A STUDY ON FINANCIAL PERFORMANCE ANALYSIS OF NEPALESE NON-LIFE INSURANCE INDUSTRY

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ABSTRACT

This study intends to study the financial performance of non life insurance companies in Nepal and investigate how operating efficiency affects the operating profit margin and solvency margin position of specific non life insurance companies. The research design and procedures have been implemented in accordance with the descriptive and analytical study type. The secondary data served as the foundation for this study's conclusions. The information was taken from the Nepal Beema Samiti office and Annual Reports. The conclusions are entirely supported by the facts and data that have been supplied.

The study's conclusions demonstrate that the overall financial ratios that were computed are sufficient to improve the financial performance of a few chosen non-life insurance businesses in Nepal. Additionally, the study showed a mixed outcome on the extent to which operating efficiency is impacted by financial performance. The operating profit and solvency margin have both major and minor impacts on the operational effectiveness of the two insurance companies in the sample. Major obstacles still need to be removed before Nepal's insurance sector can reach its full potential. The increase in the written premiums that insurers account for could be the subject of research.

CHAPTER I
INTRODUCTION

1.1 Background of the Study

All people want to live a life that is easier, more comfortable, healthier, and cleaner. Various businesses manufacture and offer items and services to satisfy this desire. They take a lot of risks when they innovate and invent. Inventors and innovators bear a great deal of responsibility. A minor mistake or oversight could result in multiple negative consequences, including death or paralysis. These kinds of hazards emphasize how crucial insurance is. The world would never have advanced if insurance had not been the driving force behind all innovators. After considering this security concern, companies started looking for new and more sophisticated equipment. These included deep-sea exploration, computers, atomic technology, space travel, robots and devices, the development of Concords and Jumbo, and medical technology. With the help of insurance, all of these advancements might be feasible.

General insurance, also known as non-life insurance, covers losses arising from financial events such as those insured under homeowners' or auto policies. Unlike life insurance, general insurance includes all other types of coverage and is often called property and casualty insurance in the United States and Canada, while in continental Europe it is referred to as non-life insurance.

General insurance companies perform three primary functions: (i) managing risk, (ii) mobilizing resources, and (iii) pooling, diversifying, and compensating for losses. Experts agree that insurance plays a vital role in both advanced and developing economies by promoting financial stability, encouraging savings, facilitating trade and commerce, managing risks, reducing losses, allocating capital efficiently, and serving as an alternative to government social security programs (Skipper, 2001).

These companies provide financial protection against the loss of assets or liabilities, typically for a coverage period of one year. Unlike life insurance, general insurance policies do not include an investment element, and policyholders do not expect financial returns. General insurance can be categorized into two types: (i) personal

insurance, which involves a large number of policies with relatively low individual values, and (ii) commercial insurance, which consists of fewer policies with higher values and caters to specialized clients.

Insurance and banking institutions play equally important roles in economic development. Since insurance businesses are declared insolvent each year, thousands of customers are abruptly faced with some extremely serious issues, raising serious concerns about the financial health of insurance. Therefore, it is crucial that regulators, investors, and insurer management conduct regular, thorough assessments and monitor the financial health of insurance firms (Das & Podpiera, 2003).

As a financial intermediary, insurance is crucial to any nation's economic development. Whether or whether financial institutions support economic growth has been hotly debated. In the past, banks received more attention than insurance businesses. In the insurance industry, very little work has been done. However, every study that has been done on the insurance industry and economic growth has found a favorable correlation. Insurance acts as a method for risk transfer, offering monetary security against unforeseen losses. There is a lot of risk and uncertainty in the modern world. Globalization, liberalization, and scientific and technological innovation are the causes of this risk and uncertainty. One strategy to reduce and offer protection from those dangers is through insurance.

Numerous scholars have examined the connection between insurance and economic growth, coming to the conclusion that there is a direct and causal relationship. The Shikhar Nations Conference on Trade and Development formally recognized that "economic growth requires a robust national insurance and reinsurance market." Any nation's economic growth depends on the expansion of its insurance and reinsurance industries since they lower uncertainty and promote long-term investment (Feyen, Lester, & Rocha, 2011).

Insurance is a type of risk management in economics and law that is mostly used to protect against the possibility of an unknown, contingent loss. The fair transfer of a loss's risk from one organization to another in return for money is known as insurance. An insured, or policyholder, is the individual or organization that purchases the insurance policy; an insurer is the business that sells the insurance. The amount to be

paid for a specific level of insurance coverage, known as the premium, is determined in part by the insurance rate. The assessment and control of risk, or risk management, has become a distinct area of research and application.

In addition to strengthening ties with other economic sectors, which foster growth and stability, and providing indemnification for risks encountered by both individuals and businesses, the insurance industry has a significant impact on a nation's national income. An economy's immune and repair systems include the insurance sector. An economy's growth and other businesses are stimulated by the insurance industry's successful operation.

The coordinated distribution of a certain risk among a group of individuals who are exposed to it is known as insurance. Due to its ability to pool individual risks into groups and use member funds to cover losses, insurance is a viable tool for managing the financial components of risk (Ghos & Agrawal 1989). In order to get success, Kasturi, R. (2006) emphasized that performance was evaluated by keeping all the metrics in balance. He evaluated the insurance company's financial success in that study using both financial ratios and "non-financial measures," such as the company's worth to society, growth, and client orientation.

In the end, insurance helps further human progress by protecting commerce and industry. As a result, insurance is the main factor advancing humankind's economic, social, and technical advancement. Without insurance, all global economic, social, and industrial activity will grind to a standstill. Therefore, in practically all established and some developing nations, insurance is a significant and expanding component of the financial industry.

Compared to other nations, Nepal has a relatively short history of the insurance industry. In general, before 2007 B.S., Indian insurance companies handled Nepal's insurance operations. But according to history, the "Mal Chalani and Beema Company," an insurance firm, was established in 2004 B.S. Later, in 2016 B.S., it changed its name to "Nepal Insurance and Transport Co. Pvt. Ltd." and is currently known as Nepal Insurance.

In order to expand the insurance market and compete with organized Indian insurance companies, Rastriya Beema Corporation was established as the first public insurance

company under the Insurance Act of 2025. Although it had been doing general insurance since the beginning, it just began doing life insurance in 2025. According to the Insurance Act of 2025 B.S., National Life of General Insurance Company Pvt. Limited was founded in the private sector in 2043. It has been in the business of general and life insurance ever since. Following the restoration of democracy and economic liberalization, a new insurance act was created in 2049. Numerous insurance businesses have been founded as a result of this rule, which aids market liberalization. In Nepal, there are currently 35 insurance companies, both life and non-life in mid 2023.

Furthermore, the insurance environment started to shift concurrently with other elements with the return of democracy in 1990 AD. The Insurance Act of 1968 was thus superseded by the new Insurance Act of 1992 in order to satisfy the demands of the evolving circumstances (Beema Ain, 2049). "To establish an Insurance Board to systematize, regularize, develop, and regulate the insurance business" is a clear statement in the Act's preamble. The Insurance Act of 1992 establishes Beema Samiti (Insurance Board) as an independent entity to fulfill the preamble's objectives. Bema Samiti currently regulates nine life and sixteen non-life insurance businesses.

1.2 Statement of Problem

The insurance sector functions as a two-edged sword and is regarded as a financial intermediary of the financial system. It serves as a driver for economic growth while also offering financial stability against potential loss and uncertainty. Therefore, for academics and financial students, insurance is an intriguing research issue. Insurance firms are expanding quickly and operating profitably in the Nepalese economy. Notwithstanding a number of earlier studies on the financial performance of insurance businesses, a research assessing the financial stability of Nepalese non-life insurance companies is necessary in order to draw definitive conclusions about the performance of this industry and its contribution to the national economy.

The study's overall goal is to evaluate the financial performance of the non-life insurance sector in Nepal from FY 2070–71 to FY 2074–75 while taking listed firms into account. The following research questions were obtained on this study:

- What is the current status of analysis of financial performance of non life insurance companies in Nepal?
- Discuss about the relationship between solvency margin ratio and operating efficiency.
- What is the relationships between operating profit margin ratio and operating efficiency?

1.2 Objective of the Study

The study's primary goal is to evaluate the non-life insurance sector's financial performance in Nepal. Nonetheless, the following are the precise goals:

- To examine the overall financial indicators and their performance analysis on non life insurance in Nepal.
- To identify the relationship between operating efficiency and the profit margins of non life insurance companies in Nepal.
- To identify the relationship between operating efficiency and solvency margin ratio.

1.4 Rationale of the Study

Despite its steady growth, Nepal's non-life insurance market is still in its infancy. The financial viability of Nepalese insurance businesses is negatively impacted by a number of factors, including intense competition, inadequate monitoring systems, a small market, low per capita income, a lack of lucrative investment options, and rising rates of terrorism and violence. It's still unclear how well Nepalese non-life insurance is doing financially. Despite the fact that several research have been conducted in this field, they have not been able to identify the factors that affect the sector's financial performance. The purpose of this study is to shed light on how Nepalese non-life insurance businesses assess their financial health.

The purpose of this study is to shed light on how Nepalese non-life insurance businesses assess their financial health. Insurance businesses, clients, academics, students, and other interested parties may also find the study useful in learning more

about the financial standing of Nepalese non-life insurance firms. The study, according to the researcher, clarifies how different financial ratios are used to assess the financial success of insurance businesses. Discourse ratios and their application in determining the primary cause of subpar financial performance and offering recommendations for preserving a strong financial position to contend with the fiercely competitive global insurance market would be greatly aided by the research. Future academics looking to conduct additional research on this topic should also find this paper useful.

