topic. This ratio increasing and decreasing trend in study period.

Government Security to Investments Ratio of Everest Insurance Company

Rs. in crore

Particular	2062/63	2063/64	2064/65	2065/66	2066/67
Government security	2.5	2.5	0.4	0	0
Investments	11.36	14.17	12.87	24.36	32.33
Ratio (%)	22.02	17.64	3.11	0	0

Everest Insurance Company invested on government security in decreasing trend. This ratio is 22.02% in 2062/63, 17.64% in 2063/64 and 3.11% in 2064/65. Company in last 2 years has not investment on this topic. This company invested last 2 years other topic.

ROA of Everest Insurance Company in Different Year

Company	2062	2063	2064	2065	2066
Everest Insurance	0.0083	0.00324	0.00523	0.1234	0.005604

Source: Annex-VI.

Everest Insurance Company growing and decreasing this 5 years profit is less. 0.0083, 0.00324, 0.00523, 0.1234, 0.0056 in 2062 to 2066. We advice company

should be invested other sectors, company ROA is weak. The fruitful suggestion will be provided to improve the weak condition of the company otherwise the company will suffer from dangerous situation.

Liquidity Ratio of Everest Insurance Company in Different Year

Company	2062	2063	2064	2065	2066
Everest Insurance	0.204	0.259	0.651	1.163	0.676

Source: Annex-VII.

Everest insurance company's liquidity position is decreasing every year. But liquidity position of company is not sound. Everest insurance company liquidity position near industry average, company should be improve liquidity assets. Liquidity position is maintained only in the fiscal year 2065 industry average. The cause behind the lower liquidity ratio are due to increase in sundry creditors, estimates liabilities for outstanding claim, dues to the reinsurances etc with very faster rate than the increases in current assets. The management of Everest insurance is very cautious on matching the current assets with its current liabilities. So we will give ht detail suggestion in the recommendation chapter regarding how to improve the liquidity position of the company.

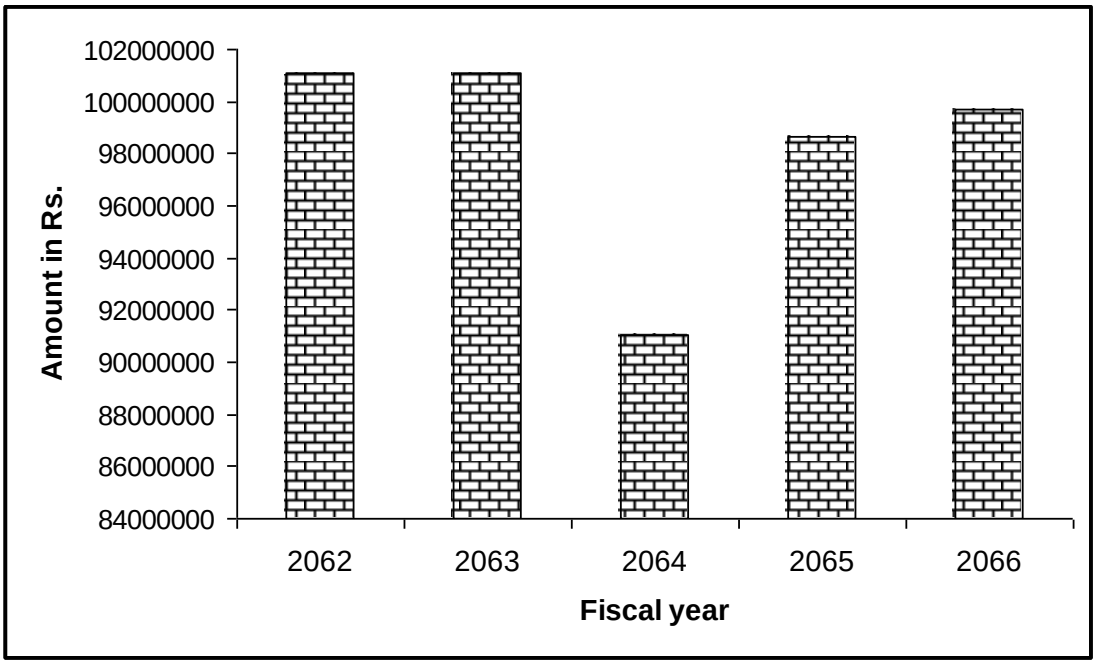
Table No. 3

Investment of Neco Insurance Company

Investment	2062	2063	2064	2065	2066
GON securities and debenture	0	0	13850000	0	0
Bank fixed deposit A/C	97525000	97525000	73600000	0	0
Finance fixed deposit A/C	0	0	0	0	0
Share/debenture	0	0	0	0	0
Real estate	0	0	0	0	0
Short term investment	0	0	0	51150000	52150000
Mutual fund	0	0	0	0	0
Long-term investment	0	0	0	47521429	47541430
Others	3571429	3571429	3571429	0	0
Total investment	101096429	101096429	91021429	98671429	99691430

Source: Beema Samiti. The table 3 shows the investment made by Neco Insurance Ltd. in different years. It shows that insurance company had only invested in Bank fixed deposit account. It had not invested in GON securities and debentures. Only 2064 invested finance company fixed deposit account, mutual funds, shares, real estate. It had invested in short term investment and long-term investment. The table shows the investment was in increasing trend.

Diagram 3: Total investment of Neco Insurance Company Ltd.



Fixed Deposit to Investment Ratio of Neco Insurance Company

Rs. in crore

Particular	2062/63	2063/64	2064/65	2065/66	2066/67
Fixed deposit	9.75	9.75	7.36	0	0
Total investment	10.10	10.11	9.10	9.88	9.97
Ratio (%)	96.53	96.43	80.88	0	0

This company's fixed deposit is decreasing slightly in first three years and no any fixed deposit found in fiscal year 2065/66 and 2066/67.

Share and Debenture to Investments Ratio of Neco Insurance Company

Rs. in crore

Particular	2062/63	2063/64	2064/65	2065/66	2066/67
Share and debenture	0	0	0	0	0
Investments	10.10	10.11	9.10	9.88	9.97
Ratio (%)	0	0	0	0	0

This company invested on share and debenture less amount. So ratio of S/D to investment 2.63% in 2062/63, 16.78% in 2063/64 and 4.35% in 2064/65 and last 2 years has not been invested this topic.

Government Security to Investments Ratio of Neco Insurance Company

Rs. in crore

Particular	2062/63	2063/64	2064/65	2065/66	2066/67
Government security	0	0	1.38	0	0
Investments	10.10	10.11	9.10	9.88	9.97
Ratio (%)	0	0	14.75	0	0

Neco Insurance Company has been invested government security only one years this study period (2064/65) 14.75% of total investment.

ROA of Neco Insurance Company in Different Year

Company	2062	2063	2064	2065	2066
Neco Insurance	0.0069	0.00121	0	0.083	0.0249

Source: Annex-VI.

Neco insurance company is very poor. In 2062 to 2066 ROA is 0.0069, 0.0121, 0.063, 0.0249. ROA is changeable so company should improve profit trend. Company's ROA is weak. The fruitful suggestion will be provided to improve the weak condition of the company otherwise the company will suffer form dangerous situation.

Liquidity Ratio of Neco Insurance Company in Different Year

Company	2062	2063	2064	2065	2066
Neco Insurance	0.229	0.125	0.399	1.167	0.616

Source: Annex VII.

Neco insurance company is able to maintain its liquidity ratio almost at par with industrial average. Company's liquidity ratio is 0.249, 0.123, 0.399, 1.167, 0.616

in Fiscal year 2062 to 2066 respectively. Company's liquidity position is seems sound in fiscal year 2065.

