

INVESTMENT POLICY ANALYSIS OF INSURANCE COMPANIES IN NEPAL

(With Reference to National Life and General Insurance Co. Ltd. &
National Life Insurance Co. Ltd.)

A THESIS

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RECOMMENDATION

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DECLARATION

I hereby declare that the work reported in the thesis entitled *Investment Policy Analysis of Insurance Companies In Nepal (With Reference to National Life and General Insurance Co. Ltd. & National Life Insurance Co. Ltd.)* submitted to Office of the Dean, Faculty of Management, Tribhuvan University is my original work done in the form of partial fulfillment of the requirements of the Degree of Master of Business Studies (M.B.S.) under the guidance and supervision of Mahendra Aryal of Nepal Commerce Campus.

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ABBREVIATIONS

NLG	=	National Life and General Insurance
NLI	=	National Life Insurance
BFD	=	Bank Fixed Deposits
C.V.	=	Coefficient of Variance
Co.Ltd.	=	Company Limited
Cor. Secu.	=	Corporate Securities
DPS	=	Dividend per share
EPS	=	Earning per share
Est.	=	Establishment
FFD	=	Finance Fixed Deposits
FY	=	Fiscal Year
Govt.	=	Government
GSB	=	Government Saving Bonds
I.e.	=	that is
Misc.	=	Miscellaneous
NIC	=	Nepal Insurance Company Ltd.
NLGI	=	National Life & General Insurance Company Limited
NLI	=	National Life insurance Company Limited
RBS	=	RastriyaBeemaSansthan
S.D.	=	Standard Deviation

CHAPTER - I

INTRODUCTION

1.1 General Background

Human being, being a social creature always wants to have a secured and safe life but life of human being is full of risks and struggle. In order to remain alive in this materialistic world. The norms and values of the society govern human beings where each and every individual has the desire for a secured financial status and a safe life. However we can't deny the fact that life of human beings is always at risk either financially or physically. In order to survive in this materialistic and an ever-changing economic world, he/she has to withstand numerous problems and various risks that may arise in the near future. Natural calamities such as earthquake, landslide, eruption, flood fire etc. are beyond the control of human power. These types of risks are unpredictable and unavoidable. The risks that are connected with human life such as accident, disease, death, handicap, unemployment, retirement etc. are also unpredictable however can be preventive. Therefore, Insurance is the only means, it is the only medium for every individual in the quest for survival against all these risk and to overcome the consequences of those risk in the future. For instance, the death of the lead person in a family brings forth a hard life to his dependants and 'insurance' is the mechanism for covering such economic and physical loss of the family which caused the big trouble to his dependents and 'insurance' is the mechanism of covering such economic losses.

Insurance is one of the major risks handling methods. Insurance can viewed as risk shifting. Insurance is a mechanism of spreading of risks among the various people. Insurance is an instrument to spread the loss caused by a particular risk over a number of persons or distribution of risk among various people who are interested to accept risk for certain return. Basically, the objective of insurance is to spread to loss exposure or to co-operate the risk holders in covering losses in case of occurrence. The terminology used for taking risk or assuring to cover loss in known as, 'insurance'.

Insurance Company charge a certain amount called 'premium' in return of assuring the insured for indemnity if the stated risk caused economic losses within the policy period. Insurance company collects fund as the form of premium and invests in different sectors for more return for their shareholders.

The definitions of insurance are diverse and varied according to the perception of the person defining it. Insurance, in simple sense, is a kind of protection against any kind of risks granted to the party in consideration of certain amount of money known as premium.

Thus, we can conclude that life insurance is a very beneficial provision to those involved in the contract of insurance. Life insurance is a form of investment for self and dependent if the insured person dies. However, insurance is also beneficial to the economy as a whole; it is a key factor of economic development of a country. An insurance company not only shifts risk but also collects the small scattered funds and injects them into productive activities. Thus, we can say that life insurance is one the greatest achievements of the civilized society. Today, insurance has become one of the single largest service sectors among business activities.

It is still a matter of research about the origin of insurance in Nepal. But anyway it can be said that the start of insurance business is now. The traditional "Guthi" system in Nepal seems to be similar to the system of insurance. The concept of "Guthi" is a concept of life insurance. Many families depend upon the "Guthi". Members it pays an amount in fixed rate and in the old age they maintained their lives availing financial aid from the "Guthi". There was no indigenous insurance organizations until 2003 B.S. as a consequence of development of trade and industries the need for a National Insurance company like property was felt. (K.C, 1979:28) With the coming of Nepal Bank Limited and Ropeway, Nepal Insurance and Transportation company limited, wholly owned by Nepal Bank Limited was established in 1948 (8th Ashwin 2004 B.S.). The main purpose of the establishment of this company was to solve the transit problem of Nepal Bank Limited. This need was not to some extent by 'Malchalanira Beema'. It was assisted by Calcutta Branch of the 'Jupiter' General Insurance Company of India in working as well as in reinsuring also. This company granted 'Malchalani Ra Beema' principle agency also. This Jupiter is the first company to undertake insurance risk in Nepal. When the Jupiter passed into the hands of an administrator appointed by the government, Malchalani Ra Beema" transferred its business relation. Then Ruby's Patna Branch started covering Nepal.

Meanwhile demand for insurance facilities in the country started increasing to meet this growing demand a few Indian companies started functioning in Nepal. The National Life Insurance Company of Calcutta was perhaps the first Insurance Company to open its branch office in Kathmandu in 1958, its activities were extended to issuing aviation coupons cover flight risk and also issuing insurance certificates against goods imported to Nepal and cleared through Calcutta

customs. It does not exist in Nepal. The Oriental Fire and General Insurance Company established its branch office in Kathmandu on 9th November 1959 and in Biratnagar in December 1965, it is transacting fire, marine and accident insurance business in Nepal quite satisfactorily. It is one of the leading insurance companies of Nepal.

In this way, a number of insurance companies from India covered the insurance business in Nepal. Till 30th February 1968 most of the insurance business was taken over by the Indian insurance companies and there was total capital outflow of around nearly Rs.10 millions in the form of premium. (Joshi, 1978:12) This was certainly not consistent with the economic growth objectives of the nation. The establishment of a domestic insurance company is also necessitated to meet and assist the national requirement as per the national plan and policy of the government.

Realizing the need to regulate the insurance companies in the country H.M.G. made a programme regarding this in the third 'five years' plan. It appointed a temporary committee on 1st Bhadra 2024, asking it to submit a report on rules and other pertinent aspects within 45 days for the establishment of an insurance company in Nepal. Following the submission of the report by that committee H.M.G. set up 'Rastriya Beema Sansthan Pvt. Ltd.' on 1st Poush 2024. Since then it started non-life insurance business on a national level on Kartik 9, 2025. HMG enacted the Insurance Act 2025. The Act is applicable to all branches of national and foreign insurance companies. An Insurance Board was established under this Act to ensure protection to the policyholders and also to the insurance business, subsequently, Rastriya Beema Sansthan Pvt. Ltd. was converted into Rastriya Beema Sansthan on Poush 1st 2025. According to this Act, any individual form of company wishing to transact insurance business in Nepal should have at least Rs. 2 million paid-up capital. But paid-up capital should have Rs.3 million according to the Insurance Act 2049 B.S. They are also required to submit annual financial reports stating the state of affairs and revenue accounts for each class of insurance business. Our country is in great need of capital to carry out national development work. By checking this huge amount of outflow going to India, we can utilize it on investment in different sectors of the national economy and trade, industry, commerce, transport and so on which are equally important for us in our economic development. This would not mobilize savings for industrial and commercial development of the country but also provide increasing employment opportunities.

Gradually, many insurance companies were established in the country. There are 24 insurance companies authorized to transact insurance business in Nepal. They are as follows:-

Table: 1.1
Insurance Companies in Nepal

S.No.	Name of the Company	Life/Non-Life	Year of Estb.
1	Nepal Insurance Co. Ltd	Non-Life	1947
2	The Oriental Insurance Co.Ltd.	Non-Life	1964
3	RastriyaBeemaSansthan	Life/Non-Life	1967
4	National Insurance Co.Ltd.	Non-Life	1973
5	National Life Insurance Co.Ltd	Life	1987
6	NLG Insurance Co.Ltd	Non-Life	1987
7	Himalayan General Insurance Co.Ltd	Non-Life	1973
8	United Insurance Co.(Nepal) Ltd	Non-Life	1994
9	Premier Insurance Co.Ltd	Non-Life	1994
10	Everest Insurance Co.Ltd	Non-Life	1994
11	Neco Insurance Co.Ltd	Non-Life	1996
12	Sagarmatha Insurance Co.Ltd	Non-Life	1996
13	Alliance Insurance Co.Ltd	Non-Life	1996
14	NB Insurance Co. Ltd	Non-Life	2001
15	Nepal Life Insurance Co.Ltd	Life	2001
16	Life Insurance Corporation(Nepal) Ltd	Life	2001
17	American Life Insurance Co.(ALICO)	Life	2001
18	Prudential Insurance Co.Ltd	Non-Life	2003
19	Shikhar Insurance Co.Ltd	Non-Life	2003
20	Lumbini General Insurance Co. Ltd	Non-Life	2005
21	Siddhartha Insurance Limited	Non-Life	2006
22	Prime Life Insurance Co. Ltd	Life	2007
23	Surya Life Insurance Co. Ltd	Life	2008
24	Gunras Life Insurance Co. Ltd	Life	2008

Source: RastriyaBeemaSansthan

Among 24 Insurance Companies in Nepal, National Life & General Insurance Company Limited, is an insurance company in private sector, established in 2044 BS. The Company was carrying both life and general insurance business in Nepal. As per instructions of BeemaSamiti (Insurance Board), regulating authority for insurance sector in Nepal, the company has incorporated a subsidiary company namely NLG Insurance Company Limited to carry out general insurance business. The new company has commenced its business. Now the company carries life insurance business under the new name National Life Insurance Company Limited.

The following insurance companies are listed in Nepal Stock Exchange as:

- Rastriya Beema Sansthan
- Nepal Insurance Company Limited
- Premier Insurance Company Limited
- Everest Insurance Company Limited

- Neco Insurance Company Limited
- National Life & General Insurance Co. Ltd.
- United Insurance Company Limited
- Alliance Insurance Company Limited
- Sagarmatha Insurance Company Limited
- Himalayan Gen.Insu. Co. Ltd.
- NB Insurance Co. Ltd.
- Nepal Life Insurance Co.Ltd.
- Life Insurance Co.Nepal
- Prudential Insurance Co.
- Lumbini General Insurance
- Shikhar Insurance Co. Ltd.
- Siddhartha Insurance Limited

Thus, only 17 insurance companies among 24 insurance companies in Nepal are listed in Nepal Stock Exchange for share trading. As the topic is 'Investment Policy Analysis of Insurance company in Nepal' I have taken two Insurance company i.e NLG and NLI for comparison of Investment Pattern and Premium Collection.

1.2 Focus of the Study

Insurance Company is a financial institution. As the financial institutions, insurance company is established and operated for profit motive; it collects funds in the form of premium and invests in different sectors. But its investment portfolios are regulating by the Insurance Board of Nepal. Under the rules and regulation, every insurance company must invest their 75% of investable fund declared as "Compulsory Sectors" and rest 25% in "Other sectors".

Insurance Company assures the insured for indemnity if the stated risk caused economic loss within the policy period in return of 'premium'. Premium is the main source of income for every insurance company so, they have to collect more and more premium for better income. A significant different in the nature of insurance, life and non-life premium is also vast different. The life premium is refundable and non-life premiums are non-refundable. For life insurance companies, they have to refund premium with bonus but General insurance do not have such burden. That is why the premium collection of both businesses deals in different headlines.