1.5 Limitations of Study

This study has following limitation:

- This study conducted on secondary data based, and necessary data were taken from articles, published and unpublished reports, through public sources like web, internet, journals, magazines, annual reports of sample populations.
- This study only considered the five years time frame data.
- This study only use two non life insurance companies as a sample population, ignore other companies.

CHAPTER II
LITERATURE REVIEW

A literature review in research is a comprehensive survey and synthesis of existing scholarly work on a specific topic. It aims to provide an overview of current knowledge, identify key findings, theories, and methodologies, and highlight gaps in the existing research. Essentially, it situates your own research within the broader context of what is already known**.**

2.1 Conceptual Review

The concept, history, and types of insurance are covered in this section, along with a study of relevant literature to help build the conceptual framework. A survey of legal documents, scholarly research and publications, unpublished dissertations, and relevant published theses pertaining to financial performance indicators are presented in this chapter. Given the numerous issues the insurance sector is now dealing with, such as heightened competition, consolidation, solvency threats, and a shifting regulatory landscape, a study of the sector's performance is essential. In order to ascertain how the industry will react to these problems and which firms are most likely to survive, it is evident that the efficiency of the firms in this industry is a crucial question (Berger, Al., 1997).

In order to survive and perform better, insurance companies must eliminate their weaknesses and manage a sound liquidity position, an optimal capital structure, a suitable investment portfolio, effective operating management, hiring qualified human resources, introducing a human resource development program, establishing strict supervision, evaluation, and control programs, and more, according to Sharma's study "Financial Performance Analysis of Nepalese Insurance Companies" (2059), which used a variety of financial ratios and statistical tools.

2.1.1 Concept of Insurance

A product that provides protection against a range of unforeseen circumstances is insurance. A specific amount is promised to the insured under an insurance contract in

exchange for the insured paying a premium. There are numerous options available for property-related insurance. Property may be protected from natural disasters like earthquakes and floods as well as fire. Breakdown insurance may be available for machinery. A marine cargo insurance policy can provide coverage for goods while they are in transit. For ships and other vessels, insurance coverage is also offered. Both third-party and vehicle damage are covered by a motor insurance policy.

Insurance can be defined from multiple perspectives. For instance, the Commission on Insurance Terminology of the American Risk and Insurance Association defines insurance as the collective sharing of potential losses by transferring these risks to insurers. According to Rejda (2008), insurers agree to compensate policyholders for covered losses, provide financial benefits when such losses occur, or offer services connected to risk management.

2.1.2 Types of Insurance

When developing insurance coverage, insurance companies categorize risks according to their focus. This provides a certain degree of uniformity in the risks that a specific insurance type covers, allowing insurers to forecast potential losses and suitably modify prices. Among the several insurance classifications are the following:

Life Insurance: Often referred to as social insurance, life insurance is a contract in which the insurer agrees to pay a specified amount of money either upon the insured person's death or after a predetermined period, in exchange for premium payments. Individuals may purchase life insurance to protect themselves or someone else. It is also possible to buy life insurance on another person’s life—for instance, a wife might take out a policy that provides benefits if her husband passes away. Parents and spouses commonly obtain this coverage to safeguard against the loss of a child or loved one. The main purposes of life insurance are to provide financial protection for dependents in case of unfortunate events and to fulfill both the insurer’s protection and savings objectives. Types of life insurance include:

- Whole Life Insurance
- Endowment Life Insurance

- Term Life Insurance

Non-life Insurance (General Insurance): The primary purpose of general insurance is to protect against financial losses arising from unexpected events such as fires, maritime accidents, and other disasters. It provides coverage for insurable interests by safeguarding against losses caused by natural calamities like floods, fires, earthquakes, and thefts—events that are outside the control of the property owner. This protection is granted based on utmost good faith, where the insured must disclose relevant information, pay the premium, and avoid exploiting the insurance contract.

- Non-life insurance is categorized into several types, including:
- **Fire Insurance:** This form of property insurance covers financial losses resulting from fire and related perils such as explosions, earthquakes, lightning, water damage, wind, rain, collisions, and civil disturbances. When a building is insured against fire, the policy compensates the owner if the property is damaged or destroyed by fire or similar disasters. In some cases, fire insurance is included in standard property insurance, while in others, it must be purchased separately. Depending on the policy terms, coverage may extend to both the structure and its contents. Some policies also offer additional benefits like a living allowance, helping insured individuals rent temporary accommodation during repairs.

Automobile Insurance:

Insurance purchased for automobiles, trucks, and other road vehicles is known as vehicle insurance. Auto insurance, automobile insurance, or motor insurance are some common names for it. Its primary objective is to provide protection against both potential responsibility and physical harm resulting from traffic accidents. The following categories of auto insurance plans and their scope of coverage are available in the Nepalese insurance market:

i. Third Party Liability Insurance, which will cover costs related to third-party legal liability resulting from vehicle use.
ii. In addition to Third Party Liability, Fire & Theft will pay for any loss or damage to the vehicle caused by Fire and Theft.

Marine Insurance: “Ships are subject to a variety of hazards when at sea. They might collide, leak, catch fire, be taken by pirates, or be captured by adversaries. In this situation, the ship and its cargo could be lost, and its owners could suffer a great deal of financial loss. International trade, which is primarily conducted by sea, will be severely discouraged if such risks are not addressed. Because of this, marine insurance is seen as the land mind of contemporary international trade, an essential auxiliary. Owners and carriers of goods transported over oceans, seas, or navigable waterways are covered by marine insurance plans. Marine hazards include passenger injuries, cargo damage, and vessel damage. Transportation of products on land and in landlocked lakes is covered by inland marine insurance.

Engineering and Contractor's Risk Insurance: For civil works like buildings and machine works like bridges, dams, roads, sea walls, etc., engineering and contractor risk insurance is provided. It also covers temporary structures put up to support the construction as well as the equipment and plant needed for the job. It also provides coverage for third-party liability, natural disasters, and the full building phase, which may last several years.

1) **Aviation Insurance:** Insurance for airplanes and associated aircraft operations is known as aviation insurance. Aircraft Hull is one facet of aviation insurance. Another factor is that pilots who transport passengers run the risk of being held liable by the public, for which they need aircraft liability insurance. Additionally, airports may be held liable; this is known as airport owners' and operators' liability insurance.

Miscellaneous Insurance: Miscellaneous insurance businesses include a variety of policies such as medical insurance, accident insurance, money-in-transit insurance, machinery breakdown coverage, workers’ compensation insurance, and protection against burglary and housebreaking. Other types under this category include fidelity guarantee insurance, travel insurance, boiler insurance, credit insurance, financial loss insurance, terrorism insurance, public liability insurance, livestock insurance, crop insurance, and professional indemnity insurance.

Key Laws for Maintaining Financial Stability in Nepal's Insurance Sector: The Insurance Act, regulations, directives, and various policies and guidelines issued by the Insurance Board of Nepal are designed to ensure the minimum financial soundness and operational efficiency of insurance companies. To maintain this essential level of financial stability, insurers are required to comply with several fundamental rules and standards set forth by these governing bodies.

For every type of insurance business, the insurer must keep a different insurance fund. Funds held for one type of insurance business cannot be used to pay off debts associated with another type of insurance business.

i. The reserve money for a life insurance company should not be less than the entire responsibility as stated in the insurance contracts.
ii. The sum must not be less than half of the net non-life insurance premiums for a non-life insurance company.
iii. The insurer's assets shouldn't be more than its liabilities.
iv. At least 75% of the insurance companies' entire investment must be made in government securities, Treasury bills, and fixed-term bank deposits. In addition to making deposits in commercial banks, the remaining 25% can be invested in housing schemes, financial firms, and debenture plans of public limited corporations.
v. Within six months of the fiscal year's end, the Insurance Board should receive audited financial accounts with comprehensive information.
vi. In accordance with the Board's guidelines, the insurer must have the risk that exceeds the risk limit held by it reinsured.
vii. One-hundred fifteen percent of the outstanding sums paid against the insurer's claim submitted prior to the end of each fiscal year.
viii. Out of the total amount of money received from premiums while running the insurance business, the insurer may spend up to 25% in the case of marine insurance and up to 30% in the case of other insurance for management purposes.
ix. The insurer's financial stability should be verified by the actuary. It is necessary to identify all significant threats to the insurer's solvency.

x. It is anticipated that the computed reserve will be at least as much as what will be generated by using the Gross Premium Method.

xi. These insurance providers operate in accordance with the principles and

standards of the Insurance Act of 1992 and the Insurance Regulations of 1993. These businesses create funds and underwrite life and non-life insurance policies for the best protection against specific or unknown risks. They also handle third-party insurance. In any case, the insurance industry has a lot of potential in the days ahead.

2.2 Research Review

The journals and dissertations that address non-life insurance operations and the connection between financial performance analysis and operational efficiency are reviewed in this area. It gives a summary of the conclusions reached by earlier researchers, scholars, and organizations in the field of non-life insurance studies. Determining the empirical relationship between operational efficiency and profitability was the aim of the study. Efficiency undoubtedly affects how well a business performs. Because it impacts market price per share and shareholder wealth, maximizing the efficacy of present and future financial and commercial performance is one of corporate management's top priorities.(Gill, Al., 2014).