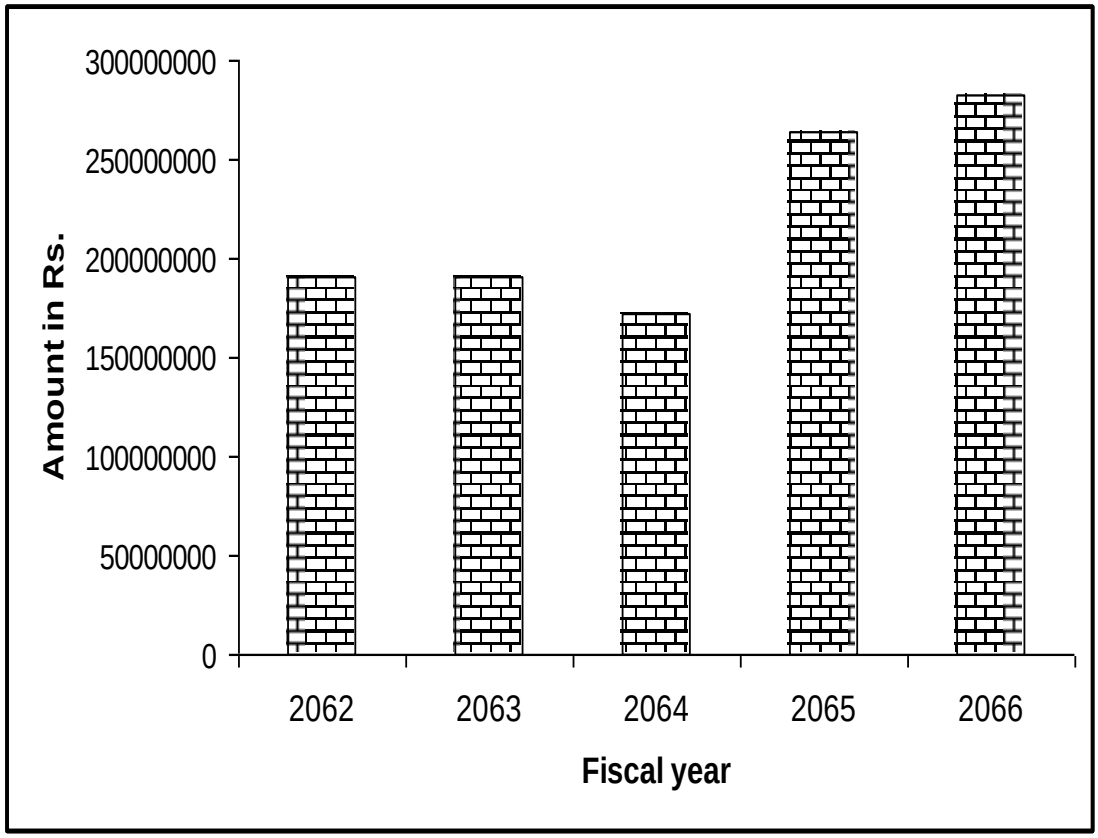
Table No. 4

Investment of Nepal Insurance Company (Nepal) Ltd.

Investment	2062	2063	2064	2065	2066
GON securities and debenture	30300000	22800000	11300000	0	0
Bank fixed deposit A/C	118650000	126600000	160650000	0	0
Finance fixed deposit A/C	0	0	0	0	0
Share/debenture	41804400	40668604	0	0	0
Real estate	0	0	0	0	0
Short term investment	0	0	0	88350000	87350000
Mutual fund	0	0	0	0	0
Long-term investment	0	0	0	175321429	195420430
Others	0	0	0	0	0
Total investment	190754400	191168004	171950000	263671429	282670430

The table 4 shows the investment made by the Nepal Insurance Company (Nepal) Ltd. in different years. It shows the insurance company had only invested in GON securities and debenture, bank fixed deposit A/C, finance company fixed deposit A/C and share, short term, long investment. The table shows that investment trend was increasing upto 2063 B.S. and thereafter decreased in 2064 B.S.

Diagram 4: Total Investment of Premier Insurance Co. (Nepal) Ltd.



Fixed Deposit to Investment Ratio of Nepal Insurance Company

Rs. in crore

Particular	2062/63	2063/64	2064/65	2065/66	2066/67
Fixed deposit	11.86	12.66	16.11	0	0
Total investment	19.08	19.12	17.20	26.36	28.26
Ratio (%)	72.2	66.21	93.16	0	0

Total investment has been growing from the base level of Rs. 72.2 crore to 28.26 crore. Total investment is increasing trend during the study period.

The investment in fixed deposit A/C is Rs. has been growing 2nd and 3rd year and 4th and 5th years. No invested in fixed deposit. Fixed deposit to total investment ratio is fluctuating.

Share and Debenture to Investments Ratio Nepal Insurance Company

Rs. in crore

Particular	2062/63	2063/64	2064/65	2065/66	2066/67
Share and debenture	4.18	4.067	0	0	0
Investments	19.08	19.12	17.20	26.36	28.26
Ratio (%)	21.9	21.47	0	0	0

Nepal insurance company has been invested share and debenture for the year 2062/63, 2063/64 growing trend S/D to investment ratio and growing 21.9% to 21.47%. But last 3 years of study period has been no invested share and debenture.

Government Security to Investments Ratio of Nepal Insurance Company

Rs. in crore

Particular	2062/63	2063/64	2064/65	2065/66	2066/67
Government security	3.03	2.28	1.13	0	0
Investments	19.08	19.12	17.20	26.36	28.26
Ratio (%)	15.84	11.90	6.56	0	0

Nepal insurance company investment on GON security. Government security to investment ratio decreasing trend and last 2 years. No investment on government security. We analysis GON security low profit so company invested trend decreasing.

ROA of Nepal Insurance Company in Different Year

Company	2062	2063	2064	2065	2066
Nepal Insurance	0.00355	0.023	0.0679	0.3612	0.3163

Source: Annex VI.

Nepal insurance company's return on assets for study period higher than other company. Nepal insurance company return is highest in fiscal year 2065 is

0.03612, and less in 2062. So, this company growing pattern. Nepal insurance company assets is higher than other company. ROA of Nepal insurance is weak. The fruitful suggestion will be provided to improve the weak condition of the company otherwise the company will suffer from dangerous situation.

Liquidity Ratio of Nepal Insurance Company in Different Year

Company	2062	2063	2064	2065	2066
Nepal Insurance	0.172	0.199	0.289	0.804	0.458

Source: Annex-VII.

Nepal insurance company is maintaining its liquidity ratio less than industrial average during the study period. Company's liquidity position is simple. Company's liquidity ratio increasing pattern. But except only 2066. From the above analysis, the short-term solvency power of Nepal insurance company is very weak. The company should depends upon other sector to meet its short-term obligation. The company should depend upon investment in GON securities and fixed deposit account to raise the needed funds for satisfying its short-term creditors. This is not an appropriate way of meetings its short-term obligation because it takes some times to convert the such investment into cash from and the company should incurred some amount of costs in conversion process.

Table No. 5

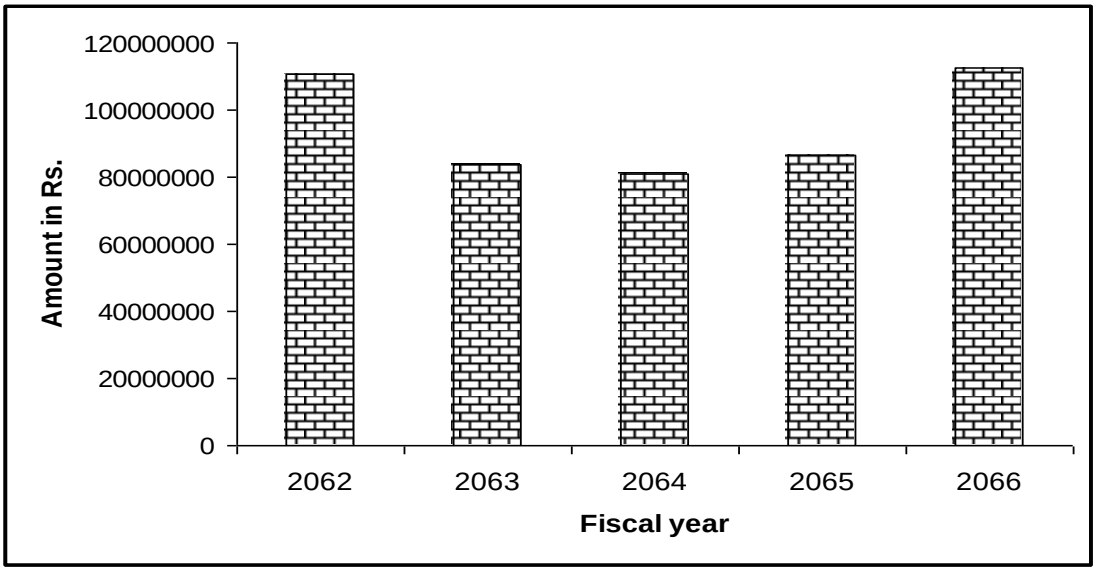
Investment of Himalayan General Insurance Company Ltd.

Investment	2062	2063	2064	2065	2066
GON securities and debenture	20000000	20000000	0	0	0
Bank fixed deposit A/C	70500000	58942400	81000000	0	0
Finance fixed deposit A/C	20290319	0	0	0	0
Share/debenture	0	0	0	0	0
Real estate	0	0	0	0	0
Short term investment	0	4653646	0	3360000	95398172
Mutual fund	0	0	0	0	0
Long-term investment	0	0	0	52878948	17069905
Others	0	0	887919	1206275	0
Total investment	110790319	83597046	81000000	86478540	112468077

Source: Beema Samiti.

The table 5 shows the investments made by Himalayan General Insurance Company Ltd. in different sectors. In 2062 B.S. it had invested in GON securities and debenture. From year 2062 to 2064 B.S. it had invested in GON securities in debenture and bank fixed deposit account. IN year 2065 B.S. and 2066 B.S. it had also invested in short/long term investment that are not listed in above table. The table also shows the increasing and decreasing trends of investment in different years.

