

**A COMPARATIVE STUDY ON PREMIUM COLLECTION  
AND INVESTMENT PATTERN OF NEPAL INSURANCE  
COMPANY LTD AND PREMIER INSURANCE COMPANY  
LTD**

**A THESIS**

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# **RECOMMENDATION**

**This is to certify that the thesis:**

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Entitled

**A COMPARATIVE STUDY ON PREMIUM COLLECTION AND INVESTMENT  
PATTERN OF NEPAL INSURANCE COMPANY LTD AND PREMIER  
INSURANCE COMPANY LTD**

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and found this thesis to be original work of the student written according to the prescribed format. we recommend the thesis to be accepted as partial fulfillment of the requirement for Master's Degree in Business Studies (M.B.S)

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## **DECLARATION**

I hereby declare that the worked reported in thesis entitled “**A COMPARATIVE STUDY ON PREMIUM COLLECTION AND INVESTMENT PATTERN OF NEPAL INSURANCE COMPANY LIMITED AND PREMIER INSURANCE COMPANY LIMITED**” submitted to Nepal Commerce Campus, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment for the requirement of Master’s Degree in Business Studies (MBS) under the supervision of Dr. Sushil Bhakta Mathema and Madan Kumar Luitel, Lecturer of Nepal Commerce Campus.

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## ABBREVIATIONS

BFD = Bank Fixed Deposits

B.S = Bikram Sambat

C.V = Co-efficient of Variation

Co. = Company

d.f. = Degree of freedom

F.Y = Fiscal Year

i.e = That is

Ltd = Limited

Misc =Miscellaneous

NIC =Nepal Insurance Co. Ltd

NLGI =National Life and General Government

PIC =Premium Insurance Company Ltd.

RBS =Rastriya Beema Sansthan

S.D =Standard Deviation

## CHAPTER– I

### INTRODUCTION

#### 1.1 General Background of the study

In the 21st century the world suffer from competition so; the existence of organized financial market and capital market within the boundary of a nation is regarded as an essence for the development of the country. The government firm and individual agencies play vital role in the financial and capital market through investing the collected resources within the recognized and national sector like productive industry and financial area, yet expecting reasonable benefit themselves.

Among such financial institutions and intermediaries, Insurance companies are also the major ones. Integrated and speedy development of the country is possible only when competitive insurance services reach nooks and corners of the country. Insurance companies occupy quite an important place in the framework of every economy because it provides certainty to the industry, trade and business investing the fund collected as premium.

According to nature, characteristics and objective of the insurance company, they are also referred as financial intermediaries. Hence, insurance industry, a composite structure of insurance companies, is also regarded as financial institution bearing very different characters among various financial institutions and intermediaries. All insurance companies are capable of providing industrial finance, government finance or even personal finance. They provide different finance through their own investment policy and pattern based upon their own corporate objective and nature of the line of insurance business. In the context of Nepalese insurance companies, they provided various insurance policies and charge premium under insured risk and nature. Insurance companies collect fund through various clients (people and organization) as premium. So, all the insurance companies are responsible for client's interest. This study looks and analyses two different insurance companies' premium collection and investment pattern.

Insurance does not protect the asset. It does not prevent its loss due to the peril. The peril cannot be avoided through insurance. The peril cannot be avoided through better safety and damage control management. Insurance only tries to reduce the impact of risk on the owner of the asset and those who depend on that asset. The compensation provided by it may not be

full as per loss. Only economic or financial losses can be compensated. The love and nurturing lost to the family of a deceased person cannot be compensated.

Insurance is defined as a co-operative device to spread the loss caused by a particular risk over a number of persons who are exposed to it and who agree to ensure themselves against to cooperate each other at the time of the loss. The loss cannot be averted but loss occurring due to a certain risk can be distributed among the agreed persons. Anyone of them may suffer from loss to a given risk, so the persons who are agreed will share the loss.

Insurance has proved to be double weapon for socio-economic development of the nation. In one way, it provides financial security against the uncertainties to the person, industry, commerce and other assets. In other way, insurance business collects the scattered financial resources and injects the bulk amount of money in the productive sectors, which help for the growth of industrialization and commercialization. The proper development of industries and commercial sector builds the better economic standard of the country. Only efficient management and sound financial position of the company can achieve these goals.

### **1.1.1 Insurance Development**

Insurance is said to have commenced with marine insurance covering goods sent on ships, against the risks of piracy and storms. The Lloyds Coffee house in London where the traders used to gather and from where the first insurance risks were underwritten still exists and continues to be the center of insurance activity. Life insurance policy is said to have been issued in 1583 in England. Motor insurance a fascinating branch of insurance, had its beginning in the United Kingdom in the early part of 19<sup>th</sup> century. The first motor policy was introduced in England in 1984 to cover third party liabilities. By 1899 accidental damage to the “Comprehensive” policy along the lines of the policy issued today.

The great fire of London in 1666 caused huge damage of property and life, after that attention was given for adequate fire insurance facilities. Dr. Nicholas Barbon responded to this situation by building houses to replace those, which had been destroyed, & offering to purchase fire insurance. In 1667 he established the world’s first fire insurance company, which was named as fire office.

### **1.1.2 Insurance Development in Nepal**

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

With the development of trade, commerce and industry, the necessity of insurance in our country was felt long ago. But there was no evidence of any organized form of insurance in Nepal until 1947. Society was organized in an agriculture basis and the socio-economic organization took care of any problem or calamity confronted to the community. The fire insurance in Nepal, at first was started by “Mal Chalani Ra Beeme” (Transport and Insurance Company). The “National fire insurance company” of Calcutta is the first insurance company to open branch in Kathmandu in 1958, to transact fire insurance business in Nepal.

With the development of trade and industry, establishment of Nepal Rastra Bank (Central Bank), Nepal Bank Ltd (Commercial Bank), Rastriya Banijya Bank (commercial bank), Agricultural Development Corporation, numerous other companies and corporations, the need of fire insurance in Nepal is growing in a manifold way. To meet ever-growing needs of fire insurance Indian branches such as “Ruby”, “Oriental”, “Sterling General” and “Hindustan General” and the domestic insurance company “Insurance and Transport Company” and “Rastriya Beema Sansthan” are transacting fire insurance business.

Though there is no organized form of life insurance in Nepal, a kind of life which can be better termed “death insurance” is practiced since a long time. Like “insurance” there was “Guthee”, which helped its member in facing financial burden out of death. Its policyholders were known as “Gutheear” instead of insured. Though they had not got policies in black and white they had a kind of verbal understanding by which they could work smoothly without facing any difficulties. Gutheears used to pay a certain amount of money to the “Gutnee” in the same way as the insured pays premium to the insurer. Before 1951, Patna branch of Indian Life Insurance Company was exploring life insurance business. With the nationalization of “Life Insurance Corporation of India”. It is solely and wholly transacting Life assurance business in Nepal. It established a branch office in Kathmandu in 1962. Thus, this corporation has got a kind of monopoly in Life insurance business. However, a need for

an insurance company that would incorporate every type of insurance function was felt necessary at the national level. This resulted in establishment of Rastriya Beema Sansthan on 15<sup>th</sup> December 1968. The company was established as a private company with an authorized capital of Rs.1 corer and issued capital of Rs. 25 lakh, under the Nepal Company Act, 2025. On Feb. 21, 1973, five years after its establishment Life insurance was introduced.

After the introduction of insurance Act, 1992, the number of private insurance companies came into existence. There are altogether twenty- five insurance companies in Nepal now.

### **Nepal Insurance Company Limited**

Nepal Insurance Company was established in 1947 with the name of “Nepal Malchalani and Beema Company.” Later on in 1959 it was renamed as “Nepal Insurance and Transport Company Limited.” In 1991 the “Transport” has been omitted from its name. Now the company is known by the name Nepal Insurance Company Limited (NIC). The company was established under the guardianship of Nepal Bank Limited.

It was established with an objective of under taking non-life insurance business like fire, marine, motor and miscellaneous insurance in the country and abroad. During the very long period, transactions of the company were limited to Nepal Bank Limited but at present its operating field has been spread over the country. There are eight members in the Board of Directors and seven members in Management Committee of NIC. Dr. Keshab Raj Khadka is the Chairperson.

The company has its seven branches, in Shreepur (Birgunj), Narayangadh (Bharatpur), Baragachhi (Biratnagar), Mainroad (Narayangarh), Surket road (Nepalgunj), Milan Chowk, (Butwal), Newroad (Pokhara) and Bhadrapur (Birtamode). Similarly, six contact offices have been set up at Lahan, Dhangadi, Banepa, Hetuda, Lalitpur and Baglung. It has collection centre in Banepa and Hetuda. Upto the end of fiscal year 2067/68 it's authorized capital was Rs. 250,000,000 and its paid up capital was Rs. 102,682,400.

The objectives of Nepal Insurance Company Ltd. are as follows:

- i. To protect the business from Predicted risk and uncertainty by sharing and diversifying the risk with proper management.
- ii. To mobilize the internal saving through different schemes of life and non-life insurance sector.

iii. To re-insurance the risk beyond the company's capability to other company as well as accept re-insurance policy from the company. In other words, the objective of company is to execute the re-insurance business in country and in abroad.

iv. To provide following insurance services on non-life sector in the country and abroad.

(a) Fire Insurance

- Crash by earthquake
- Explosion
- Flood
- Storm and cyclone
- Damage in transit of aviation

(b) Motor Insurance

- Comprehensive
- Third party liability

(c) Marine cargo insurance

(d) Personal accident insurance

(e) Cash in Transit Insurance

(f) Burglary and House Breaking Insurance

(g) Fidelity Guarantee Insurance

(h) Medical Aid Scheme

(i) Contractors' all risk insurance

(j) Engineering Insurance

(k) Student Safety Insurance Scheme

(l) Household Insurance

(m) Overseas Medical and Travel Insurance

(n) Comprehensive Shopkeeper Insurance

v. To satisfy the claims on damage of insured property as soon as possible.

### **Premier Insurance Company Limited (PIC)**

Premier Insurance Co. (PIC) Ltd. was incorporated on 12<sup>th</sup> May 1994. It is situated in Naxal, Kathmandu. It is established under company Act and insurance Act. Its liability is also limited. It has also issued share to raise its capital. It is also listed in Nepal Stock Exchange. It deals with non-life insurance such as fire, motor, engineering & construction insurance etc. It can't deal with life insurance. There are eight members in its Board of Directors. Mr. Ram Lal Shrestha is the president of the committee. Up to the end fiscal year 2067/68 its authorized capital was Rs. 200,000,000, its issued capital was Rs. 100,000,000 and its paid up capital was 30,000,000.

### **Services Provided by NIC and PIC**

Nepal Insurance Company and Premier Insurance Company don't provide life insurance. It provides non-life insurance services. This company provides the following types of insurance business services.

### **General Insurance**

Nepal Insurance Company and Premier Insurance Co. Ltd. indemnify the insured by compensating the damage with in the period of insurance policy. As such it is developing as a basic tool for the development of commerce and industry of the country. Under General Insurance, Nepal Insurance and Premier Insurance Co. Ltd. provides following type of insurance business:

- **Fire Insurance**

Fire insurance policies are issued to indemnify owners property, building or contents against destruction or damage caused by fire and lightning. In generic, fire insurance provides indemnity for loss or damage caused by the fire. Basic form of fire insurance offers protection to the insured against the destruction of physical property as a result of fire. There may be various causes to extent an accident by fire. Insurer is only responsible to provide the indemnity against the risk, which was held at accordance to policy. The field of fire insurance

can be modified can be modified or extended to include a number of peril closely allied to fire like wind, storm, earthquake, riot, and strike, damage.

- **Marine Insurance**

Marine insurance policy will be written to provide the security against peril of sea. An essential part of that security is protection against loss or damage by peril of the sea or through the hazards of transit generally. Usually, such policy will provide the assurance/insurance not only against the natural disaster, but also against piracy and other manmade disaster. Further the modified marine insurance policy provides the protection against various risks, which does not belong to sea. The marine insurance policy provides the protection against inland transit loss, which arises in the way to seller and buyer, and protection against loading and unloading also.

- **Miscellaneous Insurance**

Under the miscellaneous insurance, Nepal insurance company and premier insurance company provides the following types of insurance as:

- **Aviation Insurance**

It deals with Hull and Liabilities insurance. Hull indemnity is available either for Total Loss or Constructive Total Loss for Partial Loss. Insurance coverage is also available for Spares, Components and Equipment. Hull deductible cover is also available.

- **Automobile Insurance**

Automobile insurance policy is related to the risk of vehicles. It provides certainty against the risk of accident. It is directly related with providing the insurance against the perils or loss occurring with respect to the vehicle and with providing financial assistance to the insured to remit the third party liability occurring due to the damage caused by vehicle. The automobile insurance covers the full comprehensive policy and third party liability insurance too.

- **Personal Accident Insurance**

This insurance provides payment of compensation in the event of the insured's accidental death/disablement by bodily injury resulting solely/directly from accident caused by external violent and visible means Individuals or groups including employees, students and

professionals can be insured against death, permanent total/partial disablement, temporary total disablement (TTD). This cover can be extended to include medical expenses incurred.

- **Cash in Transit Insurance**

This cover is intended for banks, business houses, manufacturing organizations who deal in cash, periodically providing indemnity in respect of loss of such money (cash) carried by authorized employees whilst in actual transit from one place until delivered at other place (Money in transit by employees). Thus risks covered are robbery, accident or fortuitous causes and riot/strike.

- **Workmen Compensation Insurance**

This provides compensation Insurance to all workmen engaged in any particular work against injury in the course of and put of employment. This cover could also be extended to cover medical expenses incurred.

- **Fidelity Guarantee Insurance**

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

- **Burglary/Housebreaking Insurance**

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

- **Public Liability Insurance**

Negligence of worker or defect in premises resulting into third party personal injury and property damage can be covered.

- **Contractor's all risk Insurance**

NIC and PIC also serves the contractor by providing contractor's all risks insurance. In this policy the insurer provides indemnity for contractor (insured) for damage to their sites e.g. bridges, building, culvert, walls, etc.

- **Engineering Insurance**

This insurance is designed to pay indemnity for the insured for the breakdown and damage of their large plant & machines. Large industrial companies are much benefited for this insurance because they have large plant & machineries that cost very high.

- **Others**

Besides these, other services are also provided by Nepal Insurance Company and Premier Insurance Company Ltd. such as Hospitalization/Medical Insurance, Comprehensive Household Insurance, and Loss of Profit Insurance, etc.

### **Sources of Investment Funds**

The sources of investment fund of insurance companies are:

- ❖ **Premium**

The main source of funds is the premium collected by the insurers. The premium may be single premium, level premium of considerations. Exceeding of this premium over the needed premium for meeting claims and expenses is the source of funds.

- ❖ **Interest**

The second source of fund is the interest earned over the assumed rate of interest. The assumed rate is lesser than the actual rate in most of the cases.

- ❖ **Capital**

Funds obtained from the sale of share and debentures are included under capital.

- ❖ **Savings in Expenses**

Saving in expenses loading, bonus loading or mortality savings are also contributing to the funds of the insurers.

### ❖ **Non-payment of Claim**

In pure endowment or term insurance the claims may not arise, therefore, the premium paid for such benefits are saved. Sometimes, in certain cases, the claimants do not come for payment at all. Thus, the saved money forms a part of the funds of insurers.

### **The Principles of Investment**

The canon of investment is safety, profitability, liquidity, diversification and marketability. (Mishra, 1979)

### ❖ **Safety & Security**

The safety and security principle is a primary and basic principle of investment policy. The securities in which the funds of insurer are to be insured should never at anytime fall in their face values, otherwise the liability will be more than its corresponding assets. The primary purpose of investment is not to earn maximum profit but to maintain a complete security. Therefore, speculative investments are not suitable for life insurance funds. Security of principal amount is more important consideration.

Safety includes safety of principal amount and interest there on. It means that the principal and interest must not fall, below the expected level at any time. This principle is the keystone of investment.

### ❖ **Profitability**

The insurer must earn at least the assumed rate of interest; otherwise they will suffer loss. The investment, so, should be made in such securities, which yield the highest return consistent with the principle of safety. The insurer can reduce his future premium by earning higher interest and thus will be able to increase his business. It has been realized that the safety and the profitability principles are fully opposite to each other. The principle of profitability is important for insurer's investment.

### ❖ **Liquidity**

The principle of liquidity is important for the insurance investment. Insurer has no information about when they need to pay the claim of their client. So, at any unseen time there will be the requirement of fund. Thus, the insurer needs to invest under the principle of liquidity.

Liquidity represents convertibility of investment into cash without undue loss to capital. The insurer needs to maintain working cash and bank balance in order to carry out the normal transaction of receiving payments and making disbursements. Further, they need to finance the unforeseen claims occurring in the form of matured contracts. Therefore, insurer needs to maintain the liquidity at their investment. The principle of liquidity is against the principle of profitability, because the idle cash will earn nothing and invested each will have no liquidity.

#### ❖ **Diversification**

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

Diversification of investment helps to sustain loss according to the law of average because if securities of a company deprived, there may be appreciation in the securities of other companies. In this way the loss can be recovered and the company may be able to earn more profit. The diversification provides maximum security with high yield and better liquidity provided the diversification is done taking into account of all these factors.

#### ❖ **Marketability**

Marketability is an important principle of investment policy. The principle of marketability suggests the insurer to invest policy. The principle of marketability suggests the insurer to invest in that sector where easy possibility of cash convertibility exists. Insurer may not have any information about the requirements of the funds to pay the claim of the insured. So, they need to invest in those sectors where marketability exists. Therefore, the convertibility or marketability principle must match with other principle as well as with the line of insurance business and the nature of the required fund.

### **1.2 Focus of the study**

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

Investment is one of the major parts of all financial institutions. All financial companies invest their fund to the desirable sector with profit motive. Investment means outflow of the fund at adjustable return. For investing, investment pattern is the formulation of the investment strategy based upon the organizational and financial character of the particular firm itself. Investment policy will be the preliminary decision of selecting the proper investment sector based upon single or joint consideration of safety, liquidity, marketability, profitability and stability or else. Usually, such investment pattern aims at arriving to the optimized or agreed mix of risk-return from the investment. Investment fund for the insurance companies are the excess amount after claims paid and managerial expenses.

i.e. Investment fund = premium collection - (claims paid + managerial expenses)

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

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

### **1.3 Statement of the problems**

Nepalese insurance companies are the successful public enterprises of Nepal, which are running in the insurance business without suffering any losses from the date of establishment till now. So, the investors and businessman involved in insurance business, subsequently now twenty one insurance companies were established and operate their service and activities too. Nowadays, international insurance companies are also opened in our country to transact insurance business. But an overlook on the balance sheet and profit and loss of insurance companies reflects the fact that the companies are earning profit each year; however it is not significant and satisfactory, against the volume of transaction. The volume of transaction is increasing tremendously year by year but the growth of net earnings is not in the same ratio.

It is because of price-cutting, under rating and cut throat competition in the market. The other reasons for earning less net amount are as follows:

- . Time consuming procedures in accepting, issuing and dispatching policy.
- . Practice of only traditional insurance policies, practices and schemes.
- . Less attention in arrangements due to budgetary constraints in refreshment to clients.

The big problem of such institution is to collect premium and mobilize in suitable sector. Nepal is an under developed country and more than 70 percent of people live in village and are also illiterate. The geographical situation also does not favor for the expansion of insurance activities. Most of Nepalese people do not have faith on insurance and also have not living standard to get insurance services. Poverty is also main cause to have dropped the insurance business. The main problems of these insurance companies are finance and collection of premium fund. Finance means sources of fund and its proper utilization. This study aims to analyze and find answers through various methods of analysis as well as using various techniques.

#### **1.4 Objectives of the Study**

The basic aim of this study is to identify current situation of Nepal Insurance Company Ltd. and Premier Insurance Company Ltd. And find out premium collection and investment position of these two companies. For this purpose, these specific objectives are spelled out as:

1. To study and analyze the current situation of the Nepal Insurance Company and Premier Insurance Company Ltd.
2. To examine the trend and pattern of premium collection, investment and claim paid by NIC and PIC.
3. To analyze the management opinion instance's premium collection and investment system.
4. To identify the interest earning ratio in the investment.
5. To recommend probable corrective measures relating to the improvement of the premium collection and investment aspect.

### **1.5 Significance of the study**

The process of insurance has been involved to safeguard the interest of people from uncertainty by providing certainty of payment at a given contingency. It does not serve the end of individuals but tends to pervade and to transform our modern social order. From an institutional viewpoint, the insurance companies are primarily aimed at providing the security against definite risk for an individual or organization. However, as supplementary to their basic aim the insurance perform as financial intermediaries too. The insurer will have a huge amount to invest, which they collect as individual savings or as the cost of being insured. So, the study analyses premium collection and investment pattern. This will show the fund's actual scenario.