Efficiency and profitability are generally expected to be positively related, as improved profitability often results from more effective use of resources. However, the relationship between these two variables is not always straightforward and is often explained using the efficiency-profitability matrix. According to Kumar (2008), businesses can be classified into four categories based on their levels of efficiency and profitability: those with high efficiency and profitability (stars), those with low efficiency and profitability, those with low efficiency but high profitability, and those with high efficiency but low profitability. Market imperfections, the nature of the product or service, the availability of information, and the intensity of competition are key factors that explain why some firms might be profitable yet inefficient, or efficient but less profitable (Keramidou et al., 2013).

Seller and Nicolau (2009) studied 567 travel companies in Spain to investigate the links between efficiency, productivity, and profitability. They used stochastic frontier analysis (SFA) and data envelopment analysis (DEA) to measure efficiency, while profitability was assessed through standard metrics like return on investment (ROI), return on assets (ROA), and return on capital employed (ROCE). Productivity was evaluated using sales per employee and sales per outlet. Their findings showed only a weak or statistically insignificant correlation between profitability and efficiency among travel agencies.

Various ratios serve as proxies for operational efficiency, including asset turnover, inventory turnover, fixed asset turnover, accounts receivable turnover, and working capital turnover ratios. The extent to which each ratio affects business success indicates operational efficiency. In this study, the control variables are the current ratio and quick ratio, while efficiency is measured by total asset turnover, fixed asset turnover, and accounts receivable turnover. Return on equity (ROE) is considered a key indicator of company performance. As competition intensifies and new technologies and processes emerge rapidly, operating efficiency becomes increasingly vital. In today's dynamic business environment, a company's success often hinges on the productivity of individual employees due to heightened competitive pressures.(Goel, S., 2012).

Because cost-effective businesses are more efficient, improving operational efficiency has a direct impact on the company's profitability. All aspects of operational efficiency are necessary and must be earned in order for management to consider sound and long-term financial success (Sufian, F., 2007). Bok, Joon, and David B. (2010) employed aonducted a study in which they tried to examine the variables that influence the financial performance of the insurance sector in terms of return on assets. The study found that while size of company, retained risk, and solvency margin have a positive correlation with financial performance, financial leverage, growth in gross written premiums, and underwriting risk have a negative impact on insurance financial performance. Determinants of insurance businesses' profitability were also found in another study by Hifza (2011).The study also looked at firm-specific characteristics that affect profitability, specifically the company's age, size, and capital volume, as well as the impact of the leverage ratio and loss ratio on profitability by ROA metric. The study also found that there is no correlation between a company's age and

profitability, but there is frontier analysis approach in another investigation to ascertain the relationship between operational efficiency and corporate profitability. They favor financial ratios because they are less accurate than measurements derived from frontier analysis. One significant advantage of frontier analyses is that they naturally allow for different input weighting.

Burca and Batrînca (2012) a substantial positive relationship between capital volume and a company's size. However, there is a significant inverse relationship between the leverage ratio and the corporate loss ratio. With differing degrees of success, empirical research often looks at the relationship between profitability and efficiency in different industries. Although there is little to no correlation between efficiency and profitability, efficiency has a positive impact on profitability. Numerous studies have examined the connection between profitability and efficiency, but the tourism sector has gotten comparatively less attention. (Aissa & Goaied, 2016).

According to Boadi, Antwi, and Lattéy (2013), In contrast to several independent variables, the return on assets was used as a dependent variable to investigate the elements that affect the profitability of insurance companies. The internal factors were size, risk, growth, leverage, tangibility, and liquidity.

According to Khandoker, R., & Rahman (2012), Essentially, a company's internal operational success is reflected in its operating profit. However, the profitability of non-bank financial institutions is also affected by factors such as their capital structure, the mix of debt and equity, operating costs, and total assets. Many researchers acknowledge that these firm-specific factors can differ between companies and across different countries.The operational efficiency of frontier analyses is evaluated using two metrics: Data Envelopment Analysis and Stochastic Frontier Analysis. Sales revenue, cost of goods sold, general and administrative costs, and property, plant, and equipment are examples of input variables. According to the study's findings, efficiency as assessed by frontier analyses benefits current and upcoming profitability studies in the same area (Warrad & Omari, 2015). They concluded that working capital and fixed asset turnover, which gauge profitability as measured by ROA and ROE, are not significantly impacted by asset turnover, which gauges efficiency.

According to Calendro & Lane (2006), Over the past thirty years, the property and casualty insurance sector has undergone significant transformations. Traditionally, the underwriting ratio has been the key metric for assessing operational performance in this industry. However, declining underwriting profits have compelled companies to increasingly depend on prudent reinsurance strategies and returns from investments. A new performance evaluation tool, called the Insurance Performance Measure (IPM), was introduced and demonstrated. IPM combines various operational aspects to provide a comprehensive measure of profitability. The study identified the main drivers of profitability as the underwriting ratio, investment returns and float generation, reinsurance practices, regulatory frameworks, and challenges related to reserve estimation.

Efficiency analysis with DEA receives very less attention in the finance sector. The literature typically looks at how well businesses operate. However, the performance and activity analysis of the business can be examined using data envelopment analysis. The primary metrics used to evaluate the effectiveness of insurance companies' underwriting processes are inputs and outputs. Efficiency assessments using the CCR and BCC models were carried out with the EMS program. The scale efficiencies of the evaluated insurance companies were investigated. Finally, using specific input and output variables, a study of the performance of insurance companies with respect to a single activity has been built.(Ertugurl, 2016).

According to research by Feng & Wang (2000), Operational performance is the only factor taken into account in airline performance reviews. Usually ignored is an airline's financial performance, which could directly affect its survival. The absence of financial ratios will lead to biased appraisal right away. process for reviewing airline performance that considers financial ratios. First, a conceptual framework created by Fielding to help create performance metrics that include both financial and transportation elements is revised. Second, to overcome the problems of small sample size and unknown sample distribution, airline outranking is done using the TOPSIS approach, and representative indicators are selected using grey relation analysis. Third, management, marketing, and production are the three primary divisions into which an airline's entire performance is divided according to its organizational characteristics. By applying the division of overall performance, operators can ascertain the duties of

a department and evaluate the performance of a department within an airline. Finally, five major airlines are used as an example in a case study. The empirical result shows that airline performance reviews can become more comprehensive when financial ratios are considered.

Kung, et al. (2006) had evaluated the performance of 16 non-life insurance companies. They chose 24 financial metrics and divided them into five performance indicators—solvency, profitability, capital structure, capital operational capacities, and management efficiency—to evaluate the performance of non-life insurance companies. GRA found that return on assets, funds usage efficiency, current debt to capital, equity, and net operational profit to retention premium are the ratios that have the greatest impacts on the performance of non-life insurance companies.

2.3 Research Gap

The existing research provides only limited insights, indicating a need for more comprehensive testing and refinement of key variables to draw definitive conclusions about the financial performance of insurance companies. Previous studies primarily relied on traditional financial ratios and overlooked important indicators specific to the non-life insurance sector, such as the Solvency Margin Ratio, Change in Surplus Ratios, and Premium Stability Ratio. As a result, there is a lack of thorough performance analysis at the industry level. Additionally, earlier research conducted before 2060 used outdated ratios, which may no longer accurately reflect the financial health of Nepal's non-life insurance companies.

The current study aims to fill these gaps by utilizing modern, relevant financial ratios that better capture the companies' financial stability and accurately represent the relationship between operating efficiency and financial performance. This research serves as a supplement to address the shortcomings and limitations identified in previous work.

CHAPTER III
RESEARCH METHODOLOGY

3.1 Research Design

Descriptive and analytical research designs form the basis of the investigation. The purpose of the research designs is to characterize, investigate, and evaluate the financial performance of a subset of Nepal's non-life insurance sector over a five-year period. The study so demonstrates that research is quantitative as opposed to qualitative.

3.2 Population & Sample

Nineteen general insurance businesses are registered with Beema Samiti Nepal and nineteen are registered with the Nepal Stock Exchange (NEPSE). This study makes use of two non-life insurance companies in Nepal: Sagarmatha Insurance Company Ltd. and Shikhar Insurance Company Ltd. The non-life insurance industry's annual report provided the data used in this investigation.

3.3 Data Collection and processing procedure

Secondary data served as the study's foundation. As needed, recommendations have been gathered from a variety of specialists both inside and outside the insurance industry. Beema Samiti provides the required information, including the published balance sheet, profit and loss statement, income statement, and other relevant statement of accounts, as well as the annul reports of the selected insurance firms. Similarly, the publications and websites of the selected insurance firms, Beema Samiti, and the Security Exchange Center provide further pertinent and essential information. Additional resources include insurance-related books, magazines, journals, and newspapers.

3.4 Data analysis tools & techniques

To measure the financial performance of specific non-life insurance policies in Nepal, a number of financial tools are used in the data analysis process. Correlation analysis is then conducted to look at the relationship between financial performances and

operating efficiency. Financial applications like Excel and SPSS are used to help with calculations. The observations are presented using a variety of graphical methods, including tables and bar charts.

3.4.1 Financial Tool

Ratios have been used in the financial analysis. To obtain the financial ratios, the available data is gathered and subsequently categorized. Ratio analysis is used to examine the financial data of a few chosen organizations over a given time frame. The success, failure, and development of the insurance industry are examined using ratio analysis on financial statements.

By comparing a company's performance and state to the average performance of similar organizations in the same industry, a manager or business owner can identify trends in their company. Ratio analysis may offer the crucial early warning signs that enable resolving business issues before they cause the company to fail. An essential tool for examining the financial performance of a corporation is ratio analysis. The financial ratios provide the following significant benefits.

Analyzing Financial Statements: An essential method for analyzing financial statements, ratio analysis helps one comprehend the company's financial situation. Ratios are utilized to tell the people involved about the company.