Diagram 5: Total Investment of Himalayan General Insurance Company Limited



Fixed Deposit to Investment Ratio of Himalayan Insurance Company

Rs. in crore

Particular	2062/63	2063/64	2064/65	2065/66	2066/67
Fixed deposit	9.79	5.89	8.10	0	0
Total investment	11.07	8.35	8.1	8.648	11.246
Ratio (%)	81.94	70.54	100	0	0

Fixed deposit has been growing and decreasing pattern in 2062, 2063 and 2064, 2065, 2066. No invested fixed deposit A/C. Fixed deposit ratio 81.94% in 2062/63 and 70.54% in 2063/64 and 100% in 2065/66 and last 2 years in study period is no invested.

Share and Debenture to Investments Ratio of Himalayan Insurance Company

Rs. in crore

Particular	2062/63	2063/64	2064/65	2065/66	2066/67
Share and debenture	0	0	0	0	0
Investments	11.07	8.35	8.1	8.648	11.246
Ratio (%)	0	0	0	0	0

This company has not invested on share and debenture in study period. Above table shows the company invested on other topic.

Government Security to Investments Ratio of Himalaya Insurance Company

Rs. in crore

Particular	2062/63	2063/64	2064/65	2065/66	2066/67
Government security	2	2	0	0	0
Investments	11.07	8.35	8	8.648	11.246
Ratio (%)	18.08	23.94	0	0	0

Himalayan Insurance Company invested on government security for 2 years. Only this study period (for 2063/6, 2064/65) growing trend and last 3 years no investment on government security.

ROA of Himalayan Insurance Company in Different Year

Company	2062	2063	2064	2065	2066
Himalayan Insurance	0.0943	0.1885	0.0307	0.0253	0.0238

Source: Annex-VI.

Himalayan insurance company's ROA is medium level for selected 5 company. ROA of Himalayan insurance company is 0.0943, 0.188, 0.0307, 0.0253, 0.0238 for year 2062 to 2066 respectively. The fruitful suggestion will be provided to improve the weak condition of the company otherwise the company will suffer from dangerous situation.

Liquidity Ratio of Himalayan Insurance Company in Different Year

Company	2062	2063	2064	2065	2066
Himalayan Insurance	0.023	1.97	0.501	0.68	0.832

Source: Annex VII.

Himalayan insurance company is maintaining its liquidity ratio higher than other insurance companies. Himalayan insurance company liquidity ratio is 0.023, 1.97, 0.501, 0.68 and 0.832 in fiscal year 2062 to 2066 respectively. From this analysis the company should improve liquidity position. Himalayan insurance company's position is near the industrial average.

Table No. 6

Investment of Different Insurance Companies in Different Years

Investment	2062	2063	2064	2065	2066
Himalayan Insurance	110790319	83597046	81000000	86478948	112468077
United Insurance	124752500	155972187	172635766	243003522	262155103
Everest Insurance	113852800	141679797	132312403	243567135	323344426
Neco Insurance	101096429	101096429	91021429	9871429	99691430
Nepal Insurance	190754400	191168004	171950000	263671429	282770430

Source: Beema Samiti.

The table 6 shows total investment made by different insurance companies in different years. In year 2062 B.S., Nepal Insurance had invested more than other insurance companies. Where in the same year Neco Insurance had made lowest investment than others. In the year 2063 B.S., Nepal Insurance had invested more than others. Whereas in same year Himalayan Insurance had lowest investment than others. In the year 2064 B.S., United Insurance had invested more than others. whereas in the same year Himalayan Insurance had lowest investment than others. In the year 2065 B.S., Nepal Insurance had invested more than others. Whereas in the same years Himalayan Insurance had invested lowest than others. In the year 2066 B.S. Everest Insurance had invested more than others whereas in the same years Neco Insurance had lowest investment than others.

The above table shows that investment made by different insurance companies

varies in each year. In one year, one company made heavy investment where as in another year another insurance company made heavy investment. It may be due to the difference in collection of funds and different investment policy. The main source of funds for investment of insurance company is insurance premium. Due to difference in collection of insurance premium; the investment made by them also varies.

4.2 Investment to Total Assets

Investment of insurance companies include investment made in GON securities and debenture, bank fixed deposit account, finance company fixed deposit account, share, real estate, short term investment, mutual funds and others. Total assets of insurance company includes current assets, fixed assets and others. Investment to total assets in calculated to know the percentage of investment in total assets.

Table 7

Investment to total Assets of United Insurance

Year	Investment	Total assets	Ratio (%)
2062	124752500	184486617	67.62
2063	155972186	194043462	80.38
2064	172635766	286119453	60.34
2065	243003522	307288947	79.08
2066	262155103	367783673	71.28
Mean			71.74

Source: Beema Samithi.

The table 7 shows that investment was 67.62, 80.38, 60.34, 79.08, 71.28 percent of total assets in year 2062, 2063, 2064, 2065 and 2066 respectively.

Diagram 6: Investment to Total Assets of United Insurance

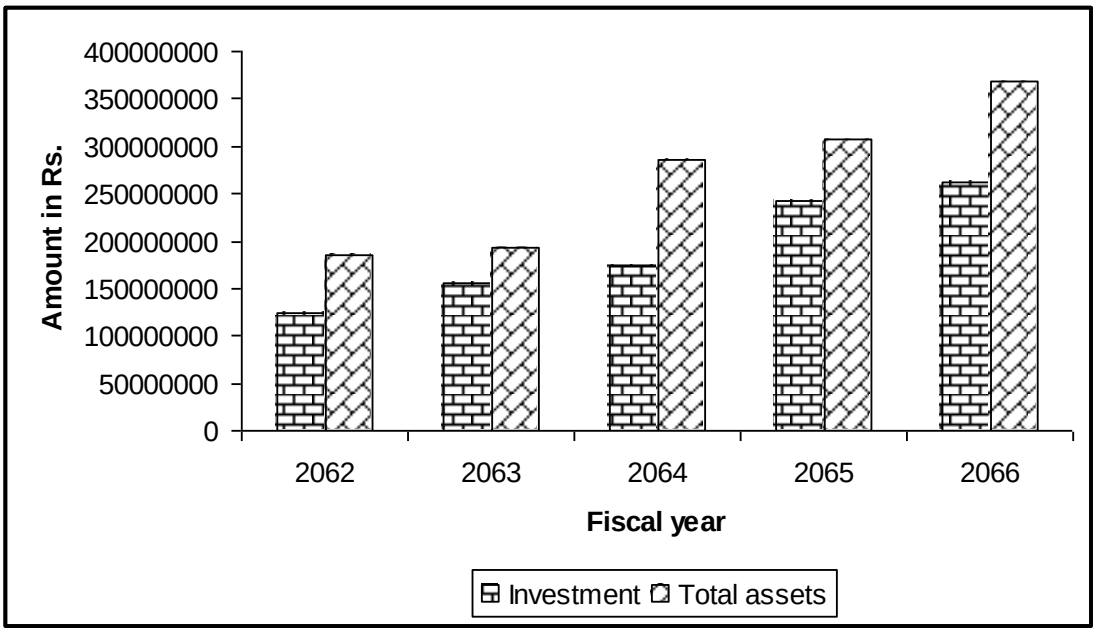


Table No. 8

Investment to Total Assets of Everest Finance

Year	Investment	Total assets	Ratio (%)
2062	113852800	274891739	41.41
2063	141679797	341309433	41.51
2064	132312403	387905798	34.11
2065	243567135	403626626	57.59
2066	323344426	422547183	76.52
Mean			50.23

Source: Beema Samithi.

The table 8 shows that investment was 41.41, 41.51, 34.11, 57.59 and 76.52 percent of total assets in year 2062, 2063, 2064, 2065 and 2066 B.S. respectively.