The study is needed to frame out the premium collection and invest position of Nepal Insurance Company and Premier Insurance Company. Insurance companies need to mobilize its collected fund soundly. Thus, it would be better to evaluate the condition of premium collection and investment pattern of Nepal Insurance Company and Premier Insurance Company. It is also needed to disclose the utility of insurance in Nepalese prospects. The study focuses the insurance market and possibility of future expansion in Nepal and is also concerned to trace the weak area to suggest for its improvements. This study will highlight the investment sector of insurance too. It is the study on collected premium under various policies and suggests what the weaknesses are and how to improve them.

### **1.6 Limitations of the Study**

The study aims at finding the facts and the trend or pattern of the premium collection and investment pattern of NIC and PIC. Therefore, the scope is limited only within two insurance companies operating. Here are mention some limitations of purpose study. Every activity has its own boundary. As in the same way this study also has some boundaries, which cannot be ignored. These boundaries are called as limitations of this study. The limitations of this study are:

- a. The study is based on secondary data and primary data collected from the Nepal Insurance Company Limited. Premier Insurance Company Limited and the insurance board (Beema samitee), Nepal Stock Exchange and website: [www.Nepalstock.com.np](http://www.Nepalstock.com.np) Researches based on secondary and primary data are not far from the limitation to inherent character.

- b. The study concern only six years periods of data (2006/07 to 2011/12) and conclusions drawn confines only to the limited duration.
- c. This study covers only the area of premium collection, investment and claims paid, beside this, other area is not touched.
- d. The cumulative data of investment are used in the study.

## **1.7 Organization of the study**

The entire study has been designed into five main chapters. They are:

### **Chapter-1: Introduction**

It is an initial phase of the thesis (research), which is, background of the study, statement of the problem, objective of the study, significance of the study, limitation of the study and organization of the study.

### **Chapter-2: Review of Literature**

This chapter has included two main aspects: (i) Conceptual framework (ii) Review of related studies includes review of thesis, books, articles and reports with findings and recommendations.

### **Chapter-3: Research Methodology**

It reveals the methodology adopted in carrying out the research work. It includes research design, population and sample, sources of data, procedure of data collection, data analysis procedure and uses of tools for analysis.

### **Chapter-4: Data presentation and Analysis**

It is concerned with the presentation and analysis of data that has been collected through various sources. Various collected data tabulates in their sequential order and describe and analyze with statistical tools as well as findings of the study.

### **Chapter-5: Summary, conclusion and Recommendations**

The fifth chapter includes the Summary, conclusions and recommendations of the study. Besides this, Bibliography and Appendixes are attached at the end of the study.

## **CHAPTER- II**

### **REVIEW OF LITERATURE**

This chapter is basically concerned with review of literature relevant to the premium collection and investment position of NIC and PIC. Every study is very much based on past knowledge. The past knowledge or the previous studies should not be ignored as it provides foundation to the present study. Therefore, this chapter has its own important in the study. This chapter is divided into following parts.

#### **2.1 Conceptual Framework**

The main objective of this part is to develop theoretical foundation of the student on the study area. This part shall include the conceptual review on the area that needs to be based on a review of textbooks and other reference materials such as journals and magazines.

Human, being a social animal always wants his future to be safe and secured. Human being is facing various sorts of risk from every beginning of the civilization. Some sorts of risks are not out of their control. For reducing the risk insurance proved as an effective device that could safe guard against such unfortunate happenings.

##### **2.1.1 Meaning of insurance**

Insurance is the protection against risk. Risk means uncertainty about future loss, or in other words the inability to predict the occurrence or size of loss. The things are always uncertain. Any incident may happen in a man's life. The uncertainty of loss is called risk. Insurance companies perform the task of paying compensation for financial loss, in return of little fixed amount called premium. The insurance company gives the payment of the amount if loss or damage has taken place.

The insurance business is a multidimensional business. In this age, this business is giving the benefit directly or indirectly to the organs of the society: to the person, society, agriculture, trade, transport, industry, etc. every aspect of the society. In other words, it has become important part of those sectors. In these days, insurance business has appeared as a contract business. The contract is an agreement between two or more than two parties, to do or not to do something. In this way, under the modern insurance business, insurance is a contract between two or more parties in which one party, agrees in return of a certain amount to compensate another party for the possible incident that may happen in future.

### **2.1.2 Types of insurance**

Insurance can be divided from two angles: first, from business point of view and the second, from the risk point of view.

#### **(A) From the Business Point of view**

There are following types of insurance from business point of view:

##### **(i) Life Insurance**

The Insurance, which is made against the risk related to the man's life, is life insurance. It is a financial instrument for providing post death resources to support survivors or pay obligations of the estate of the deceased. Generally, life insurance, as a type of insurance plan conducted by the insurers, is directly related with providing assurance against the economic part of total human life. Life insurance contract may be defined as the contract, where by the insurer, in consideration of a premium undertakes, to pay a certain sum of money either on the death of the insured or on the expiry of a fixed period.

##### **(ii) Non-Life or General Insurance**

Insurance, other than life and social insurance are called non-life or general insurance. The subject matter affected under it is mature of property. The insurance company provides indemnity to the insured. Such compensation should be based on the actual value. The examples are: fire insurance, marine insurance, crop insurance, rain insurance, cattle insurance, motor insurance, theft insurance, credit insurance, liability insurance, vocal insurance, glass insurance, aviation insurance, beauty insurance, earth quake insurance, loan insurance, personal accident insurance, etc.

##### **(iii) Social Insurance**

In modern age, the social insurance has a special important place. The objective of this insurance is to provide the maximum social benefit to the society. This type of insurance is especially, useful for the worker class and the owners of factories. This sector possess high risk because the workers work in the mill and factories, from it, as the workers, officials, the owners too may suffer loss, social insurance provides the economic protection both to the official and owners. The main examples of social insurance are workmen's compensation insurance, sickness insurance, pension insurance, maternity insurance, unemployment

insurance, etc. Having regarded to the importance of this insurance, in every developed country, this insurance has been generally made compulsory. But this insurance was started in England. The burden of expenses of affecting this insurance does not fall only on the insured, but the government and the owner of the factories too bear the most of the portion of premium.

**(B) From Risk Point of view**

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

**(i) Personal Insurance**

Under personal insurance, the insurance is made to the subject related to the person's life. There is possibility of risk associated to death, accident and diseases. The insurance, which is effected against such risks, with the objective of getting financial protection, is called personal insurance. Life insurance, personal accident insurance, etc. are the example of personal insurance.

**(ii) Property Insurance**

Under this, insurance of the different nature of properties are affected to compensate the property damaged or loss. The compensation is given to the assured by the insurance company. The insurance company gives only actual compensation to an insured on the basis of fact and event. The examples of property insurance are fire, marine, crops, cattle, burglary insurance, etc.

**(iii) Liability Insurance**

Under this insurance, compensation is given to third person for loss or damage caused by negligence, or other reason, of the party. The examples of liability insurance are motor insurance, public liability insurance, etc.

**(iv) Guarantee Insurance**

Under the guarantee insurance, the insurance gives the guarantee of faithfulness or the honesty of any employee or any other person and it accepts the liability of compensation of financial loss to the insured with the cause of dishonesty and fraud. The example of guarantee insurance are credit right, fidelity, guarantee insurance, etc. if any event is found within the policy, then the insured has right to get compensation.

### **2.1.3 Nature of Insurance**

The insurance has the following characteristics, which are generally observed in case of life, marine and fire insurance.

#### **(i) Sharing of Risk**

Insurance is a device to share the financial loss, which might fall on individual or his family on the happening of a specified event. The event may be death of a breadwinner to the family in the case of life insurance, accident in motor insurance, etc. The loss arising from these event if insured are shared by all the insured in the form of premium.

#### **(ii) Co-operative Device**

The most important feature of every insurance plan is the co-operation of large number of persons who, in effect, agree to share the financial loss arising due to a particular risk, which may be brought together voluntarily or through publicity or through solicitation of the agents. The insurer would be unable to compensate all the losses from his own capital. So, by insuring or underwriting a large numbers of persons, he is own capital. So, by insuring or underwriting a large numbers of persons, he is able to pay the amount of loss like all co-operative devices, there is no compulsion here on anybody to purchase the insurance policy.

#### **(ii) Valuation of Risk in Insurance**

Before the insurance contract is made the insurer studies the property that is to be insured. It fixes the premium too on the basis of it, if the quantity of risk is high, premium is also high. The more risk is the more is the premium but if the risk is low, the premium is also low. The premium is fixed on the basis of risk. So, the analysis of risk plays significant role in insurance business.

#### **(iii) Amount of premium on Insurance**

The payment by insurance company is very important aspect. In life insurance, compensation is paid according to the nature of premium, to the insured himself, if he is died, then under the law, his/her family member gets the compensation. But in case of property, compensation is based on actual loss. There may be different provisions according to the insurance policy. But to get compensation, the insured should submit the correct and true evidences that prove the loss of his property, to the insurance company.

#### **(iv) Insurance is not Charity**

Charity and insurance are separate subject matters. Where the cash and goods are freely provided to do something to any person, it is charity. But insurance is a contract, the insured should pay the premium in fixed amount and in the time given by the insurance company. This is his legal obligation. The insurer too should give the compensation of that subject matter to the insured, if that property gets ruined or lost. This too is the obligation of insurance company. So, the insurance is not charity, it is a contract made between two parties.

#### **2.1.4 Investment**

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

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

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

such resources. However, the investment needs be procedural task. It must follow a definite investment process. This definite begins from the formulation of proper investment policy.

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

Further, to invest any funds requires source of funds, insurer also invest their fund different sectors. The funds with the insurers are accumulated from the various sources, which are explained in these forms. i) Premium ii) Interest iii) Capital Gain iv) Saving in expenses v) Nonpayment of claims.

However, the insurer has advantages of investing above mentioned source of funds but they are collected cash in profitable investment. It is so because of the primary function of the insurer, which is to provide financial assurance against insurable risks and the regulatory provisions governing them. In fact, insurer only gets a portion of their inflows as invisible fund after arranging for various items. For running, it is essential for three insured invest the fund. As insurance or insurer must mobilize its collected premium and other funds to profitable, secured and marketable sector. So, that it can earn a handsome profit, secured, and can be converted into cash whenever needed.

#### **2.1.4.1 Principle of Investment**

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

Generally, policy will be a plan or a course of future action that is proposed to adopt regarding a particular field of activities. For our purpose, investment policy will also be the plan or course of future action that is proposed to adopt regarding the investment. The investment policy may be different according to the objective and nature of the organization. But all the character and suggested to invest at liquidity, safety and profitable sectors.

“While investment policies needed to be formed, the investors need to consider many factors. Usually these are the factors to be considered in investment planning, decision, security of principle stability of income and rate of return, marketability and liquidity” (Shim and Siegel, 1989:256).

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

#### **2.1.4.1.1 Safety and Security**

The safety and security principle is a primary and basic principle of the investment policy. The securities in which the funds of insurer are to be insured should never at anytime fall in their face values, otherwise the liability will be more than its corresponding assets. The primary purpose of investment is not to earn maximum profit but to maintain a complete security. Therefore, speculative investments are not suitable for life insurance funds. Security of principal amount is more important consideration.

Safety includes safety of principal amount and interest there on. It means that the principal and interest must not fall, below the expected level at any time. This principle is the keystone of investment.

#### **2.1.4.1.2 Profitability**

The insurer must earn at least the assumed rate of interest; otherwise they will suffer loss. The investment, so, should be made in such securities, which yield the highest return consistent with the principle of safety. The insurer can reduce his future premium by earning higher interest and thus will be able to increase his business. It has been realized that the safety and the profitability principles are fully opposite to each other. The principle of profitability is important for insurer’s investment.

#### **2.1.4.1.3 Diversification**

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

Diversification of investment helps to sustain loss according to the law of average because if securities of a company deprived, there may be appreciation in the securities of other companies. In this way the loss can be recovered and the company may be able to earn more profit. The diversification provides maximum security with high yield and better liquidity provided the diversification is done taking into account of all these factors.

#### **2.1.4.1.4 Liquidity**

The principle of liquidity is important for the insurance investment. Insurer has no information about when they need to pay the claim of their client. So, at any unseen time there will be the requirement of fund. Thus, the insurer needs to invest under the principle of liquidity.

Liquidity represents convertibility of investment into cash without undue loss to capital. The insurer needs to maintain working cash and bank balance in order to carry out the normal transaction of receiving payments and making disbursements. Further, they need to finance the unforeseen claims occurring in the form of matured contracts. Therefore, insurer needs to maintain the liquidity at their investment. The principle of liquidity is against the principle of profitability, because the idle cash will earn nothing and invested each will have no liquidity.

#### **2.1.4.1.5 Marketability**

Marketability is an important principle of investment policy. The principle of marketability suggests the insurer to invest policy. The principle of marketability suggests the insurer to invest in that sector where easy possibility of cash convertibility exists. Insurer may not have any information about the requirements of the funds to pay the claim of the insured. So, they need to invest in those sectors where marketability exists. Therefore, the convertibility or marketability principle must match with other principle as well as with the line of insurance business and the nature of the required fund.

#### **2.1.4.2 Investment Policy of NIC and PIC**

Usually, all the insurers follow the main principle of investment under investment policy, which is mentioned above. The principle of investment is based on nature of business and line of business. Therefore, they include the different investment policy to invest collected fund in accordance to the character, nature and time period of the policy. Since life insurance and general insurance differ in their risk assurance character, their claims nature, volume and

nature of their policy handling of each type, the timing of insurance claims related to payment of premium etc. hence, the insurers obtain different investment policy on their investment of different policy fund.

#### **2.1.4.2.1 Life insurance and investment policy**

Life insurance business is a long period coverage insurance business. An insurer can mobilize the collected premium fund of the life insurance in long term because they don't require the fund in short term. "An important attribute of the insurance fund is that they are of long terms nature. The claims against them by the policy holders materialized in a regular pattern over time i.e usually upon the death of insure or at the maturity of the endowment policy" (Mahat, 1981:190).

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

#### **2.1.4.2.2 Non life insurance and investment policy**

Commonly non life insurance companies or insurer follows the principle of investment on investing the fund. Insurer cannot predict correctly, when they require the fund. However, if the insured held accident then, the insurer i.e. responsible to pay certain indemnity. Therefore, to match the convertibility on liquidity, insurer successful of operation of business and be prompt in claim payment, the insurer needs to hold measure part of their inflows available to pay future losses and expenses. "Because accident, casualties and disasters are not all that predictable property and liability insurance companies must have resolve of funds

cover large claims and settlement if and when occurs" (Mishra, 1997: 305). To attain the attractively and maintain the goodwill insurer needs to make balance in their transactions. So, they collect reasonable premium and pay reasonable indemnity with occurrence to the written policy. To transact our function of insurance company in they need certain amount of fund.

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

### **2.1.5 Premium**

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

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

#### **2.1.5.1 Types of premium and calculating process**

We can find various premium paid by insurer according to the policy. But the premium is fundamentally of two types. Net premium is calculated considering mortality and interest rate. Therefore, the rate of death of person and interest directly affect on the premium amount to calculate the net premium under this method. Similarly, the assumed interest rates the

expenses of the organization and the mortality rate directly affect calculation of premium under gross premium method. “The net premium amount is based on the mortality rate, the assumed the interest rate, the expenses and the bonus loading” (Mishra, 1997:203).

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

- i) Single Premium
- ii) Level Premium

**i) Single Premium:**

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

**ii) Level Premium:**

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

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

## **2.2 Review of Previous Studies**

### **2.2.1 Review of Books**

Insurance contributes to the society by favorably affecting the apportionment of the factors of production, engaging in loss preventing activities, indemnifying losses, serving as a channel for investible funds. Mehr and Cammack outlined the insurance as; Insurance policies are written by business organizations caked “Insure”. In order to function properly, these insurance must have a large number of policyholders, who are obtained either by direct representative, or through against (Robert and Emerson, 1972).

He again stated that Insurance is a technical business involving the skills of statistics, financial analysis, engineers; physicians, economists, lawyers and others. Contract must be carefully drafted, underwriting rustications must be determined, rates must be equitably established and funds must be prudently invested. Since insurance is affected with the public interest, it is closely regulated (Robert and Emerson, 1972).

The essence of the insurance scheme is that, it is a social device that involves the accumulation of funds, that it involves a group of risks, and that each person of firm who becomes a member of the group transfers his risks to the whole group (Athearn, 1981). The purpose of insurance is to reduce the uncertainty and worry caused when it becomes aware of the possibility of loss. It does this by spreading the economic burden of losses among members of the group. Insurance does not prevent loss but it relieves the financial burden.

Robert I. Mehr outline about the insurance through his book as, Insurance is a useful device for solving complex social problem. Compensating victims of industrial accident is handled by compulsory worker’s compensation insurance, automobile accident victims is handled to some extent by providing financial responsibility as per the insurance laws, by the company by furnishing evidence of ownership of automobile liability insurance. Social insurance is

used to help, death and medical care for the aged (Mehr, 1986). Insurance is affected with the public interest and is consequently subject to government regulation, mostly by the states.

Insurance, in its pure insurance function (ignoring for the moment its efforts at prevention) may be linked to the springs of vehicle. It absorbs the shock and distributes its overall risks insured in the same class. It permits a freer functioning of credit and industry generally but does not eliminate loss. The retarding of credit and industry generally but does not eliminate loss. The retarding effect of risk removed, but the cost and retarding effect of loss are still present. The burden of loss is still on society (Albert and Ralph, 1995). David L. Bickhaupt has stated the general legal requirement of insurance as, the rights and obligation of the parties to an insurance agreement are determined largely by reference to the general laws, which govern contracts. The agreement by which the insure is consideration of the payment if specified. Sum by the insured agrees to make good the losses suffered through the happening of designated unfavorable contingency. The insurance contract need not be in writing, but as matter of business practice such agreements are ordinarily written. Even social insurance, such as workers compensation, are written, through the terms appear in a state law rather than in private agreement.

John H. Magee outlined life insurance as financial uncertainties arising from the nature contingencies, old-age and death and to bring about a comparable certainty in the case of possible misfortunes injure and sickness. The fundamental function of the life insurance business then is to furnished protection against the financial demands occasioned by disability, old age and death. It has sometime been termed “Income replacement insurance” because it provides such necessities as food, shelter and clothing if illness, injury or death cuts off the income of the breadwinner. It is all of this and, as well presently be noticed much more ( Magee, 1958).

### **2.2.2 Review of Related Journal and Other publications**

Insurance has direct role to play in a developing country because of the fact that the government is utilizing its entire means and resources for the all round development of the country (Bhattarai, 1993:17). Insurance plays the important role in the trade and commerce. It is absolutely true that trade is more risky than domestic. Most of the export risks are unpredictable. These risks are to be insured to protect exporters. Various forms of insurance have been in existence for hundreds of years, just as many of the terms used today are the same as they were many years ago (Shrestha, 1994:1-4).

Nepalese insurance companies continued to face a growing magnitude of the problems in the collection of outstanding premium from the period of the company's establishment to the present years (Shrestha, 1991:12-18).

On the liquidity position of the National and General insurance Co. Ltd. M.K. Shrestha's view is that – “The management is very cautious on matching the current assets with current liabilities”. And he has also mentioned in his study about the profitability position of NLGI that it is not satisfactory. He has further mentioned the management does not consider shareholders interests (Shrestha, 1991).

Kiran Nepal has mentioned about the current market of insurance industry in Nepal. The article is a complete study of potentials of insurance in Nepal and problems facing by the insurance companies in Nepal. He reveals that there is keen competition in general insurance. There are 16 general insurance companies in the small country like Nepal. So, they are competing with each other to capture other's 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 reach to the majority public. There is future potential in the life insurance in Nepal (Nepal, 2002:38-45).

Ramesh Raj Bhandari explained that insurance is a key in the economic development of a country. Insurance companies not only shift the risk but also collect small-scattered capital and inject these in the development activities of long-term nature. It has direct role to play in a developing country because of the fact the government is utilizing its entire means and resources for the all-sound development of the country. A slight mistake on the regulating of insurance activities will create on adverse effect in the overall economy of the country. Hence, the supervision of insurance through regulation is a must in order to accelerate the pace of economic growth. A sound insurance regulation is a means to provide for insurance to stable and strength the national insurance market. Thus, insurance regulation facilities are necessary control of insurance activities (Bhandari, 2009).