Investment funds for the insurance companies are the excess amount after claims paid and managerial expenses;

	Premium Collection	-----	xxxx
Less:	Claim Paid	-----	(xxxx)
Less:	Managerial Expenses	-----	(xxxx)
	<u>Investable Fund</u>	-----	<u>xxxx</u>

The investment fund should be used in such sectors where they could get certain return. They also have to maintain the rules and regulations regarding investment by Insurance Board of Nepal. They must invest 75% in compulsory sectors and rest 25% in others sectors.

1.3 Statement of the Problems

Today, though insurance business has been a part and partial in the advanced modern world, Nepal is still crawling because the insurance business is relatively new and

competition is very minimal hence the extent of business coverage is very low. A successful business depends to a greater extent on the proper designing and execution of marketing policies and programs. Only through the effective marketing policies, a business can expect to survive and grow.

The insurance companies of Nepal do not seem to have attended properly in this respect and the reason behind this is; lack of knowledge, and poverty. Nepalese insurance companies try to advance the insurance business activities with different sort of obligations facing different kinds of problems and prospects. National Life & General Insurance Co. Ltd is a successful private enterprise of Nepal, which is still running the insurance business without suffering any losses from the date of establishment till to now, but it faces the various difficulties relating to premium collection and investment.

Nepal is an underdeveloped country and most of people live in rural area are illiterate also. Like this, the geographical situation is not favor for the expansion of insurance business. Most of the Nepalese are not familiar with insurance. Even educated people are confused about insurance. Hence, lack of knowledge about insurance is one of the crucial problems in insurance business and People of Nepal do not have the habit of insuring and mostly they buy insurance policies only if compulsory.

To overcome the above difficulties the researcher forwarded the study to provide the appropriate suggestion for the major difficulties on which the study was conducted.

1.4 Objectives of the Study

The main objective of this study is to find out the position of National Life Insurance Co. Ltd. in the insurance industry of Nepal and to suggest recommendation based upon it. The specific objectives of this study are: -

- a) To study and analyze the trend of premium collection and investment policy of NLI.
- b) To compare the trend of premium collection and investment of NLI with industry average in various years.
- c) To evaluate the position of NLI in the insurance industry of Nepal.

- d) To provide suggestions based on the findings of the analysis to the management of NLI for improving the existing position of premium collection and investment.

1.5 Research Questions

The Research questionnaires of this study are: -

- a) How to study and analyze the trend of premium collection and investment policy of NLI?

- b) How to compare the trend of premium collection and investment of NLI with industry average in various years?
- c) How to evaluate the position of NLI in the insurance industry of Nepal?

1.6 Significance of the Study

Insurance is one of the most flourishing services even in the developing country like Nepal. There are 24 insurance companies existing in Nepal. In which, 16 insurance companies are general insurance, 7 are life insurance and 1 underwrite both life & general insurance businesses. General insurance companies are permitted to underwrite general insurance business and other industrialists are looking to get permission to open Life insurance Company, though 99% of life insurance market remains untouched by life insurance companies.

The experts said that the life insurance companies could easily collect more than one thousand million without suffering any difficulties. That is why foreign life companies had also opened their branches in Nepal. On the other hand, in small developing countries like Nepal, there are 24 insurance companies including 1 insurance companies underwrite both life & general business.

They are capturing each other's market and not trying to issue new policy and create new market. They are satisfied with the existing position. And they do not get suitable and steady sectors to invest their fund for more return. Now, they invest their fund in traditional sectors. So, a new study is required on the topic of premium collection and investment policy analysis of insurance company in Nepal.

Premium collection and investment are the vital activities of insurance company. Success and failure of any insurance company depends upon these activities. As the topic of this study is 'Investment Policy Analysis Of Insurance Company In Nepal', it deals with the existing premium collection and investment of NLI & NLG. This study helps to outline the trend of premium collection and investment of NLI & NLG.

That helps the management aware with the premium collection situation and investment position. That assists the management of NLI & NLG to take right decision regarding premium collection and investment.

The ordinary shareholders of NLI &NLG can perceive the premium collection and investment situation of NLI &NLG that help them to take decision whether more invest or sell it. The customers of NLI & NLG can know the services provided by the company and the others information re-arguing the company. So, getting better services from the company in future benefits them.

The foreign insurance company can know about the current situation of insurance companies in Nepal. That helps them to take decision to open their branches in Nepal. It also helps Nepalese industrialists to take decision to establish new insurance company in Nepal. It also helps to the researcher to research in new fields of NLI & NLG and series of the studies on other insurance companies of Nepal.

1.7 Limitation of the Study

Every activity has it own boundary. In the same way this study has also some boundaries, which cannot be ignored. These boundaries are called as limitations of this study. The limitations of this study are: -

1. This study is concentrated in premium collection and investment-sectors of NLG & NLI. It doesn't occupy other areas of that company.
2. The whole study deals only with NLG & NLI.

3. The whole study is based on secondary data collected from NLG Head office Lazimpat & NLI, Head Office, Naxal, the Insurance Board: www.bsib.org.np and Nepal Stock Exchange: www.nepalstock.com.np. Annual Reports of Beema Samiti. Research is based on secondary data is not far from the limitation to inherent character.
4. The study covers only period of 5 years from 2008/09 to 2012/13. And hence the conclusion has drawn confines only to the above period.

Since the study deals merely with NLG & NLI, the conclusion drawn from the study may or may not be applicable to other insurance companies of Nepal.

1.8 Organization of Study

The final contents of this study have been divided into five chapters. They are as follows:

Chapter	I	Introduction of the Study
Chapter	II	Review of Literature
Chapter	III	Research Methodology
Chapter	IV	Data Presentation and Analysis
Chapter	V	Summary, Conclusion and Recommendation

The first chapter contains Introduction of the study. It is all about the background of the study, focus of the study, statement of the problems, objectives of the study, significance of the study, Research Methodology and limitations of the study.

The second chapter deals with the Review of literature. It contained conceptual review of the study and review of related studies i.e. books, articles, journals, unpublished thesis and theories advanced in this context and the inferences drawn so far.

The third chapter is Research methodology. It contained research design, source of data, data analysis tools, limitations of the methodology.

The fourth chapter is the crucial chapter that presents and analyses data. Here the data is presented according to the objectives of the analysis. Based on these analyses of data, major findings of the study are confined.

The fifth chapter concludes the whole thesis and offers suggestions and recommendations for further improvement.

CHAPTER II

REVIEW OF LITERATURE

This chapter is basically concerned with review of literature relevant to the Premium and Investment position of NLG & NLI. Every Study is very much based on past knowledge. The past knowledge or the previous studies should not be ignored as it provides foundation to the present study. Therefore, this chapter has its own importance in the study. This chapter is divided into two following parts.

- Conceptual Framework
- Review of previous studies and research papers

2.1 Conceptual Framework

Being a social man always wants his future to be safe and secured. Human beings are facing various sorts of risks from the very beginnings of the human civilization. Some sorts of risks are not out of their control. For reducing the risk insurance proved as an effective device that could be a safeguard against such unfortunate happenings. Therefore, the development of insurance has also crossed various stages so that the forms of insurance, which we see today, are not as effect of few years but as effect of centuries.

It is difficult to find the exact definition of insurance because there is no appropriate definition that actually defines the insurance. Some authors define insurance from its function. They define insurance from what insurance functioning. They said that the insurance company collected premium from the various people who are interested in shifting risks and compensate to the insured that are suffered from the economic losses from the stated risk within the policy period. On the other hand, some authors define insurance as legal documents. They said that insurance is only a legal contract between the insurance company and the insured. The legal contract is called as Policy in which Sum insured; plan & period, risks, nominee etc are stated.

So, definition of insurance can be made from two points of views :

- (i) Co-operative concept or Functional Definition and
- (ii) Legal Concept or Contractual Definition

2.1.1 Co-operative Concept or Functional Definition

John Bainbridge defines as "Insurance is indispensable to free economy and a free society because it not only protects the values produced by men and women who work for themselves but fasters in the confidence to produce more. (Bainbridge, 1952:15)

M.N. Mishra defines insurance as co-operative device, "Insurance is a co-operative device to spread the loss by particular risk over a number of persons, who are exposed to it and who agree to insure themselves against the risk. (Mishra1979: 5)

Robert I. Mehr and Emerson Cammack define Insurance in the way, "Insurance may be defined as a device for reducing risk by combining a sufficient number of exposure units to make their individual losses collectively predictable. The predictable loss is then shared proportionately by all units in the combination. (Mehr&Cammack: 72)

Frederick G. Crane said, "Insurance may be defined as a system of combining much loss exposure, with the costs of the losses being shared by all to the participants. (Crane pg.8)

M.K. Ghosh& A.N. Agrawal also defines insurance as co-operative method of risk distribution. They said "Insurance is a corporative form of distributing a certain risk over a group of persons exposed it. (Gosh &Agrawal 1959: 2)

Thus from the above definitions, we came to know that insurance is a compensation for uncertain happenings of any loss which are insured for certain period of time and for specified amount, human life and property are subject to the risk of loss or damage from the various sources. The persons on whom such losses full suffer financially and practically ruined in several cases. The basic concept of insurance is a method of sharing financial loss of a few from the common fund out of contribution of the many who are equally exposed to the same loss.

2.1.2 Legal Concept or Contractual Definition

It can be defined the insurance contract as "A contract whereby one person called Insurance undertakes, in the return for the agreed consideration called the premium, to pay the another person, called the Insurance assured a sum of money or its equivalent, on the happening of a specified event.(Hardy &Irmay 1979: 3)

M.N.Mishra again defines insurance as this way, "Insurance may be defined as a consisting one party (the insured) agrees to pay to the other party (the insured) or his beneficiary, a certain sum upon a given contingency (the risk) against which is sought. (Mishra, 1979:5)

Thus from the above definition, we came to know that insurance in only legal contract between the insurance company (the insurer) and the insured. The legal document is the policy of insurance.

In the legal document, one party is called the insurer and another party is called the insured. The person who protects another against risks is known as insurer, while the person who is protected against the risk is known as the insured. The documents where in the terms and conditions of the contracts are started are knows the insurance policy. The amount for which a policy is taken out is called insured amount. The consideration, which the insured has to pay insurer, is known as the premium.

Thus, insurance is the means of transferring risks whereas the insurer (insurance company) undertaking to pay the insured a sum of money on the happening of specific event. In other words an insurance company promises to pay a certain sum of money on the happening of the specified event in exchange for all sum monetary payments.

The insurance functions can be divided into three parts, Primary, Subsiding and Indirect. The Primary function of the insurance is the equitable distribution of the financial losses of 'few' among 'many'.

Because insurance is described as a method of sharing of financial losses of a 'few' from a common fund formed out of contribution of 'many' who are exposed to the

same loss. Therefore it is a system of spreading the losses of an individual over a group on individuals.

In the insurance plan each insured pays a contribution in form of premium into common fund out of which compensation is paid to those who suffer losses. The second function of the insurance is its subsidiary function which means to provide the financial assistant as well as stability to the economy. A person whether he is in business or a profession or is in service, under an insurance plan, he can achieve monetary protection in the event of death or disablement in his life and taking financial assistance in the event of loss to his property by means of accident. Thus, insurance provides financial stability to trade, industry and the community. The third function of insurance is indirect that means it is the best medium of mobilizing internal resource and capital for the development of a country. Insurance Company collects as a premium from the public. Apart from this, fund is utilized for current assets and current liabilities and the balance is set aside as reserve which is invested in government securities, bank fixed deposits and equities of the organizations.