Diagram 7: Investment to Total Assets of Everest Insurance

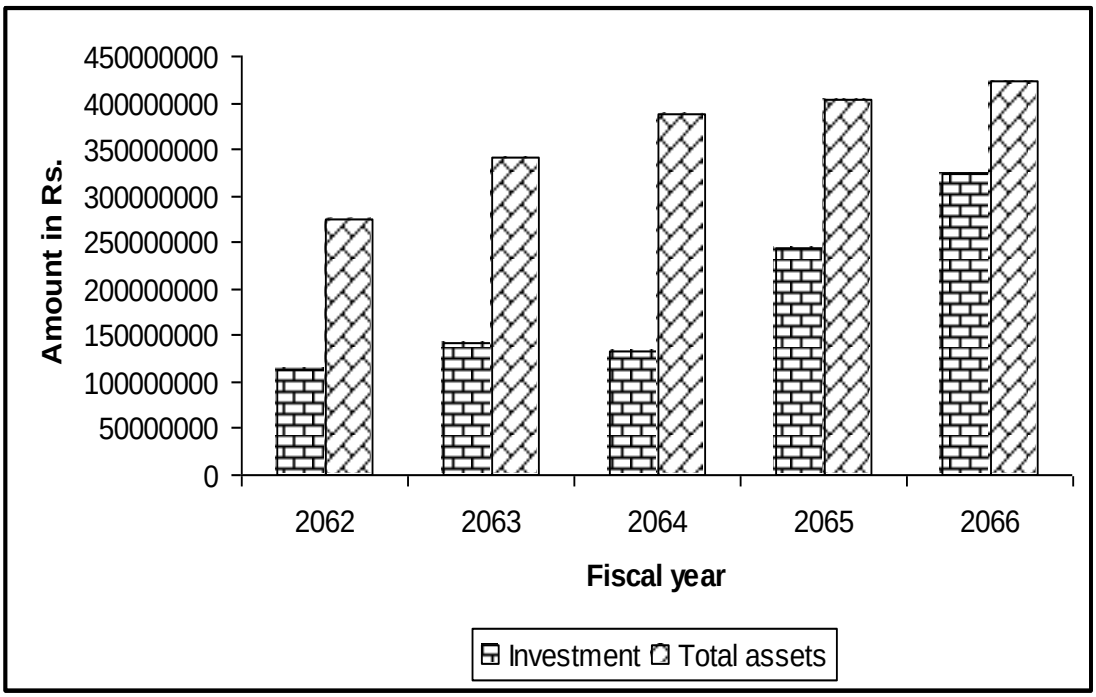


Table No. 9

Investment to Total Assets of Neco Insurance

Year	Investment	Total assets	Ratio (%)
2062	101096429	196515210	51.44
2063	101096429	186220085	54.29
2064	91021429	151138046	60.22
2065	118671429	176047142	67.41
2066	119691430	211561954	56.58
Mean			58.00

Source: Beema Samiti.

The table 9 shows that investment was 51.44, 54.29, 60.22, 67.41 and 56.58 of total assets in year 2062, 2063, 2064, 2065 and 2066 B.S. respectively.

Diagram 8: Investment total Assets of Neco Insurance

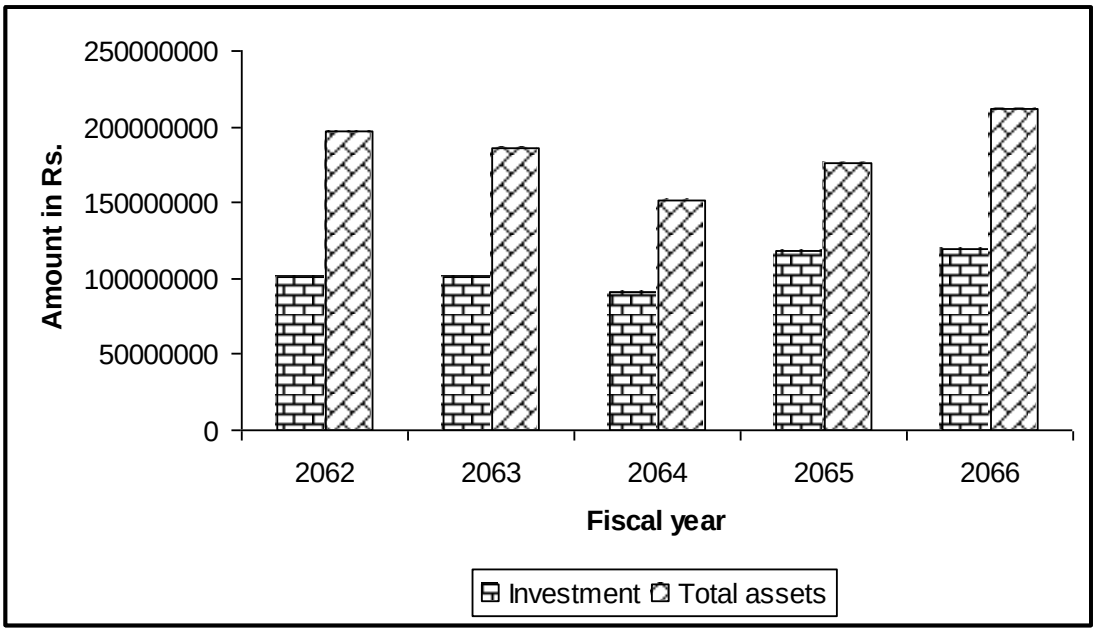


Table No. 10

Investment to Total Assets of Nepal Insurance

Year	Investment	Total assets	Ratio (%)
2062	190754400	475497620	4012
2063	191168004	515797050	37.06
2064	171950000	504770094	34.07
2065	163671425	589993156	27.74
2066	282770430	610097147	46.35
Mean			37.07

Source: Beema Samithi.

The table 10 shows that investment was 40.12, 37.06, 34.07, 27.74 and 37.07 percent of total assets in year 2062, 2063, 2064, 2065 and 2066 respectively.

Diagram 9: Investment to Total Assets of Nepal Insurance

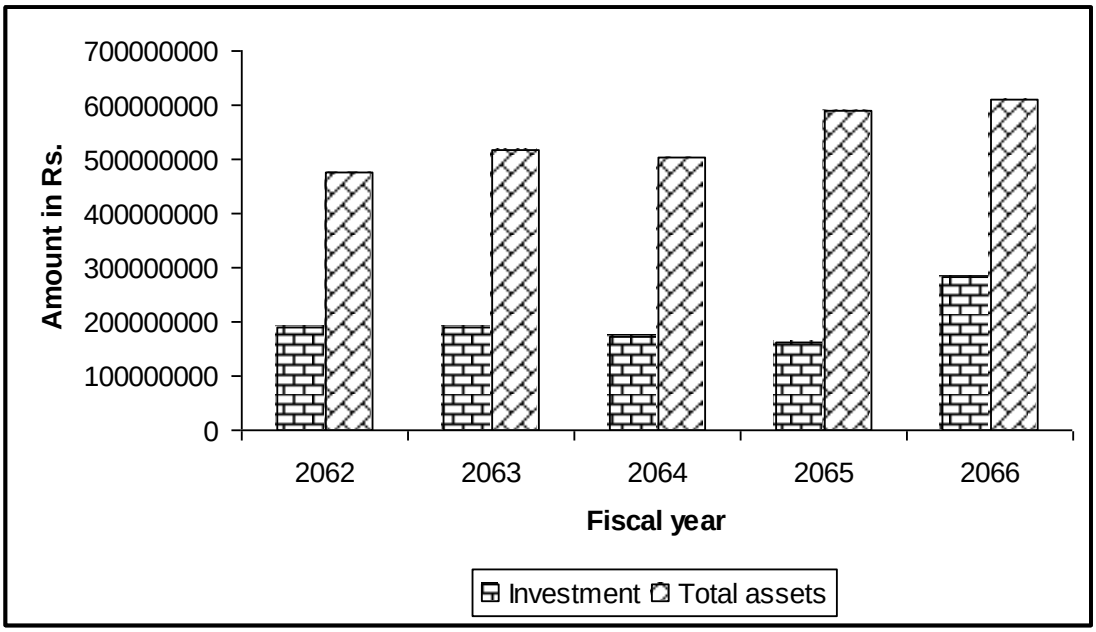


Table No. 11

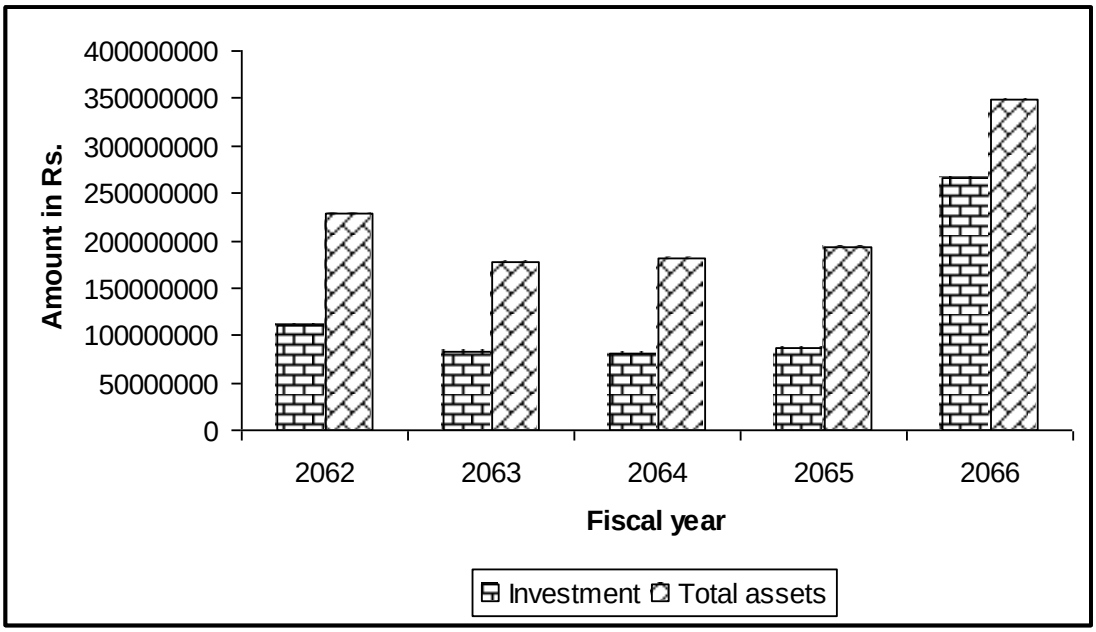
Investment to Total Assets of Himalayan General Insurance

Year	Investment	Total assets	Ratio (%)
2062	110790319	227705472	48.66
2063	83597046	176788315	47.29
2064	81000000	180762964	44.81
2065	86478948	192460648	44.93
2066	266097229	348241429	76.41
Mean			52.42

Source: Beema Samithi.