Dr. Shrestha, on changing investment portfolio of Rastriya Beema Sansthan, attempted to analyze the investment portfolio holding pattern and its effect to financial performance of R.B.S. He found, the dominant part of total volume of investment portfolios in development bonds of Government of Nepal and a very negligible figure of total investment in share of other companies, due to his fact, the portfolio is a dominant part. The creation of a sound investment project is very crucial to R.B.S. to minimize return rather than always taking same

traditional policy of investing in government securities fixed deposits, certificates and others. But the time has come for the sansthan to cope with increasing competition to tap profitable investment opportunities by taking initiation in new industrial ventures for encouraging capital formation in the country (Shrestha,2010).

The government properties including corporation is insured to Government Company in 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 cannot afford to pay insurance premium. The insurance business is very-very challenging. One has to create the market. Tremendous market potentiality and opportunity is felt due to the right person. After the formation of Nepal Insurance Association, the companies can plead their problem jointly to the government and should look forward for the interest and benefit of insures. This platform should be taken as an opportunity (Shrestha,2010).

Dr. Raghab D. Pant on the flow of funds in Nepal has analyzed the flow of funds of Rastriya Beema Sansthan since 1975 to 1991. He found that the small volume of credit transaction of Rastriya Beema Sansthan in areas other than government bonds means that it has influenced in determining the structure of demand in the economy. The savings that it has managed to mobilize, especially through life insurance is considerable. It has, however, been used to finance government budget deficit or to further increase fixed deposit liability of the commercial banks, which in many occasions, has excess liquidity at their disposal. Rastriya Beema Sansthan however, has no alternative either (Pant, 1995).

### **2.2.3 Review of Thesis**

This part covers a review of past studies conducted by other researchers various experts, authorities and M.B.S. student on related topic. Major findings of some of the researchers are as:

Brihaspati Raj Pant has concluded that fire insurance plays a vital role in the development of commerce and industry and has great significance in developing the country. It has a very good prospect. He recommended that most of the people are ignorant about fire insurance and also its importance and benefit. For this more publicity is needed. Advertisement through newspapers, radio, televisions should be made to acquaint the people about fire insurance and its branch should be extended in different cities (Pant, 2006).

Bal Krishna G. C., in his study, 'A study on capital and assets structure of Rastriya Beema Sansthan', found that the trend of total assets needs to be improved by receiving investment policies and programs. The investment should be utilized in proper and profitable sector (G. C, 2006).

A study conducted by Rajendra Man Joshi, found that the premium charged by Rastriya Beema Sansthan seems to be high and recommended to the corporation for having policy of low premium to increase business and the premium should be reviewed carefully. The huge amount of outstanding premium is lying, which shows the corporation's inefficiency to collect the outstanding premium and recommended to collect immediately for the protection of increasing bad-debt (Joshi, 2007).

A study was conducted by Bhattra, Ramesh Raj on "Insurance Board in Nepal its effectiveness in regulation and controlling insurance companies". This study was focused on how to control the insurance companies by government on itself. He defined the measure of regulating and controlling system. It has a descriptive analysis. The conclusion drawn by him in his studies was: - The majority of the respondent fell under the group of 41 years and above. Most of them were married and majority of them had a master's degree. The respondent of the insurance might be due to the part time nature responsibility in the board.

He had taken specific activities of the insurance companies into consideration for respondent's board member and insures identified legal reserve regulation as effective one than that of capitalization. He had found the tariff rate too high. He pointed that the recent regulation of the board was less effective in safeguarding the interest of the insuring. He had found that the policy form approval was time consuming and delay that create unhealthy competition.

He has recommended modifying the existing tax rate in his study. The board should strictly check, if the company really completed and set aside funds for their reserve to overcome the problem on legal reserve.

A research conducted by Rajan Bahadur Poudel, entitling 'Insurance companies in Nepal' was among those few. Poudel's study was descriptive and diagnostic one was interested to cover every policy and practical issues relating the insurance business. In his study Poudel had attempted to analyze the status if the insurance companies. For this purpose he had set

the objectives like assessing the states of the industry, analyzing policy issues examining the liability structure and investment portfolio, and to review major policy issues of the insurers.

To attain the objective he had used descriptive research design based upon the secondary data only. He had used qualitative rather than quantitative analysis. Throughout the study the research was concentrated on analyzing the regulatory provision and its impact on the practice among the insurers. In the study Poudel had analyzed every provision relating the formation, working the governance of the insurance companies. As a part of his study he had also provided in sight upon the investment of the insurers and the provisions governing the investment function. His all over findings and conclusion was that the basic laws and by-law are/were not sufficient. The excess power on the hand of the insurance committee was advantageous to some extent but it was much costly in many cases.

His conclusion relating the investment was that the regulatory provisions were not welcoming rather they were much restricting. The classification between the portfolios on 'Compulsory' and 'Optional' caused hindrance to the insurers in their investment management process, but the limited number of allowed portfolios as "Optional Sectors" causes more hardness. Further suggested that to divert the insurance from investing in the traditional fields of investment a conducive investment environment need to be created and it can be formed through adding more investment alternatives in "Optional" fields rather than increasing its share.

Hence, this study was descriptive rather than analytical. The qualitative analysis might not be enough to present the exact picture of the status of the insurance companies. Further, the research revolved around the policy issues rather than practical issues. The analysis of investment aspect among the insurers was a part of his research but he had given less emphasis to the investment aspect among the insurance companies. Further, the investment return and investment performance was also ignored in the study. Further the views and perception of practicing manager regarding the investment and its performance had also been ignored in his study.

Mr. Bin Bahadur Raut conducted a thesis entitled 'A study on the Financial Performance of National Life & General Insurance Co. Ltd'. He has analyzed the various financial ratios of it. He had analyzed liquidity ratio, premium turnover ratios, return on net worth, return on shareholder's equity, earning per share, dividend per share, investment on total assets ratio, fixed assets to total ratio. He had also analyzed financial performance of different insurance business (Raut, 1995).

Raut found the following major findings from the study:

- i. Regarding liquidity management, the NLGI is not in sound position. The current ratios come to a highest of 0.3 in 1988/89 to a lowest 0.17 in 1992/93 taking derivation from average standard i.e. 0.89 times.
- ii. The company's outstanding premium in the five years period jumped from Rs. 5.22 million in 1988/89 to Rs. 15.68 million in 1992/93.
- iii. We found that the return on net-worth of NLGI is satisfactory because return on net worth is in increasing trend. The return on net-worth increased from 8.35% in 1988/89, 30.29% in 1992/93.
- iv. Return in shareholder's equity is also in better position because it shows improving trend. In the base year 1988/89 it was 9.19% and now it is 55.32% in 1992/93.
- v. The trends of earning per share are fluctuating. It deviates from minimum level of Rs 7.72 per share in 1988/89 to maximum Rs. 55.28 per share in 1992/93; it proves that there is no constant return on the investment to shareholders during the study periods.
- vi. The NLGI declared the dividend in increasing trend. The data shows that the company's dividend paying ability increased from 0 million bonus share in 1993/94. Bonus share affected the market price of a share because it reduced the market price of a share from Rs. 780 in 1992/93 to Rs. 630 in 1993/94. Thus bonus share reduced the market price of a share.
- vii. Investment of NLGI is not less than fifty percent of the total assets in every year of the study period. So, it was continuously increasing except the F.Y. 1989/90 and 1992/93. Investment to total asset ratio was minimum 1:1.6 in 1989/90 to maximum 1:9.9 in 1991/92.
- viii. Premium earning of NLGI in insurance has increased day by day. The net premium earning of Rs. 43.68 million for the year 1992/93 against the net premium earnings of Rs. 7.99 million for the year 1988/99 suggest successfulness of insurance business in Nepal.

This study covers the period of 5 years from 1988/89 to 1992/93. This study only deals with National Life & General Insurance Co. Ltd. There is no comparison between other insurance

companies and industry. This study is emphasis with financial tools (mainly with ratios). This study ignores the importance of statistical tools.

Tara Bahadur Thapa (2008), Insurance Industry in Nepal. A comparative study on premium collection and investment pattern (Thapa 2008). Mr. Thapa uses both primary and secondary sources of data. The period covered was for 2057/58 to 2064/65.

This study finds the following:

- a) The premium collection rate of Nepalese insurance industry had been fluctuating trend.
- b) The insurance industry has not consisted in the investment proportion of various investment sector and investment portfolio.
- c) Among the insurance policy, the ratio of premium collection is higher in fire insurance and lower in engineering policy.
- d) The coefficient of correlation between premium and investment of Nepalese insurance industry has high degree of positive correlation with significant relationship.

There is close relationship between Mr. Thapa`s study because both studies are about premium collection and investment pattern. Mr. Thapa emphasis the investment patterns of insurance industry but this study emphasis investment pattern too. Mr. Thapa uses all non life companies but this study is based on both life and non life companies.

Gelal had prepared comparative study of financial performance between Nepal Insurance Company Ltd and National Life & General Insurance Co. Ltd (Gelal, 2009).

This study finds the following:

- a) Data reveal, total percentage in fixed assets is more in NLGI compared to NIC while vice-versa in percentage in current assets. Growth in fixed assets was in slower rate in NIC. However, investment in current assets was decreasing in both the companies.
- b) NIC increased its share capital up to 2060/61 B.S. and decreased up to 2063/64 B.S.; whereas NLGI showed decreasing trend in share capital percentage to total assets during this study period.
- c) The reserve of both the companies followed increasing trend during the study period.

- d) The net profit percentage of NIC found better than NLGI.
- e) Current ratio of both the companies is able to meet the standard form i.e. 2:1.
- f) Cash to current liabilities ratio shows insufficient cash balance in both companies because cash to current liabilities ration of both companies found less than standard form i.e. comparatively NLG is having better than ration than NIC.
- g) The liquidity position of both NIC and NLGI found better means above the standard norm.
- h) Leverage ratio shows the level of risk. Having overview in this ratio, NIC is found risky than NLGI. D/E ratio of NIC ranged 57% to 118% whereas the same ratio of NLGI ranged 42% to 70% only during the study period.

Mr. Adhikari had conducted complete study on premium collection and investment of the whole insurance industry of Nepal. ( Adhikari, 2010)

Adhikari concluded the following major findings:

- a) Regarding the portfolio wise investment return, non-life insurance industry got higher return from government securities and Bank fixed deposits than life insurance industry in aggregate. It might be the outcome of the investment being made on the middle of the fiscal year and the return had not yet been received.
- b) Regarding the life insurance industry major proportion of investment was invested in the head 'Government Securities' and 'Bank Fixed Deposits'. Falling into the classification 'compulsory'. Only a very small proportion of investment was invested in the others.
- c) The return from the 'Government Securities' was highest and the return from the 'policy loan' was lowest and 'bank fixed deposits' was more stable than others.
- d) Non-life insurance industry and insurer also the major portion of investment was invested within the head 'Government Securities' and 'Bank Fixed Deposits rather than the classification 'Others'.

### **2.3 Research Gap**

This study consider two insurance companies which is selected different from previous researcher's focused on investment policy only while this study is based on premium collection and investment pattern of two insurance companies. They used only financial tools and ignored statistical tools but this study used both financial as well as statistical tools. Previous researcher's study based on descriptive way only but this study used descriptive and analytical basis. This study considers primary as well as secondary data.

## CHAPTER-III

### RESEARCH METHODOLOGY

“Research Methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objective in view” (Kothari, 1989). Therefore, Research Methodology describes the methods and process applied in the entries aspect of the study.

This study aims at presenting, evaluating and finding about the investment pattern, premium collection condition and investment return of NIC and PIC. The study will draw an actual scenario of investment pattern and premium collection condition of PIC and NIC. To accomplish this goal, the study follows the research methodology describe in this chapter as:

#### **3.1 Research Design:**

Research Design is a purposeful scheme of action proposed to be carried out in a sequence during the process of research focusing on the problem to be tackled. Research design is the preplan of any research or project work.

To achieve the objective of this study descriptive and analytical research design has been used. The research is so designed that the analysis and interpretation of the secondary and primary data relate to the evaluation of past behavior of the insurers relating to the premium collection and investment position of NIC and PIC.

#### **3.2 Population and Sample:**

As the growing need for safety, investment and a better life style, people are starting to have a better understanding about insurance, its policies and benefits. There are 25 insurance companies functioning to underwrite insurance business. But this study undergoes to research the premium collection & investment pattern of Nepal Insurance Company and Premier Insurance Company Ltd. These two companies are non-life insurance companies so, I have taken these two companies as samples.

#### **3.3 Types and Sources of data:**

For the fulfillment of above mentioned objectives, a definite series of analysis is introduced. The research is based upon the description of the primary and secondary data for the historical performance assessment and the future prediction of planning and upcoming policy

and implementation among employees of NIC and PIC. Hence, the primary and Secondary data are used for the analysis and drawing a valid conclusion.

- **Primary Data and Its Source**

The primary data is collected from the employees of NIC and PIC and also from the customers of these two companies for the opinion on investment of general investable fund, its policy and premium and other relevant factors. Primary data for the purpose of this study is collected using pre-set questionnaire, which is supported by the direct interview with the relevant authorities. The questionnaire is mentioned in appendix no: I.

- **Secondary Data and Its Sources**

This research is basically based upon secondary data. So, the secondary data for the purpose of the study is collected through various published and unpublished documentary type sources. The source of valid secondary data is:

- \* Published or unpublished annual reports of the respective insurer.
- \* Published or unpublished financial statement of the respective insurer.
- \* Various journals as well as booklets published by the insurer.
- \* Publications of the insurance committee.
- \* Various publications of the government agencies and bodies relating to the field.
- \* Books relating to the subject.
- \* Periodicals, Newspapers and Magazines.

### **3.4 Data analysis Tools:**

Further arising the aforementioned objectives following tools and techniques were used in this study. This was an application in analysis phase.

- **Financial Analysis Tools:**

Generally, the financial analysis tools were used for the purpose of the assessment of the financial position to a particular organization. There are various tools in financial sector. But for the purpose of this study and in accordance to the studies objective

Ratio Analysis is performed in this study. Certainly ratio analysis can show the position of premium collection, investment and return and its contribution on overall performance.

○ **Ratio Analysis:**

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

Simply an arithmetical relationship between two figures is known as ratio. A ratio is defined as “The relation between two amounts determined by the numbers of times one contains the other”. In accountancy, it is defined as “The relationship between two accounting figures expressed mathematically” of premium collection & investment and its performance as compared with the overall position and performance of NIC and PIC. In order to analyze premium collection & investment position of NIC and PIC.

First Life Premium to Total Life Premium Collection:

$$= \frac{\textit{First life premium collection}}{\textit{Total life premium collection}}$$

Fire Premium Collection to Total General Premium Collection:

$$= \frac{\textit{Fire premium collection}}{\textit{Total general premium collection}}$$

Marine Premium Collection to Total General Premium Collection:

$$= \frac{\textit{Marine premium collection}}{\textit{Total general premium collection}}$$

Miscellaneous Premium Collection to Total General Premium Collection:

$$= \frac{\textit{Miscellaneous premium collection}}{\textit{Total general premium collection}}$$

Investment on Govt. saving Bonds to Total General Investment

$$= \frac{\textit{Investment on Govt. saving Bonds}}{\textit{Total general investment}}$$

Investment on Bank Fixed Deposits to Total General Investment

$$= \frac{\textit{Investment on bank fixed deposit}}{\textit{Total general investment}}$$

Investment on Finance Company Fixed Deposit to Total general Investment

$$= \frac{\textit{Investment on finanace campany fixed deposit}}{\textit{Total general investment}}$$

Investment on Total Premium Collection

$$= \frac{\textit{Investment}}{\textit{Total premium collection}}$$

Interest Earned to Total Investment

$$= \frac{\textit{Total interest}}{\textit{Total investment}}$$

Claims paid to Total Premium Collection

$$= \frac{\textit{Claims paid}}{\textit{Total premium collection}}$$

- **Statistical Analysis Tools**

Generally the statistical tools were used for attaining accuracy on analysis and study. According to this study objectives are mean, standard deviation, coefficient of correlation, trend analysis and 't'- test were performed.

### **Trend Analysis**

In order to draw the valid conclusion of investment and premium aspect, some statistical tools are used. As a statistical tool trend analysis was used here to show the basic tendency of investment and premium components.

## Co-efficient of Correlation

To attain the relationship between ‘premium collection and investment’, ‘Premium collection and claim paid’ and investment and net income earns, co-efficient of correlation is used. “The correlation is the statistical tool that can be used to describe the degree to which one variable is linearly related to another”. The co-efficient of correlation measures the degree of relationship between two sets of figures. Among the various methods of findings out co-efficient of correlation, Karl Person’s (product moment) method was applied in this study. The result of co-efficient of correlation is always between ‘+1’ and ‘-1’ other relevant decision matter mentioned respective chapter. The product moment formula was calculated as.

$$r = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}}$$

Probable error of correlation was calculated by the following formula:

$$PE(r) = 0.6745 \times \frac{(1 - r^2)}{\sqrt{N}}$$

## Mean

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

$$\text{Mean} = \frac{\text{Sum of Total Value}}{\text{Number of Values}}$$

$$\bar{X} = \frac{\sum x}{N}$$

## Standard Deviation (S.D.)

The measurement of the scatterness of the mass of figures in a series about an average is known as dispersion. The standard deviation measures the absolute dispersion. The greater the amount of dispersion, greater the standard deviation. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of a series, a large standard deviation of different ratio were calculated as follows:

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

### **Co-efficient of Variation (C.V.)**

‘The co-efficient of variation is the relative measure of dispersion, comparable across distribution which is defined as the ratio of the standard deviation to the mean expressed in percent’. It was used for comparing variability of two series or set of data with the same or different units and is expressed in percent since it is independent of units. It was calculated as follows:

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

### **T-Test**

T-test is generally used to find out the relationship between the two variables. It was used to examine the significance of the difference between two-sample mean at the same time. The t-test enables us to test the significance difference between two-sample mean.

## **CHAPTER-IV**

### **DATA PRESENTATION AND ANALYSIS**

Data analysis and major findings is the most important chapter of this study. For the purpose of study and analysis, secondary and primary data are used. Based upon the data analysis and study, major findings are concluded. This data presentation and analysis chapter is separated into two parts, as ‘evaluation of premium collection and composition through financial tools’ and ‘evaluation of investment pattern and composition through financial tools’ and statistical analysis.

#### **4.1 Data Presentation and Analysis**

It has been already mentioned the methodology to be used in third chapter. This chapter has been focused on the analysis of premium collection and investment pattern of Nepal Insurance Company (NIC) and Premier Insurance Company Ltd (PIC). It considers various variables which are important and reflect the premium and investment of these companies. Premium is the main source of investment for these companies. It plays vital role in the transaction of insurance. It is the main income of the insurance companies. And investment is the outflow of the company to get more return. As insurance company is also a financial institution, it always thinks for profit. This chapter is dealt with data and its analysis.

##### **4.1.1 Evaluation of Insurance Premium Collection & Composition**

Premium is the main source of investment of an insurance company. It shows the performance of the insurance company. Higher premium tends the higher volume of transaction. Entire insurance companies try to collect higher premium because, if they succeed on it, they can earn more income from investment. All theoretical concept of premium is mentioned in the above chapter, which may be enough for theoretical idea. Therefore, here only quantitative analysis is described which is related to the premium collection and its composition. For the purpose of the evaluation of the premium collection condition and composition among the portfolios, the trend analysis, ‘t-test’, mean, standard deviation and coefficient of variation are used. For the comparison of all the respective matter on premium various ratio analysis are computed which will give the actual proportion of premium in total collected premium sum. This evaluation chapter also supports to financial analysis and statistical analysis and evaluation of investment pattern chapter.

### 4.1.2 Financial Analysis

Financial Analysis include various financial ratio which are related to premium collection, are studied to evaluate and analyze the performance of Nepal Insurance Company (NIC) and Premier Insurance Company (PIC). These important ratios are calculated as follows:

#### Life Insurance

Premium collection on first life premium to total Life premium collection.

First premium of life insurance hold significance important in total life premium collection because life policy holder should pay premium unit before the expiry of the policy period. If he paid first premium to start his life insurance, the ratio measures the weight of first premium to the total life premium collection. It is the ratio which is used to measure the weight of premium collection on first life premium to total life premium. It shows the contribution of first life premium in total life premium collection. It is computed using the following equation:

Premium on first life premium collection to Total Life premium collection.

$$= \frac{\text{First Life Premium Collection}}{\text{Total Life Premium Collection}}$$

#### General Insurance

Nepal Insurance Co. Ltd and Premier Insurance Co. Ltd are non life insurance companies. But it has general insurance. General insurance is classified into: fire insurance, marine insurance and miscellaneous insurance. In the study all the other insurance rather than fire and marine are included in miscellaneous insurance. So this study analyzed three types of general insurance premium: fire premium, marine premium and miscellaneous premium.