2.1.3 Historical Background of Insurance

It is impossible to fix the exact date when insurance began, but certain activities, which may be regarded as forerunners of insurance existed before insurance as it is understood today was first, transacted. (Gosh & Agrawal 1959: 21) The Babylonians and Hindus used contracts known as bottoms loan to shift the burden of risk from owners of ships and cargo's to money lenders who agreed to cancel the loan if the ship or cargo were lost during a voyage. If the venture was successful, the charge for the Bottamary loan was a high one, which combined both interest and cost of risk insurance, has been called "The head maiden of commerce", for it was with early commercial activities and the great dangers of travel and trade that such contracts appeared. Not only risks were shifted from one party to another in ancient times but the idea of sharing and pooling risks was also used. Chinese merchants divided their cargo's among several ships for period voyages on the rivers of ancient China, for the purpose of not having anyone merchant suffering total loss of cargo because one disaster. Life insurance too can be traced to ancient civilization such as Rome; Burial Funds were common in those days. In Greece, religious organizations collected and dispersed for burial costs of members. Although insurance had its origin, in the ancient world, the development of insurance forms, as we know that today did not being until about the 14th century. The first policy of modern marine insurance in a vessel was written on the Santa Clara at Geon, Italy in 1347. (Mehr & Cammack: 72) The first corporation for marine insurance business was organized in parties in 1668. Venetian decrease in the 15th century regulated marine insurance contracts and Hansecaque Leqqe used Indemnity Contracts for the trade with all of Europe.

In the coffee houses of England and France forged to the peak of their navel supremacy. Lloyds of London became the best-known center of marine insurance and remains as an important source of worldwide insurance on ships and cargos.

Fire insurance begun for all practical purpose, after their great fire of 1666 in London. Dr. Nicholas Barbon established the fire office at London in 1680. Since then many attempts have been made to develop the form of Fire Insurance, Phoenix Insurance Company was established in 1782.

Economic expansion in the 1800s found more life insurance ready for business. The Pennsylvania Company for the Insurance Olives (1809), The New York Life Insurance and Trust Company (1930), The New England Mutual Life Insurance Company (1836) and Mutual Life Insurance Company of New York (1843). The beginnings of scientific auctorial mortality tables appear and life insurance quadrupled in decade following the civil war. (Bickelhaupt, 1983:73)

The expansion of the railways, the advent of the automobile age, the mass production techniques of modern industry, the wars, the introduction of the airplanes and the changing social consciousness of an affluent society, all of these factors and many more business of the 21st century. In the 21st century numbers of fire offices were formed and Lloyds too had commenced fire insurance.

Transportation risks changed as the railways encountered competition from the motor truck and airlines industries. New chemicals, radioactive materials, and industrial possess have caused continual risk analysis, innovations for property insurance.

Life insurance has undergone significant change since 1900. Many new companies have competed for the growing needs of a prosperous economy until today 2008 life insurance are in business. (Ibid:74)

Thus we can summaries the historical background of insurance as the development of Fidelity Guarantee Insurance 1840, Personal Accident Insurance 1848, Employer Liability Insurance 1880, Public Liability insurance 1875, Housebreaking & Burglary Insurance 1887, Aviation Insurance 1911 and Motor Insurance only after the second world war were commenced. The

oldest form of insurance was marine insurance. On the passage of time, Life Insurance and at a much later date by other numerous types of insurance schemes which the complexity of modern business and social life have made inevitable.

2.1.4 Types of Insurance

Insurance can be divided from two angles:

- (i) From the business point of view
- (ii) From the risk point of view (Mishra, 1979 :12)

From the Business Point of View

From the business point of view, there are two types of insurance

- a) Life Insurance
- b) General Insurance

Life Insurance

Life Insurance is concerned with economic value of human life, which is derived from its earning capacity and the financial dependency of occurrence lives in that earning capacity. Life Insurance can be defined as "A contract whereby the insurer for a certain sum of money or premium proportioned to the age, health and other circumstances of the person whose life is insured. If such person shall die to the person in who's favored such policy in granted."

In the life insurance, "The insurer promises to pay a certain sum of money to the insured on his attaining a certain age or to the representative of the insured on his death, as the case might be." Therefore life insurance is related with human life. Life insurance business provides the financial security and compulsory saving to the human.

General Insurance

Basically, General Insurance business is divided into three types, i.e. Fire, Marine & Miscellaneous.

Fire Insurance

Fire Insurance in its simplest form provides indemnity for loss or damage caused by fire. Fire insurance may be defined as a contract whereby the insurer in consideration of the premium paid by the insured, undertakes to indemnify the later against loss or damage caused to the insured property by fire during a specific period and upto an agreed amount. Fire Insurance can be defined as "A contract whereby one party undertakes in exchange for a premium, top indemnity

the other against a loss or damage caused to specified property by the fire during a particular period to the extent of a definite to included a number of perils, closely allied to fire such as windstorm, explosion, smoke, earthquake and riot etc.

Marine Insurance

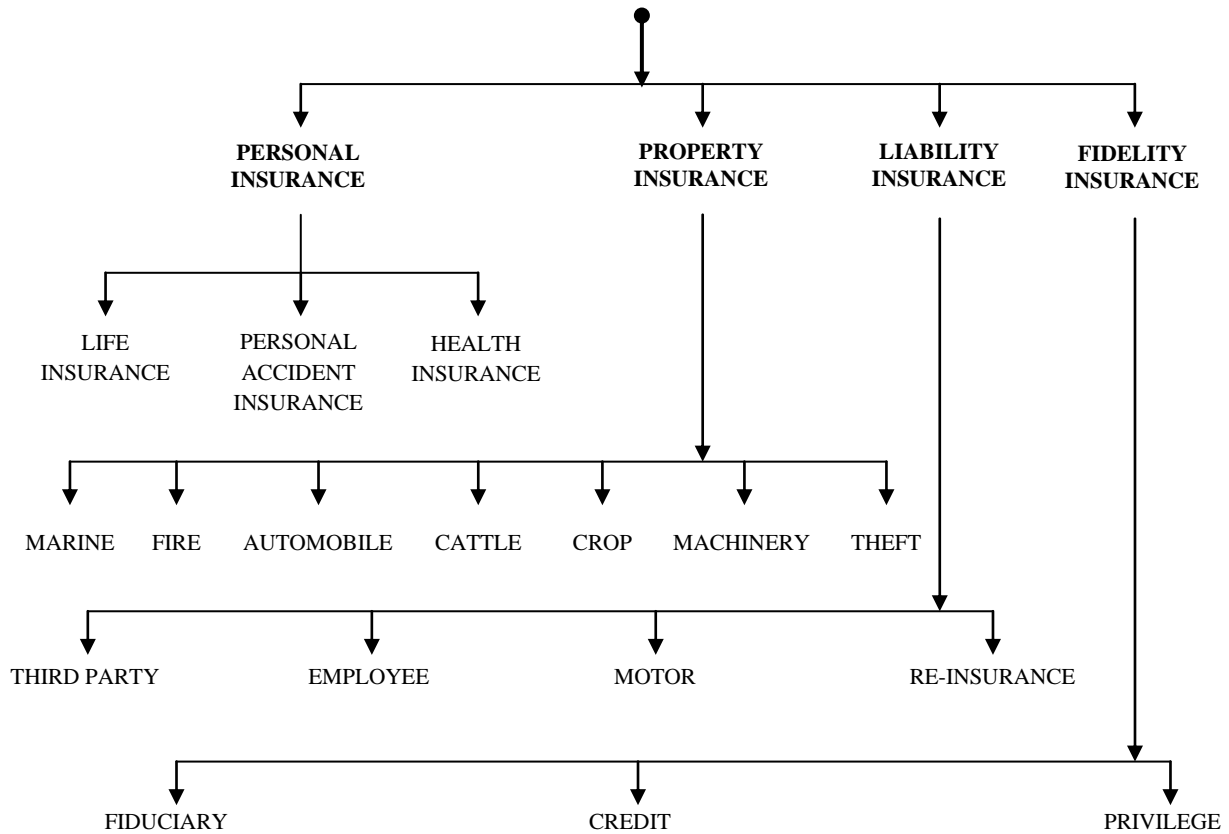
Marine Insurance covers goods primarily while they are in the process of transportation. Marine insurance can be defined as, "Marine insurance is a contract whereby the insurer in consideration of premium, undertakes to indemnify the insured for damaged to or destruction of the insured property caused by the special sea, perils and incidental land risk while in transit. "Marine insurance can be also being defined as a contract of indemnity whereby the insurer undertakes to indemnify the insured undertakes manner and to the extent thereby agreed against the loss caused undertakes connection with a marine adventure. It includes protection against the perils of navigation and transportation such as theft, sinking and collision.

Miscellaneous Insurance

Under the miscellaneous insurance business included the various types of insurance business such as Motor, Aviation, Personal Accident, Cash in Transit, Burglary and Housebreaking, Worker's Compensation, Fidelity Guarantee, Flight, Public Liability, Medical Aid Scheme, Cattle Insurance, Engineering Insurance, Contractor All Risk Insurance and so on.

Figure: 2.1

Kind of Insurance from Risk Point of View



Sources: RastriyaBeemaSansthan

Personal Insurance

The Personal insurance includes insurance of human life, which may suffer loss due to death, accident and disease. Therefore, the personal insurance is further sub-classified into life insurance, personal accident insurance and health insurance.

Property Insurance

The property of an individual and of the society is insured against the loss of fire and marine perils, the crop is insured against unexpected decline in production, unexpected death of animal engaged in business, break-down of machines and theft of the property and goods.

Liability Insurance

The liability insurance covers the risks of third party, compensation to employees, liability of the automobile owners and reinsurance.

Guarantee Insurance

The guarantee insurance covers the loss arising due to dishonesty disappearance and disloyalty of the employees or second party. The party must be a party of the contract. His failure causes loss to the first party for example, in export insurance. The insurer will compensate the loss at the failure of the importers to pay the amount of debt.

2.1.5 Functions of Insurance

The function of insurance can be studied into two parts:

- (i) Primary Function
- (ii) Secondary Function

2.1.5.1 Primary Function

Insurance Provides Certainty

Insurance provides certainty of payment at the uncertainty of loss. Better planning and administration can reduce the uncertainty of loss but the insurance relieves the person from such difficult task. Moreover, if the subject matters are not adequate, the self-provision may prove cost-liar. There are different types of uncertainty in a risk. The risk will occur or not, when will occur, how much loss will be there? In other words, there are uncertainty of happening of time and amount of loss. Insurance removes all those uncertainty and the assured is given certainty of payment of loss. The insurance company charge premium on the said certainty.

Insurance Provide Protection

The main function of the insurance is to provide protection against the probable chances of loss. The time and amount of loss are uncertain and at the happening of risk, the person will suffer loss in absence of insurance. The insurance guarantees the payment of loss and thus protects the assured from suffering. The insurance cannot check the happening of risk but can provide for losses at the happening of the risk.

Risk sharing

The risk is uncertain, and therefore the loss arising from the risk is also uncertain. When risk takes place, all the persons who are exposed to the risk, share the loss. The risk sharing in ancient time was done only at the time of damage or death, but today, on the basis of probability of risk, the share is obtained from each and every insured in the shape is premium without which protection is not guaranteed by the insurer.

2.1.5.2 Secondary Function

Besides the above primary function, the insurance works for the following functions:-

Prevention of loss

The insurance joins hands with those institutions, which are engaged in preventing the losses of the society because the reduction in loss causes lesser payment to the insured and so many saving is possible which will assist in reducing the premium. Lesser premium invites more business and more business cause lesser share to the assured. So again premium is reduced to, this will stimulate more business and more protection to the masses. Therefore, the insurance assist financially to the health organizations, fire brigades, educational institutions and other organizations which are engaged in preventing the loose of the masses from death or damages.