The table 11 shows that investment was 48.66, 47.29, 44.81, 44.93 and 76.41 percent of total assets in year 2062, 2063, 2064, 2065 and 2066 respectively.

Diagram 10: Investment to Total Assets of Himalayan General Insurance



4.3 Analysis of Premium

The premium is lifeblood of selected insurance companies. The gross premium is a gross proceed from customer as insurance premium but the company has to reinsure the risk which is beyond it retention capacity of risk. So the net premium comes after deduction the reinsurance premium form the gross premium.

Table No. 12

Nepal Insurance Company

Particular	2062/63	2063/64	2064/65	2065/66	2066/67
Gross premium	20.62	21.6	29.6	30.4	34.2
Net premium	7.97	9.39	16.44	17.9	20.3
Reinsurance premium	12.65	12.21	13.16	12.5	13.9
Ratio (Gross premium to net premium)	33.80	43.47	55.57	58.88	59.36
Ratio (Gross premium to reinsurance premium)	66.2	56.53	44.46	41.12	40.64

The gross premium has been growing from the base level of Rs. 20.62 crore to Rs. 34.2 million in 2066/67. Similarly, the re-insurance premium has been

growing from the base level of Rs. 12.65 in 2062/63 to Rs. 13.90 million in 2066/67. The re-reinsurance to gross premium ratio 66.2% in 2062/ but it is only 40.64 percent in 2066/67. The percentage has not been steadily decreasing because in some fiscal years it is fluctuating. Overall the major factor is that the high amount of ht ere-insurance premium paid by the company, the main cause might be that the company has accepted policy beyond its retention limit. The company' retention power is detoriating in this year. The management of NICO should be more causious in this regard.

Table No. 13

Himalayan Insurance Company

Particular	2062/63	2063/64	2064/65	2065/66	2066/67
Gross premium	20.26	22.73	14.85	15.32	16.14
Net premium	4.52	5.59	6.95	7.2	9.32
Reinsurance premium	15.74	17.14	7.9	8.12	6.82
Ratio (Gross premium to net premium)	22.31	24.56	46.68	24.71	57.77
Ratio (Gross premium to reinsurance premium)	77.69	75.41	53.32	75.29	42.23

Himalayan Insurance Company the gross premium has been growing and decreasing. 2062/63 20.26 crore to 22.7 crore in 2063/64 and decreasing 14.85 in 2064/65 and increasing 1957 2 years. Similarly re-insurance premium is and directions. And ratio is growing pattern of net to gross premium this 5 years.

And re-insurance premium to gross premium ratio is decreasing pattern or vice-versa.

Table No. 14

United Insurance Company

Particular	2062/63	2063/64	2064/65	2065/66	2066/67
Gross premium	11.4	13.34	15.03	16.90	19.30
Net premium	2.93	4.76	5.69	7.02	8.30
Reinsurance premium	8.47	8.58	9.34	10.88	11.00
Ratio (Gross premium to net premium)	25.70	35.68	37.86	41.54	43.01
Ratio (Gross premium to reinsurance premium)	74.3	64.32	62.14	58.46	56.99

The gross premium has been going form base level of 11.4 core to 19.30 corre 2066/67. Similarly, the re-insurance premium is growing same patter. And net to gross premium ratio is growing base level 25.70% to 43.01% in (2062/63 to 2066/67) and re-insurance to gross premium ratio is decreasing pattern 74.3 to 56.99%. So company has asset accepted same policy.

Table No. 15

Everest Insurance Company

Particular	2062/63	2063/64	2064/65	2065/66	2066/67
Gross premium	20.70	22.30	24.87	26.32	29.04
Net premium	6.19	6.34	8.43	9.34	10.4
Reinsurance premium	14.51	15.96	16.44	16.98	18.64
Ratio (Gross premium to net premium)	29.90	28.43	33.89	35.46	35.81
Ratio (Gross premium to reinsurance premium)	70.1	71.57	66.11	64.51	64.19

The gross premium has been growing pattern and net premium is same. Net to gross premium ratio is growing pattern and re-insurance to gross premium, ratio is going decreasing pattern. So, company has been continuing same policy of premium collection.

Table No. 16

Neco Insurance Company

Particular	2062/63	2063/64	2064/65	2065/66	2066/67
Gross premium	11.39	11.96	11.88	11.52	12.30
Net premium	4.07	2.88	3.55	3.62	4.09
Reinsurance premium	7.32	9.08	8.33	7.90	8.21
Ratio (Gross premium to net premium)	35.73	24.08	29.88	31.42	33.35
Ratio (Gross premium to reinsurance premium)	64.27	75.12	70.12	68.57	6.65

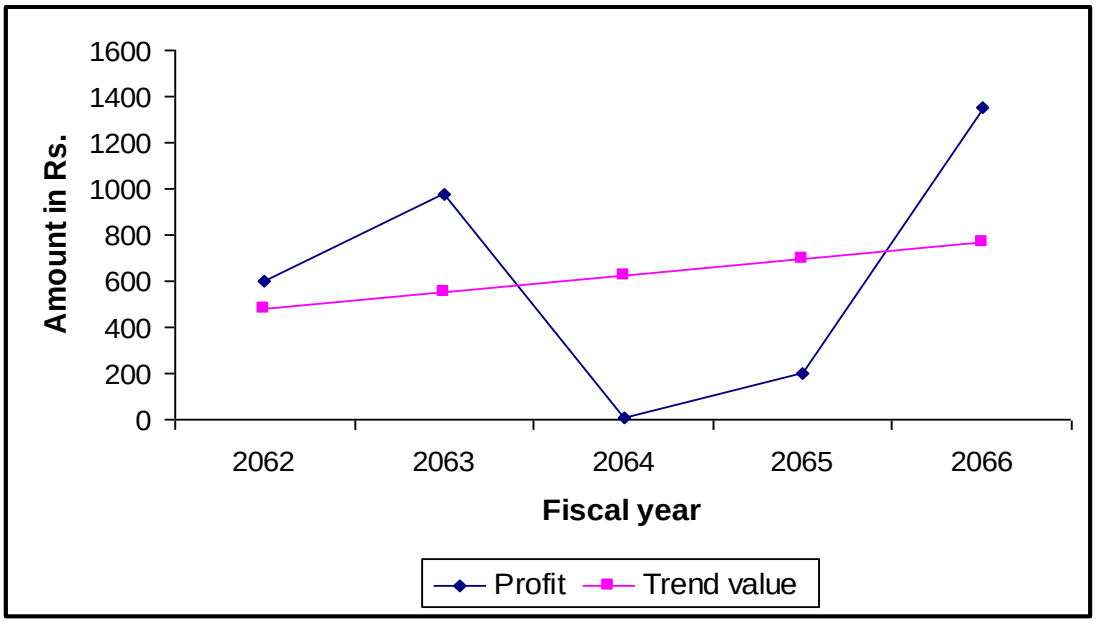
This company gross premium has been growing from the base level of 11.39 to 712.30 crore in 2062 to 2066. But any year fluctuating slightly. Similarly, net premium is growing and decreasing ratio in same pattern. So, company premium policy should be changed.

4.4 Trend of Net Profit

The main source of earning of insurance company is the insurance premium collected form different insurance policy. Here, insurance premium is collected form different insurance policies such as fire insurance, marine insurance, aviation insurance, motor insurance and miscellaneous, non-life insurance. Another source of income/earning of insurance company are the interest earned on investment or loan. When expenses of insurance company are subtracted from gross income, it becomes net income or profit of insurance company.