### 4.1.3 Fire Premium to Total General Premium Collection

It is the ratio to measure the contribution of fire premium collection to total general premium collection. It reveals the weight of the fire premium collection over the total general premium collection of Nepal Insurance Company and Premier Company. It is measured using the following equation.

Fire premium collection to total general premium collection.

$$= \frac{\text{Fire Premium Collection}}{\text{Total General Premium Collection}}$$

**Table No. 4.1**

**Fire Premium Collection to total general premium collection of NIC**

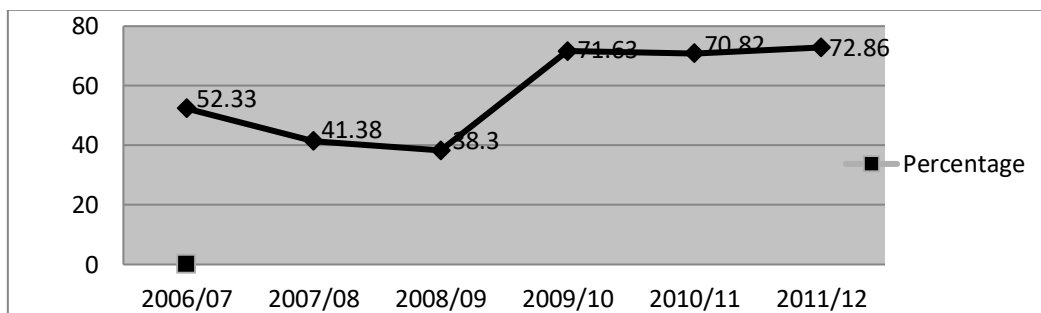
<b>FY</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>	<b>Mean</b>	<b>C.V.</b>
<b>Ratio</b>	52.33%	41.38%	38.30%	71.63%	70.82%	72.86%	57.89%	0.25

Source: Appendix II

The above data can be presented in the following figure:

**Figure No. 4.1**

**Trend Line of Fire Premium Collection to total general premium collection of NIC**



Above table no. 4.1 and figure no. 4.1 helps to shows the fire premium contribution to total general premium collection of NIC from 2006/07 to 2011/12. The highest contribution of it was in 2011/12, which was 72.86%, and before it was at fluctuation rate. Company was able to maintain its average ratio at 57.89% level. The calculated C.V. which is 0.25 shows less fluctuation trend.

**Table No. 4.2**

**Fire Premium Collection to total general premium collection of PIC**

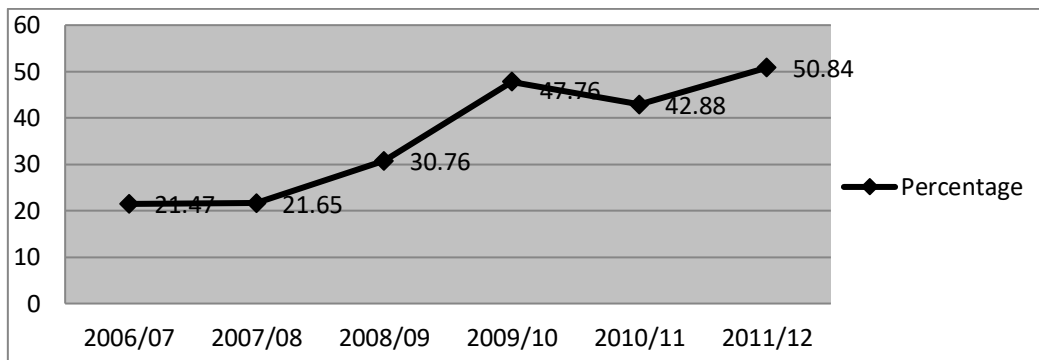
<b>FY</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>	<b>Mean</b>	<b>C.V.</b>
<b>Ratio</b>	21.47%	21.65%	30.76%	47.76%	42.88%	50.84%	35.89%	0.33

Source: Appendix II

The above data can be presented in the following figure:

**Figure No. 4.2**

**Trend Line of Fire Premium Collection to total general premium collection of PIC**



The above table no. 4.2 and figure no. 4.2 shows the percentage of fire premium collection to total general premium collection of PIC. In 2006/07 its contribution was 21.47% and then it increased to 21.65% in 2007/08. It was 30.76% in 2008/09, 47.76% in 2009/10, 42.88% in 2010/11 and it was 50.84% in 2011/12 which was the highest contribution. This indicates that the ratio were fluctuating, more over the fire premium collection is in increasing trend.

Company was able to maintain mean ratio at 35.89%. Again the calculated C.V is 0.33 indicates that there was no consistency and stability in the calculated ratio.

When we compare both company NIC and PIC, NIC is more favorable then PIC because the C.V. of NIC was 0.25 but the C.V. of PIC was 0.33 which indicate that NIC was suffering from least risk than PIC.

**4.1.4 Marine Premium Collection to Total General Premium Collection**

The ratio is used to measure the contribution of marine premium collection to total general premium collection of the company. It reveals the percentage of share hold by marine collection in total general premium collection. The following equation is used to measure it.

Marine premium collection to total general premium collection

$$= \frac{\text{Marine Premium Collection}}{\text{Total General Premium Collection}}$$

**Table No. 4.3**

**Marine premium collection to total general premium collection of NIC**

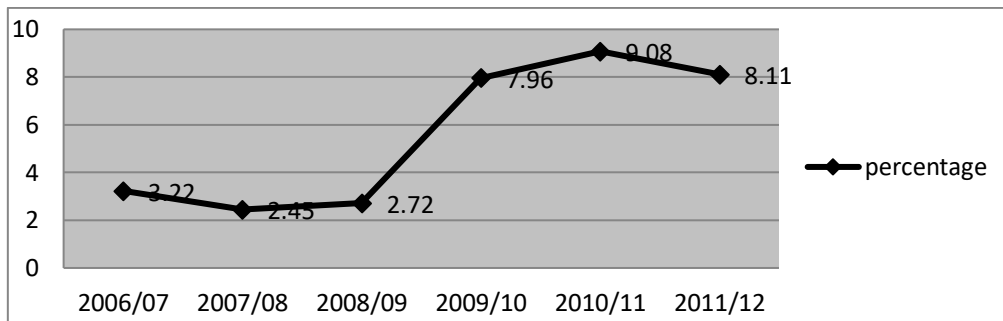
<b>FY</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>	<b>Mean</b>	<b>C.V.</b>
<b>Ratio</b>	3.22%	2.45%	2.72%	7.96%	9.08%	8.11%	5.59%	0.50

*Source Appendix II*

The above data can be presented in following figure:

**Figure No. 4.3**

**Trend Line of Marine premium collection to total general premium collection of NIC**



From the above table no.4.3 and figure no. 4.3 we can conclude that marine premium collection contributed least to the total general premium collection of NIC. Its contribution was 3.22% in 2006/07 and it decrease a little to 2.45% in 2007/08 and increased little to 2.72% in 2008/09 it was highest in 2010/11 i.e. 9.08% and then again it decreased simultaneously to 8.11% in 2011/12. The calculated C.V. i.e. 0.50 indicates that there is inconsistency in the calculated ratio. The company should try to make the ratio stable and consistent.

**Table No. 4.4**

**Marine premium collection to total general premium collection of PIC**

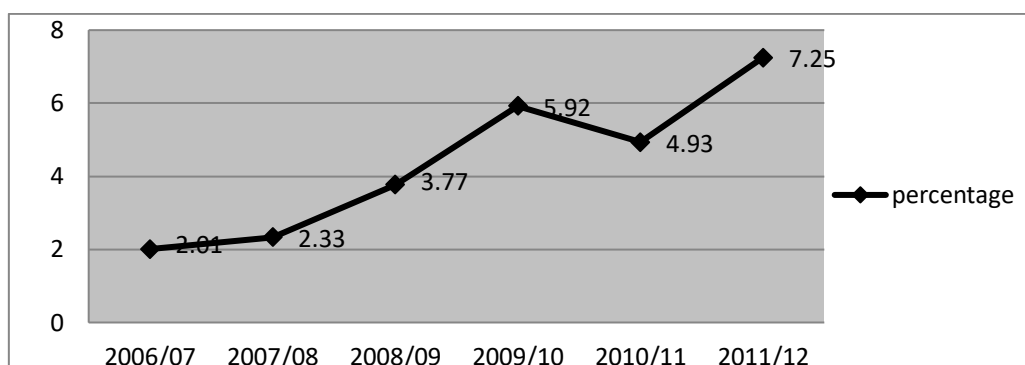
<b>FY</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>	<b>Mean</b>	<b>C.V.</b>
<b>Ratio</b>	2.01%	2.33%	3.77%	5.92%	4.93%	7.25%	4.37%	0.43

*Source: Appendix II*

The above data can be presented in the following figure:

**Figure No. 4.4**

**Trend Line of Marine premium collection to total general premium collection of PIC**



From the above table no. 4.4 and figure no. 4.4, it was found that marine premium collection contributed the least to the general premium collection by PIC. It contributed 2.01% in 2006/07, 2.33% in 2007/08, 3.77% in 2008/09, 5.92% in 2009/10, 4.93 in 2010/11 and 7.25 in 2011/12 which was the highest contribution.

The calculated C.V. of 0.43 shows the higher inconsistency in the calculated ratios. When we compare both the companies, PIC seems to be more favorable due to its lesser C.V.

**4.1.5 Miscellaneous premium collection to total General Premium Collection**

Miscellaneous Premium Collection to total General Premium Collection ratio is used to measure the weight of MISC. To calculate Misc. Premium Collection to total General Premium Collection of NIC and PIC following ratio is used.

Misc. premium collection to total general premium collection

$$= \frac{\text{Misc. Premium Collection}}{\text{Total General Premium Collection}}$$

**Table No. 4.5**

**Misc. premium collection to total general premium collection of NIC**

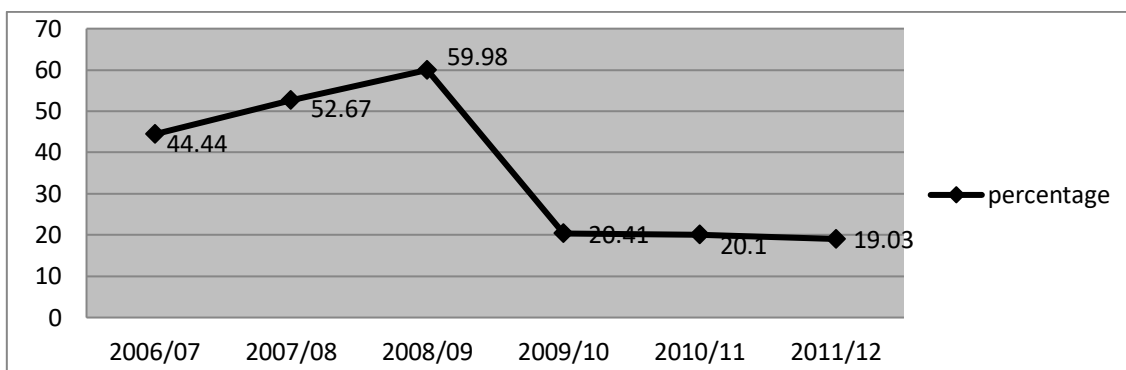
<b>FY</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>	<b>Mean</b>	<b>C.V.</b>
<b>Ratio</b>	44.44%	52.67%	59.98%	20.41%	20.10%	19.03%	36.71%	0.47

Source : Appendix II

The following data can be presented in the following figure:

**Figure No. 4.5**

**Trend Line of Misc. premium collection to total general premium collection of NIC**



From the above table we may be able to see the ratio as miscellaneous premium in total premium collection of NIC. According to the table, NIC had collected more miscellaneous premium in 2008/09, among the sampled year, which was 59.98%. It can also be noticed that miscellaneous premium collection trend is being increased and decreased in a fluctuation mode respectively. The C.V. that is 0.47 shows the misc. premium collection ratio of NIC.

**Table No. 4.6**

**Misc. premium collection to total general premium collection of PIC**

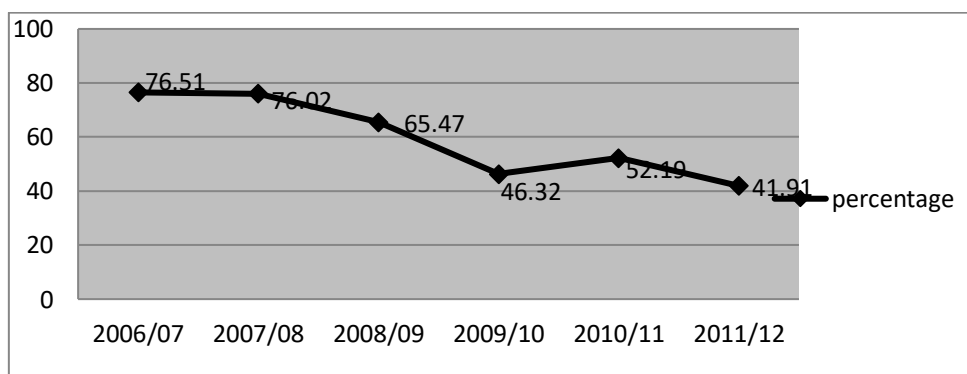
<b>FY</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>	<b>Mean</b>	<b>C.V.</b>
<b>Ratio</b>	76.51%	76.02%	65.47%	46.32%	52.19%	41.91%	59.74%	0.23

Source : Appendix II

The following data can be presented in the following figure:

**Figure No. 4.6**

**Trend line of Misc. premium collection to total general premium collection of PIC**



From the above table no. 4.6 and figure no. 4.6, we can see the ratio of misc. premium collection to total general premium collection of PIC. There is an increasing and decreasing trend of the ratio year by year. In 2006/07, it was 76.51% which was the highest contribution, it decreases to 76.02% in 2007/08, it further decreases to 65.47% in 2008/09, it was 46.32% in 2009/10, 52.19% in 2010/11 and 41.91% was in 2011/12. The C.V. of 0.23 shows lower fluctuation in the ratio.

When we compare NIC and PIC, PIC seems to be more favorable in misc. premium collection case, as because C.V. of PIC is lower than that of NIC.

#### 4.1.6 Premium Income of Nepalese Insurance Market

**Table No. 4.7:**

**Premium Income of Nepalese Insurance Market (in 10 million Rs)**

Fiscal Year	Life	Non-life						Non-life total	Grand total
		Fire	Marine	Aviation	Motor	Contractor all risk & Eng.	Misc.		
2006/07	65.46	38.60	16.13	34.20	30.91	8.69	25.26	153.79	219.25
2007/08	136.26	48.27	17.26	69.71	39.27	13.42	27.07	215.00	351.26
2008/09	172.61	47.38	18.42	70.08	50.23	11.33	34.10	231.54	404.15
2009/10	208.38	57.65	21.33	50.08	61.99	9.88	36.00	236.93	445.31
2010/11	291.78	69.60	25.99	48.06	79.17	19.74	44.25	287.35	579.13
2011/12	387.73	77.37	29.42	46.02	91.77	29.84	53.37	347.00	647.53

*Source: Beema Samiti Report, 2011*

#### 4.2 Investment

Insurance company is also one of the financial institutions. It collects investment fund in the form of premium and invest in various sectors for profit. But it has to follow the rules and regulations of investment regulated by insurance Board of Nepal. They have to invest 75% of their investible fund in “Compulsory” and rest to “Other Sectors”. Every insurance company has to maintain this rule of investment otherwise the board punishes them. NIC and PIC also invest its investment fund as per rules and regulation set by the insurance board. It invests its investment fund in government saving bonds; banks fixed deposits, and financial fixed

deposits, corporate securities and other sectors. The following ratios may help to get solution for it.

All the concept of insurance and insurance industry in Nepal is already mentioned in above chapters; which may show the detail idea of insurance business. Here, only quantitative analysis is mentioned which are related to the investment and investment pattern.

For the purpose of the evaluation of the investment pattern and composition among the portfolios, the trend analysis and 't' test are used. For the comparison of all respective matter on investment, the mean, standard deviation and co-efficient of variance is also used. Likewise, to evaluate the return on respective portfolio and investment amount the ratio analysis is also used. To attain the objective of the study purpose all the concerned studies and analysis are used. Basically this evaluation chapter is separated into two parts as financial analysis and statistical analysis.

#### **4.2.1 Life Fund**

This ratio mostly is used in Life Insurance Company. NIC and PIC is non-life insurance company as that this ratio is not used in NIC and PIC.

Investment on Govt. saving Bonds to total life Investment

$$= \frac{\text{Investment on Govt. Saving Bonds}}{\text{Total Life Investment}}$$

#### **4.2.2 General Fund**

There is no any provision in general insurance of returning the premium amount to the policy holders. After paying the claim amount, the residual premium is the solid income for general insurance company. The insurance company invests it in different sectors for better return.

##### **4.2.2.1 Invest on Govt. Saving Bonds to total General Investment**

This ratio measures the portion of investment that goes to govt. saving bonds to total general investment made by the company. The following equation is used to measure it.

Investment on Govt. Saving Bonds to Total General Investment

$$= \frac{\text{Investment on Govt. Saving Bonds}}{\text{Total General Investment}}$$

**Table No. 4.8**

**Investment on Govt. Saving Bonds to Total General Investment of NIC**

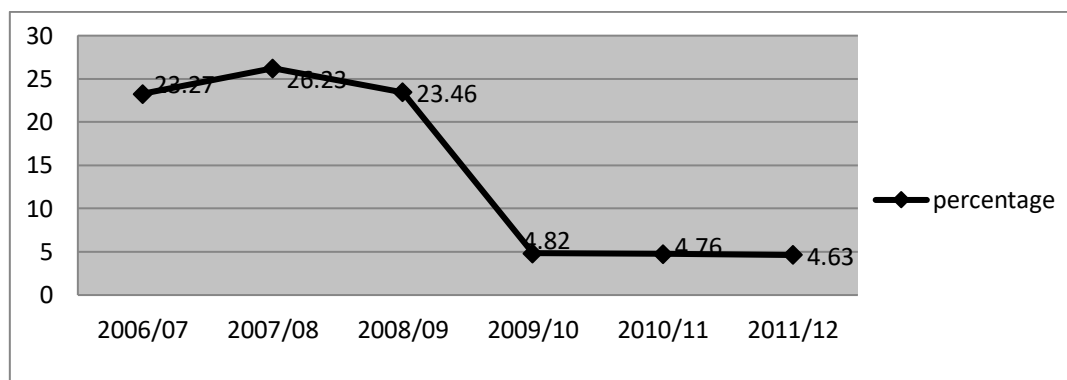
<b>FY</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>	<b>Mean</b>	<b>C.V.</b>
<b>Ratio</b>	23.27%	26.23%	23.46%	4.82%	4.76%	4.63%	14.53%	0.67

Source: Table 4.19

The following data can be presented in the following figure:

**Figure No. 4.7:**

**Trend line of Investment on Govt. Saving Bonds to Total General Investment of NIC**



Above table no. 4.8 and figure no. 4.7 shows the average percentage of investment in govt. saving bonds in total investment. According to the table, NIC has higher investment portion in govt. saving bonds on 2006/07 and 2007/08 and then after its investment portion on govt. saving bond started decreasing. On 2008/09 its portion was only 4.63% of the total general investment.