Provides Capital

The insurance provides capital to the society. The accumulated funds are invested in productive channel. The dearth of capital of the society is minimized to a greater extent with the help of investment of insurance. The investment and loans of the insurance benefit the industry, the business and the individual.

Provides Efficiency

The insurance eliminates worries and miseries of losses at death and destruction of property. The carefree person can devote his body and soul together for better achievement. It improves not his efficiency, but the efficiencies of the masses are also advanced.

Helps Economy Progress

The insurance by protecting the society from huge losses of damage, destruction and death, provides and initiative to work hard for the betterment of the masses. The next factor of economic progress, the capital, is also immensely provides by the masses. The property, the valuable assets, the man, machine and the society cannot lose much at the disaster.

2.1.6 Nature of Insurance

The insurance has the following characteristics, which are generally observed in cause of life, marine, fire and general insurance. (Mishra, 1979:7)

Sharing of Risk

Insurance is device to share the financial losses, which might be fall on an individual or his family on the happening of a specified event. The event may be death of a bread-winner to the

family in the case of life insurance., Marine perils in the case of marine insurance, fire in fire insurance, and other certain events in general insurance, e.g. theft in burglary insurance, accident in motor insurance etc. the loss arising from these events if insured are shared by all the insured on the form of premium.

Co-operative Device

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

Value of Risk

The risk is evaluated before insuring to change the amount of share of an insured, herein called consideration or premium. There are several methods of evaluation of risks. If there is expectation of more loss, higher premium may be charged. So, the probability of loss is calculated at the time of insurance.

Payment at contingency

The payment is made at a certain contingency insured. If the contingency occurs, payment is made. Since the life insurance contract is a contract of certainty because the death of the expiry of term will certainly occurs, the payment is certain. In other insurance contracts, the contingency of the fire or the marine perils etc, may or may not occur. So, if the contingency occurs, payment is made, otherwise no amount is given to the policyholders. Similarly, in certain types of life policies, payment is not certain due to uncertainty of particular contingency within a particular period. For example, in term insurance the payment is made only when death of the assured occurs within the specified term, may be one or two years. Similarly, in pure endowment payment is made only at the survival of the insured at the expiry of the period.

Amount of Payment

The amount of payment depends upon the value of loss occurred due to the particular insured risk provided insurance is there upto that amount. In life Insurance, the purpose is not making good the financial loss suffered. The insurer promises to pay a fixed sum on the happening of an event.

If the event or the contingency takes place, the payment does fall due if the policy is valid and in force at the time of the event, like property insurance, the dependence will not be required to prove the occurring of losses and the amount of loss. It is immaterial in life insurance what the amount of loss was at time of contingency. But in the property and general insurance, the amount of loss, as well as the happening of loss, is required to be proved.

Large Numbers of Insured Persons

For spread the loss immediately, smoothly and cheaply, large numbers of persons should be insured. The co-operation of a small number of persons may also be insurance but it will be limited to smaller area. The cost of insurance to each member may be higher. So, it may be unmarketable. Therefore, to make the insurance cheaper, it is essential to insured large number of persons or property because the lesser would be cost of insurance and so, the lower would be premium in past years, tariff associations or mutual fire insurance associations were found to share the loss at cheaper rate. In other to function successfully, large number of persons should join the insurance.

Insurance is not a gambling

The insurance serves indirectly to increase the productivity of the community by eliminating worry and increasing initiative. The uncertainty is changed into certainty by insuring property and life because the insurer promises to pay a definite sum at damage or death. From a family and business point of view all lives possess an economic value which may at any time be suffered out by death, and it is reasonable to ensure against the loss of this values as it is to protect loss of property. In the absence of insurance, the property owners could at the best practice only some form of self-insurance, which may not give him absolutely certainly. Similarly, in absence of life insurance, saving requires time: but death may remain unprotected. Thus, the family is protected against losses or death and damage with the help of insurance. From the company's point of view, the life insurance is essentially non-speculative; in fact, no other business operates with greater certainties. From the insured point of view, too, insurance is also the antithesis of gambling. Nothing is more certain than life and life insurance offers the only sure method of changing that uncertainty into certainty. Failure of insurance amounts is gambling. In gambling, by bidding the person exposed himself to risk of losing to risk, and will suffer loss if he is not insured. By getting insured his life and property, he protects himself against the risk of loss, in fact, if he does not get his property or life insured, he is gambling his life or property.

Insurance is not charity

Charity is given without consideration but insurance is not possible without premium. It provides security and safety to an individual and to the society although it is a kind of business because in consideration of premium it guarantees the payment of loss. It is a profession because it provides adequate sources at the time of disasters only by charging a nominal premium for the services.

2.1.7 Services Provide by NLG & NLI

National Life & General Insurance Co. Ltd provides both life and non-life insurance services. This company provides the following types of insurance business services:

2.1.7.1 Life Insurance

We have known that it is related with human life. So NLG & NLI has started life insurance business since 2046 B.S., it plays the important role in the country because it provides the financial protection against the uncertainty of life. It also helps to stimulate the compulsory savings.

2.1.7.2 General Insurance

NLG & NLI indemnifies the insured by compensating the damage within the period of insurance policy. As such it is developing as a basic fool for the development of commerce and industry of the country. Under general insurance, NLG & NLI has provided following insurance business:

2.1.7.2.1 Fire Insurance

Under the fire insurance policy, if any property loosed by fire, the insured amount would pay as indemnity. The property should be insured in its full market value because the claim under the fire insurance policy is determined on the basis of present market value of the property. The subject matter of fire insurance may be any property having intransitive value e.g. Building, furniture & fixtures, plant & machinery, goods and merchandises policies can also be issued to cover rent and certain losses e.g. standing charges net profit etc.

2.1.7.2.2 Marine Insurance

Marine Insurance business means the business of effecting contract of insurance upon vessels of any description, including cargoes, freights and other interests which may be legally insured in or in relation to such vessels, cargoes and freights, goods, wares merchandise and property of whatever description insured for any transit by land or water or both, and whether or not

including warehouse risks or similar risks in addition or as incidental to such transit and includes any other risks customarily included among the risks insured against in marine insurance policies.

2.1.7.2.3 Miscellaneous Insurance

Under the miscellaneous Insurance, NLG & NLI provides the following types of insurance as:

Aviation Insurance

Aviation insurance covers the risks of loss or damages to the aircraft's. Besides it bears the risks of legal liability to the third party and passengers.

Motor Insurance

Motor Insurance covers the risks of loss or damages to the third party or persons due to the use or the insured motor vehicle.

Personal Accident Insurance

Personal Accident Policy provides for specific benefits of insured person suffering injury, resulting in death or disablement arising solely and directly from an accident caused by violent external and visible means. The bodily injury with in twelve calendar months (period varies) from occurrence thereof shall solely and directly cause or result in

- Death
- Loss by physical separation
- Temporary total disablement

Cash-in-transit Insurance

This is a modified version of Burglary Insurance covering money or securities in transit between the insured premises and bank or other branch premises. The cover is granted only to commercial and industrial establishments.

Workmen's Compensation Insurance

This is designed to protect an employer against legal liability that he may incur as a result of death or bodily injury sustained by his employees out of and in the cause of employment.

Fidelity Guarantee Insurance

This insurance is designed to provide an indemnity to an employer for financial losses suffered by his due to acts of dishonesty of accountant, wage distributors, cash distributors and other employees involved in handling cash in course of business.

Burglary and Housebreaking Insurance

This insurance protects that property which is more valuable such as cash, ornaments, official documents, jewels etc are kept in locked secret place or closed room.

Public Liability Insurance

This insurance provides an indemnity in respect of legal liability for accidental, death or bodily injury, damage to property of third parties arising out of the negligence of the insured or his employees.

Contractor's all Risks Insurance

NLG & NLI also serves the contractor by providing Contractor's all Risks Insurance. In this policy, the insurer provides indemnity for the contractor (insured) for damage to their sites e.g. bridges, buildings, culvert, walls etc.

Engineering Insurance

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

Others

Besides above these services NLG & NLI provides the others insurance services such as medical aid scheme, household policy, flight insurance etc.

2.1.8 Sources of Investment Funds

The funds with the insurer are accumulated from the various sources, some of which are given below: (Mishra 1979: 186)

2.1.8.1 Premium

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

2.1.8.2 Interest

The second source of fund is the excess interest earned over the assumed rate of interest. The assumed rate is lesser than the actual rate in most of the causes. In reserve, the funds will decline.

2.1.8.3 Capital

Funds obtained from the sale of share capital and debenture share included under capital gains.

2.1.8.4 Savings in Expenses

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

2.1.9.5 Non-Payment of Claim

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

2.1.9 The Principles of Investment

The canons of investment are safety, profitability, liquidity, diversification and increasing of life business. (Mishra 1979: 187)

2.1.9.1 Safety

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

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

2.1.9.2 Profitability

The insurer must earn at least the assured rate of interest; otherwise he will suffer from losses. The investment, so, should be made in such securities, which yield the highest return consistent with the principle of safety. The insurer can reduce his future premium by earning higher interest and thus will be able to increase his business. It has been realized that the safety and the profitability principles are opposite to each other. The safest securities earn little profit and vice-versa is also true. Therefore, the investment department has to establish a proper balance between safety and profitability. However, there are certain securities where the safety and the profitability principles are fully observed. Government securities & bonds are some of the examples of such securities.

2.1.9.3 Liquidity

It represents convertible of investments into cash without undue loss of capital. The principle is essential because of immediate requirement of money for payment of claims. However, there is no higher chance of maximum outflow at any time because the maturity unlike the bank withdrawal may not fall within a short period. The claims are generally, following a set-trend on the maturity and death experience. A rough estimation can be made of the payments of claims, Surrender Values, Policy loans and regular expenses. 'Funds' should be invested according to the requirements of the insurers. i.e. investments are so made that the maturates will occurs at intervals adjusted to meet the needs of maturity obligations.

For meeting the daily outflows of funds, it is readily essential to keep maximum amount cash or in readily convertible securities because a vast inflow of cash is observed in form of premium return on insurance and sale of securities. For the established and financially strong insurers, the liquidity is not must essential. Moreover, the insurer can insert a clause of delay in payment for a specified period. The principle of liquidity is against the principle of profitability because the idle cash that will earn nothing and invested cash will have no liquidity.

2.1.9.4 Diversification

Diversification means don't put all eggs in one basket. Diversification of investment may mean spreading investment over different channels. But insurance companies of Nepal must invest their investment funds of 85% in priority sectors (traditional sectors) and rest 15% whatever they wished. But after 2052 B.S., only 75% of investment must in traditional sectors and rest 25% in other sectors. This is regulated by Insurance Act 2049 B.S. Traditional sectors means

Government securities and Bank fixed deposits, where rest portion 15% and after 2052 B.S., 25% can be diversified in the following manners:

- Diversification on the basis of geographical distribution
- Diversification of the portfolio over the different economic enterprises of the country, political changes and time
- Diversification may be according to number of investment in a security, maturity of security and duration of security
- The distribution of funds according to industries firms and sectors.

The diversification provides maximum security with high yield and better liquidity provided the diversification was done taking into account of all these factors. Do not invest all the funds at one place in an industry in a security and for a period of maturity. Investment should spread over the widest possible range to minimize unfavorable consideration and to gain favorable advantage. Under diversification, the low or average reduces the losses to maximum.

2.2 Review of Related Studies

Various authorities, experts, MBS students have conducted a numbers of researches on insurance. Among them, only few thesis are related with investment of insurance companies but not found any thesis related with premium collection. Many earlier MBA had conducted research in NLGI but they mainly dealt with financial performance of this study. Here, some thesis reviewed.