Evaluating Efficiency: Ratios are crucial for determining how efficiently a business operates and is managed. They aid in evaluating how successfully the business has made use of its resources and turned a profit.

Locating Weakness: Although a company's overall performance appears to be rather strong, ratios can also be utilized to identify operational weaknesses. After identifying the vulnerability, management can take corrective action to strengthen it.

Formulating Plans: Ratios can be used to determine future financial performance trends in addition to analyzing the company's historical financial performance. They thus assist in creating the company's long-term strategies.

Comparing Performance: Knowing how well a business is doing over time and in comparison to other businesses of a similar kind is crucial. Furthermore, understanding how well its various divisions are doing in relation to one another throughout time is also crucial.

i. Solvency Margin Ratio

This ratio indicates the level of financial backing provided by shareholders relative to the volume of business written by the insurer. It reflects whether the insurer holds sufficient capital compared to the retained premiums. A low solvency margin suggests a higher risk due to greater exposure to premiums, warranting further investigation to determine the degree of overexposure. An insurance company is considered inadequately solvent if its solvency ratio falls below 100 percent. The ratio is calculated by dividing the net premium by the shareholder's fund, based on these two key figures.

ii. Change in Surplus Ratio

This ratio shows whether the insurer's financial situation has improved or gotten worse over the course of the year. While a large increase in surplus could be a sign of instability and ownership changes, a significant fall in surplus is a sign of bad performance. An significant increase in the ratio may also result from a new capital issue or an exceptionally high profit made throughout the year. It is computed by dividing the change in shareholder funds by the shareholders' funds.

iii. Underwriting Ratio

This ratio, which represents an insurer's underwriting margin, gauges how profitable the insurance industry is. It is one of the main factors that determines the insurance industry's surplus. Underpricing, or premium rates that are not in line with the business's risk, may be indicated by a negative underwriting ratio. This is the connection between net premium and underwriting profit or loss. It displays the portion of the company's net premium that is allocated to underwriting costs. It gauges the company's underwriting effectiveness. It is computed using the model that follows. It is computed by dividing the net premium by the underwriting profit.

iv. Claim Ratio

This ratio gauges the caliber of business written and provides insight into the insurer's claim experience. As a proportion of premium income, it is claimable. The underlying claims that come from the business that the corporation has written are what have an impact on profit performance. The quantity and magnitude of claims have an impact on claim expenses, whether they exceed or fall short of the premium that was charged. Poor underwriting and acceptance of low-quality risk may be the cause of a high ratio. It is the connection between net premium and net claims. It is computed by dividing net premium earned by net claims.

v. Combined Ratio

An insurance firm uses the combined ratio, a measure of profitability, to show how well it is doing in day-to-day operations. The company is earning an underwriting profit if the ratio is less than 100%, and it is paying out more money in claims than it is getting from premiums if the ratio is greater than 100%. Because insurance businesses typically have significant investment income, a business may still turn a profit even if its combined ratio is greater than 100%. It is the proportion of premium income that is allocated to claim and operating expenses. It is computed by dividing the net earned premium by the sum of the incurred claims and expenses.

vi. Net Commission Ratio

This ratio calculates the business acquisition cost. The acquisition cost increases with the ratio. The link between net commission and net premium is known as the commission ratio. A high ratio suggests that the insurer is using cash flow underwriting and that the premium charge is insufficient. The insurance company's operational efficiency is reflected in this ratio. The formula below is used to calculate it. It is computed by dividing the gross premium by the commission net of reinsurance. As businesses pay agents commissions and collect reinsurance commissions, net commission is deducted.

vii. Expenses of Management to Gross Premium Ratio

The effectiveness of the insurer is indicated by this ratio, which calculates the administrative costs associated with underwriting operations. It shows the connection between gross premium and management costs. Thus, it calculates the costs in relation to the premium. Better performance is indicated by a lower ratio value. Automatically, management costs rise in tandem with the gross premium. Therefore, management expenses should not exceed the regulatory limits. The following model yields the ratio. It is computed by dividing gross premium by management expenses.

viii. Operating Profit Ratio

The ratio of underwriting profit and investment income to net premium is known as the operating profit ratio. It gauges how effectively a business is managed. The corporation is required to have a larger ratio. To find this ratio, use the formula below. It is computed by dividing the net premium by the underwriting profit plus investment income.

ix. Net Earnings Ratio

The numerical link between net premium and profit after taxes is known as the net earnings ratio. It shows the amount of profit made relative to the net premium. It is computed by dividing the net premium by the profit after taxes.

x. Return on Net worth Ratio

The relationship between net worth and profit after taxes is shown by return on net worth. It indicates the amount of profit a business made relative to the total equity held by shareholders. It serves as the last defense of profitability when assessing total return. For this ratio, the model that follows is employed. It is computed by dividing net worth by profit after taxes.

xi. Retention Ratio

The ratio of net premium to gross premium is known as the net retention ratio. The insurer's own account retention is gauged by this percentage, which should match its

financial resources, which establish retention capability. It gauges the insurance company's ability to retain risk. It indicates the percentage of risk that the business is taking. It would seem that an insurer operating as an agent and depending on reinsurance commission profits would have a low retention ratio and a high solvency margin. It is computed by dividing the net premium by the gross premium.

xii. Premium Growth Ratio

An indication of instability in the insurer's operations is a significant increase or reduction in the volume of net premiums written. A significant increase in premiums could also mean that the insurer is using cash flow underwriting to cover the claim. This ratio is computed by comparing the net premium of the current year to the net premium of the prior year. It is computed by dividing the change in net premium by the net premium from the year prior.

xiii. Technical Reserve Ratio

Technical reserves are made up of both loss reserve and unexpired risk reserves, which safeguard the company's long-term viability. This ratio serves as a general gauge of how well reservations are being made. An underreserved insurer may be indicated by a low ratio. A high ratio could also be a sign that the insurer's business portfolio is losing money, necessitating a long-term loss reserve provision. The formula used to compute it is technical reserve divided by net premium.

CHAPTER IV
RESULTS

The main ratios employed by the insurance regulatory body are discussed in this chapter. For a clear view, Beema Samiti is tabulated and displayed in graphs. The Research Methodology contains the theoretical details. Additionally, the study's main conclusions are presented at the chapter's conclusion.

4.1 Status of Financial Statement

4.1.1 Solvency Margin Ratio

Table 4.1 Describe the insurance industry's and the sampled insurers' solvency margin ratio for FY 2069–2070–2073–2074. An insurer with a high solvency margin is well-capitalized relative to the amount of retained premium. Due to exposure to high-risk premiums, a low solvency margin translates into high risk. If an insurance company's solvency ratio is less than 100 percent, it will be classified as inadequately solvent.

Both Shikhar and Sagarmatha have solvency margin ratios of 1.40 and 1.37, respectively, which are far lower than the industry norm of 1.59. Shikhar's ratio is marginally higher than Sagarmatha's but still lower than the industry mean, while Sagarmatha's is the lowest at 1.37. The industry's solvency margin ratio increased from fiscal year 2070/71 to fiscal year 2071/72, but it significantly decreased from fiscal year 2072/73 to 2073/74. All of the sample insurers are sufficiently capitalized in relation to the level of retained premium since their solvency margin ratios are more than 100%.

Table 4.1: Solvency Margin Ratio

Insurer/FY	2070-71	2071-72	2072-73	2073-74	2074-75	Mean	SD	CV
Sagarmatha	1.27	1.39	1.10	1.49	1.61	1.37	0.61	0.45
Shikhar	1.17	1.39	0.96	-0.42	3.92	1.40	1.59	1.14
Industry	1.22	1.39	2.06	0.53	2.77	1.59	1.28	0.81

Data Source: Beema Samiti Annual Reports

4.1.2 Change in Surplus Ratio

The examination of the ratio between the change in surplus of the sample insurance businesses and the industry average over five fiscal years is shown in Table 4.2 and Figure 4.2. This ratio is used to determine whether the insurer's financial situation has improved or gotten worse over the course of the year. While a sharp decline in surplus is a symptom of subpar performance, a sharp rise in surplus could be a hint of instability and ownership changes.

Fiscal years 2069–2070 and 2070–2071 saw a major growth in Sagarmatha surplus, whereas fiscal years 2071–2072 saw a significant fall, and 2074 saw a significant increase. When Shikhar surplus is marginally higher in fiscal year 2070–71 but lower in fiscal year 2071–72, it is significantly higher in fiscal year 2073–74 but slightly lower in fiscal year 2072. There is a mixed tendency in the industry's change in surplus. Fares grew in fiscal year 2070–71, fell in fiscal year 2071–72, and then rose significantly in fiscal year 2073–74. With a relatively low ratio mean value of 0.43, the surplus ratio change does not exhibit a rapid decrease or abrupt increase, indicating fair performance and a moderate stability of the ownership shift.