**Table No. 4.9:**

**Investment on Govt. Saving Bonds to Total General Investment of PIC**

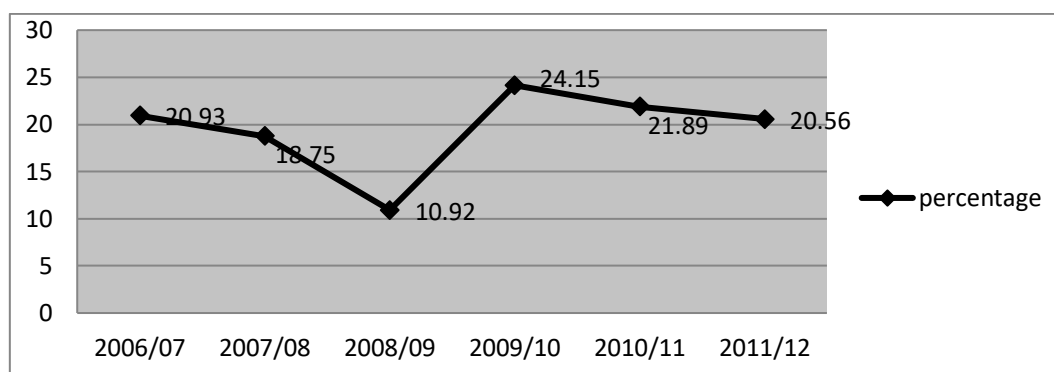
<b>FY</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>	<b>Mean</b>	<b>C.V.</b>
<b>Ratio</b>	20.93%	18.75%	10.92%	24.15%	21.89%	20.56%	19.53%	0.21

Source: Table 4.20

The following data can be presented in the following figure:

**Figure No. 4.8:**

**Trend line of Investment on Govt. Saving Bonds to Total General Investment of PIC**



From the table no.4.9 and figure no.4.8 it is clear that there was fluctuation in the investment in govt. saving bonds made by PIC of total general investment. It ranged 10.92% to 24.15% with in six years period. The average investment was 19.53%. The C.V. of 0.21 indicated the consistency in its investment on govt. saving bond.

When we compare NIC and PIC, PIC seems to be more favorable, as its C.V. is lower than that of NIC.

**4.2.2.2 Investment on Bank Fixed Deposits to Total General Investment**

It is the ratio that measures the weight of bank fixed investment to total general investment made by the company. It is computed here using the following equation.

Investment on Bank Fixed Deposits to Total General Investment.

$$= \frac{\text{Investment on Bank Fixed Deposits}}{\text{Total General Investment}}$$

**Table No. 4.10:**

**Investment on Bank Fixed Deposits to Total General Investment of NIC**

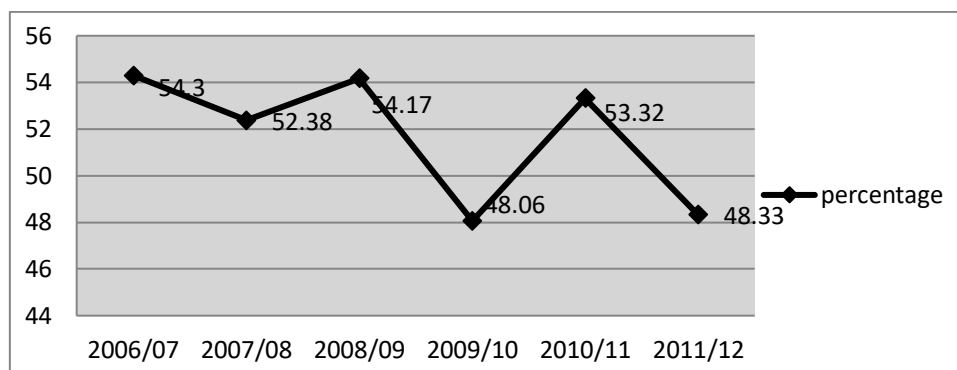
FY	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	Mean	C.V.
Ratio	54.30%	52.38%	54.17%	48.06%	53.32%	48.33%	51.76%	0.05

Source: Table 4.19

The following data can be presented in the following figure:

**Figure No. 4.9:**

**Trend line of Investment on Bank Fixed Deposit to Total General Investment of NIC**



The above table no.4.10 and figure no.4.9 shows the investment in bank fixed deposit to total general investment. Investment in bank fixed deposit of NIC is higher than investment in govt. saving bonds. But the ratio of investment is fluctuating. Its contribution was 54.30% in 2006/07, decreases to 48.06% in 2009/10 and increases to 53.32% in 2010/11. The average investment was 51.76%. The C.V. was 0.05, which indicated consistency of its investment.

**Table 4.11:**

**Investment on Bank Fixed deposits to Total General Investment of PIC**

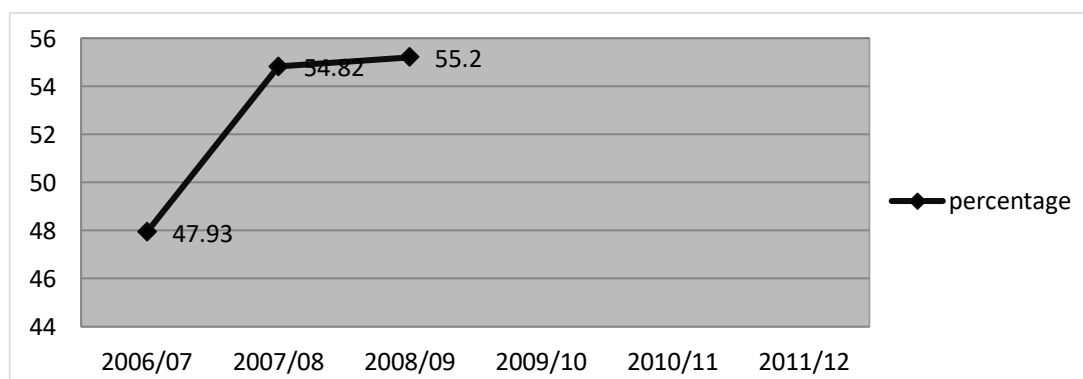
FY	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	Mean	C.V.
Ratio	47.93%	54.82%	55.20%	-	-	-	52.65%	0.006

Source: Table 4.20

The following data can be presented in the following figure:

**Figure 4.10:**

**Trend Line of Investment on Bank Fixed deposits to Total General Investment of PIC**



From the above table no. 4.11 and figure no. 4.10 shows that PIC has not invested any amount in govt. saving bonds after 2008/09. But the ratio of investment in bank fixed deposit to total general investment is fluctuating. Its contribution was 47.93% in 2006/07, 54.82% in 2007/08 and 55.20% in 2008/09. The average investment was 52065%. The C.V. was 0.06 which indicated consistency of its investment.

When we compare NIC and PIC, NIC seems to be more favorable, as its C.V is lower than that of PIC.

#### 4.2.2.3 Investment on Finance Company Fixed Deposits to Total General Investment

The ratio of investment of financial company fixed deposits to total general investment measure the weight of investment on finance company fixed deposits to total general investment made by the company. It is computed using the following equation.

Investment on Finance Company fixed deposits to Total General Investment.

$$= \frac{\text{Investment on Finance Company Fixed Deposits}}{\text{Total General Investment}}$$

**Table No. 4.12:**

#### Investment on Finance Company fixed deposits to Total General Investment of NIC

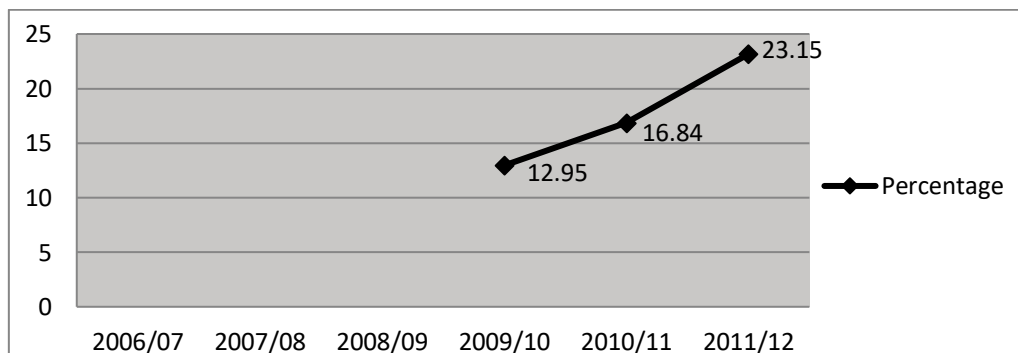
FY	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	Mean	C.V.
Ratio	-	-	-	12.95%	16.84%	23.15%	17.65%	0.23

Source: Table 4.19

The following data can be presented in the following figure:

**Figure No. 4.11:**

#### Trend Line of Investment on Finance Company fixed deposits to Total General Investment of NIC



From the above table no.4.12 and figure no.4.11. It is clear that NIC has invested in Finance Company fixed deposits in 2009/10. Its investment is in increasing trend. The Average investment on finance company fixed deposit is 17.65%. The C.V of 0.23 showed the consistency of investment on it.

**Table No. 4.13:**

**Investment on Finance Company fixed deposits to Total General Investment of PIC**

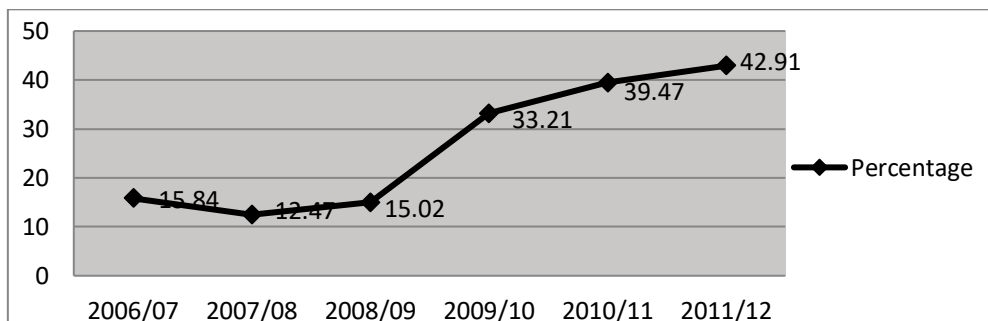
<b>FY</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>	<b>Mean</b>	<b>C.V.</b>
<b>Ratio</b>	15.84	12.47	15.02	33.21%	39.47%	42.91%	26.49%	0.468

Source: Table 4.20

The following data can be presented in the following figure:

**Figure No. 4.12:**

**Trend Line of Investment on Finance Company fixed deposits to Total General Investment of PIC**



From the above table no.4.13 and figure no.4.12. It was clear that investment in Finance Company fixed deposits was fluctuating in increasing trend. It was 15.84% in 2006/07, 12.47% in 2007/08, 15.02% in 2008/09, 33.21. The average of 16.0% of total general investment went to financial company fixed deposit .The C.V of 0.25 showed the consistency of investment on it.

**4.2.2.4 Investment on Share to Total General Investment**

The above ratio measures the weight to investment in corporate securities or share to total general investment made by the company. Corporate securities mean ordinary share, right share, debenture and bonds of private enterprises. The ratio reveals the portion of investment

that goes to corporate securities from total general investment. The following equation is used to measure.

Investment in Share to Total General Investment

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

**Table No. 4.14:**

**Investment on Share to Total General Investment of NIC**

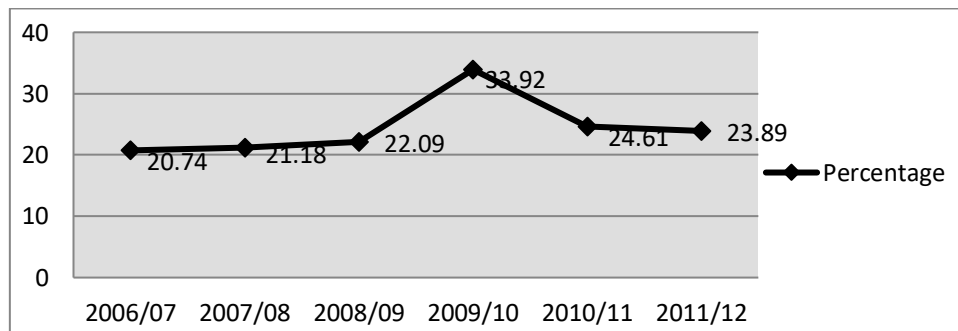
<b>FY</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>	<b>Mean</b>	<b>C.V.</b>
<b>Ratio</b>	20.74%	21.98%	22.09%	33.92%	24.61%	23.89%	24.41%	0.18

Source: Table 4.19

The following data can be presented in the following figure:

**Figure No. 4.13**

**Trend Line of Investment on Share to Total General Investment of NIC**



From the above table no.4.14 and figure no.4.13, it is clear that NIC has regular investment of fund in shares. It has invested its fund in some equal ratio in share market each year. Therefore, it has minimum fluctuation in investment in investment trend.

**Table No.4.15:**

**Investment on Share to Total General Investment of PIC**

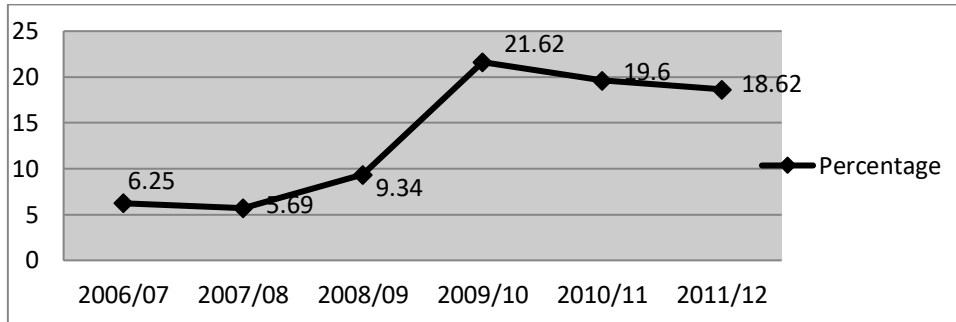
<b>FY</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>	<b>Mean</b>	<b>C.V.</b>
<b>Ratio</b>	6.25%	5.69%	9.34%	21.62%	19.60%	18.62%	13.52%	0.487

Source: Table 4.20

The following data can be presented in the following figure:

**Figure No.4.14:**

**Trend Line of Investment on Share to Total General Investment of PIC**



The above table no.4.15 and figure no.4.14 prevailed the investment in corporate securities which mean investment in shares. Its investment was also fluctuating. The company invested 6.25% of its total general Investment in 2006/07, 5.69% in 2007/08, 9.34% in 2008/09, 21.62% in 2009/10, 19.60% in 2010/11 and 18.62% in 2011/12. The highest contribution was in 2009/10 which was 21.62 % and the lowest was in 2007/08 i.e. 5.69% respectively. The average investment was 13.52% and C.V was 0.487 which shows consistency of the investment.

When we compare both companies, NIC seems to have stability in investment in shares.

#### **4.2.2.5 Investment in other sectors to Total General Investment**

The investment sector other than the above is called other sectors. It is the ratio that measures the weight of other sectors investment over the total general investment made by the company. The following equation is used to compute it.

Investment in other sector to Total General Investment

$$= \frac{\text{Investment on Other Sectors}}{\text{Total General Investment}}$$

**Table No.4.16:**

**Investment in other sectors to Total General Investment of NIC**

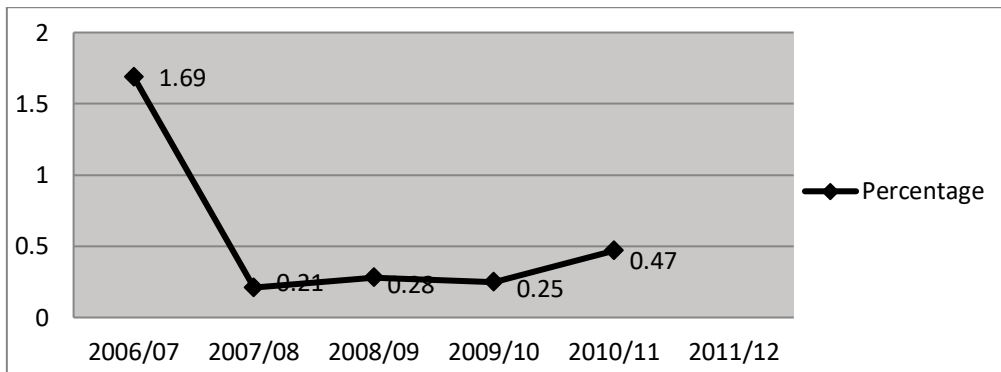
<b>FY</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>	<b>Mean</b>	<b>C.V.</b>
<b>Ratio</b>	1.69	0.21	0.28	0.25	0.47	-	0.58	0.96

Source: Table 4.19

The following data can be presented in the following figure:

**Figure No.4.15:**

**Trend line of Investment in other sectors to Total General Investment of NIC**



From the above table no.16 and figure no.4.15 it was known that investment in other sectors of NIC is decreasing and NIC has not invested in the year 2011/2012. The average of the five years was .58% the C.V. 0.96 shows the fluctuation trend in investment.

**Table No.4.17:**

**Investment in other sectors to Total General Investment of PIC**

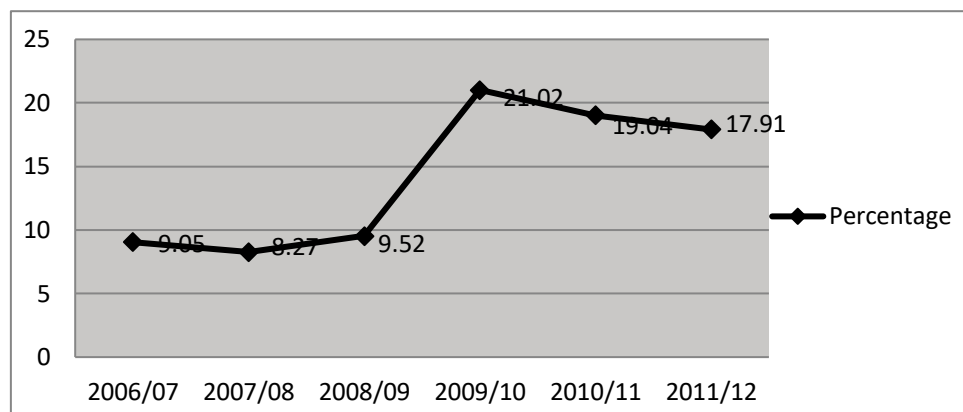
<b>FY</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>	<b>Mean</b>	<b>C.V.</b>
<b>Ratio</b>	9.05	8.27	9.52	21.02	19.04	17.91	14.13	0.37

Source: Table 4.20

The following data can be presented in the following figure:

**Figure No. 4.16:**

**Trend line of Investment in other sectors to Total General Investment of PIC**



From the above table no.4.17 and figure no.4.16 it was known that investment in other sectors of PIC is increasing, though started very late. The average investment was 14.13% the C.V. 37 shows the fluctuation trend in investment.

**4.2.2.6 Investment of NIC and PIC**

**Table No. 4.18**

**Total Investment of NIC and PIC**

(Rs. in million)

Com pany	2006/07		2007/08		2008/09		2009/10		2010/11		2011/12	
	Rs.	%	Rs.	%	Rs.	%	Rs.	%	Rs.	%	Rs.	%
<b>NIC</b>	212.07	76.38	201.41	73.34	197.33	74.06	234.75	88.25	237.24	87.31	244.34	86.94
<b>PIC</b>	65.58	23.62	73.20	26.66	69.10	25.94	31.26	11.75	34.49	12.69	36.71	13.06
<b>Total</b>	277.65	100	274.61	100	266.43	100	266.01	100	271.73	100	281.05	100

*Source: Annual Report of NIC and PIC of various years.*

The above table no. 4.18 reveals that, the investment of NIC is higher than the investment of PIC in each year. There is a fluctuation in investment amount in both the companies. But it can be seen that the investment of PIC decreased in 2009/10 than in previous year but investment of NIC has increased in 2011/12 than in previous year.

**Table No.4.19:**  
**Investment Portfolio of NIC**

F.Y. Sectors	2006/07		2007/08		2008/09		2009/10		2010/11		2011/12	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
<b>Government Saving Bonds</b>	49360000	23.27	52850000	26.23	4630000	23.46	11300000	4.82	11300000	4.76	113000000	4.63
<b>Bank Fixed Deposits</b>	115150000	54.30	105500000	52.38	106900000	54.17	112800000	48.06	126500000	53.32	118100000	48.33
<b>Finance Co. Fixed Deposits</b>	-	-	-	-	-	-	30400000	12.95	39950000	16.84	56550000	23.15
<b>Shares</b>	43992432	20.74	42653755	21.18	43583150	22.09	79650000	33.92	58390000	14.01	58390000	23.89
<b>Others</b>	3571429	1.69	412530	0.21	555000	0.28	600000	0.25	1100000	0.47	-	-
<b>Total Investment</b>	212073861	100	2014162285	100	197938150	100	234750000	100	237240000	100	244340000	100

*Source: Annual report of NIC of various years.*

**Table No.4.20:**

**Investment Portfolio of PIC**

F.Y. Sectors	2006/07		2007/08		2008/09		2009/10		2010/11		2011/12	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
<b>Government Saving Bonds</b>	13725000	20.93	13725000	18.75	7550000	10.92	7550000	24.15	7550000	21.89	7550000	20.56
<b>Bank Fixed Deposits</b>	31435000	47.93	40135000	54.82	38150000	55.20	-	-	-	-	-	-
<b>Finance Co. Fixed Deposits</b>	10388030	15.84	9129135	12.47	10382307	15.02	10382307	33.21	13616000	39.47	15755234	42.91
<b>Shares</b>	4101981	6.25	4164981	5.69	6455641	9.34	6755840	21.62	6759840	19.60	6836680	18.62
<b>Other Sectors</b>	5036143	9.05	6053589	8.02	6571429	9.52	6571429	21.02	6571429	19.04	6571429	17.91
<b>Total</b>	65586154	100	73207705	100	69109377	100	31263576	100	34497269	100	3671343	100

Source: Annual report of PIC of various years.