A thesis submitted by **Tara Bahadur Thapa (2010)**, Insurance Industry in Nepal. A comparative study on premium collection and investment pattern. (Thapa 2010) Mr. Thapa uses both primary and secondary sources of data. The period covered was for 2059/60 to 2066/67.

Main findings of Mr. Thapa's study are as follows:

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

There is close relationship between Mr. Thapa's study and this study because both studies are about premium and investment. Even both studies use five years data to analyze premium and investment; there are gaps between these studies also. Mr. Thapa emphasis the investment

patterns of insurance industry but this study's emphasis investment positions. Mr. Thapa uses all non life companies but this study is based on both life and non life companies.

Krishna Maharjan (2011) had prepared premium collection and Investment position of National Life & General Insurance Co.Ltd. (Maharjan, Public Youth Campus). He had analyzed the various financial ratios such as liquidity ratio, premium turnover ratio, return on net worth etc. He had also analyzed financial performance of different insurance business.

Maharjan found the following major findings from the study:

- a. Regarding liquidity management, NLGI is not in sound position. The current ratios come to a highest of 0.3 in 2008/09 to a lowest of 0.17 in 2010/11 taking derivation from average standard i.e. 0.89 times
- b. The company's outstanding premium in the five years periods jumped from Rs.5.22 million in 2008/09 to Rs.15.68 million in 2010/11.
- c. We found that the return on net-worth of NLGI is satisfactory because return on net worth is in increasing trend. The return on net-worth increased from 8.35% in 2008/09 to 30.29 in 2010/11.
- d. Return on shareholder's equity is also in better position. Because it shows improving trend. In the base year 2008/09, it was 9.19% and now it is 55.32% in 2009/10
- e. The trends of earning per share are fluctuating. It deviates from minimum level of Rs.7.72 per share in 2009/10 to maximum of Rs.55.28 per share in 2009/10. It proves that there is no control return on the investment to shareholders during the study periods.
- f. The NLGI declared the dividend in increasing trend. The data shows that the company's dividend paying ability increased from 10 million bonus share in 2010/11. Bonus share affected the market price of a share because it reduced the market price of a share from Rs. 780 in 2009/10 to Rs.630 in 2010/11. Thus bonus share reduced the market price of a share.

This study covers for the periods of 5 years from 2008/09 to 2010/11. This study only dealt with NLGI, there is no comparison between other insurance companies or industry. This study emphasis only with financial tools (mainly with ratios) and this study ignores the important of statistical tools.

Shree Prasad Gelal (2011) had prepared Comparative study of financial performance between Nepal Insurance and National Life & General Insurance Co. Ltd. (Gelal Kathmandu2011). This

study is descriptive and analytic too. Mr. Gelal used both primary and secondary data in this study and analyzed the financial position, liquidity position, profitability position and others.

This study found the following major findings:

- a. Data reveal, total percentage in fixed assets is more in NLGI compared to NIC while vice-versa in percentage in current assets. Growth in fixed assets slower rate in NIC than NLGI. However, investment in current assets decreasing in both the companies.
- b. NIC increased its share capital upto 2062/63 B.S. and decreased upto 2065/66 B.S. whereas NLGI showed decreasing trend in share capital percentage to total assets during this study period.
- c. The reserve of both the companies followed increasing trend during the study period
- d. The Net profit percentage of NIC found better than NLGI.
- e. Current ratio of both the companies is able to meet the standard form i.e.2:1. Thus both the companies are able to meet their short-term obligation. Comparatively, the ratio of NIC found better than NLGI.
- f. Cash to current liabilities ratio shows insufficient cash balance in both companies because cash to current liabilities ratio of both companies found less than standard form i.e. 1:1 comparatively NLGI is having better than ratio than NIC.
- g. The liquidity position of both NIC and NLGI found better means above the standard norm.
- h. Leverage ratio shows the level of risk. Having overview in this ratio, NIC is found risky than NLGI. D/E ratio of NIC ranged 57% to 118% whereas the same ratio of NLGI ranged 42% to 70% only during the study period.

This study dealt with Nepal Insurance Co.Ltd.(General Insurance company) and National Life General Insurance Co.Ltd. (Both Life & General Insurance Company) that may affect the result of the study. This study emphasis financial tool.

Dolendra Aryal (2012), had outlined the Evaluation of Financial Performance of Nepal Insurance Company. (Aryal 2012) Mr. Aryal made an attempt to provide independent views of the financial performance of NIC and focusing on the challenges ahead of NIC. His major findings are as follows:

- a. The company's outstanding premium in the 10 years period jumped from Rs.3.28 million in 2059/60to Rs.30.10 million in 2067/68.

- b. The re-insurance premium is in increasing trend except in FY 2059/60. The average outstanding re-insurance premium in FY 2058/59 is Rs.11.49 million and Rs.37.98 million and FY 2067/68
- c. The total claim to net premium ratio come to the highest 38.56% in FY 2067/78 and to the lowest -10.16% in FY 2058/59, taking the deviation from average ratio of years during the study period i.e. 11.85%
- d. The investment and income from investment have been increasing year by year. The NIC has not practiced risk diversified investment principle but adopted traditional investment portfolio.
- e. The raised funds are invested in different areas i.e. HMG securities, Fixed deposit, other investment, purchased of fixed assets and repayment of loan.

This study and Mr. Aryal's study is not actually related because he gave emphasis to evaluate the financial performance of only one insurance company and Financial and statistical tools used to analyzed the study are also same except some unfitted tools.

Narendra Dev Adhikari (2013) had conducted complete study on Premium collection and investment of the whole insurance industry of Nepal. (Adhikari2013)

Adhikari concluded the following major findings:

- a. Regarding the portfolios wise investment return, non-life insurance industry got higher return from government securities and Bank and Finance Company fixed deposits than life insurance industry in aggregate. It might be the outcome of the investment being made on the middle of the fiscal year and the return yet been received.
- b. Regarding the life insurance industry, major proportion of investment was incepted within the head Government Securities and Bank Fixed Deposits. Falling into the classification 'Compulsory' only a very smaller proportion of investment was invested in the others.
- c. The return from the 'Government Securities' was highest and the return from the 'Policy loan' was lowest and 'Bank Fixed Deposits' was more stable than others.
- d. Non-life insurance industry and insurance also the major portion of investment was incepted within the head 'Government Securities', and 'Bank Fixed Deposits' rather than the classification 'others'

This study covers the duration of F.Y. 2063/64 to 2068/69 B.S. This study is huge matter subject. So, coverage of the entire insurance companies of Nepal is very difficulties for any researcher.

2.3 Review of Related Journal & other Publications

Insurance has direct role to play in a developing country because of the fact that the government is utilizing its entire means and resources for the all round developed of the country. (Bhattra,2008:17)

Insurance plays the important role in the trade and commerce. It is absolutely true that export trade is more risky than domestic. Most of the export risks are unpredictable. These risks are to be insured to protect exporters. Various forms of insurance have been in existence for hundreds of years, just as many of the terms used today are the same as they were many years ago. (Shrestha, 2007: 1-4)

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

On the liquidity position of the NLGI, M.K.Shrestha view is that - "The management is very cautions on matching the current assets with current liabilities" and he has also mentioned in his study about the profitability position of NLGI that it is not satisfactory. He has further mentioned shareholders interests are not considered by the management. (Shrestha, 2007)

Kiran Nepal has mentioned the current market of insurance industry in Nepal. The articles are the complete study of potentials of insurance in Nepal and problems facing by the insurance companies of Nepal. He reveals that there is keen competition in general insurance. There are 16 general insurance companies in the small country like Nepal. So, they are competition each other to capture other's market without creating their own market and going to other sectors of insurance behind the traditional functioning. But the 99% of life insurance market remains untouched. The life insurance companies are far from reach to the majority public. There is future potential in the life insurance in Nepal. (Neapl : 38-45)

2.4 Research Gap

Thus, based the above organization gaps, it is hoped to prepare a thesis on premium collection and investment position of NLGI. In this study, it hopes to avoid all the limitations in the earlier thesis. Financial tools as well as statistical tools are used to observe the premium collection trend and Investment pattern of NLGI and to compare with the whole insurance industry in various fiscal years. Investment and its return in different sectors of both life & non-life business is

considered thoroughly to know the position of NLGI in Insurance Industry. This study assists to perceive the previous gaps to some extent as far as possible.

CHAPTER III

RESEARCH METHODOLOGY

This study aims at presenting, evaluating and finding about the investment pattern, premium collection condition and investment return of NLI & NLG. The study draws an actual Scenario of Investment Pattern and premium collection condition of National Life Insurance & NLG insurance Co. Ltd. To accomplish this goal, the study follows the research described in this chapter such as:

3.1 Research Design

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

To achieve the objective of this study, descriptive and analytical research designs will be used. The research is so designed that the analysis and interpretation of the secondary data relates to the evaluation of past behaviour of the insurer relating to the premium collection and investment of NLI & NLG.

3.2 Population and Sample

As the growing need for safety, investment and a better lifestyle, people are starting to have a better understanding about insurance, its policies and benefits. In Nepal only there are 24 insurance companies functioning to underwrite insurance business at present. But the primary focus of this study is the "Premium Collection and Investment Position of NLG & NLI" which is the first private insurance company to undertake life insurance among the others. It is also one of the leading insurance companies in Nepal.

3.3 Sources of Data & Data Collection Procedure

This study is based mainly on the secondary sources of data. The data's relating to premium collection & investment position of NLI & NLG have been collected from NLI head Office, in Naxal, Kathmandu and NLG head office Lazimpat, Kathmandu. However, other information & relevant data's have been collected from the following sources such as:

- ◆ Publications & Annual Reports of Insurance Board of Nepal & its website www.bsib.org.np and the website of Nepal Stock Exchange www.nepalstock.com.np

- ◆ Published or unpublished financial statements of the other insurance companies
- ◆ Various Brochure, Journals as well as booklets published by the insurer
- ◆ Various publications of the Government agencies and bodies relating to the field
- ◆ Books relating to the subject
- ◆ Unpublished Thesis & reports conducted by various MBS graduates

3.4 Data Collection Technique

The data's supplied by NLI & NLG, Beema Samiti and other authorities have been re-organized and refined in the form of tables after which the necessary items will be chosen for analysis and interpretation. Necessary statement, ratios, percentage, indices etc will be established in necessary place.

3.5 Tools & Techniques Used

Further arising the aforementioned objectives following tools and techniques are used in this study. This is an applicant in analysis phase

3.5.1 Financial Analysis Tools

Generally, the financial analysis tools will be used for the purpose of the assessment of the financial position to a particular organization. There are various tools in financial sector. But for the purpose of this study and analysis shows the position of premium collection, investment and return their contribution on overall performance.

3.5.1.1 Ratio Analysis

The term refers to the numerical or quantitative relationship between the two components or variables. "The relationship between two accounting figures expressed mathematically is known as financial Ratio (Pandey 1991: 110) Ratio can be expressed as percentage, fraction and stated comparison between numbers. We can say that it is the yardstick or a measuring rod for evaluating the financial position and performance of a firm.

Simply an arithmetical relationship between two figures is known as ratio. A ratio is defined as "The relation between two amounts determined by the number of times one contains the other (Oxford Advance Learners Dictionary of current English 3rd edition pg.696). In accountancy, it is defined as "The relationship between two accounting figures expressed mathematically (Pandey 1991:120) Here; the analysis is done on the Premium collection & investment and its

performance as compared with the overall position and performance of NLI & NLG. In order to analyze premium collection & investment position on NLI & NLG, the following ratios are used:

Investment on Other Sectors to Total General Investment

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

Life Investment to Total Investment

$$= \frac{\text{Life Investment}}{\text{Total Investment}}$$

General Investment to Total Investment

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

Investment to Total Premium Collection

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

Return on Investment

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

Interest Earned to Total Premium Collection

$$= \frac{\text{Interest Earned}}{\text{Total Premium Collection}}$$

Claims Paid to Total Premium Collection

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

Life Claims Paid to Total Life Premium Collection

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

General Claims Paid to Total General Premium Collection

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

Life Claims paid to Total Claims Paid

$$= \frac{\text{Life Claims Paid}}{\text{Total Claims Paid}}$$

General Claims paid to Total Claims Paid

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

3.5.2 Statistical Analysis Tools

Generally the statistical tools were used for attaining accuracy on analysis and study. It provides the study with accurate calculations by working out to find the Mean, Standard Deviation and Coefficient of Correlation, Trend Analysis and T-test was performed to see the best suitable condition for the company.