Table 4.2: Change in Surplus Ratio

Insurer/FY	2070-71	2071-72	2072-73	2073-74	2074-75	Mean	SD	CV
Sagarmatha	0.15	0.18	-0.12	0.04	0.72	0.19	0.56	2.95
Shikhar	0.045	0.34	0.064	1.45	1.37	0.65	0.7	1.08
Industry	0.098	0.26	-0.028	0.75	1.05	0.43	0.45	1.05

Data Source: Beema Samiti Annual Reports

4.1.3 Underwriting Ratio

Based on how well an insurer underwrites, the underwriting ratio—also known as its underwriting margin—measures the profitability of the insurance sector. A negative underwriting ratio may be a sign of underpricing, or premium prices that are out of proportion to the risk of the company. Table 4.3 and Figure 4.3 display the underwriting ratios of the sample insurers as well as the industry average ratio for FY2069/70 through 2073/74. Shikhar has the greatest number, 0.83, which is higher than the industry average, while Sagarmatha has the lowest, 0.59. Shikhar and Sagarmatha thus overvalued their products, failing to apply the proper underwriting standards. The industry underwriting ratio is satisfactory because it has exhibited consistent and positive performance, with the exception of fiscal year 2073–2074. During the research period, Nepal's non-life insurance sector has shown profitability with fair underwriting standards that match premium prices to company risk, despite both the global economic crisis and domestic political upheaval.

Table 4.3: Underwriting Ratio

Insurer/FY	2070-71	2071-72	2072-73	2073-74	2074-75	Mean	SD	CV
Sagarmatha	0.58	0.54	0.64	0.52	0.61	0.59	0.05	0.08
Shikhar	0.92	1.06	0.84	0.85	0.49	0.83	0.21	0.25
Industry	0.75	0.8	0.74	0.69	0.55	0.71	0.09	0.13

Data Source: Beema Samiti Annual Reports

4.1.4 Claim Ratio

The incurred claims ratio for two non-life insurers and the industry average for a five-year period, from fiscal year 2069/70 to 2073/74, are shown in Table 4.4. Poor

underwriting and acceptance of low-quality risk could be the cause of a high ratio. Due to Sagarmatha's highest value of 0.53 and higher claim payments, the company had subpar underwriting and low risk quality. In fiscal year 2072–2073 it had a relatively high claim value of 0.97. The Shikhar had the lowest claim ratio during the research period because it had a lower claim ratio than the industry average of 0.51. This allowed it to manage the underwriting with acceptance of only high-quality risk.

Throughout the study period, the industry claim ratio displays a mixed tendency. Fiscal years 2069/70, 2072/73, and 2073/74 had high claim ratio values, whilst fiscal years 2070/71 and 2071/72 had lower claim ratio values. It can be inferred that Nepalese insurance companies are not paying higher claim values and engaging in adequate underwriting practices by taking high-quality risks, as the average claim ratio is approximately 50%, or 51%.

Table 4.4: Claim Ratio

Insurer/FY	2070-71	2071-72	2072-73	2073-74	2074-75	Mean	SD	CV
Sagarmatha	0.37	0.33	0.35	0.97	0.64	0.53	0.28	0.53
Shikhar	0.53	0.48	0.32	0.5	0.6	0.48	0.1	0.21
Industry	0.45	0.41	0.34	0.74	0.64	0.51	0.16	0.31

Data Source: Beema Samiti Annual Reports

4.1.5 Combined Ratio

The company is earning an underwriting profit if the ratio is less than 100%, and it is paying out more money in claims than it is getting from premiums if the ratio is greater than 100%. The combined ratio for the sample non-life insurers and the industry average is shown in Table 4.5. According to analyses, throughout the course of the five years, the combined ratio for all insurers has been less than 100%, which suggests that insurers are paying out less claims than they are receiving in premium revenue. Over the course of five years, the combined ratio for both sample insurers has steadily improved. Compared to United, Sagarmatha had a better combined ratio.

Shikhar had the lowest mean combined value compared to the industry average, however the mean value remained at 89 percent. The ratio for the entire industry is 61%. The study's findings indicate that the combined ratio showed a mixed pattern throughout the study period. This ratio is higher in FY 2073/74, FY 2072/73, and FY 2070/71, but it is lower in FY 2069/70 and FY 2071/72, which may be related to the current economic downturn and political unrest. It may be concluded from the combined ratio that the non-life insurance sector in Nepal is not handling claims well. This fact gives room for improvement in the way non-life insurers are managed.

Table 4.5: Combined Ratio

Insurer/FY	2070-71	2071-72	2072-73	2073-74	2074-75	Mean	SD	CV
Sagarmatha	0.69	0.71	0.42	1.24	1.42	0.89	0.42	0.47
Shikhar	0.11	0.12	0.39	0.56	0.41	0.32	0.19	0.59
Industry	0.4	0.42	0.41	0.9	0.92	0.61	0.27	0.44

Data Source: Beema Samiti Annual Reports

4.1.6 Net Commission Ratio

Another financial indicator used to assess the insurance company's financial health is the commission ratio. As shown in Table 4.6 and Figure 4.6, Sagarmatha recorded the highest commission ratio at 0.15, surpassing the industry average of 0.13. The commission ratio exhibited more variability over the study period, particularly for Shikhar, which had a higher coefficient of variation (CV). Since commissions are considered an expense, Shikhar's lowest ratio of 0.11 indicates the best performance, whereas Sagarmatha's highest ratio of 0.15 reflects the poorest performance.

Over the course of the study, the industry's average commission ratio showed a mixed trend. It remained stable during fiscal years 2069–70 and 2070–71, increased in 2071–72, and then slightly declined in 2073–74 despite the overall rising trend. With an average commission ratio of 0.13, which is relatively low, Nepalese general insurance companies generally maintain lower commission expenses and perform well financially, though their effectiveness as agents is considered weak.

Table 4.6: Net Commission Ratio

Insurer/FY	2070-71	2071-72	2072-73	2073-74	2074-75	Mean	SD	CV
Sagarmatha	0.14	0.15	0.17	0.14	0.14	0.15	0.01	0.06
Shikhar	0.12	0.1	0.14	0.11	0.08	0.11	0.02	0.18
Industry	0.13	0.13	0.16	0.13	0.12	0.13	0.01	0.07

Data Source: Beema Samiti Annual Reports

4.1.7 Expenses of Management to Gross Premium Ratio

The ratio of management expenses to gross premiums calculates the costs in relation to the gross premium. The better the outcome, the smaller the ratio. A management expense naturally rises in tandem with the gross premium. Sagarmatha has the lowest ratio value (0.010) among Table 4.7 and Figure 4.7, indicating efficient performance as a result of appropriate management expense handling and better gross premium increase. With a value of 0.012 compared to industry 0.011, Shikhar's performance level was nearly identical. In fiscal year 2069–2070, the management expenses ratio was 0.012; it rose to 0.016 in fiscal year 2070–71 and then stayed at 0.016 in fiscal year 2071–2022. This ratio has since shown a downward trend.

The industry had a reasonable level of performance during the research period because to a faster rise in gross premium and relatively low average industry management expenses.

Table 4.7: Management Expenses to Gross Premium

Insurer/FY	2070-71	2071-72	2072-73	2073-74	2074-75	Mean	SD	CV
Sagarmatha	0.009	0.012	0.009	0.011	0.011	0.01	0.002	0.2
Shikhar	0.015	0.019	0.022	0.0017	0.0018	0.012	0.009	0.75
Industry	0.012	0.016	0.016	0.0064	0.0064	0.011	0.004	0.3

Data Source: Beema Samiti Annual Reports

4.1.8 Operating Profit Ratio

The stronger the company's financial performance, the higher the operational profit ratio. The operational profit ratios of the sample insurers and the industry at large are displayed in Table 4.8 and Figure 4.8. The typical value for the industry is 0.85. Compared to the industry standard, the Shikhar maintained a higher value of 0.95. Sagarmatha kept the lowest number of 0.74, indicating the sample insurer's poorest performance and the lowest profit from insurance operations, while Shikhar had the best performance, suggesting that the company was making more money. From the fiscal year 2069–2070 to the fiscal year 2072–2073 and subsequently to the fiscal year 2073–2074, the operating profit grew. In terms of profit generation, the industry operating profit ratio of 0.85 percent is not particularly impressive. The global economic crisis and the political unrest in Nepal have a significant impact on non-life insurance. Additionally, insurers are attempting to grow the company to a huge scale in order to produce enough operating profit to maintain financial stability.

Table 4.8: Operating Profit Ratio

Insurer/FY	2070-71	2071-72	2072-73	2073-74	2074-75	Mean	SD	CV
Sagarmatha	0.67	0.66	0.99	0.71	0.68	0.74	0.74	0.19
Shikhar	1.06	1.16	1	0.85	0.67	0.95	0.95	0.2
Industry	0.87	0.91	0.99	0.78	0.68	0.85	0.11	0.12

Data Source: Beema Samiti Annual Reports

4.1.9 Net Earnings Ratio

The insurance industry's profitability is indicated by the Net Earnings Ratio. The summary of all activities during the reviewed period is reflected in this ratio. Profit after taxes is divided by the net written premium to arrive at the net earnings ratio. The net profits of Nepalese non-life insurance businesses for five fiscal years are shown in Table 4.9. Sagarmatha maintained the highest value of 0.37, which is higher than the industry mean value of 0.31 percent, as can be seen from the table, indicating better profits performance. Shikhar is the lowest performer in terms of net earnings, with a

negligible mean value that is 0.25 percent below the industry mean since it is unable to generate enough profit. There is no clear trend in the industry's overall net earning pattern; rather, it is erratic. In fiscal year 2073–2074 the ratio value is 0.38, which is much greater. The study suggests that the net earnings of Nepalese general insurance are adequate. There is still room to increase net earning patterns because the industry average of 0.31 percent is not a high number.

4.1.10Return on Net Worth

The return on the net worth ratio shows that how well the owners' resources are employed. It calculates the return on capital for owners. This is calculated by dividing net worth by profit after tax. The return on owners' capital in general insurance companies is displayed in Table 4.10. According to the table, Shikhar's mean Net Worth ratio is 0.27 percent, greater than the industry average of 0.25 percent, indicating superior performance when compared to another sample insurer. With typical values of 0.22, Sagarmatha performed worse in terms of net worth. These numbers are marginally below the average for the industry. An analysis of the yearly reports of every insurance company in the study showed that their higher investment income is what is responsible for the industry's improved net worth performance.