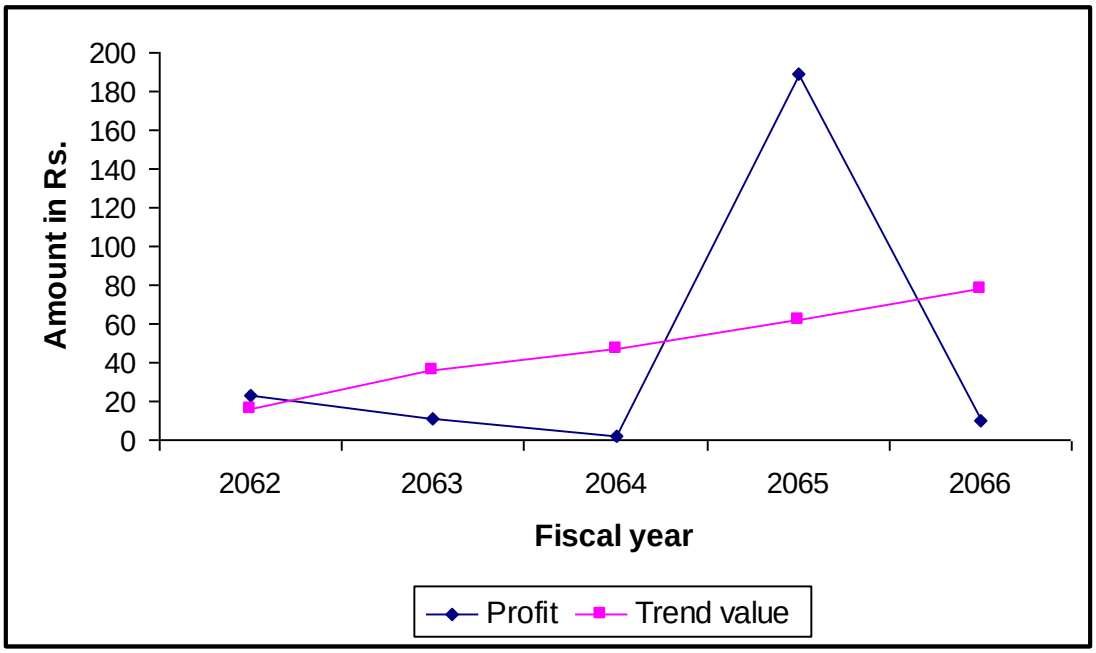
Trend analysis is done to known the trend of net profit of insurance companies. The trend lie is:

Diagram 11: Trend Line of United Insurance



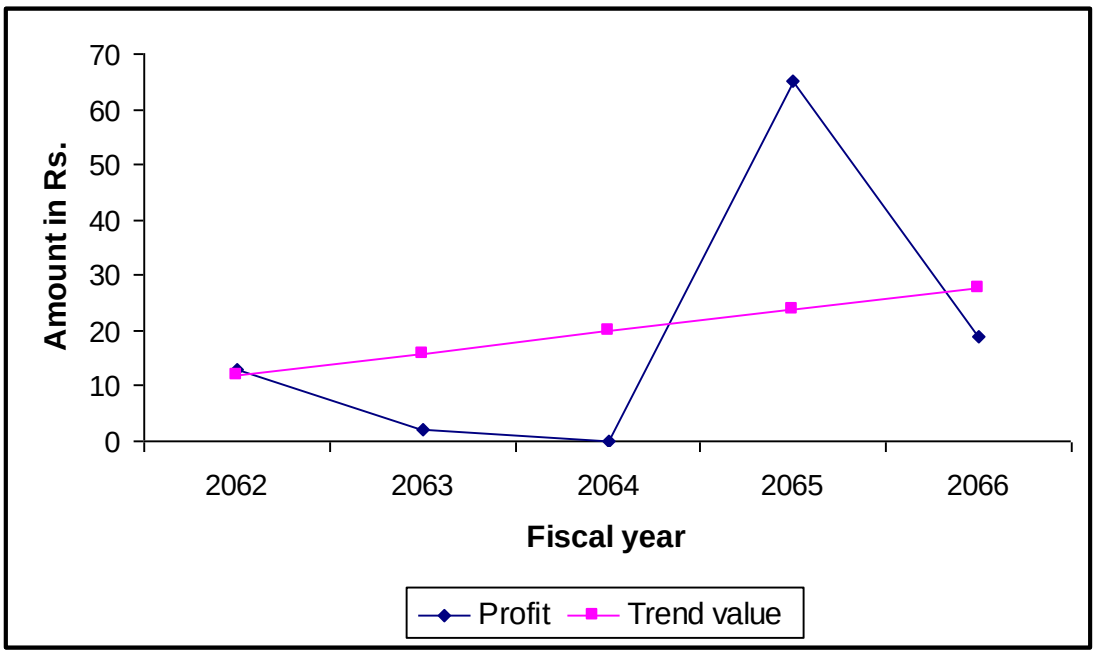
Source: Annex-1.

Diagram 12: Trend Line of Everest Insurance



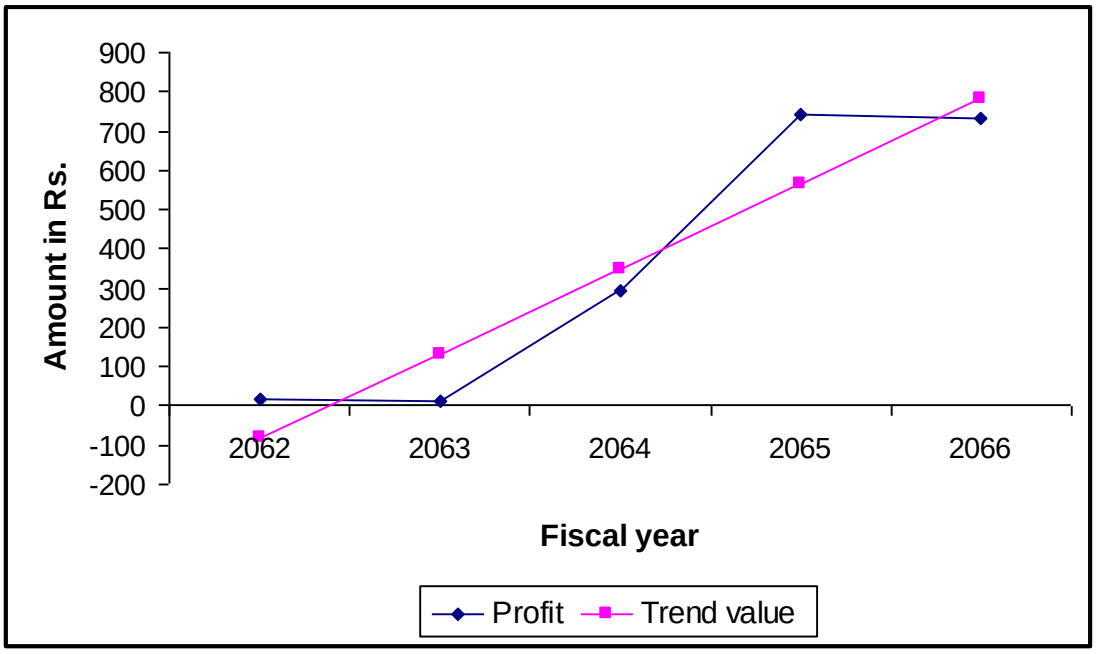
Source: Annex-II

Diagram 13: Trend Line of Neco Insurance



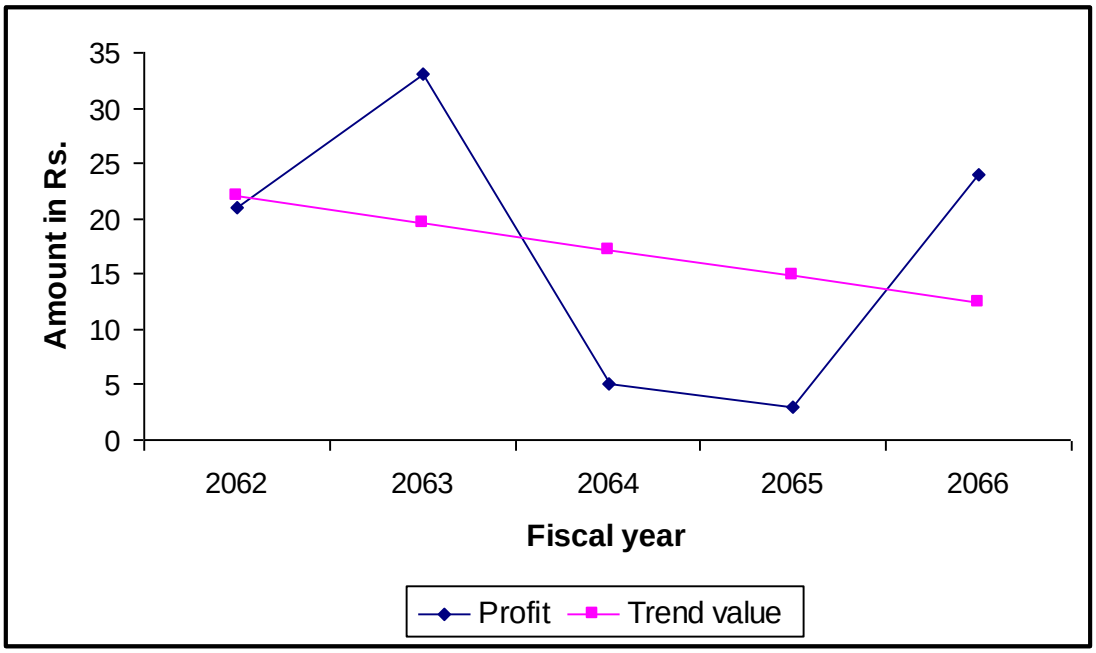
Source: Annex-III.