3.5.2.1 Trend Analysis

In order to draw the valid conclusion of investment & premium aspect, some statistical tools are used. As a statistical tool, Trend Analysis was used here to show the basic tendency of Investment & Premium Components.

3.5.2.2 Co-efficient of Correlation

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

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

Probable error of correlation is calculated by the following formula :

$$\text{P.E. (r)} = 0.6475 \times \frac{[1 - (r)^2]}{\sqrt{n}}$$

3.5.2.3 Mean

The Simple Arithmetic mean is the sum of total values to the number of values in the sample, thus

$$\text{Mean} = \frac{\text{Sum of total value}}{\text{No. of values}}$$

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

3.5.2.4. Standard Deviation (S.D.)

The measurement of the scatter-ness of the mass of figures in a series about an average is known as dispersion. The Standard Deviation measures the absolute dispersion. Greater the amount of dispersion, greater is the Standard Deviation and Vice-Versa. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of a series, a large standard deviation of different ratio was calculated.

3.5.2.5 Co-efficient of Variation (C.V.)

"The co-efficient of variance is the relative measure of dispersion, comparable across distribution, which is defined as the ratio of the standard deviation to the mean expressed in percentage." It is used for comparing variability of two series or set of data with the same. It is independent of units. It is calculated as follows:

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

CHAPTER IV

PRESENTATION AND ANALYSIS OF DATA

It has been already mentioned the methodology to be used in third chapter. In this chapter, it has been focused on the analysis of premium collection and investment position of National Life & General Insurance co. Ltd. (NLG & NLI). It considers various variables, which are important to reflect the premium collection & investment of this company. Premium is the main source of investment for insurance company, it plays vital role in the transaction of insurance. It is the main income of insurance company and investment is the outflow of the company to get more return. As insurance company is also financial institution, it always thinks about profit. This chapter deals with data and analyzes them.

4.1 Premium Collection And Composition

Collected premium is the main source of an insurer for the purpose of investment. It shows the performance of the insurance company. Higher premium tends the higher volume of transaction. The entire insurer tries to collect higher premium because if they succeed to collect high volume of premium, then they also succeed to receive higher income from the investment.

All the theoretical concept of premium is mentioned in the above chapter, which may be enough for the theoretical idea. Therefore, here, only quantitative analysis is described, which is related to the premium collection and its composition. For the purpose of the evaluation of the premium of the premium collection condition and composition among the portfolios, the trend analysis 'T' test, Mean, standard deviation and coefficient of variation are used. For the comparison of all the respective matter on premium collection, various ratio analysis are computed which will be given the actual proportion of premium in total collected premium sum. This evaluation chapter is also separated into two parts as Financial Analysis and Statistical Analysis likewise evaluation of investment patterns chapter.

4.2 Financial Analysis of Premiums

Various financial ratios which are related to premium collection are studied to evaluate and analyze the performance of NLG & NLI and Nepalese insurance industries. These important ratios are calculated as follows.

4.2.1 Life Insurance

4.2.1.1 Premium Collection on First Premium to Total Life Premium Collection

First premium of life insurance hold significant important in total life premium collection because life policyholder should pay premium until the expiry of the policy period if he paid first premium to start his life insurance i.e., the life policyholders has to pay premium to the policy period continuously. This ratio measures the weight of first premium to the total life premium collection of NLI.

It is the ratio, which used to measure the weight of premium collection on first life premium to total life premium. It shows the contribution of fresh life premium in total life premium collect by NLI. It is computed using following equation:

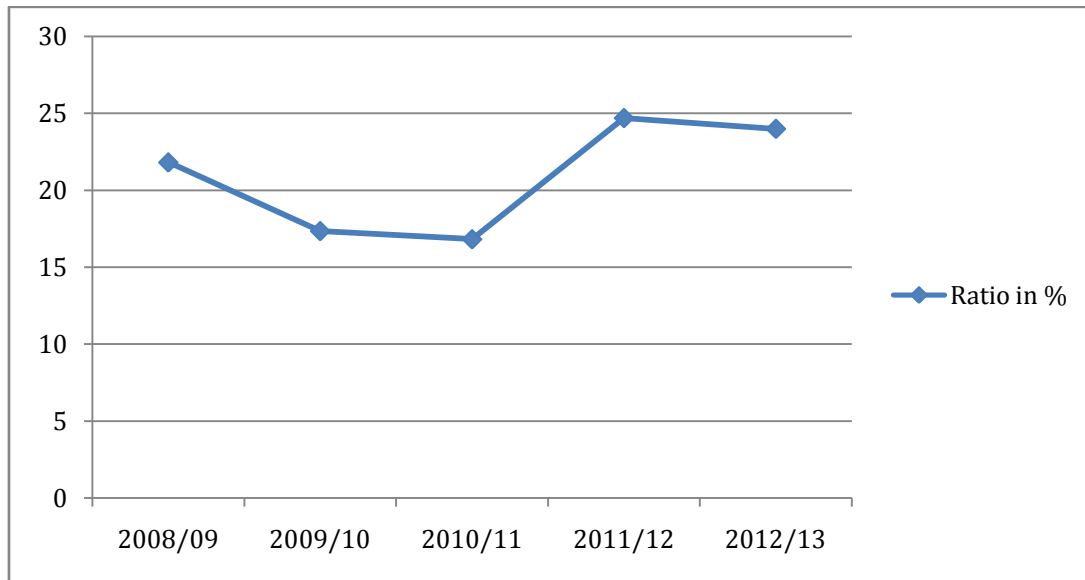
Premium Collection on First Life Premium to Total Life Premium Collection:

Table: 4.1
First Life Premium to Total Life Premium Collection

Year	Ratio in %
2008/09	21.81
2009/10	17.35
2010/11	16.82
2011/12	24.69
2012/13	23.99
Average	20.93
CV	15.53

Sources: Annual Reports of RastriyaBeemaSansthan

Figure: 4.1
First Life Premium Collection



Sources: Table 4.1

From the above table it revealed that the calculated ratios in each year followed the fluctuating trend. Company was able to maintain 20.93% average ratio on the above calculation. The highest ratio was in the FY 2011/12 and the least was in the FY 2010/11.

Again the calculated C.V. was 15.53% which revealed that the company was suffering from high risk and the ratios were not consistency and stable.

4.2.1.2 Renewal Life Premium to Total Premium Collection

In life insurance, policyholders have to continue paying the insurance premium till the last date of policy period. The premium paid after the name listed in policy number called renewal life premium. It held the majority portion of life premium collection of NLI. This ratio measures the weight of renewal premium in total life premium collection of NLI.

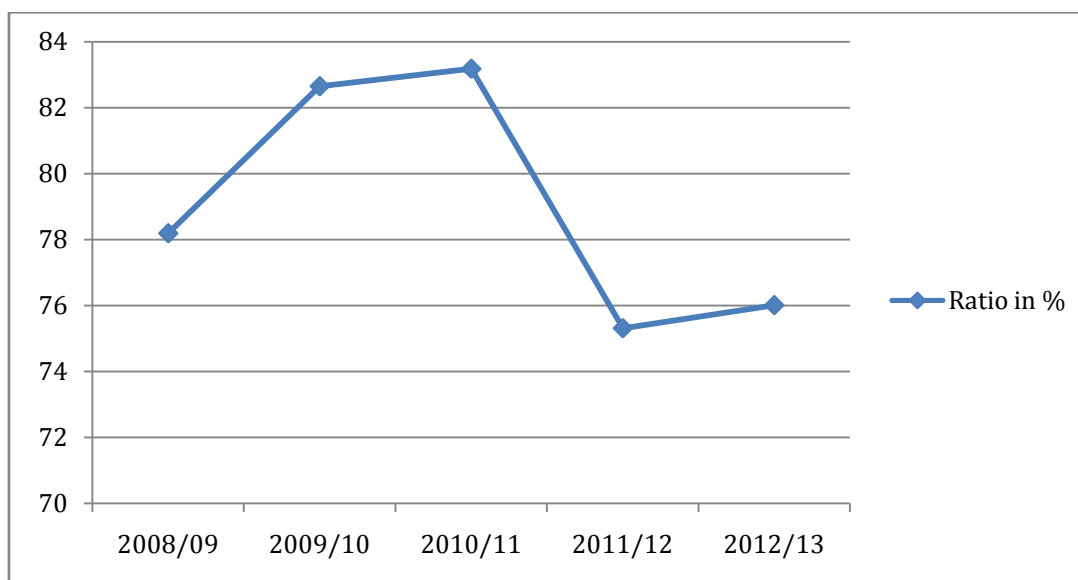
The ratio measures the weight of renewal life premium collection to total life premium collection. It reveals the contribution of renewal premium collection over the total life premium collection of NLG & NLI. It is computed using following equation:

Table: 4.2
Renewal Life Premium to Total Life Premium Collection

Year	Ratio in %
2008/09	78.19
2009/10	82.65
2010/11	83.18
2011/12	75.31
2012/13	76.01
Average	79.07
CV	4.16

Sources: Annual Reports of NLG & NLI

Figure: 4.2
Renewal Life Premium Collection



Sources: Table 4.2

Above table showed the ratio between Renewal life premium and total life premium. The calculated ratios were in fluctuating trend. The ratio varied from 75.31% to 83.18%. Highest ratio was in FY 2010/11 i.e. 83.18% and the least was in the FY 2011/12 i.e. 75.31%

The calculated C.V. i.e. 4.16% showed that the company was suffering negligible risk. Therefore it indicates the ratios were in satisfactory condition.

4.2.2 General Insurance

National Life & General Insurance Co. Ltd. underwrites both the life and general insurance business. The insurance other than life insurance is known as non-life or general insurance. General insurance is also classified into three types; they are fire insurance marine insurance and miscellaneous insurance. Miscellaneous insurance covers all the insurance businesses rather than fire insurance and marine insurance. So, the study analyzed three types of general insurance: fire premium, marine premium and misc. premium.