Table 4.10: Return on Net Worth

Insurer/FY	2070-71	2071-72	072-73	2073-74	2074-75	Mean	SD	CV
Sagarmatha	0.47	0.43	0.14	0.38	0.43	0.22	0.09	0.4
Shikhar	0.14	0.17	0.15	0.47	0.42	0.27	0.16	0.59
Industry	0.24	0.22	0.12	0.34	0.32	0.25	0.08	0.35

Data Source: Beema Samiti Annual Reports

4.1.11Retention Ratio

The link between the net premium and the gross premium is known as the retention ratio. It serves as an approximate indicator of the percentage of risk that an insurer

bears rather than transfers to reinsurers. This ratio, which gauges an insurer's ability to retain customers for their own account, ought to be in line with its financial resources.

Table 4.11: Retention Ratio

Insurer/FY		2070-71	2071-72	2072-73	2073-74	2074-75	Mean	SD	CV
Sagarmatha		0.52	0.49	0.51	0.48	0.45	0.49	0.02	0.05
Shikhar	0.42	0.47	0.63	0.51	0.58	0.52	0.08	0.16	
Industry	0.47	0.48	0.57	0.49	0.52	0.5	0.04	0.08	

Data Source: Beema Samiti Annual Reports

From the Table 4.11 As can be seen, Shikhar kept the retention percentage at 52%, which is marginally higher than the industry average of 50%. The mean value of Sagarmatha is 49% lower than that of the industry. Given that the industry's average retention ratio is not appreciably high, it may be said that insurers feel safer by reinsuring the low-quality risk from reinsurance companies rather than holding onto a large quantity of risk. Relying somewhat on reinsurance commissions because the retention ratio is neither high nor low.

4.1.12Premium Growth Ratio

A significant rise or fall in the amount of net premiums issued is a sign that the insurer's operations are unstable. Furthermore, a significant premium rise can be a sign that the insurer is using cash flow underwriting to cover the claim. The premium growth ratio for the sampled insurers and the entire insurance business for the fiscal years 2070–2071–2074–2075 is shown in detail in Table 4.12 and Figure 4.12. It is evident that Sagarmatha has the lowest mean premium growth ratio (0.14), whereas Shikhar has the greatest among the sample insurers (1.94), higher than the industry mean of 0.26.

Table 4.12: Premium Growth Ratio

Insurer/FY	2070-71	2071-72	2072-73	2073-74	2074-75	Mean	SD	CV
Sagarmatha	0.14	0.23	0.11	0.03	0.18	0.14	0.07	0.54

Shikhar	0.28	0.12	0.53	0.04	0.96	1.94	1.77	0.91
Industry	0.21	0.18	0.32	0.04	0.57	0.26	0.19	0.73

Data Source: Beema Samiti Annual Reports

During the study period, the industry premium growth tendency was erratic; it was 0.21 in the beginning, dropped in FY 2071–72, and then rose quickly to 0.32 in FY 2072–73 before declining once more and slightly increasing to 0.57 in FY 2074–75. The premium growth of Nepalese non-life insurance has performed poorly, as indicated by the premium growth ratio of 0.26, which is not a noteworthy value. The study's findings indicate that the insurance sector is dealing with insufficient reserves and product mix instability. Additionally, there is cash flow at play, therefore prompt regulatory action is necessary.

4.1.13 Technical Reserve Ratio

The ratio of technical reserve to net premium is used to determine if the business can withstand unforeseen losses. The stronger the company's financial success, the higher the reserve ratio. The technical ratio between the sample insurers and the industry at large is displayed in Table 4.13 and Figure 4.13. Shikhar has performed well, as evidenced by its greatest mean value of 2.68, which shows that the company is more resilient to unforeseen losses. Throughout the study period, Sagarmatha maintained a comparatively lower ratio value of 2.02 than the industry value, making it less able to tolerate unforeseen losses and necessitating an increase in reserve for future, unknown losses.

The ratio decreased between fiscal years 2070–71 and 2071–72, but it increased reasonably in fiscal year 2072–73 and then climbed significantly again between fiscal years 2073–74 and 2074–75. Given that the industry technical reserve value is 2.35, it can be said that Nepalese general insurance companies perform better in terms of maintaining enough reserves because they are able to cover future, unseen losses.

Table 4.13: Technical Reserve Ratio

Insurer/FY	**2070-71**	**2071-72**	**2072-73**	**2073-74**	**2074-75**	**Mean**	**SD**	**CV**
Sagarmatha	1.86	1.85	2.4	2.21	1.79	2.02	0.27	0.13

Shikhar	2.69	1.71	1.77	3.05	4.16	2.68	1.01	0.38
Industry	2.28	1.78	2.09	2.63	2.98	2.35	0.47	0.21

Data Source: Beema Samiti Annual Report

4.2 Relationship between the Operating Efficiency and Financial Performance

This section presents the findings and discussion of the Pearson correlation analysis conducted in the study. The Pearson correlation coefficient is used to measure the strength and direction of the linear relationship between variables—specifically, operating efficiency, operating profit margin, and solvency margin ratio. The correlation coefficients reveal the degree and nature of the association between operating efficiency indicators and the measures of operating profit margin and solvency margin ratio in non-life insurance companies. A positive correlation indicates that as one variable increases, the other tends to increase as well, while a negative correlation means that as one variable rises, the other tends to decline.

The analysis focuses on the relationship between the independent variable, operating efficiency, and the dependent variables, solvency margin ratio and operating profit margin, within Nepal's non-life insurance sector. The aim is to understand how these factors interact. A strong positive relationship between these variables suggests enhanced long-term viability of the company, which benefits shareholders. While the solvency margin reflects the company's sustainability over time, indicators such as asset turnover, fixed asset turnover, and equity turnover serve as measures of the company's operational efficiency.

Table 4.22 Operational Efficiency and Solvency Position of Sagarmatha Non-Life Insurance Company

FY	Total Asset Turnover	Fixed Asset Turnover	Total Equity Turnover	Solvency
2070-71	0.37	2.45	1.51	1.28
2071-72	0.33	4.11	1.14	1.38
2072-73	0.28	3.22	1.16	1.01
2073-74	0.26	2.60	1.1	1.48

2074-75	0.02	4.4	0.86	1.62

From above table Between FY 2070 and FY 2074–2075, the total assets turnover ratio decreased somewhat, and it dropped significantly during the final quarter of the year. In contrast, the fixed assets turnover ratio has been gradually rising and falling over time, peaking at 4.3 in the fiscal year 2073–2074. Over the years, Sagarmatha Insurance's total equity turnover ratio has been declining. Prior to declining in 2071–72 and rising in FY 2073–74 with a ratio of 1.61, the solvency margin ratio increased in 2069–70 and 2070–71.

Table 4.23 Correlation matrix examining the relationship between operating efficiency and solvency margin ratio of Sagarmatha Non-Life Insurance Company.

Variables		**Solvency**	**Total Asset Turnover**	**Fixed Asset Turnover**	**Total Equity Turnover**
Solvency		1			
	r	0.69	1		
Total Assets Turnover	p	0.002			
	r	0.42	0.55	1	
Fixed Assets Turnover	p	0.005	0.336		
	r	0.66	0.79	0.60	1
Total Equity Turnover	p	0.016	0.104	0.284	

The table shows a strong positive correlation of 0.69 between solvency margin and total assets, indicating that total assets have a significant positive influence on the solvency margin. This is further supported by a p-value of 0.002, which is below the 0.05 significance threshold, confirming the substantial impact of total assets on the solvency margin for the selected insurance company. Additionally, there is a moderate positive correlation of 0.42 between solvency margin and fixed assets, suggesting that fixed assets somewhat positively affect the solvency margin. The p-value of 0.005 (less than 0.05) further indicates a significant influence of fixed assets on the solvency margin. The correlation between solvency margin and total equity is also strong and

positive at 0.66, with a p-value of 0.016, highlighting a significant effect of total equity on the solvency margin. Conversely, another reported correlation of 0.84 between solvency margin and fixed assets, despite being strong, has a p-value of 0.070, which is above the significance level, indicating no statistically significant impact of fixed assets on the solvency margin. Lastly, a weak positive correlation of 0.35 exists between solvency margin and total equity, but with a p-value of 0.553, this relationship is not statistically significant, showing no meaningful effect of total equity on solvency margin in this case.

Table 4.24Evaluation of Operational Efficiency and Solvency Margin of Shikhar Non-Life Insurance Company

	Operating Efficiency			
FY	**Total Assets Turnover**	**Fixed Assets Turnover**	**Total Equity Turnover**	**Solvency**
2070-71	0.31	1.99	2.11	1.17
2071-72	0.25	3.56	1.27	1.39
2072-73	0.3	2.72	2.52	0.96
2073-74	0.28	2.78	1.02	-0.42
2074-75	0.94	5.87	1.94	3.92

From the above table 4.24 shows From FY 2070/71 to FY 2071/72, Shikhar's total assets turnover ratio decreased significantly. In FY 2072/73, it increased slightly, and in FY 2073/74, it reached its highest ratio of 0.94. While the equity turnover ratio is also rising and falling, reaching its greatest ratio of 2.52 in FY 2072/723, fixed assets have a mixed tendency of expanding and decreasing, reaching their highest ratio of 5.87 in FY 2074/75. Shikhar's solvency margin is at its peak in FY2074/75 (3.92) and lowest in FY2073/74 (-0.42).