Diagram 14: Trend Line of Nepal Insurance



Source: Annex-IV.

Diagram 15: Trend Line of General Insurance



Source: Annex-V.

4.5 Profitability Ratios

Profitability ratios show the combined effects of liquidity, asset management and debt management on operating results. It measures the earnings of the company for a certain period.

Return on Total Assets (ROA): The ratio of net income to total assets. It measures the return on all the firm's assets after interest and taxes.

$$\text{Return on total assets (ROA)} = \frac{Net \quad income}{Total \quad assets}$$

Table No. 17

ROA of Different Insurance Companies in Different Year

Company	2062	2063	2064	2065	2066
United Insurance	0.033	0.0498	0.00026	0.0054	0.025
Everest Insurance	0.0083	0.00324	0.00523	0.1234	0.005604
Neco Insurance	0.0069	0.00121	0	0.083	0.0249
Nepal Insurance	0.00355	0.023	0.0679	0.3612	0.3163
Himalayan Insurance	0.0943	0.1885	0.0307	0.0253	0.0238

The table 17 shows the return on assets (ROA) of insurance companies in different years. From the year 2062 to 2066 B.S., ROA of Nepal Insurance is highest. Only in year 2065 B.S., ROA of Nepal Insurance is highest.

It shows that Nepal Insurance had performed better than other insurance companies in the year 2065 to 2066 B.S., Nepal Insurance was able to utilize assets more effectively than others. In year 2063 B.S., Himalayan General Insurance had performed better than others.

4.6 Liquidity Ratios

Ratio analysis is a financial tool, which expresses quantitative relation of two mathematical variables. If two accounting figures of the balance sheet are measured relatively to get a desired result, it is known as calculation of the ratio.

Liquidity ratio represents liquidity position of a firm. Liquidity position is calculated by comparing firm's current assets and current liabilities. It may vary based on nature of business. The purpose of liquidity ratio is to test the solvency of the firm. Solvency position or liquidity denotes ability for payment of short term liabilities. Current ratio and liquid ratio are two types of liquidity ratios.

$$\text{Liquid ratio/Acid test ratio} = \frac{\text{Current assets} - \text{Inventories}}{\text{Current liabilities}}$$

The purpose of this ratio is to test the ability of the firm for immediate payment of current liabilities. The ratio calculated by deducting inventories from current assets and dividing the remainder by current liabilities. Inventories are excluded because it may be difficult liquidate them at their full book value. The liquidity ratio of different insurance companies in different year are shown in table 18.

Table No. 18

Liquidity Ratio of Different Insurance Companies in Different Year

Company	2062	2063	2064	2065	2066

United Insurance	0.052	0.254	0.578	0.701	0.555
Everest Insurance	0.204	0.259	0.651	1.163	0.676
Neco Insurance	0.229	0.125	0.399	1.167	0.616
Nepal Insurance	0.172	0.199	0.289	0.804	0.458
Himalayan Insurance	0.023	1.97	0.501	0.68	0.832

The above table 18 shows the liquidity ratio of insurance companies. Mostly, in average liquidity ratios of sample insurance companies are increasing and decreasing every ear. Nepal Insurance is maintaining its liquidity ratio less than industry average during the study period. whereas Himalayan General Insurance company is maintaining its liquidity ratio higher than other insurance companies. Neco Insurance Company is able to maintain its liquidity ratio almost at par with industry average.

Since none of the insurance companies has felt difficulties in fulfilling their current obligation, therefore liquidity ratio less than industry average cannot be said to be insufficient. Rather they are more efficient in utilizing their fund.

4.7 Major Findings of the Study

The major findings of this study has been summarized below:

a. The insurance companies are found investing in GON securities and debenture, bank fixed a/c, finance company fixed deposit a/c, shares, long and short-term investment.

b. The insurance companies are found not investing in real estate and mutual fund.

c. The investment of insurance companies is volatile because in some year it is in increasing trend whereas in other year it is in decreasing trend.

d. The ROA is found unsatisfactory because calculated ROA is very small.

e. The earning of companies is poor because earning is too low.

f. All sample insurance companies are not maintaining their liquidity ratio near to industry average.

g. Premium of insurance company is general.

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary and Conclusion

Insurance is a contract by which one party, for a compensation called premium, assumes particular risk of the other party and promises to pay him or his nominee a certain sum of money on a specified contingency. Basically, the objective of insurance is to spread to loss exposure or to cooperate the risk holders in covering losses in case of occurrence. The terminology used for taking risk or assuring to cover loss is known as insurance. There are two types of insurance-life insurance and non-life insurance.

Life insurance is a method by which a group of people may cooperate to ease the loss resulting form the premature death of members of the group. In general life insurance is the contract under which the insurer undertakes the responsibility to pay a certain sum of money either on death of the insured or on the expiry of fixed period in consideration of premium. Life insurance is a means of security and investment.

The other insurance, other than life insurance is called non-life insurance. Non-life insurance is a means of economic security. The example of non-life insurance is aviation insurance, marine insurance, fire insurance.

The history of insurance business in Nepal is not as long as in other countries. Generally, the insurance activities in Nepal was executed by Indian insurance companies prior to 2007 B.S. Rastriya Beema Corporation was introduced by Government under insurance act 2025 B.S. Now, there are altogether 25 insurance companies operating in Nepal. Most of them are dealing with non-life insurance. Only few of them are dealing with life insurance. Among them, very few are dealing with both life and non-life insurance business. United Insurance,

Neco Insurance, Nepal Insurance, Everest Insurance and Himalayan General Insurance are some of non-life insurance companies that are dealt in this study.

Collection of fund in the form insurance premium and investing it in different sectors and to earn money is the main function of insurance companies. In this study, it is found that insurance companies collect money in the form of insurance premium such as marine insurance, fire insurance, motor insurance, etc. Insurance companies had mainly invested in government securities and debenture. In other years, it is also found that they have invested in bank fixed deposit account, finance company fixed deposit account, shares of other companies etc. It is also found they had not invested in real estate and mutual funds.

The volume of investment is found volatile. In some year it was decreasing whereas in some year it was in increasing trend. In average the investment was 71.74%, 50.23%, 58%, 37.07% and 52.42 % of total assets of Untied Insurance, Everest Insurance, Neco Insurance, Nepal Insurance and Himalayan General Insurance respectively. The profit earning of all companies was also volatile. In some year it was in increasing trend, whereas in other year, it was in decreasing trend. The return on assets of insurance companies is found unsatisfactory. In most of the years almost all insurance companies (except Everest Insurance) had ROA less than 1 (unity). It shows poor earning of insurance companies. In other words, insurance companies didn't have adequate earning in comparison to the utilization of the assets.

Liquidity ratio of all insurance companies except United Insurance is found unsatisfactory. The correlation coefficient between total assets and investment of Everest Insurance, Neco Insurance, Nepal Insurance, Himalayan Insurance companies is positive. It shows that when there is increase in total investment,

there is also increase in total assets and vice-versa. The correlation coefficient of Neco is very low. In other case, it shows almost perfect positive correlation.

5.2 Recommendations

The following recommendations are made for the insurance companies:

- Although insurance companies are found investing in government securities and debenture, share of other companies securities, bank and finance companies, fixed deposit a/c, long-term and short-term investment they are found not investing in real estate and mutual fund. So insurance companies are suggested to search for new area of profitable investment like in real estate and mutual fund, which are other profitable sectors.
- Liquidity ratio of insurance companies is found unsatisfactory. The all insurance companies are suggested to improve their liquidity ratio to meet the industry average. This may contribute to increase its earning.
- ROA is found unsatisfactory. So, insurance companies are suggested to improve earning of the company. They are suggested to utilize the assets more profitably.
- Insurance companies should focus to collect maximum premium so that the investment opportunities can be grabbed.
- Insurance companies are also suggested to invest in profitable sector to earn profit. All insurance companies seem to be risk avoiding while making their investment. Therefore, they are making secured investment with lower rate of return. Thus they are suggested to change their investment policy. They must introduce the portfolio management system to increase their earning form investment without increasing the degree of risk, which is possible through diversification of risk.