**4.2.2.7 Investment to Total Premium collection Ratio** It is a rate of an average premium investment. It shows the ratio or proportion of investment with comparison to premium collection. This ratio measures the investment ratio in percentage. This ratio helps to show, what proportion of collected premium is invested in different sectors in aggregate. This ratio is computed by using the following equation.

Total Investment to Total Premium Collection Ratio

$$= \frac{\text{Total Investment}}{\text{Total Premium Collection}}$$

**Table No.4.21:**

**Total Investment to Total Premium Collection (%) of NIC and PIC**

<b>Insurer</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>	<b>Mean</b>	<b>C.V.</b>
<b>NIC</b>	47.40%	120.73%	105.22%	221.06%	199.03%	159.31%	158.79%	0.25
<b>PIC</b>	65.68%	62.32%	75.57%	42.95%	39.40%	48.85%	55.79%	0.23

*Source: Annual Report of NIC and PIC of Various Years*

Above table shows the investment to total premium ratio of NIC and PIC. The investment ratio is higher than each year's premium. It is because the insurer invested the fund also from capital and other sources. NIC has invested more than its premium collection in each year. But we can see that PIC invested more than its premium collection only in 2008/09. After that, its investment to premium collection ratio has decreased. Between the two companies, NIC has not constant ratio of investment. It has fluctuation, therefore has more C.V. than PIC. The C.V. of NIC is 0.25 and that of PIC is 0.23.

### **4.3 Position of Claims Paid**

Insurance Company ensure compensation that if the accident, damage, death, disablement happen to property and life of the policy holders within the policy period. The compensation paid is called claim in insurance terms. It holds significance significant importance in any insurance company because if the policy holder gets the reasonable compensation quickly, then only they renew the policy, otherwise goes to some other insurance company. On the other hand, if claims paid held the majority part of the total premium collection, insurance company cannot arrange other management expenses and return to owners.

### 4.3.1 Claims Paid to Premium Collection

It is the ratio that measures the claims paid to premium collection. It shows the portion of claims paid from the premium collection. The ratio reveals the degree of risk involve in premium collection. The ratio is computed using the following equation. Claims paid to premium collection.

$$= \frac{\text{Claims Paid}}{\text{Premium Collection}}$$

#### 4.3.1.1 Life claims paid to total life insurance premium collection

It is the ratio that measures the life claims paid portion to total life premium collection. The ratio reveals the risk involved in life insurance business undertaken by insurance companies. It is computed using the following equation.

#### 4.3.1.2 General Claims paid to Total General Premium Collection

$$= \frac{\text{General Claims Paid}}{\text{Total General Premium Collection}}$$

**Table No.4. 22:**

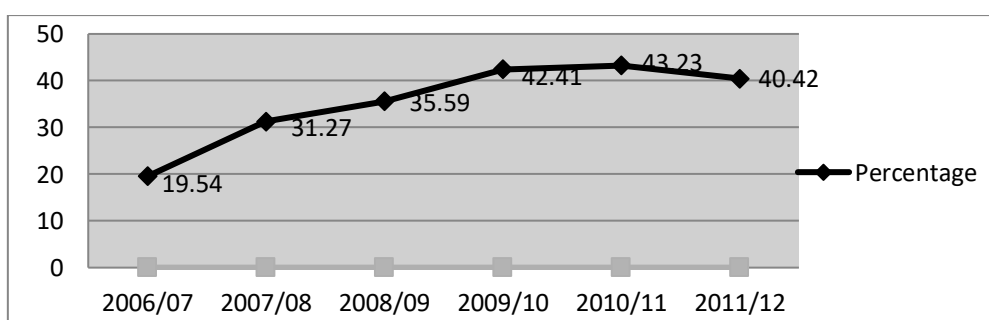
**Claims paid to Total General Premium Collection of NIC**

<b>FY</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>	<b>Mean</b>	<b>C.V.</b>
<b>Ratio</b>	19.54%	31.27%	35.59%	42.41%	43.23%	40.42%	35.4%	0.25

*Source: Appendix VIII and IX*

**Figure No.4.17:**

**Trend Line of Claims Paid to Total General Premium Collection of NIC**



The above table no.4.22 and figure no.17 revealed that the total claim paid held 19.54% in 2003/04, 31.27% in 2004/05, 35.59% in 2005/06, 42.41% in 2006/07, 43.28% in 2007/08, and 40.42% in 2008/09. The above data shows that the ratio of claim paid to the total premium collection is in increasing trend every year. It concludes that general premium collection is becoming riskier. The average claim to total premium ratio seems to be 35.4% the C.V. indicates in consistency in general claims paid by the company.

**Table No.4.23:**

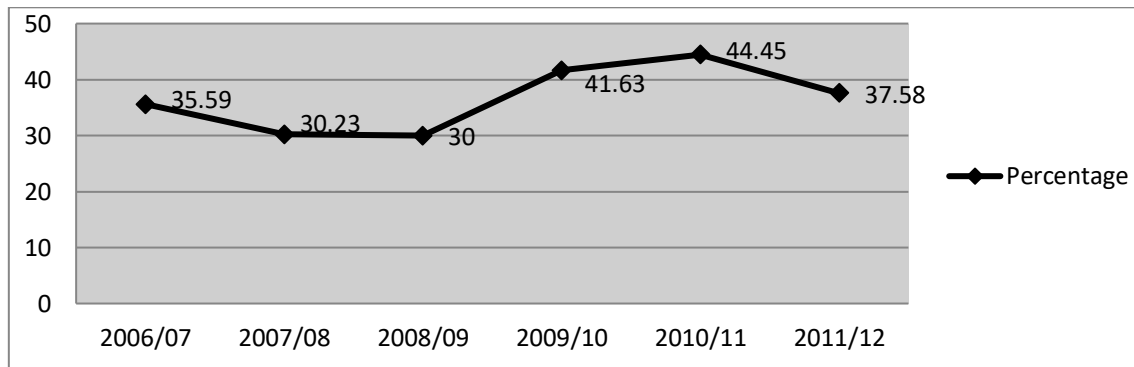
**Claims Paid to Total General Premium Collection of PIC**

<b>FY</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>	<b>Mean</b>	<b>S.D.</b>	<b>C.V</b>
<b>Ratio</b>	35.59%	30.23%	30%	41.63%	44.45%	37.58%	37.58%	5.88%	0.16

*Source: Appendix VIII and IX*

**Figure No.4.18:**

**Trend Line of Claims Paid to Total General Premium Collection of PIC**



The above table no.4.23 and figure no.4.18 revealed that the total claims paid held the large portion of general collection. Claim paid held 35.59% in 2003/04, 30.23% in 2004/05, and 30% in 2005/06, 41.63% in 2006/07, 44.45% in 2007/08 and 37.58% in 2008/09. The lowest claim paid is in 2005/06. These revealed the fluctuation of claims paid. The average of 36.585 of general premium collection went to claims paid. The C.V. of 0.16 indicates consistency in general claims paid by the company.

**4.4: Interest Earned to Total Investment Ratio**

It is an average of interest earned on total investment. This ratio represents the return from total investment. Total interest earned to total investment ratio reflects the extent to which

insurer is successful in earning interest as major income on total investment. This ratio actually reveals the earning capacity of an insurance company by investing it's all collected premium and other capital fund. Higher the ratio will be the income as interest. This ratio is calculated by using the following equation.

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

From this ratio, NIC's and PIC's average of interest earned on total investment can be known. It shows the earnings ratio from interest on investment portfolio.

**Table No.4.24:**

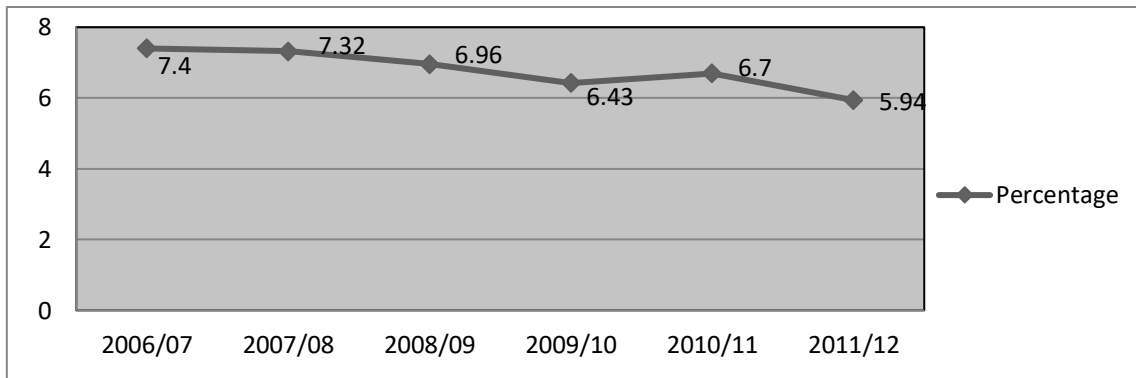
**Interest Earned to Total Investment Ratio of NIC**

<b>FY</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>	<b>Mean</b>	<b>C.V.</b>
<b>Ratio</b>	7.4%	7.32%	6.96%	6.43%	6.7%	5.94%	6.19%	0.08

*Source: Annual Report of NIC of Various Years*

**Figure No.4.19:**

**Trend Line of Interest Earned to Total Investment Ratio of NIC**



The above table no.4.24 and figure no.4.19 shows the interest earned to total investment ratio of NIC. According to the table, NIC's ratio is in decreasing trend. According to the calculated C.V. it can be concluded that NIC have less fluctuation.

**Table No.4.25:**

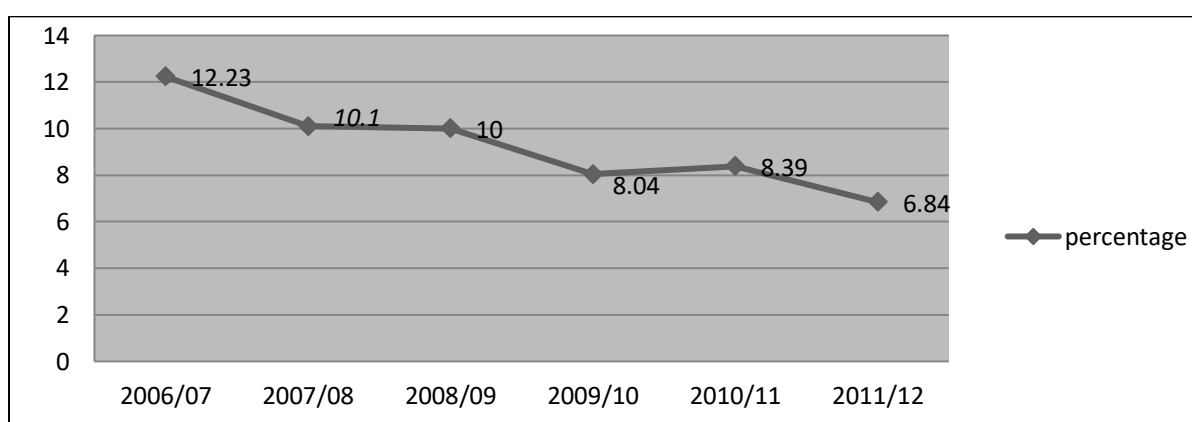
**Interest Earned to Total Investment Ratio of PIC**

FY	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	Mean	C.V.
Ratio	12.23%	10.1%	10%	8.04%	8.39%	6.84%	9.27%	0.20

*Source: Annual Report of PIC of Various Years*

**Figure No.4.20:**

**Trend Line of Interest earned to Total Investment Ratio of PIC**



The above table no.4.25 and figure no.4.20 describes interest earned to total investment ratio of PIC. According to the table, the ratio is in decreasing trend. The calculated C.V. 0.20 denotes fluctuation trend in interest earned to total investment of PIC. The average interest to investment ratio was 9.27%

#### **4.5 Statistical Analysis**

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

##### **4.5.1 Correlation Analysis**

In this analysis, product moment method has been used to find out the relationship between premium collection and investment. Generally, the correlation analysis is used to describe the

degree to which one variable is related to another. Hence, in statistics, it is used in order to depict the co-variation between two or more variables. It helps to determine whether (1) a positive or a negative relationship exists (2) the relationship is significant or insignificant and (3) establish cause and effect relation, if any. In statistical tools, correlation analysis is preferred in this study to identify the relationship between premium and investment, whether the relationship is significant or not. Correlation is denoted by 'r' here.

For the purpose of decision making under correlation, decision is based on following interpretation.

Where  $r = +1$ , there is perfect positive correlation

When  $r = -1$ , there is perfect negative correlation

When  $r = 0$ , there is no correlation

When (r) lies between 0.7 to 0.999, (-0.7 to -0.99) there is a high degree of positive (or negative) correlation.

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

#### 4.5.2 Correlation between premium collection and investment of NIC and PIC

The correlation between premium collection and investment of NIC and PIC revealed the solution of the question: was there any relation between the premium collection and its investment of the companies? If there was the relation between premium collection and investment, what relationship existed, positive or negative relationship existed, positive or negative relationship. In other words, was more premium collection means more investment?

**Table No.4.26:**

**Correlation between premium collection and investment of NIC**

<b>Coefficient of Correlation</b>	<b>Relationship</b>	<b>R<sup>2</sup></b>	<b>P.E. (r)</b>	<b>6× P.E. (r)</b>	<b>Significance or Insignificant</b>
-0.7204	Higher degree of negative Correlation	0.2026	0.1325	0.795	Significant

*Source: Appendix III*

The coefficient of correlation between premium and investment measures the degree of relationship between the respective variables. In correlation analysis premium is independent variable and total investment is dependent variable.

The above table no.4.26 shows the relationship between premium collection and investment of NIC. The coefficient of correlation of this company is -0.7204. Higher degree of negative correlation exists in case of NIC. This implies that investment of NIC is highly affected by premium collection. It means premium is the strongest matter of investment.

The coefficient of determination ( $R^2$ ) is a measure of the degree of linear association or correlation between two variables, one of which is the independent variable and other, dependent variable. In case of NIC the coefficient of determination is 0.2026, which means that the variation in independent variable (premium) explains 20.26% is the variation in investment.

Generally, probable error is used to measure the significance of the relationship between two dependent and independent variable. In this study, the significance of the relationship between premium and investment is measured by calculating probable error of correlation coefficient.

From above, we can conclude that the relationship between premium and investment of NIC is significant since the coefficient of correlation 'r' is greater than  $6 \times P.E(r)$ .

**Table No.4.27:**

**Correlation between premium collection and investment of PIC**

<b>Coefficient of Correlation</b>	<b>Relationship</b>	<b><math>R^2</math></b>	<b>P.E. (r)</b>	<b><math>6 \times P.E. (r)</math></b>	<b>Significance or Insignificant</b>
0.8478	Higher degree of positive Correlation	0.7187	0.0774	0.4644	Significant

*Source: Appendix IV*

From the above table no.4.27 and Appendix no. IV we can draw the conclusion that there was higher degree of positive correlation between the premium collection by PIC and its investment. That reveals more premium collection means more investment.

Again, the coefficient of determination  $R^2$  is the measure of the degree of linear association or correlation between two variables, one of which is dependent variable and other is independent. In case of PIC the coefficient of determination is 0.7187 which means that the variation in independent variable (premium) explains 71.87% of the variation in investment.

In this study, the significance relation between premium collection and investment is measured by calculating probable error of correlation coefficient. Since the co-efficient of correlation ( $r$ ) is greater than  $6 \times P.E (r)$ , therefore we conclude that the relation between the two variables is significant.

#### 4.5.3 Correlation between Premium Collection and Claims paid by NIC and PIC

The coefficient of correlation between premium and claim paid is to measure the degree of relation between total premium and net claim paid. If the transaction of insurance (premium collection) is high than automatically its claim paid will be also higher. Therefore, it may have any negative or positive relation.

**Table No.4.28:**

**Correlation between Premium Collection and Claims paid by NIC**

<b>Coefficient of Correlation</b>	<b>Relationship</b>	<b><math>R^2</math></b>	<b>P.E. (r)</b>	<b><math>6 \times P.E. (r)</math></b>	<b>Significance or Insignificant</b>
-0.3794	Moderate degree of negative Correlation	0.1439	0.2357	1.41	Insignificant

*Source: Appendix V*

Decision: - From the above table no. 4.28 and appendix no. V we can conclude that there was moderate degree of negative correlation between premium collection and claims paid by NIC. It says that less premium collection means less claims paid.

Again, the coefficient of determination  $R^2$  is the measure of the degree of linear association or correlations between two variables, one of which is the dependent variable and other is independent variable. In case of NIC, the coefficient of determination is 0.1439, which means that the variation in independent variable (premium collection) explains 14.39% of the variation in dependent variable (claims paid). In case this study, probable error is used to measure the significance of the relationship between premium collection and claims paid.

According to above table, we can say that relationship between premium collection and claim paid by NIC is insignificant, which is proved from the comparison of 'r' and  $6 \times P.E(r)$ .

**Table No.4.29:**

**Correlation between Premium Collection and Claims paid by PIC**

<b>Coefficient of Correlation</b>	<b>Relationship</b>	<b>R<sup>2</sup></b>	<b>P.E. (r)</b>	<b>6× P.E. (r)</b>	<b>Significance or Insignificant</b>
-0.6989	Higher degree of negative Correlation	0.4885	0.1408	0.845	Significant

*Source: Appendix VI*

Decision: - From the above table no. 4.29 and appendices VI we can conclude that there was higher degree of negative correlation between premium collection and claim paid by PIC. It says that more premium collection means more claims paid.

Again, the coefficient of determination  $R^2$  is the measure of the degree of linear association or correlations between two variables, one of which is the dependent variables and other is independent. In case of PIC, the coefficient of determination is 0.4885, which means that the variation in independent variable (premium collection) explains 48.85% of the variation in dependent variable (claims paid).

Here, probable error is used to measure the significance of the relationship between two variables. In this study, significance relationship between premium collection and claims paid is measured by calculating probable error of correlation co-efficient. Since the coefficient of correlation (r) is higher than  $6 \times P.E (r)$ , we can conclude that the relation between the two variables is significant.

**4.6 t-test**

**4.6.1 Test of Hypothesis**

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

In this topic, an effort has been made to test the significance regarding the parameter of the population. Generally, following steps are followed for the test of hypothesis. (A sample of 't-test' calculation is prepared in Appendix VII)

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

#### 4.6.1.1 First Hypothesis (t-test for premium collection)

**Null Hypothesis:**

$\mu_1 = \mu_2$  (There is no significant difference between total premium collected by NIC and PIC)

**Alternative Hypothesis:**

$\mu_1 \neq \mu_2$  (There is significant difference between total premium collected by NIC and PIC)

**Table No.4.30:**

**Total Premium Collection Table**

<b>Fiscal Year</b>	<b>NIC</b>	<b>PIC</b>
<b>2006/07</b>	143.87	99.84
<b>2007/08</b>	166.82	117.54
<b>2008/09</b>	187.53	91.43
<b>2009/10</b>	106.19	72.78
<b>2010/11</b>	119.20	87.54
<b>2011/12</b>	153.57	75.15
<b>Total</b>	876.98	544.28

*Source: Annual Report of NIC and PIC of various Years*

Computation of test statistics't'

Total of NIC ( $\sum X_1$ ) = 876.98

Total of PIC ( $\sum X_2$ ) = 544.28

Number of year (N) = 6

Variance ( $S^2$ ) = 589.732

T-test value = 3.95

From the student's distribution, the tabulated value of 't' for 10 degree of freedom (d.f.) at 5% level of significance is 2.228 respectively.

Decision: -Since the calculated value of 't' is greater than the tabulated value at 5% level of significance,  $H_0$  is rejected. There is significant difference between premium collection of NIC and PIC.

From this test we can conclude that there is a difference in the premium collection ratio of NIC and PIC. There is no equality in premium collection ratio.