Table 4.25: Matrix of correlation between the operational efficiency and solvency margin of Shikhar Non-Life Insurance Company

Variables	**Solvency**	**Total Asset Turnover**	**Fixed Asset Turnover**	**Total Equity Turnover**

Solvency		1			
	r	0.88	1		
Total Assets Turnover	p	0.043			
	r	0.84	0.89	1	
Fixed Assets Turnover	p	0.070	0.038		
	r	0.35	0.2	0.04	1
Total Equity Turnover	p	0.553	0.736	0.936	

From the above table, There is a high positive connection of 0.88 between the solvency margin and total assets. This indicates that the solvency margin is significantly positively impacted by total assets. The p-value, which is less than its level of significance ($p = 0.043 < 0.05$), is used to further evaluate this. This outcome demonstrates that the chosen insurance company's solvency margin is significantly impacted by total assets.

Table 4.26: Analysis of Operating Performance and Profit Margin Ratio in Sagarmatha Non-Life Insurance Company

	Operating Efficiency			
FY	**Total Assets Turnover**	**Fixed Assets Turnover**	**Total Equity Turnover**	**Operating Profit Margin**
2070-71	0.36	2.44	1.52	0.67
2071-72	0.34	4.1	1.15	0.66
2072-73	0.29	3.23	1.17	0.99
2073-74	0.25	2.61	1	0.71
2074-75	0.03	4.3	0.87	0.68

From the above table 4.26, From FY 2070 to 2073/734, the total assets turnover ratio reduced somewhat, and it dropped significantly at the end of the year. In contrast, the fixed assets turnover ratio has been gradually rising and falling over time, peaking at 4.3 in the fiscal year 2074–2075. Over the years, Sagarmatha Insurance's total equity turnover ratio has been declining. After a minor decline during the previous two years,

Sagarmatha's operating profit margin increased marginally between FY 2070–71 and FY 2072–73, reaching its highest ratio of 0.99.

Table 4.27: *Correlation matrix showing the relationship between operating efficiency and operating profit margin of Sagarmatha Non-Life Insurance Company.*

Variables		Operating Profit Margin	Total Asset Turnover	Fixed Asset Turnover	Total Equity Turnover
Operating Profit Margin		1			
	r	0.11	1		
Total Assets Turnover	p	0.85			
	r	0.12	0.55	1	
Fixed Assets Turnover	p	0.83	0.33		
	r	0.003	0.79	0.60	1
Total Equity Turnover	p	0.99	0.10	0.28	

From the above table, Operating profit and total assets have a fairly favorable correlation of 0.11. This indicates that operating profit is positively impacted by total assets. The p-value, which is greater than its level of significance (p = 0.85>0.05), is used to further evaluate this. This outcome demonstrates that the operating profit of the chosen insurance firm is not significantly impacted by total assets. According to the preceding table, there is a moderately favorable 0.12 connection between operating profit and fixed assets. This indicates that fixed assets have a favorable impact on operating profit. The p-value, which is more than its level of significance (p = 0.83 >0.05), is used to further evaluate this. This outcome demonstrates that fixed assets have no discernible impact on the chosen insurance company's operating profit. According to the following table, there is a weakly positive association (0.003) between operating profit and total equity. This indicates that total equity has a somewhat favorable impact on operating profit. The p-value, which is greater than its level of significance (p = 0.99 >0.05), is used to further evaluate this. This outcome demonstrates that the operating profit of the chosen insurance company is not significantly impacted by total equity.

Table 4.28: Analysis of operating performance and profit margin ratio at Shikhar Non-Life Insurance Company Operating Efficiency

Operating

FY	Total Assets Turnover	Fixed Assets Turnover	Total Equity Turnover	Profit Margin
2070-71	0.31	1.99	2.11	1.06
2071-72	0.25	3.56	1.27	1.16
2072-73	0.3	2.72	2.52	1
2073-74	0.28	2.78	1.02	0.85
2074-75	0.94	5.87	1.94	0.67

From the above table 4.28 Shikhar's total assets turnover ratio decreased little between FY 2070/71 and FY 2071/72, grew marginally during FY 2072/73, and peaked at 0.94 in FY 2074/75. While Shikhar's operating profit margin increased from FY 2070/71 to 20701/72 and then slightly decreased from FY2072/73 to 2074/75, reaching the lowest ratio of 0.67, fixed assets have a mixed trend of increasing and decreasing, reaching their highest ratio of 5.87 in FY 2074/75. Meanwhile, the equity turnover ratio is also increasing and decreasing, reaching its highest ratio of 2.52 in FY 2072/73.

Table 4.29: *Correlation matrix examining the relationship between operating efficiency and operating profit margin of Shikhar Non-Life Insurance Company*

Variables		Operating Profit Margin	Total Asset Turnover	Fixed Asset Turnover	Total Equity Turnover
Operating Profit Margin		1			
	r	0.82	1		
Total Assets Turnover	p	0.008			
	r	0.68	0.89	1	
Fixed Assets Turnover	p	0.023	0.936		
	r	0.005	0.2	0.04	1
Total Equity Turnover	p	0.093	0.736	0.936	

From the preceding table, there is a high positive connection of 0.82 between operating profit and total assets. This indicates that total assets have a very beneficial impact on operating profit. The p-value, which is smaller than its level of significance ($p = 0.008<0.05$), is used to further evaluate this. This outcome demonstrates that the operating profit of the chosen insurance firm is significantly impacted by total assets. According to the preceding table, there is a substantial positive correlation of 0.68 between operating profit and fixed assets. This indicates that fixed assets have a significant beneficial impact on operating profit. The p-value, which is smaller than its level of significance ($p = 0.023<0.05$), is used to further evaluate this. This outcome demonstrates that fixed assets have a major impact on the chosen insurance company's operating profit. According to the following table, there is a weakly positive association (0.005) between operating profit and total equity. This indicates that total equity has a somewhat favorable impact on operating profit. The p-value, which is greater than its level of significance ($p = 0.093 >0.05$), is used to further evaluate this. This outcome demonstrates that the operating profit of the chosen insurance company is not significantly impacted by total equity.

4.3 Major Findings of the Study

This study has following major finding which are found after evaluating different ratios:

1. The solvency margin ratio was higher than 100 percent for all sample insurers and the industry as a whole. This means that the retained premium level is moderately adequate in relation to the value of the shareholders' fund, and they are exposed to less risk with higher underwriting profit and reinsurance protection for non-life insurance.
2. Throughout the study period, SGI has shown an increasing pattern of surplus, with the exception of 2071–2022. Despite having the lowest surplus in fiscal year 2071–2022, Shikhar's financial situation has improved over time. There is a mixed tendency in the industry's change in the surplus ratio. Fiscal year 2071–2072 saw a good increase, fiscal year 2072–2073 saw a large decline, fiscal year 2073–2074 saw a significant increase, and fiscal year 2074–2075 saw a moderate gain.

3. It is determined that non-life insurance does not experience underpricing and is proportionate with risk because all sample insurers and the sector as a whole have positive ratio values. Compared to the industry average of 0.71, Shikhar observed higher values of 0.83. SGI performs the worst and is unable to support the product pricing, with the lowest mean value of 0.56.
4. 3. SGI has the highest claim ratio of 0.53% and inadequate underwriting with low risk quality. The other insurer's claim ratio is lower than the 0.51 percent industry average. Since Shikhar has the lowest claim ratio over the course of the trial, he can only accept high-quality risk while managing underwriting. Given that the industry's average claim ratio is about 51%, it can be said that Nepalese non-life insurance companies do not pay higher claim values or follow appropriate underwriting procedures by taking on high-quality risks.
5. With a low-risk quality and insufficient underwriting, SGI has the highest claim ratio (0.53%). The claim ratio for the other insurer is less than the industry average of 0.51%. Shikhar can only take on high-quality risk while controlling underwriting because he has the lowest claim ratio during the trial. It can be argued that Nepalese non-life insurance companies do not pay higher claim values or adhere to proper underwriting procedures by taking on high-quality risks, as seen by the industry's average claim ratio of roughly 51%.
6. 3. SGI has consistently maintained an 89 percent combined ratio, which is greater than the industry average and the average for all other sample insurers. The industry's average combined ratio is 61%. The mean ratio for Shikhar is 32%.
7. SGI's commission ratio is the highest at 0.15, higher than the industry average of 0.13. With the best performance, Shikhar reported the lowest commission value of 0.11.
8. The industry's gross premium ratio value is 0.011, which represents management expenses. The ratio value of 0.010 is lowest for SGI. The industry mean value is 0.011, whereas Shikhar has maintained the highest value at 0.012.
9. During the whole research period, operating profit is positive. Throughout the research period, general insurance was able to hold onto 0.85% of its operational profit. Shikhar's values are 0.95 greater than those of the industry. The industry means were 0.74 higher than the mean values supplied by SGI.

Among the sample insurers, SGI could continue to have the lowest value, signifying the poorest performance.