4.2.2.1 Fire Premium to Total General Premium Collection

It is the ratio used to measure the contribution of fire premium collection in total general premium collection. It reveals the weight of fire premium collection over the total general premium collection of NLG. It is measure using following equation:

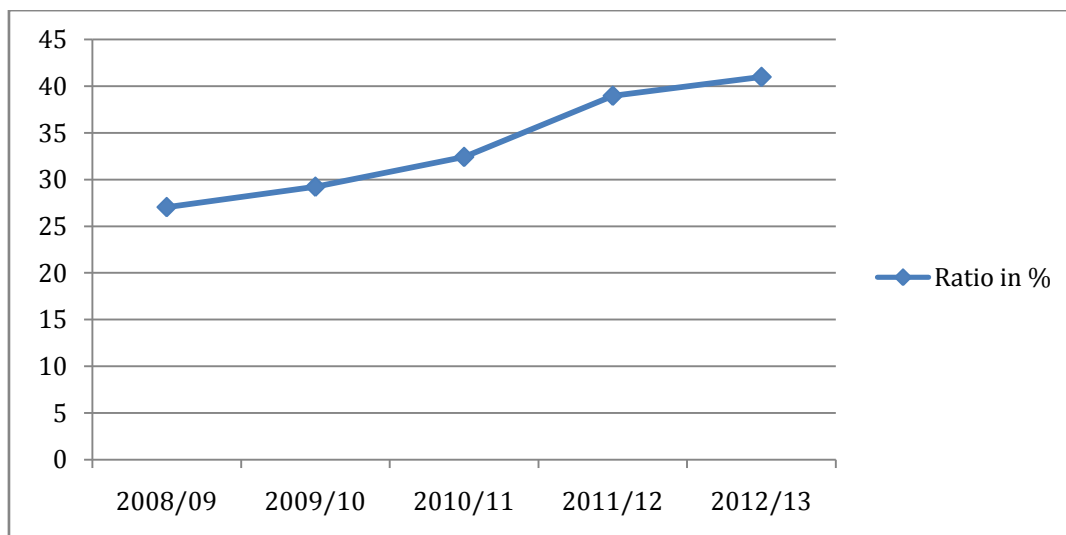
Table: 4.3
Fire Premium Collection to Total General Premium Collection

Year	Ratio in %
2008/09	27.03
2009/10	29.21
2010/11	32.40
2011/12	38.95
2012/13	40.97
Average	33.71
CV	16.07

Sources: Annual Reports of NLG & NLI

Figure: 4.3

Fire Premium



Sources: Table 4.3

From the above table, it indicated that fire premium contributed one fourth of total general premium collection. In 2012/13 its contribution was 40.97%, which was the highest contribution by it. And the least was 27.03% in the FY 2008/09. This indicated that the ratios were increasing trend. Company was able to maintain the mean ratio i.e. 33.71%.

Again the calculated C.V. i.e. 16.07% indicated that company was suffering from least risk.

4.2.2.2 Marine Premium Collection to Total General Premium Collection

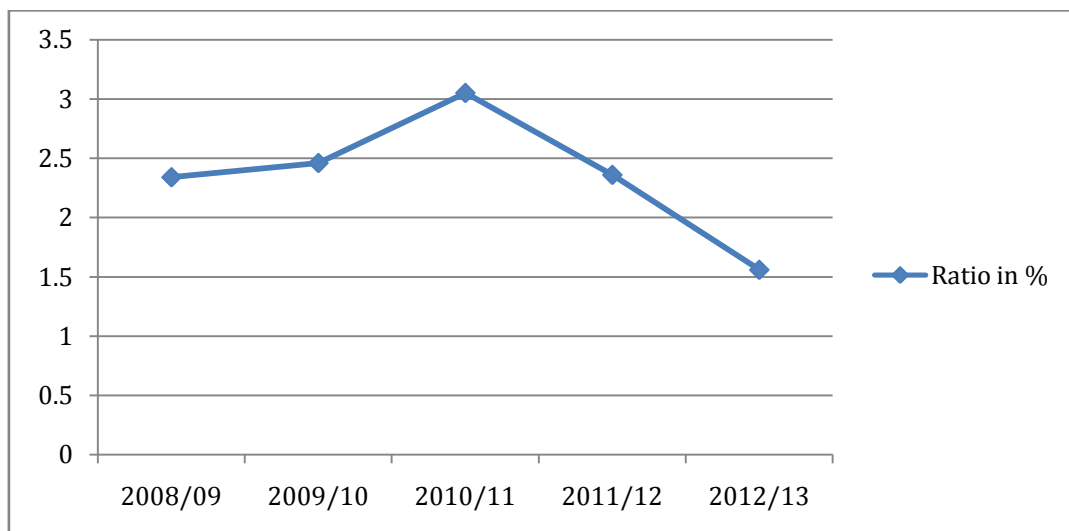
This ratio is used to measure the contribution of marine premium collection towards total general premium collection of the company. It reveals the percentage of share hold by marine premium collection in total general premium collection. The following equation is used to measure it:

Table :4. 4
Marine Premium to Total General Premium Collection

Year	Ratio in %
2008/09	2.34
2009/10	2.46
2010/11	3.05
2011/12	2.36
2012/13	1.56
Average	2.33
CV	17.48

Sources: Annual Reports of NLG & NLI

Figure: 4.4
Marine Premium



Sources: Table 4.4

From the above Table: 4.4, it was found that marine premium collection contributed the least to the total general premium collection by NLG. It contributed 3.05% in 2010/11, it show increasing

ratio from 2008/09 to 2010/11 and goes on decreasing ratio from 2011/12 to 2012/13, which is the lowest contribution of marine premium to the total general premium.

The calculated C.V. i.e. 17.48% indicated that there was little consistency and stable in the calculated ratios. So the company should try to make stable and consistency.

4.2.2.3 Misc. Premium Collection to Total General Premium Collection

The misc. premium collection to total general premium collection ratio is used to measure the weight of misc. premium collection to total general premium collection of NLG . The following ratio is used to measure it:

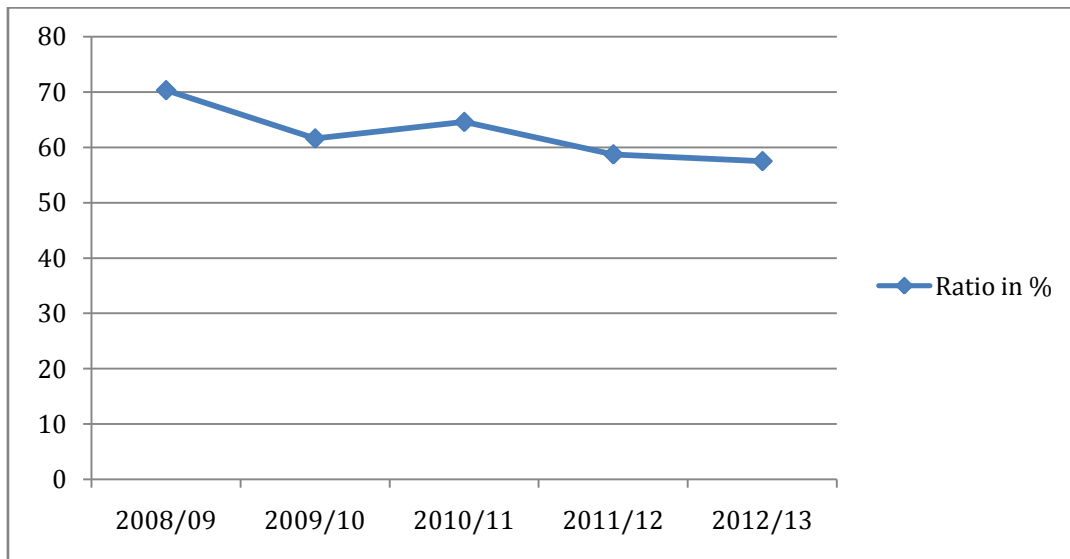
Table : 4.5
Misc. Premium to Total General Premium Collection

Year	Ratio in %
2008/09	70.30
2009/10	61.57
2010/11	64.55
2011/12	58.69
2012/13	57.47
Average	62.41
CV	7.08

Sources: Annual Reports of NLG & NLI

Figure: 4.5

Misc. Premium Collection



Sources: Table 4.5

From the above table it was found that misc. premium collection held majority portion of total general premium collection by NLG. Its contribution was 70.30% in 2008/09, 61.57% in 2009/10, 64.45% in 2010/11, 58.69% in 2011/12, 57.47% in 2012/13. It shows decreasing pattern

from 2008/09 to 2012/13. The highest contribution was 70.30% in 2008/09 and the least contribution was 57.47% in 2012/13.

The calculated C. V. i.e.7.08% showed that the ratios were satisfactory and in stable condition. The company was not suffering from high risk.

4.2.3 Total Amount of Life Premium Collection by NLI

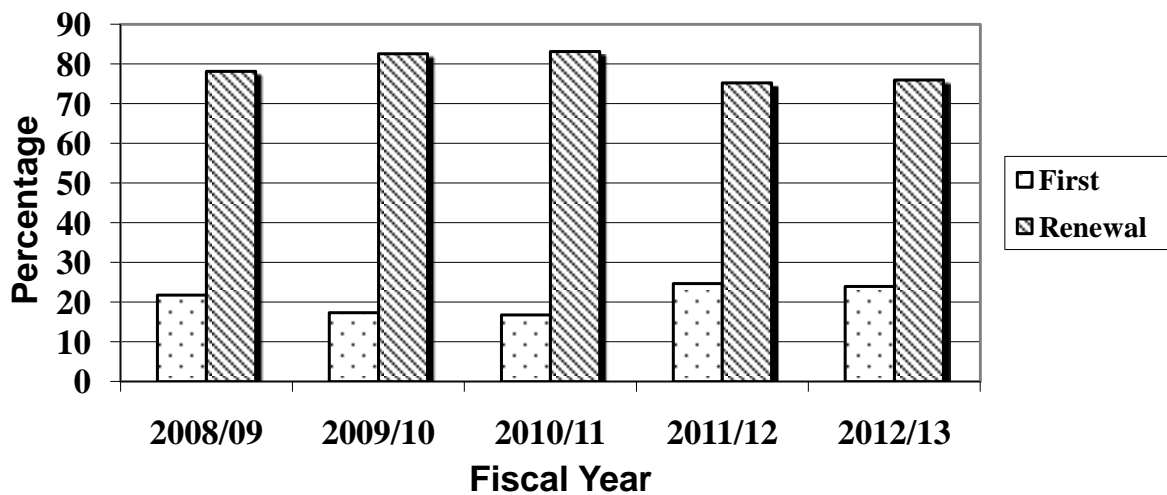
Table: 4.6
Total Amount of Life Premium Collection by NLI

Year Premium	2008/09		2009/10		2010/11		2011/12		2012/13	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
First	86,295,475	21.8	75,511,771	17.35	99,545,395	17	175,019,810.84	25	186,382,062.38	24
	309,404,813	78.19			492,222,277	83				
Renewal	309,404,813	78.19	359,725,137	82.65	492,222,277	83	533,727,994.93	75	590,647,166.05	76
	395,700,288	100	435,236,908	100	591,767,672	100	708,747,805.77	100	777,029,228.43	100

Sources: Annual Reports of NLI

Figure: 4.6

Total Life Premium Collection by NLG



Sources: Table 4.6

From the above table it showed that the majority part was held by the Renewal life premium in every year commencing from 2008/09 to 2012/13. The ratios of the renewal life premium were 78.19%, 82.65%, 83.18%, 75.31% and 76.01% from the FY 2008/09 to 2012/13 respectively. In

case of first life premium its weight held negligible part in each year. Its ratios were 21.81%, 17.35%, 16.82% 24.69% and 23.99% from the FY 2008/09 to 2012/13 respectively.

4.2.3.1 Comparison of Life Premium Collection of NLI

Life premium collection of NLI differs year by year, so we have to analyze the changed percentage in premium collection and its effect in total premium collection by comparing this year to last year.

Table: 4.7
Comparison of Life Premium Collection of NLI

Year												
Premium	2008/09	2009/10	% Change	2009/10	2010/11	% Change	2010/11	2011/12	% Change	2011/12	2012/13	% Change
First	86,295,475	75,511,771	-12.5%	75,511,771	99,545,395	31.83%	99,545,395	175,019,810.84	75.82%	175,019,810.84	186,382,062.38	6.49%
Renewal	309,404,813	359,725,137	16.26%	359,725,137	492,222,277	36.83%	492,222,277	533,727,994.93	8.43%	533,727,994.93	590,647,166.05	10.66%
Total	395,700,288	435,236,908	9.99%	435,236,908	291,767,672	35.96%	291,767,672	708,474,805.77	84.25%	708,474,805.77	777,029,228.43	17.16%

Sources: Annual Reports of NLI

The above table revealed the comparison of life premium collection of NLI. The first life premium collection was highly fluctuated. The highest positive increment was 75.82% in 2011/12 than the previous year and the lowest increment was -12.50% in 2009/10 than the previous year. The renewal life premium collection was also in fluctuation trend. The highest positive increment was 36.83% in 2010/11 and the lowest was 8.43% than the previous year. All these fluctuations caused fluctuation increment in total life premium all the years. In total Life premium, the highest increment was 84.25% and the lowest increment was 9.99% than the previous year.