#### **4.6.1.2. Second Hypothesis**

('t' test for investment amount of NIC and PIC)

##### **Null Hypothesis:**

$\mu_1 = \mu_2$  (There is no significant difference between total premium collected by NIC and PIC)

##### **Alternative Hypothesis:**

$\mu_1 \neq \mu_2$  (There is significant difference between total premium collected by NIC and PIC)

**Table No.4.31:**

**Total Investment (based on aggregated data of in millions)**

<b>Fiscal Year</b>	<b>NIC</b>	<b>PIC</b>
<b>2006/07</b>	212.07	65.85
<b>2007/08</b>	201.41	73.20
<b>2008/09</b>	197.33	69.10
<b>2009/10</b>	234.35	31.26
<b>2010/11</b>	237.24	34.49
<b>2011/12</b>	244.34	36.71
<b>Total</b>	1327.14	310.61

*Source Annual Report of NIC and PIC of Various Years*

Computation of Test Statistics 't'

Total of NIC ( $\sum X_1$ ) = 1327.14

Total of PIC ( $\sum X_2$ ) = 310.61

Number of year (N) = 6

Variance ( $S^2$ ) = 392.499

T-test value = 14.81

From the students't - distribution, the tabulated value of 't' for 10 degree of freedom (d.f.) at 5% level of significance is 2.228 respectively.

Decision: - Since the calculated value of t' is greater than the tabulated value at 5% level of significance,  $H_0$  is rejected. There is significant difference between investments of NIC and PIC.

The t-test shows that the investment ratio is difference for NIC and PIC. There is a difference due to their objective, transaction size and other causes of relative factors.

#### **4.7: Presentation Analysis and Interpretation of Primary Data**

This chapter concentrates on using the aforementioned methodology to meet the objectives of the study and set forth a logical and qualitative framework to recommend probable solution to

the problems that are inherent within investment and premium collection aspect of the insurance industry. For this purpose, some of the collected questionnaire's answers are analyzed and studied. The questionnaire was distributed to the management of the respective of the entire management for the purpose of analysis and classification of the primary data, a simple ranking method was used where ever felt appropriate. While ranking, rank '1' was assumed as top most prioritized and the last number imparted for the query was assumed as last prioritized. Where the ranking was not possible or necessary a simple objective (Yes/ No) question was used. For classification of the views, Percentage method was used considering the total number of respondent as 100%. Further, such classification was supported with the graphical and tabular presentation, where ever (felt appropriate) necessary. A sample of questioners is included in the appendix 1. The number of respondents for the queries has differed due to the differentiation regarding the formation of the insurers. So, the number of respondents for each query is shown in sample questionnaire separately.

The primary data is collected from the employees of NIC and PIC and also from the customers of these two companies for the opinion on investment of general investable fund, its policy and premium and other relevant factors. Primary data for the purpose of this study is collected using pre-set questionnaire, which is supported by the direct interview with the relevant authorities.

This chapter is separated in two parts for the purpose of separate study as investment and premium aspect. They are as follows:

#### **4.7.1: Evaluation of the Insurer's Views, regarding the Premium Collection Aspect**

To evaluate the insurer views relating to the premium collection aspect of the insurers, a set of questionnaire was used, which contained 10 questions relating to the premium and its collection system and other relevant system. This questioner's aims to take insurer's view on present premium collection system, premium rate and collected premium ratio etc. In this aspect the questions and the views of respondents regarding those queries are presented as such.

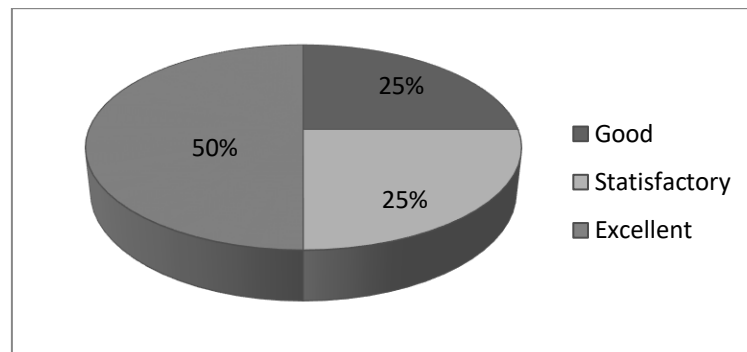
##### **(A) Condition of the Premium Collection at Present Situation**

This query was intended to find out the present condition of premium collection of Nepal Insurance Company Ltd. and Premier Insurance Company Ltd. This question was asked to some of the employees of NIC and some of the employees of PIC.

Among the viewers around 50% of the employees of both companies were in favor of option 'Good' around 25% were in favor of the 'Excellent' and 25% of the employee were in favor of option 'Satisfactory' which is shown in the following chart.

**Figure No.4.21:**

**Condition of the Premium Collection at present Situation**

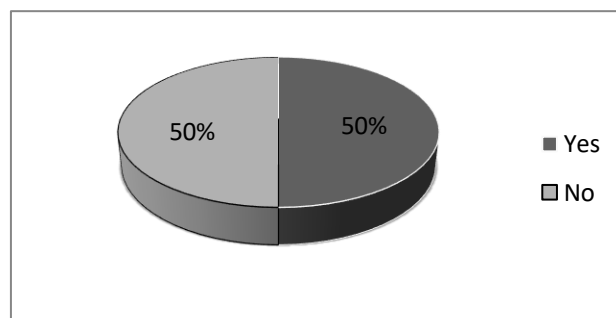


**(B) Rate of Premium Under Different Insurance Policy**

This query aims to identify view of insurer regarding the rate of premium. Beema Samitee directly regulates per premium rate of insurance policy. Hence, the authority of Government (Beema Samitee) published the rate of premium and forces all the insurers to follow it. To follow them, however, this question aims to know view of respondents as for premium rate. Among the viewers, around 66.67% of insurer were in favor of option 'No' and around 66.33% of insurer were in favor of 'yes' which is shown in figure below.

**Figure No.4.22:**

**Rate of premium under Different Insurance Policy**



**(C) Premium Collection system of Insurance Companies**

**Table No.4.32:**

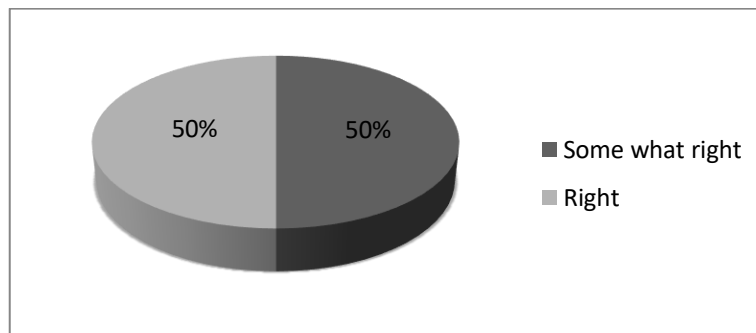
**Premium Collection System of Insurance**

<b>Companies</b>	<b>Right</b>	<b>Somewhat right</b>	<b>Wrong</b>	<b>Total</b>
<b>NIC</b>	5	5	-	10
<b>Percentage</b>	50%	50%	-	100%
<b>PIC</b>	5	5	-	10
<b>Percentage</b>	50%	50%	-	100%

The query was intended to find out the condition of premium collection system of NIC and PIC. This question is basically based on theoretical aspect. There are so many factors for which the question was attended. The question has been asked to 15 employees of NIC and 15 employees of PIC. Researcher found around 50% of the employees of NIC and PIC were in favor of first option 'Right' and 50% of the employee were in favor of second option 'Somewhat right'. It required corrective measure. This data we can plot in the following chart.

**Figure No.4.23:**

**Premium Collection System of Insurance**



#### (D) Collection from Premium at present Insurance Market

Table No.33:

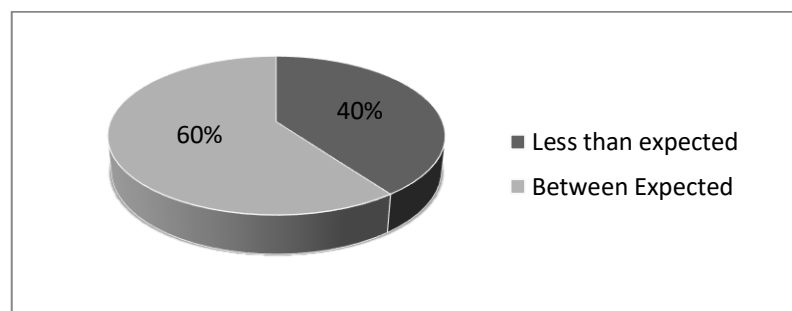
##### Collection from Premium at present insurance market

Companies/ Customers	Less than Expected	In between Expected	More than Expected	Total
NIC	4	6	-	10
Percentage	40%	60%	-	100%
PIC	4	6	-	10
Percentage	40%	60%	-	100%
Customers	15	35	-	50
Percentage	30%	70%	-	100%

This query was intended to find out the collection trend and present collection ratio of premium at Nepalese insurance market. This question was been asked to 50 customers, 10 employees of NIC and 10 employees of PIC. Researcher found that among the viewers around 60% of the employee of NIC and PIC were in favor of option 'In between expected' and 40% were in favor of option 'Less than expected', which is shown in the chart below.

Figure No.4.24:

##### Collection from Premium, at present insurance market



This chart clearly shows that most of the insurers were successful in collecting premium in between their expectation. It indicates that the collection ratio of premium is satisfactory.

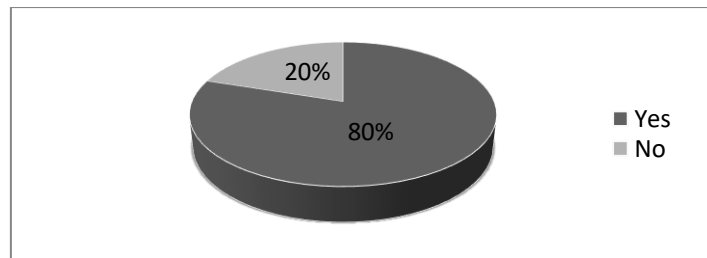
As per response of 50 customers, 30% were in favor of option 'Less than expected' and 70% were in favor of option 'In between expected'.

### **(E) Collection of Target Premium Amount**

This query was meant to identify the premium collection rate is as per target or not. Among the viewers around 80% were in favor of option 'Yes' and 20% were in option 'No'. From this query researcher can say that the companies average collection is in right position.

**Figure No.4.25:**

**Collection of Target Premium Amount**



The above chart shows the percentage of respondent's view. The first option 'Yes'

Got the 80% of view among total views. It means Nepalese insurance is successful in collecting premium from market.

### **(F) Why there are more General Insurance Companies than Life Insurance Company**

This query was intended to find out the condition of insurance companies in Nepal. There is higher competition in general insurance business. Therefore the competition had directly affected the insurance company. Among the viewers around 33% were in favor of first option "Establishment amount of life insurance Company are high, 47% were in favor of second option 'Law section of General Insurance Company are most easy" and 20% were in favor of third option "Law section of life insurance company are most difficult". Customers affected the competition.

**(G)Insurance Company gives the payment of the amount in time if loss damage takes place**

**Table No.4.34:**

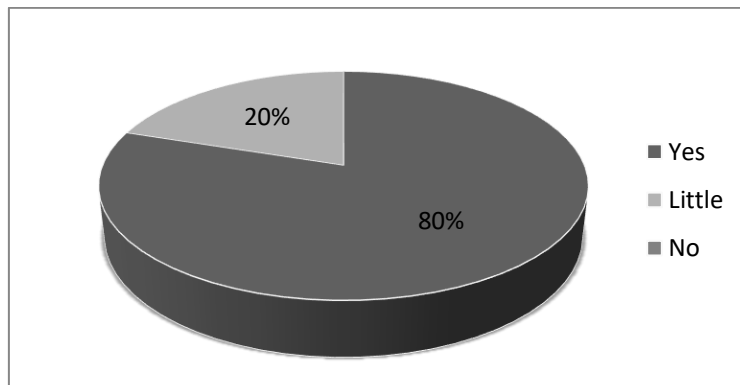
**Insurance Company gives the payment of the amount in time loss damage takes place**

<b>Company/ Customers</b>	<b>Yes</b>	<b>Little</b>	<b>No</b>	<b>Total</b>
<b>Customers</b>	40	10	-	50
<b>Percentage</b>	80%	20%	-	100%

This query aims to identify whether the insurance company gives the payment of the amount in time of loss or damage has taken place. This question was been asked to 50 customers of NIC and PIC. Among the views, around 80% were in favor of first option 'Yes' and around 20% were in favor of second option 'Little'. It required corrective measure. This data can be plot in following chart.

**Figure No.4.26:**

**Insurance Company gives the Payment of the amount in time if loss damage takes place**



**(H) There may be different provision according to insurance policy**

**Table 4.No.35:**

**There may be different provision according to insurance policy**

<b>Companies</b>	<b>Yes</b>	<b>Little</b>	<b>NO</b>	<b>Total</b>
<b>NIC</b>	10	-	-	10
<b>Percentage</b>	100%	-	-	100%
<b>PIC</b>	10	-	-	10
<b>Percentage</b>	100%	-	-	100%

This query was intended to find out there may be different provision according to the insurance policy. This question was asked to 10 employees of NIC and 10 employees of PIC. Researcher found that 100% Of the employee favored the option 'Yes'. There are different provisions as per the different insurance policies.

**(I) Under the Fire Insurance Policy**

This query aims to identify whether there is different provision under the fire insurance policy. This question was asked to 5 employee of NIC and 5 employee of PIC. Among the respondents, 100% were in favor of option 'yes' because the subject matter of fire insurance may be any property having intransitive value e.g. building, furniture, fixture, plant and machinery, goods and merchandises.

**(J) Cash- in-Transit Insurance is granted only to Commercial and Industrial Establishments**

This query aims to identify under the cash in transit insurance is granted only to commercial and industrial establishes. This question was asked to 5 employee of NIC and 5 employee of PIC. It was found that among the viewers 100% were in the favor of option 'Yes'.

**4.7.2 Evaluation of the Insurer Views regarding the Investment pattern Aspect**

To evaluate the insurer's view, relating the investment aspect of the insurers, a set of questionnaire is used, which contain 5 questions relating to the investment aspect of the insurer business. The questionnaire includes the insurers views relating to the present practices, policies, system, performance and conditions of investment.

This part was objected to find out the view and practices of insurer about investment pattern and to form a rational to recommend the possible solutions of the problems. In general, this part of the study was concentrated to find out what a practice is being in insurer's investment management and what condition in investment position and return. In this aspect these were the queries and the views of respondents regarding those queries.

**(K) Essentials of Portfolio, while Investing a Fund**

This question aims to find out the weight given by the insurer to the essentiality of portfolio while investing a fund, in this question, again, the entire insurers were in one lift. This question was asked to 5 employee of NIC and 5 employees of PIC and 10 customers. It was found that the views of the insurer were not differentiating for this matter. It means, the entire insurance accepts the importance and essentially of portfolio while investing fund 100% employees of NIC and PIC and customers were in favor of option 'significant essential', which clearly shows the favor of portfolio.

**(L) To maintain the desire/ maximum beneficial Investment Policy**

**Table No.4.36:**

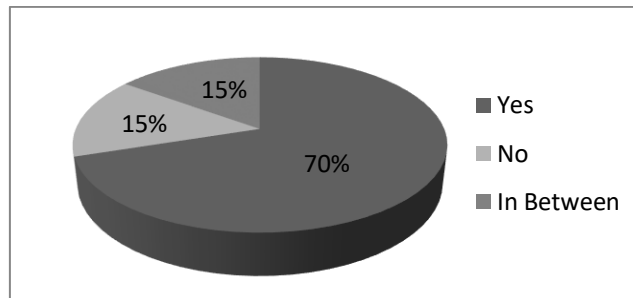
**To maintain the desire/maximum beneficial Investment Policy**

<b>Companies</b>	<b>Yes</b>	<b>No</b>	<b>In between</b>	<b>Total</b>
<b>NIC</b>	70%	15%	15%	100%
<b>PIC</b>	70%	15%	15%	100%

This question was intended to find the present status of the insurer relating to the investment policy and their perception regarding the present environment. Here, a major portion of the insurer showed their view for favorable result (yes) and some insurer showed their view for other result, which is shown in the chart below.

**Figure No.4.27:**

**To maintain the desire/maximum beneficial Investment Policy**



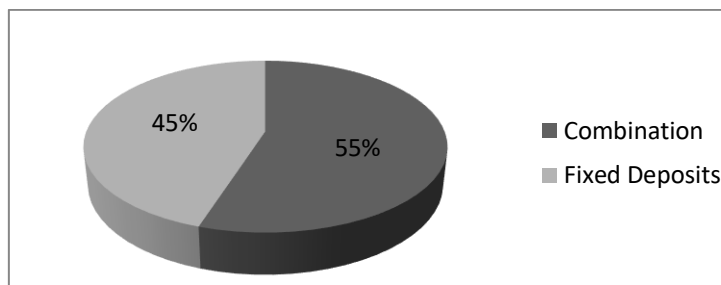
Regarding the query around 70% of NIC employees and PIC employees were in favor of the option 'Yes'. 15% of NIC were in favor of option 'No' and again 15% of NIC employees were in favor of option 'In between'. It means most of the insurer can maintain the desired minimum beneficial investment policy. Few of the insurers could not maintain maximum beneficial policy.

**(M) Suitable sectors for the purpose of Investment to the Insurer**

This question was meant to find out weight given by the insurer to investment sector. There are various investment sectors. There are various investment sectors but government classified the investment sector in two parts; optional and compulsory. Regarding this query 45% of NIC employees and PIC employees were in favor of first option 'fixed deposits' and other favored the contribution of mentioned all other options, which is shown in below chart.

**Figure No.4.28:**

**Suitable sectors for the purpose of Investment to the Insurer**



This figure clearly shows that less of the respondent preferred the fixed deposits for invest and more in favor of combination of all sectors.

## (N) Preferences of the Investment Policy

Table No.4.37:

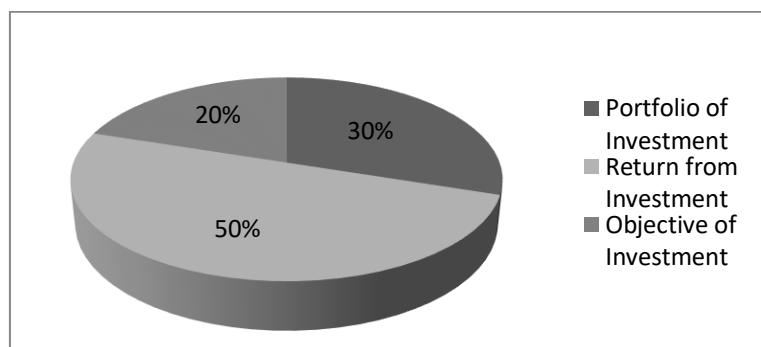
### Preferences of the Investment Policy

Companies	Portfolios of Investment	Return from Investment	Objectives of Investment	Total
NIC	3	5	2	10
Percentage	30%	50%	20%	100%
PIC	3	5	2	10
Percentage	30%	50%	20%	100%

This question was intended to find out the concentration of the insurer on particular aspect of the investment, while forming the investing policy. The option was given as portfolios of investment, return from investment, and objectives of investment. This question was been asked to 10 employees of NIC and 10 employees of PIC. Researcher found that among them around 50% of NIC employee and PIC employee respond in the favor of option 'return on investment', 30% were in favor of option 'protfolio of investment' and 20% of NIC employee and PIC employee were in favor of option 'objective of investment', which is shown in the figure below.

Figure No.4.29:

### Preferences of the Investment policy



From the above figure and query we can conclude that most of the insurer preferred the return from investment, while forming the investment policy.

### (O) Gain Desired Return

**Table No.4.38:**

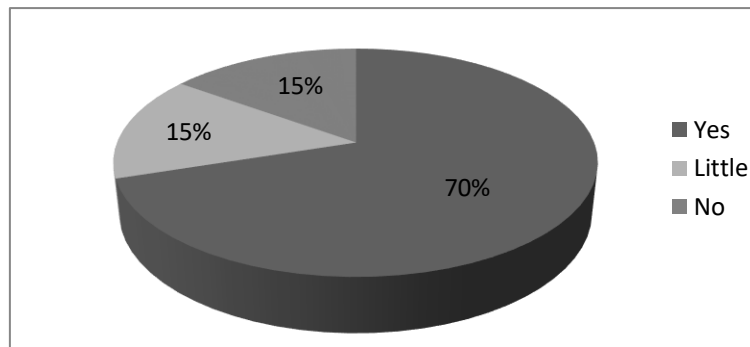
#### **Gain Desired Return**

<b>Companies</b>	<b>Yes</b>	<b>Little</b>	<b>No</b>	<b>Total</b>
<b>NIC%</b>	15%	70%	15%	100%
<b>PIC%</b>	15%	70%	15%	100%

The question's objective was to know the view of respondents about gaining desired return from investment. This question was been asked to employee of NIC and PIC. According to viewers answer of NIC and PIC we came to know 70% viewers ware in favor of option "Little". 15% each were in favor of option Yes/No that is shown in the chart as:

**Figure No.4.30:**

#### **Gain Desired Return**



It shows that almost all of the insurer investment was not effective and appropriate as most of the respondents were in favor of option little.