10. SGI has consistently maintained values that are 0.37 and 0.31, respectively, greater than the industry norm. Shikhar demonstrated the poorest performance in terms of the net earnings trend since it was able to sustain the lowest ratio value of 0.25.
11. During the fiscal years 2070–71–207–75, the industry mean value of the net worth ratio was 0.25. Shikhar performed better than another sample insurer, maintaining the highest value of 0.27. With mean values of 0.22, SGI performs worse when it comes to net wealth.
12. Shikhar kept the retention ratio at 0.52%, which is somewhat higher than the industry average of 0.52%. SGI's mean value is 0.49 below the industry average. It can be inferred that insurers do not retain a large amount of risk because the industry average insurance ratio is not appreciably high.
13. While SGI has maintained the lowest mean value of 0.14, Shikhar has maintained the greatest premium Growth Ratio value of 1.94, which is higher than the industry average of 0.26.
14. The company's average technical reserve ratio from FY 2070–2071 to FY 2074–2075 is 2.35. We may conclude that Nepalese general insurance businesses do better in terms of maintaining enough reserves since they are able to cover future, unseen losses. According to reports, SGI has a lesser ratio value of 2.02 and Shikhar has the highest mean value of 2.68.
15. According to the correlation study, the impact of operating efficiency on the solvency margin and operating profit margin of certain non-life insurance companies can vary, showing both significant and negligible effects.
16. The correlation study indicates that operating efficiency can influence the solvency margin and operating profit margin of specific non-life insurance companies to varying extents, ranging from significant to minimal effects.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

This chapter contains the study's summary, conclusion, and recommendations. The study's briefing is included in the summary. The study's conclusions are listed in the conclusion part, while its recommendations and proposals are listed in the recommendation section. The study, "A Study on Financial Performance of Nepalese Non-Life Insurance Industry," was carried out as part of the Master of Business Studies program. The study's motto is to evaluate the financial performance of non-life insurance using key ratios that serve as industry financial soundness indicators. Analysis is done with the correlation between operating efficiency and financial performance indicators, such as operating profit margin and solvency margin. In practically every developed and developing economy, insurance is a significant and expanding component of the financial industry. The insurance sector has grown in the Nepalese economy thanks to economic liberalization and public knowledge of risk and natural disasters. The insurance industry is expanding quickly in the Nepalese economy and is currently a lucrative commercial sector. In addition to providing indemnification for risks that individuals and businesses encounter, the insurance sector fortifies ties with other economic sectors to foster stability and growth and has a significant effect on a nation's national revenue. When there is peace, the insurance protects industry and trade, which eventually advances humankind. As a result, insurance is the main factor advancing humankind's economic, social, and technical advancement. Without insurance, all global economic, social, and industrial activity will grind to a standstill. Therefore, in practically all established and some developing nations, insurance is a significant and expanding component of the financial industry.

Nepal's insurance industry has a shorter history than other countries. In general, before 2007 B.S., Indian insurance companies handled Nepal's insurance operations. But according to history, the Mal Chalani and Beema firm, an insurance firm, was

established in 2004 B.S. Later, in 2016 B.S., it changed its name to "Nepal Insurance and Transport Co. Pvt. Ltd." and is currently known as Nepal Insurance. Rastriya Beema Corporation was established as the first public insurance company under the Insurance Act of 2025 in order to expand the insurance industry and compete with the organized Indian insurance corporations.

According to the Insurance Act of 2025 B.S., National Life of General Insurance Company Pvt. Limited was founded in the private sector in 2043. It is engaged in both general and life insurance operations. Following the restoration of democracy and economic liberalization, a new insurance act was created in 2049. Following this, a number of insurance firms were founded. There are currently 24 insurance companies in Nepal, and their financial results vary depending on the level of complexity.

A range of academic resources were reviewed in order to solidify the conceptual foundations and define the study work's distinct orientation. The historical evolution of insurance, the definition and role of insurance companies, the various kinds of insurance businesses, the advantages and worth of insurance, the idea of financial performance of insurance companies, the concept of premium, claim, risk retention, and legal provisions for the insurance industry were all covered in the conceptual review. Reviews of national and international publications as well as master's dissertations are included in the research review section. From the start of the selected, listed insurance companies in fiscal years 2070–2071 to 2074–2075, the study period is in effect. The financial performance of the insurance firm and the relationship between operational efficiency and financial performance measures are the main subjects of the study. A descriptive and analytical research design technique was used to generate the study. The study's selected population consists of two general insurance companies out of Nepal's seventeen non-life insurance companies. The information and statistics required were obtained from secondary sources. The insurance ratios were obtained by visiting the Beema Samiti and office website.

Prior to employing complex budgeting techniques, financial analysis serves as a foundation for planning and is a crucial instrument for marketing initiatives. This method's values are quantitative relationships that can be utilized to identify the firm's financial performance's strong and weak points.

5.2 Conclusion

At first, insurance was mostly thought of as a way to reduce taxes. Nevertheless, policyholders' attitudes toward obtaining insurance coverage are gradually shifting, regardless of tax breaks. The insurance sector is also showing signs of increased domestic economic growth. Increased domestic savings, higher per capita income, and more options for storing excess funds have all contributed to the expansion of financial services like insurance.

Throughout the study period, the solvency margins of the sector and the sample insurers were both above 100%, demonstrating their strong capitalization relative to the amount of retained premiums and their ability to meet long-term obligations and offer long-term service. The analysis concludes that the performance of shareholders is sufficient to serve as a hedge against unpredictability and declines in investment values. The absence of a fast rise or abrupt decline in the surplus ratio indicates stable ownership shift and fair performance. Overall, the industry underwriting ratio shows good and consistent performance, which is excellent. Nepalese non- life insurance firm displays profitability during study period with effective underwriting processes to commensurate premium rates with risk of the business despite the political instability in a country and global economic slowdown.

They are unable to pay higher claim values and participate in appropriate underwriting methods by taking on high-quality risks since the commission paid by the sample insurer and the industry as a whole is less than 53%. Better industry profitability results from lower commission costs, but agent effectiveness suffers. Effective management that increases gross premiums is demonstrated by the sample insurers' and the insurance industry's reduced management expense values. The combined ratio of the industry and sample insurers is less than 100%, meaning that the non-life insurance industry is underwriting a profit by paying out fewer claims than it gets from premiums. The operational profit of the industry and the sampled insurer is over 50%, indicating strong but not outstanding performance. Furthermore, 31% net earnings are acceptable. However, poor operational profit and net earnings performance could be caused by a number of issues, including insufficient market penetration, poor management, a failure to adopt new technology and effective laws, political upheaval in the country, and the global economic slump. A study claims that the greater

investment levels of non-life insurers are improving the performance of their net worth. It can be claimed that insureds do not retain a sizable amount of risk because the average retention ratio for the industry and sample insurers is not particularly high. Instead, they feel protected by the fact that the majority of the risk has been transferred to the reinsurer rather than being held by themselves. Furthermore, a reduced retention ratio suggests that insurers are relying to some extent on commissions from reinsurance. The Nepalese non-life insurance market is experiencing poor premium growth as a result of inadequate reserves and an unstable product mix, even though the premium growth ratio of 0.26 is positive but not statistically significant. Furthermore, cash flow is involved, therefore quick regulatory action is required.

Insurers can maintain adequate reserves and a stronger solvency cushion to cover future, unforeseen losses because the average technical reserve ratio is 2.35. Furthermore, a profitable non-life insurance portfolio is indicated by a higher technical reserve value. According to correlation research, the independent variables of total equity, total assets, and total fixed assets have a positive correlation with the operational profit margin and solvency margin ratio of a select group of non-life insurance companies. According to the aforementioned studies, the impact of operational efficiency on a specific non-life insurance company's financial performance produced a range of findings.

5.3 Recommendation

Based on the findings and challenges of the study, the following recommendations have been put up to improve the financial performance of Nepal's non-life insurance sector. In spite of non-life insurance In order to compete in a highly competitive market, insurers must balance factors including the underwriting ratio, premium distribution, and the adequacy of reinsurance protection that affect performance in terms of solvency margin. In proportion to the amount of retained premium, the solvency margin should be more than 100% and suitably capitalized. Since underwriting is fair, insurers must improve their underwriting performance to maintain a healthy solvency buffer and safeguard themselves against unanticipated losses.

Non-life insurance companies must ensure yearly growth in the amount of underwritten premiums. Even though they currently make money from their existing

clientele, if they want to continue to be profitable, they will need to grow their present clientele and go into new markets with more contemporary policies in order to increase their underwritten premiums. The change in surplus is one of the primary criteria used to assess profitability. Insurers should use best practices to improve performance metrics such as underwriting results, capital gains or losses, investment incomes, dividend payments, asset value, and technical ratios that affect the company's performance in relation to its surplus change, since the surplus value change isn't that large.

It is necessary to reduce the non-life insurers' claims ratio, which is now over 25%. One approach to do this is to raise the yearly net premiums received. Insurers must increase net premiums earned in order to lower the claims ratio and increase their profitability. In order to improve their operational activity, insurance businesses need to employ modern management practices. Consequently, net premium earnings would increase at the same rate that operational costs would fall. An enhanced combined ratio would lead to higher earnings from operational activities relative to other investment activities. Other unacceptable profitability indicators include operating profit, net earnings, and net wealth.

Furthermore, insurers' premium rise is unstable. Therefore, in order to improve the aforementioned metrics, insurers must take the necessary steps to increase the amount of net premiums earned annually. The insurance companies works hard to enhance its required ratios in order to have a major impact on operating efficiency because there is a significant and insignificant link between operating efficiency and financial performance. This study gives the good opportunities to increasing business for various industrial sectors, non-life insurers must offer innovative solutions to ensure to improve prafitability and goes for long-term growth. In addition to using the most recent regulatory frameworks, Beema Samiti must implement segmental reporting by the insurers in terms of business from both individuals and corporations. This would be assist to analyzing the penetration of the insurers into Nepalese market as well as to judge the awareness of insurance among with the individuals.