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Annex-I

Trend Analysis of Net Profit

$y = a + bx$ ..... (i)

Where, x = X-middle year

y = dependent variable

b = Slope of trend line or annual growth rate

a = Y - intercept

The two normal equations estimating for a and b are:

$\Sigma y = na + b\Sigma x$ ..... (ii)

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

Since, $\Sigma = 0$, the equation (ii) and (iii) becomes $a = \frac{\Sigma y}{n}$ and $b = \frac{\Sigma xy}{\Sigma x^2}$

Substituting these values of a and b in (i) we get required equation of trend line as $y_c = a + bx$.

Trend Analysis of Profit of United Insurance

'0000'

Year (X)	Profit (y)	x = X - 2058	x^2	xy	Trend values $y_c = a + bx$
2062	602	-2	4	-1204	482.8
2063	975	-1	1	-975	555
2064	7	0	0	0	627.2
2065	203	1	1	203	699.4
2066	1349	2	4	2698	771.6
	$\Sigma y = 3136$	$\Sigma x = 0$	$\Sigma x^2 = 10$	$\Sigma xy = 722$	3136

Now, a = $\frac{\Sigma y}{n} = \frac{3136}{5}$ = 627.2

b = $\frac{\Sigma xy}{\Sigma x^2} = \frac{722}{10}$ = 72.2

On the basis of above calculation, we can predict future earning of company. Thus future earning will be:

When x = 2067

Y_c = 627.2 + 72.2 (2067-2064) = 843.8 x 10000

= 8438000

When, x = 2068

Y_c = 627.2 + 72.2 (2068-2064) = 916 x 10000

= 9160000

When, x = 2069

Y_c = 627.2 + 72.2 (2069-2064) = 988.2 x 1000

= 9882000

Annex-II

Trend Analysis of Profit of Everest Insurance

'00000'

Year (X)	Profit (y)	x = X - 2058	x^2	xy	Trend values y_c = a + bx
2062	23	-2	4	-46	16
2063	11	-1	1	-11	36
2064	2	0	0	0	47
2065	189	1	1	189	62.5
2066	10	2	4	20	78
	$\Sigma y = 235$	$\Sigma x = 0$	$\Sigma x^2 = 10$	$\Sigma xy = 152$	239.5

Now, a = $\frac{\Sigma y}{n} = \frac{235}{5}$ = 47

b = $\frac{\Sigma xy}{\Sigma x^2} = \frac{152}{10}$ = 15.5

On the basis of above calculation, we can predict future earning of company. Thus future earning will be:

When x = 2067

Y_c = 47 + 15.5 (2067-2064) = 93.5 x 10000

= 9350000

When, x = 2068

Y_c = 47+ 15.5 (2068-2064) = 109 x 10000

= 10900000

When, x = 2069

Y_c = 47 + 15.5 (2069-2064) = 124.5 x 1000

= 12450000

Annex-III

Trend Analysis of Profit of Neco Insurance

'0000'

Year (X)	Profit (y)	x = X - 2058	x^2	xy	Trend values y_c = a + bx
2062	13	-2	4	-26	12
2063	2	-1	1	-2	15.9
2064	0	0	0	0	19.8
2065	65	1	1	65	23.7
2066	19	2	4	38	27.6
	Σy = 99	Σx = 0	$\Sigma x^2 = 10$	Σxy = 39	99

Now, a = $\frac{\Sigma y}{n} = \frac{99}{5}$ = 19.8

b = $\frac{\Sigma xy}{\Sigma x^2} = \frac{39}{10}$ = 3.9

When x = 2067

Y_c = 19.8 + 3.9 (2067-2064) = 31.5 x 10000

= 3150000

When, x = 2068

Y_c = 19.8 + 3.9 (2068-2064) = 35.4 x 10000

= 3540000

When, x = 2069

Y_c = 19.8 + 3.9 (2069-2064) = 39.3 x 10000

= 3930000

Annex-IV

Trend Analysis of Profit of Nepal Insurance

'0000'

Year (X)	Profit (y)	x = X - 2058	x^2	xy	Trend values y_c = a + bx
2062	16	-2	4	-32	-83.4
2063	11	-1	1	-11	132.3
2064	292	0	0	0	348.6
2065	742	1	1	742	564.9
2066	732	2	4	1464	781.2
	$\Sigma y = 1743$	$\Sigma x = 0$	$\Sigma x^2 = 10$	Σxy = 2163	1743.6

Now, a = $\frac{\Sigma y}{n} = \frac{1743}{5}$ = 348.6

b = $\frac{\Sigma xy}{\Sigma x^2} = \frac{2163}{10}$ = 216.3

When x = 2067

Y_c = 348.6 + 216.3 (2067-2064) = 997.5 x 10000

= 66420000

When, x = 2068

Y_c = 348.6 + 216.3 (2068-2064) = 1213.8 x 10000

= 121380000

When, x = 2069

Y_c = 348.6 + 216.3 (2069-2064) = 1430.1x 10000

= 143010000

Annex-V

Trend Analysis of Profit of Himalayan General Insurance

'00000'

Year (X)	Profit (y)	x = X - 2058	x^2	xy	Trend values y_c = a + bx
2062	21	-2	4	-42	22
2063	33	-1	1	-33	19.6
2064	5	0	0	0	17.2
2065	3	1	1	3	14.8
2066	24	2	4	48	12.4
	$\Sigma y = 86$	$\Sigma x = 0$	$\Sigma x^2 = 10$	$\Sigma xy = -24$	86

Now, a = $\frac{\Sigma y}{n} = \frac{86}{5}$ = 17.2

b = $\frac{\Sigma xy}{\Sigma x^2} = \frac{-24}{10}$ = -2.4

On the basis of above calculation, we can predict future earning of company. Thus future earning will be:

When x = 2067

Y_c = 17.2+ (-2.4) {(2067-2064)} = 10 x 10000

= 1000000

When, x = 2068

Y_c = 17.2+ (-2.4) {(2068-2064)} = 7.8 x 10000

= 78000000

When, x = 2069

Y_c = 17.2+ (-2.4) {(2069-2064)} = 5.2 x 10000

= 52000000

Appendix-VI

Calculation of ROA

United Insurance Company

Fiscal year	Profit	Total assets	Ratio (%)
2062/63	6024482	184486617	0.033
2063/64	9758810	194043462	0.004
2064/65	73538	286119453	0.026
2065/66	2034538	377288947	0.54
2066/67	13491434	537783673	2.50

Nepal Insurance Company

Fiscal year	Profit	Total assets	Ratio (%)
2062/63	1688431	475497620	0.355
2063/64	11762426	515796050	2.30
2064/65	34284763	504770094	6.79
2065/66	74295682	205653831	36.12
2066/67	73295880	231756847	31.73

Himalayan Insurance Company

Fiscal year	Profit	Total assets	Ratio (%)
2062/63	21483623	227705472	9.43
2063/64	33326030	176788315	18.85
2064/65	5558336	180762964	3.075
2065/66	2491137	98565984	2.53
2066/67	3614834	151967109	2.38

Everest Insurance Company

Fiscal year	Profit	Total assets	Ratio (%)
2062/63	2276347	274891739	0.83
2063/64	1104710	341309433	0.324
2064/65	203006	387905798	0.0523
2065/66	18954036	153626626	12.34
2066/67	1023011	182547183	0.56

Neco Insurance Company

Fiscal year	Profit	Total assets	Ratio (%)
2062/63	1351451	196515210	0..687
2063/64	224712	186220085	0.120
2064/65	0	151138046	0
2065/66	6512251	78442074	8.3
2066/67	1999551	80299158	2.49

Annex-VII

Liquidity Ratio

Nepal Insurance Company

Fiscal year	Current assets	Current liabilities	Ratio (times)
2062/63	332182371	193610177	0.172
2063/64	45453745	228388507	0.199
2064/65	45817208	158725798	0.289
2065/66	37778438	458635007	0.824
2066/67	377786428	469636012	0.804

United Insurance Company

Fiscal year	Current assets	Current liabilities	Ratio (times)
2062/63	2840523	545.1007	0.052
2063/64	112523958	44380580	0.254
2064/65	71933558	124469000	0.578
2065/66	199565817	168029986	1.188
2066/67	161321687	230000455	0.701

Everest Insurance Company

Fiscal year	Current assets	Current liabilities	Ratio (times)
2062/63	18593688	91248347	0.204
2063/64	27147741	108614383	0.259
2064/65	85079986	130550662	0.651
2065/66	384139892	348084804	1.104
2066/67	540265046	464730708	1.163

Himalayan General Insurance Company

Fiscal year	Current assets	Current liabilities	Ratio (times)
2062/63	2681836	116257274	0.023
2063/64	45704428	23185524	1.97
2064/65	19932639	39784157	0.501
2065/66	92579041	93894664	0.986
2066/67	133536307	196264320	0.68

Neco Insurance Company

Fiscal year	Current assets	Current liabilities	Ratio (times)
2062/63	17570882	76817770	0.229
2063/64	9479237	76111897	0.125
2064/65	19721597	49345372	0.399
2065/66	115331780	99504619	1.159
2066/67	117331780	100504619	1.167