### **4.8 Major Findings**

The most important means of transfer of risk is insurance. Insurance is the heart and essence of risk management. Without support of insurance, industrial and commercial sector of a country cannot achieve success. Therefore, the study has been focused on evaluating the premium collection & investment position of the leading insurance company, NIC and PIC. The position of premium collection & investment of NIC and PIC has been already analyzed by using various financial and statistical tools. Based on the analysis some of the major findings are as follows:

- The premium collection ratio of fire insurance of NIC and PIC had been fluctuating each year. Premium collection under fire insurance is in decreasing trend.
- The proportion of marine premium collection is very less in total premium collection of NIC and PIC. The average ratio of marine premium collection to total premium collection of NIC is 5.59% and that of PIC is 4.37%.
- Miscellaneous premium collection to total general premium collection ratio of NIC and PIC has slightly fluctuated in increasing and decreasing trend.
- The investment of NIC on government saving bonds are decreasing, it is because of its investment in other sectors too.
- Higher Fluctuation could be seen in the ratio of investment on government saving bonds to total general investment on government saving bonds is decreasing each year. The ratio was 24.15% in 2009/2010 but in 2008/09 it was only 10.92percent.
- From the analysis, it was clear that around 51.76% of the investible fund of NIC goes to bank fixed deposit and in average 52.65% of total general investment of PIC goes to bank fixed deposits.
- Nepal Insurance Company Limited had started investment on finance company fixed deposit recently i.e. from 2009/2010.
- From the analysis of NIC, researcher found the investment on share of corporate securities was 24.41% in average of total general investment. It had invested its fund in some equal ratio in share market each year.
- The analysis of PIC revealed that the ratio of investment on share to total general investment fluctuated each year. Its fluctuation seems to be higher, as its C.V. is 0.487.
- NIC had not invested in other sectors in the year 2011/2012.
- PIC also started investing in other sectors since 2003/04. It invested 5.89 of its total investible fund in other sectors.

- The analysis of NIC shows that general claims paid to total general premium collection was in increasing trend. It increased along with the increment of premium collection.
- From the analysis of PIC, the study found that the general claims paid to total general premium collection was fluctuating. The highest ratio was 44.45% and the lowest was 30%.
- From the analysis, the researcher found that there was decreasing trend of interest earned to total general investment ratio of both the companies. NIC's average of it was only 6.19% and PIC's average was 9.27% respectively.
- The coefficient of correlation between premium collection and investment of NIC and PIC had high degree of negative/positive correlation with significant relationship.
- The analysis of correlation between premium collection and claim paid of NIC and PIC had moderate degree of positive correlation with insignificant relationship between premium collection and claims paid.
- The test of hypothesis helped to conclude that premium amount of NIC and PIC were significantly different. It seems that there is no similarity in premium collection trend of NIC and PIC.
- The 't-test' for total investment of NIC and PIC seems that there is significant difference between investment of NIC and PIC.
- In case of premium collection of NIC and PIC, there was variation in respondents view. 50% of the respondents were in the side of 'good'. 25% were in the favor of 'excellent' and the rest in the favor of 'satisfactory'.
- About preference of the investment policy, most of the respondents were in the favor of 'return from investment'. Only 20% favored 'objectives from investment' and 30% favored 'portfolio of investment'.
- The collected view shows only satisfactory position of the current investment system of NIC and PIC. However among the query 15% favored 'able to gain desired return'. 15% favored 'not able to gain desired return' from investment.

## **CHAPTER-V**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Summary**

Insurance has been introduced to safeguard the interest of people from uncertain by providing certainty of payment at a given contingency. According to nature, characteristic and objective of the insurance company, they are also referred as financial intermediaries. In the modern society and 21st century's business age, it plays vital role through risk bearing and providing certainty.

Among the 25 insurance companies, this present study has been taken to evaluate the premium collection and investment pattern of Nepal Insurance Company Ltd. and Premium Insurance Company Ltd. The study analyzed the report of six years starting from 2006/07 to 2011/12 of NIC and PIC has been taken into consideration for the purpose of the study.

The study is analyzed reviewing the secondary data from journal, articles, annual report of the company and other relevant sources as well as primary data. To reveal the problems, financial as well as statistical tools are applied. The recommendation is provided on the basis of findings from analysis.

Nepal Insurance Co. Ltd. (NIC) was established in 1947 B.S. and Premier Insurance Company Ltd. was organized in the year 2048 B.S. and started its operation in around 2051 B.S.

Although, NIC and PIC runs smoothly with profit, they faced various problems. The main problem is cut throat competition due to liberalization and privatization, under rating and price cutting and unhealthy competition between the insurance companies. Terrorism and recession is also the main problem of insurance business in Nepal. Likewise NIC and PIC, insured of both the companies are also having some problem in different situation. In about claim receive time consuming procedure in accepting, issuing and survey report submission, delay in claim settlement etc.

#### **5.2 Conclusion**

Insurance company helps to minimize the risk of loss from different uncertain events. Insurance has been introduced to safeguard the interest of people from uncertain by providing

certainty of payment at a given contingency. According to nature, characteristic and objective of the insurance company, they are also referred as financial intermediaries. In the modern society and 21st century's business age, it plays vital role through risk bearing and providing certainty.

Nepal Insurance Company (NIC) was established in 1947 under the guardianship of Nepal Bank Limited. Premier Insurance Company (PIC) was established in 1994 under Company Act and Insurance Act.

Nepal Insurance Company and Premier Insurance Company don't provide life insurance. It provides non-life insurance services such as General Insurance, Fire Insurance, Marine Insurance and Miscellaneous Insurance.

The amounts of Premium collected by both the companies are in fluctuating trend i.e. increasing and decreasing. Both the companies have invested fund in different sectors such as Government saving bonds, bank fixed deposits, finance company fixed deposits, shares and other sectors.

Both the companies coefficient of correlation between premium collection and investment is significant. The coefficient of correlation between premium collection and claims paid of NIC and PIC is insignificant.

### **5.3 Recommendations**

The recommendations are made as per the analysis of primary, secondary and valid findings from study as well as relating information about NIC and PIC. Since the insurance is directly related to premium collection and investment aspect and its management, they will be the ultimate bearer of the soundness and weakness of their functioning as financial institution. They have also barrier from government rules and regulation and through other relevant side this correlative action needs to be introduced:

- NIC and PIC should follow the investment policy and improve its management. And should maintain and make uniformly on premium collection under all insurance policy and should try to reduce its claim paid amount.
- Both the companies should enforce the diversification among the investment portfolio.

- From the analysis of study and research on interview, field observation of NIC and PIC, following facts are concluded: there are no sound policy and separate department for investing a fund but it is necessary to manage. Therefore, both the companies should manage a separate department for the purpose of investment and gain return without risk.
- NIC and PIC should improve their collection system and investment system too and try to increase customer service by providing different facilities and to withdraw unnecessary process of insurance and follow scientific insurance system.
- From the analysis mentioned above, findings seem that there is fluctuation of premium collection, investment and interest earned trend too. So, NIC and PIC should try to remove that type of fluctuation on respective aspect.
- Insurance premium fund should be invested in different sector other than government bonds, bank deposits, shares in order to earn more return.
- Premium earning and changes in premium analysis suggests NIC to be competitive in the market because their earning percentage followed decreasing trend. Thus, it should draw the attention of marketing division/department.
- NIC and PIC are suggested to expand insurance activities in rural areas by the established of branches or by the appointment of agents according to its potentiality.
- The necessity of training to agents is a must before their agents are appointed in order to attract the people.
- NIC and PIC should introduce more new policies and attractive strategy so as to make ease for the development of its business.
- Both these companies should be socially responsible oriented rather than premium oriented in order to develop its business in present situation.
- Settlement of claims should be made on time; Delay in the settlement of claims may affect the business potentially. Further, attention has to be adequately provided towards the faithfulness of the insured in connection with claims arising due to the specified events.

- The company should set up a separate research and development department, which will look the present and potential business opportunities in the market.
- The company should try to increase the efficiency of the employees by organizing development programmers.

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## APPENDIX-I

### SCHEDULE OF QUESTIONNAIRE

#### About Premium

1. What is the condition of premium collection (of insurer) at present situation?  
Excellent                      Good                      Satisfactory
2. Are you/your firm satisfied with the various rate of premium under different insurance policy?  
Yes                      No
3. How is the premium collection system of your Insurance Company?  
Right                      Some what right                      Wrong
4. How is the collection of the premium at present insurance market?  
Less than expected                      In between expected                      More than expected
5. Are you/your firm able to collect target premium amount?  
Yes                      No
6. Why are there more general insurance companies than life insurance?  
Establishment amount of life insurance company is high.  
Law section of general insurance company most easy.  
Law Section of Life Insurance Company is most difficult.
7. Does the insurance company pay the claim amount on time?  
Yes                      Little                      No
8. Is there any different provision according to the insurance policy?  
Yes                      Little                      No
9. Is under the fire insurance company, if any?  
Yes                      No
10. Is cash in transit insurance granted only to commercial and industrial establishments?  
Yes                      Little                      No

#### About Investment

11. Is creating a portfolio of investment essential?  
Significant concerned                      Some what concerned                      Not Essential
12. Do you feel that you/your firm is able to maintain the desired/maximum beneficial investment policy?  
Yes                      No                      In between

13. Which sectors are suitable for the purpose of investment?

Fixed       Govt. saving Bond       Share in Market       Any other

14. While forming the investment policy, what will be your firm preference among these?

Portfolios of investment       Return from Investment       Objective of investment

15. Is the present investment able to gain desired return?

Yes       Little       No

## APPENDIX-II

### Premium Collected by NIC from different Sections in Different Fiscal Years

Source	2006/07		2007/08		2008/09		2009/10		2010/11		2011/12	
	Rs.	%	Rs.	%	Rs.	%	Rs.	%	Rs.	%	Rs.	%
<b>Fire</b>	75285992	52.33	69027107	41.38	718333467	38.30	76067576	71.63	84419683	70.82	111745509	72.86
<b>Marine</b>	4631865	3.22	391331	2.45	5107974	2.72	8449824	7.96	10821289	9.08	12440741	8.11
<b>Misc.</b>	639542641	44.44	93881830	56.27	110597781	59.98	21672654	20.14	23960303	20.10	29190136	19.03
<b>Total</b>	143870498	100	166822268	100	187539222	100	106190054	100	119201275	100	153376386	100

*Source: Annual Report of NIC of Various*

### Premium Collection by PIC from Different Sector in different Fiscal Years

Source	2006/07		2007/08		2008/09		2009/10		2010/11		2012/11	
	Rs.	%	Rs.	%	Rs.	%	Rs.	%	Rs.	%	Rs.	%
<b>Fire</b>	21443000	21.47	25425000	21.65	28124000	30.76	34763880	47.76	37545631	42.88	382098823	50.84
<b>Marine</b>	2008000	2.01	2736000	2.33	3449000	3.77	4309153	5.92	4312764	4.93	5452623	7.25
<b>Misc.</b>	76398000	76.52	89289000	76.02	59866000	65.47	33709952	46.32	45685845	52.198	31490161	41.91
<b>Total</b>	99849000	100	117450000	100	91439000	100	72782985	100	87544240	100	75152607	100

*Source: Annual Report of PIC of Various Years.*

### APPENDIX-III

#### Correlation between premium collection and investment of NIC

(Rs. In Million)

Year	(X)	(Y)	x	y	x <sup>2</sup>	y <sup>2</sup>	xy
2006	143.87	212.07	-2.32	-9.12	5.38	83.17	21.16
2007	166.82	201.41	20.66	-19.78	426.84	391.25	-408.65
2008	187.53	197.33	41.37	-23.86	1711.48	569.30	-987.09
2009	106.19	234.75	-39.97	13.56	1598.40	183.87	-541.99
2010	119.20	237.24	-26.96	16.05	726.84	257.60	-428.37
2011	153.27	244.34	7.21	23.15	51.98	535.92	166.91
<b>Total</b>	876.98	1327.14			4520.92	2021.11	-2178.03

Where, X = Premium Collection

Y = Investment

$$\bar{X} = 146.16$$

$$\bar{Y} = 221.19$$

$$r = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}} = \frac{-2178.03}{\sqrt{4520.92} \sqrt{2021.11}} = -0.7204$$

Calculation of Probable Error [P.E. (r)]

$$P.E.r. = 0.6745 \times \frac{(1 - r^2)}{\sqrt{N}}$$

$$= 0.6745 \times \frac{(1 - 0.5189)}{\sqrt{6}}$$

$$= 0.1325$$

$$6 \times P.E.(r) = 6 \times 0.1325 = 0.795$$

## APPENDIX-IV

### Correlation between premium collection and investment of PIC

(Rs. In Million)

Year	(X)	(Y)	x	y	x <sup>2</sup>	y <sup>2</sup>	xy
2006	99.84	65.85	9.13	14.08	83.35	198.25	128.55
2007	117.54	73.20	26.83	21.43	719.85	459.24	574.97
2008	91.43	69.10	0.72	17.33	0.52	300.33	12.47
2009	72.78	31.26	-17.73	-20.51	321.48	420.66	367.74
2010	87.54	34.49	-3.17	-3.17	10.05	298.60	54.78
2011	75.15	36.71	-15.56	-15.56	242.11	226.80	234.33
<b>Total</b>	544.28	310.61			1377.36	1903.88	1372.84

Where, X = Premium Collection

Y = Investment

$$\bar{X} = 90.71$$

$$\bar{Y} = 51.77$$

$$r = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}} = \frac{1372.84}{\sqrt{1377.36} \sqrt{1903.88}} = 0.8478$$

Calculation of Probable Error [P.E. (r)]

$$P. Er. = 0.6745 \times \frac{(1 - r^2)}{\sqrt{N}}$$

$$= 0.6745 \times \frac{(1 - 0.7187)}{\sqrt{6}}$$

$$= 0.0774$$

$$6 \times P. E. (r) = 6 \times 0.0774 = 0.4644$$

## APPENDIX-V

### Correlation between premium collection and claims paid of NIC

(Rs. In  
Million)

Year	(X)	(Y)	x	Y	x <sup>2</sup>	y <sup>2</sup>	xy
2006	143.87	20.03	-2.32	-31.89	5.38	1015.70	73.98
2007	166.82	37.10	20.66	-14.80	426.84	2190.04	-305.77
2008	187.53	45.34	41.37	-6.55	1711.48	42.90	-270.97
2009	106.19	61.01	-39.97	9.11	1598.40	82.99	-364.13
2010	119.20	72.12	-26.96	20.22	726.84	408.85	-539.67
2011	153.37	75.80	7.21	23.90	51.98	571.21	172.32
<b>Total</b>	876.98	311.40			4520.92	2340.69	-1234.24

Where, X = Premium Collection

Y = Claims paid

$$\bar{X} = 146.16$$

$$\bar{Y} = 51.9$$

$$r = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}} = \frac{-1234.24}{\sqrt{4520.92} \sqrt{2340.69}} = -0.3794$$

Calculation of Probable Error [P.E. (r)]

$$P.E.r. = 0.6745 \times \frac{(1 - r^2)}{\sqrt{N}}$$

$$= 0.6745 \times \frac{(1 - 0.1439)}{\sqrt{6}}$$

$$= 0.2357$$

$$6 \times P.E(r) = 6 \times 0.2357 = 1.41$$

## APPENDIX-VI

### Correlation between premium collection and claims paid of PIC

(Rs. In Million)

Year	(X)	(Y)	x	Y	x <sup>2</sup>	y <sup>2</sup>	xy
2004	99.84	6.30	9.13	-21.7	83.35	470.93	-198.30
2005	117.54	16.42	26.83	-11.58	719.85	134.10	-310.69
2006	91.43	20.98	0.72	-7.07	0.52	49.98	-5.09
2007	72.78	30.66	-17.93	2.66	321.48	7.07	-47.69
2008	87.54	41.56	-3.17	13.56	10.05	183.87	-42.98
2009	75.15	52.2	-15.56	24.18	242.11	585.67	-376.24
<b>Total</b>	544.28	168.12			1377.36	1430.62	-980.99

Where, X = Premium Collection

Y = Claims paid

$$\bar{X} = 90.71$$

$$\bar{Y} = 28.02$$

$$r = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}} = \frac{-980.99}{\sqrt{1377.36} \sqrt{1430.62}} = 0.6989$$

Calculation of Probable Error [P.E. (r)]

$$P.E.r. = 0.6745 \times \frac{(1 - r^2)}{\sqrt{N}}$$

$$= 0.6745 \times \frac{(1 - 0.4884)}{\sqrt{6}}$$

$$= 0.1408$$

$$6 \times P.E.(r) = 6 \times 0.1408 = 0.8448$$

## APPENDIX-VII

### T-test of Premium Collection of NIC and PIC Total Premium Collection Table

(Rs. In Million)

Year	(X <sub>1</sub> )	(X <sub>2</sub> )	(X <sub>1</sub> - $\bar{X}_1$ ) <sup>2</sup>	(X - $\bar{X}_2$ ) <sup>2</sup>
2006	143.87	99.84	5.24	83.35
2007	166.82	117.54	426.83	719.85
2008	187.53	91.43	1711.47	0.52
2009	106.19	72.78	1597.60	321.48
2010	119.20	87.54	726.84	10.05
2011	153.37	75.15	51.98	242.11
<b>Total</b>	876.98	544.28	4519.96	1377.36

$$\bar{X}_1 = 146.16$$

$$\bar{X}_2 = 90.71$$

$$S^2 = \frac{1}{N_1 + N_2 - 2} \sum (X_1 - \bar{X}_1)^2 + (X_2 - \bar{X}_2)^2$$

$$= \frac{1}{6 + 6 - 2} 4519.96 + 1377.36$$

$$= 589.732$$

Here,

$$t = \frac{\bar{X}_1 - \bar{X}_2}{\sqrt{S^2 \left( \frac{1}{N_1} + \frac{1}{N_2} \right)}} = \frac{146.16 - 90.71}{\sqrt{589.732 \left( \frac{1}{6} + \frac{1}{6} \right)}} = 3.95$$

## APPENDIX-VIII

### T-test of Investment of NIC and PIC

#### Total Investment Collection Table

(Rs. In Million)

Year	(X <sub>1</sub> )	(X <sub>2</sub> )	(X <sub>1</sub> - $\bar{X}_1$ ) <sup>2</sup>	(X <sub>2</sub> - $\bar{X}_2$ ) <sup>2</sup>
2006	212.07	65.85	83.17	198.25
2007	201.41	73.20	391.25	459.24
2008	197.33	69.10	569.30	300.33
2009	234.35	31.26	183.87	420.66
2010	237.24	34.49	257.60	298.60
2011	244.34	36.71	535.92	226.80
<b>Total</b>	1327.14	310.61	2021.11	1903.88

$$\bar{X}_1 = 221.19$$

$$\bar{X}_2 = 51.77$$

$$S^2 = \frac{1}{N_1 + N_2 - 2} \sum (X_1 - \bar{X}_1)^2 + (X_2 - \bar{X}_2)^2$$

$$= \frac{1}{6 + 6 - 2} 2021.11 + 1903.88$$

$$= 392.499$$

Here,

$$t = \frac{\bar{X}_1 - \bar{X}_2}{\sqrt{S^2 \left( \frac{1}{N_1} + \frac{1}{N_2} \right)}} = \frac{221.19 - 51.77}{\sqrt{392.499 \left( \frac{1}{6} + \frac{1}{6} \right)}} = 14.81$$

**APPENDIX-IX**

**Claims Paid by NIC**

<b>FY</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>
<b>Fire</b>	3182766	2693044	4447314	28488452	25007865	10657512
<b>Marine</b>	149539	136254	1732399	751221	372783	128787
<b>Misc.</b>	16694807	34272193	39166368	31769989	46741308	65,013,170
<b>Total</b>	20027112	37101491	4534080	61,009,662	721,21,956	75,799,469

**Total Claims Paid by PIC**

**(Rs. In Million)**

<b>FY</b>	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>
<b>Total Claim</b>	6.299	16.42	20.98	30.66	41.56	52.2	71.93