4.3 Investment Patterns of Premium Amount

Insurance Company is also one financial institution. It collected investment fund in form of premium and invests in various sectors for profit motive. But it has to follow the rules and regulations of investment regulated by Insurance Board of Nepal. They have to invest 75% their invest-able fund in compulsory sectors and rest in other sectors. Every insurance company has to maintain this rule of investment otherwise the Board punishes them. NLG & NLI also invests their investment fund as per rules and regulation set by the Insurance Board. It invests its investment fund in government saving bonds; bank fixed deposits, and finance fixed deposits, corporate securities, policy loans (from life fund only) and others sectors. And a question may arise that in that proportion it invested in all these sectors. The following ratios may help to get solution for it.

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

For the purpose of the evaluation of the investment pattern and composition among the portfolios and the trend analysis are used. For the comparison of all respective matter on investment, the mean standard deviation and coefficient of variance is also used. Likewise, to evaluation the return on respective portfolio and investment amount, the ratio analysis is also used. To attain the objectives of the study purpose all the concerned studies and analyzed are used. Basically, this evaluation chapter is separated in to two parts as financial analysis and statistical analysis.

4.3.1 Life Fund

Life premium should be returned along with the bonus to the policyholders. The life insurers have burden of bonus. So, the life insurance companies invest for better return from its investment.

The life insurance company preferred govt. saving bonds, bank fixed deposits and policy loans to invest their life fund because it surely yield some return.

4.3.1.1 Investment on Govt. Saving Bonds to Total Life Investment

This ratio measures the portion of total life investment that goes to govt. saving bonds. It reveals the contribution of investment on govt. saving bonds towards total life investment made by & NLI. It is computed, here, using following equation:

Table:4. 8
Investment on Govt. Saving Bonds to Total Life Investment Ratio

Year	Ratio in %
2008/09	11.29%
2009/10	10.79%
2010/11	6.90%
2011/12	12.31%
2012/13	13.5%
Average	10.96%
CV	20.35%

Sources: Annual Reports of NLI

The above Table: 4.8 revealed that the investment on government saving bonds was in fluctuating trend. The highest contribution was 13.5% in 2012/13 and the least was 6.90% in 2010/11. And the average investment was 10.96%. The C.V. was 20.35%. It showed the inconsistency of investment in Government Saving Bonds.

4.3.1.2 Investment on Bank Fixed Deposits to Total Life Investment

It is the ratio used to measure the weight of investment on bank fixed deposits to total life investment made by the company. Bank fixed deposits is the popular investment sector for life insurance company. So, this ration reveals the portion of total life investment that goes to bank fixed deposits. The following equation is used to measure it:

Table: 4.9
Investment on Bank Fixed Deposits to Total Life Investment Ratio

Year	Ratio in %
2008/09	86.28%
2009/10	86.71%
2010/11	90.41%
2011/12	84.53%
2012/13	82.40%
Average	86.07%
CV	3.08%

Sources: Annual Reports of NLI

The above Table: 4.9 revealed the NLI had invested its majority portion of life investment in bank fixed deposits. The bank fixed deposits were the most attractive investment sectors of this company. So, the company had invested more than half of its life fund in bank but the investment made was fluctuated yearly.

It started 86.28% in 2008/09, which was the least contribution of it but reached to the highest in FY 2010/11 i.e. 90.41% i.e. The average investment was 86.07% and C.V. was 3.08 %. It indicated the investment in Bank fixed deposit was inconsistency.

4.3.1.3 Investment on Policy Holder Loans to Total Life Investment

This investment can be used by only life insurance company because in other insurance (general) there is not provision of premium return after the expiry of the policy period. It can facilitate the policyholders to use money in their needy works. The least portion of total life investment goes to this sector. So, this ratio measures the portion of total life investment that goes to policy loans. The following equation measures it:

Table: 4.10
Investment on Policy Holder Loans to Total Life Investment Ratio

Year	Ratio in %
2008/09	2.43%
2009/10	2.50%
2010/11	2.69%
2011/12	3.17%
2012/13	4.10%
Average	2.98%
CV	20.48%

Sources: Annual Reports of NLI

From the above Table 4.10, one can easily conclude that NLI had invested the least in the policyholder's loans. It was not more than 5%. The least contribution was 2.43% in FY 2008/09

then highest was 4.10% in 2012/13. Average investment was 2.98% and the C. V. 20.48% showed consistency in investment in policy loans.

4.3.2 General fund

There is not any provision, in general premium, of return the premium amounts to the policyholders. After paying the claims amount, the residual premium is the solid income for general insurance company. The insurance company invests it in different sectors for better return.

4.3.2.1 Investment on Govt. Saving Bonds to Total General Investment

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

Table: 4.11
Investment on Govt. Saving Bonds to Total General Investment Ratio

Year	Ratio in %
2008/09	41.63%
2009/10	38.39%
2010/11	32.47%
2011/12	28.66%
2012/13	0.00%
Average	28.23%
CV	52.55%

Sources: Annual Reports of NLG

From the Table: 4.11, it was clear that there was in decreasing trend in investment in govt. saving bonds made by NLG of its total general investment. The average investment was 28.23%. The C.V. 52.55% indicated inconsistency in investment on it.

4.3.2.2 Investment on Bank Fixed Deposits to Total General Investment

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

Table: 4.12
Investment on Bank Fixed Deposits to Total General Investment

Year	Ratio in %
2008/09	47.00%
2009/10	49.00%
2010/11	55.92%
2011/12	55.69%
2012/13	100.00%
Average	62.31%
CV	31.13%

Sources: Annual Reports of NLI & NLG

From the above table it Shows that the investment in bank fixed deposit was increasing trend, it preferred Bank Fixed than the government saving bonds. Its contribution was in increasing trend from 47.00% to 100.00%. The average investment was 62.31% but 31.13% C.V. indicated the inconsistency of its investment.

4.3.2.3 Investment in Corporate Securities to Total General Investment

The above ratio measures the weight of investment in corporate securities to total general investment made by the company. Corporate securities mean ordinary share, right share, debenture, and bonds of the private enterprises. The ratio reveals the portion of investment that goes to corporate securities from total general investment. The following equation is used to measure it.

Table: 4.13
Investment in Corporate Securities to Total General Investment

Year	Ratio in %
2008/09	10.17%
2009/10	10.97%
2010/11	10.47%
2011/12	10.49%
2012/13	0.00%
Average	8.42%
CV	10.45%

Sources: Annual Reports of NLI & NLG

That investment in corporate securities means investment in shares. The company invests 10.17% in 2008/09, 10.97% in 2009/10, 10.47% in 2010/11, 10.49% in 2011/12 and 0% in 2012/13. The highest contribution was 10.97% and the lowest was 0% in 2012/13. The average investment was

8.42% and C.V. was 10.45%. The C.V. indicated the consistency in investment of corporate securities.

4.3.2.4 Investment in Other Sectors to Total General Investment

The investment sectors other than the above called other sectors. NLG has invested in mutual funds in the hearing of others from the general investment. It is the ratio that measures the weight of other sectors investment over the total general investment made by the company. The following equation is used to compute it.

Table: 4.14
Investment in Other Sectors to Total General Investment Ratio

Year	Ratio in %
2008/09	1.19%
2009/10	1.20%
2010/11	1.14%
2011/12	1.15%
2012/13	0.00%
Average	0.94%
CV	50.05%

Sources: Annual Reports of NLG

From the above Table : 4.14 revealed that in the heading of others sectors, NLG had invested in mutual fund at one time only. That is why its contribution in steady. The highest contribution was 1.20% in 2009/10 and the lowest contribution was 0.00% in 2012/13. The least portion of in average of 0.94% dispersed in other sectors investment. 50.05% C.V. indicated inconsistency in investment on it.

4.3.2.5 Life Investment to Total Investment

It is the ratio that measures the life investment contribution in total investment made by the company. This ratio reveals the investment portion that is refundable to the policyholders. It can be measure using the following equation.

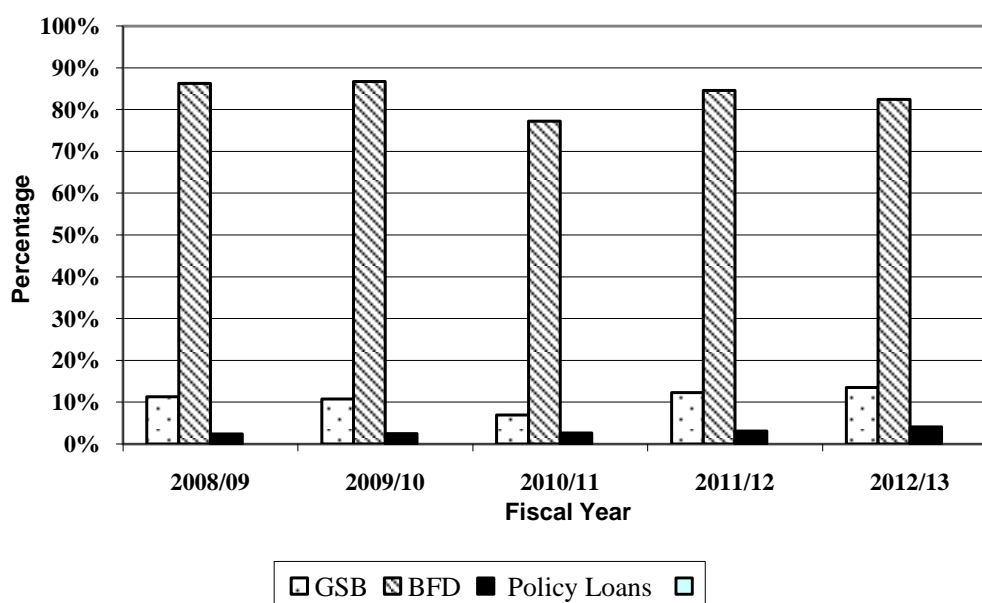
4.3.2.6 Investment of Life Insurance Fund by NLI

Table: 4.15
Investment of Life Insurance Fund by NLI

Year Premium	2008/09		2009/10		2010/11		2011/12		2012/13	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
GSB	174,298,436	11.29%	211,298,436	10.79%	166,227,130	6.90%	320,100,000.00	12.31%	416,900,000.00	13.50%
BFD	1,332,533,588	86.28%	1,697,222,249	86.71%	2,178,889,276	77.21%	2,198,794,072.30	84.53%	2,544,614,760.75	82.40%
Policy Loans	37,617,187	2.44%	48,944,249	2.50%	64,790,832	2.69%	82,331,763.45	3.17%	126,741,173.67	4.10%
Total	1,544,449,211	100%	1,957,464,934	100%	2,409,907,238	100%	2,601,225,835,75	100%	308,8225,937.75	100%

Sources: Annual Reports of NLI

Figure: 4.7
Investment of Life Insurance Fund by NLG



Sources: Table 4.15

From the above Table: 4.15, it was clear that NLI had maintained the rules and regulation regarding investment in all the study period of 2008/09 to 2012/13 regulated by Insurance Board of Nepal. It had always invested more than 75% of its investable life fund on compulsory sectors and rest in other sectors.

It had proffered bank fixed deposits as the priority followed by government saving bonds and policy-loans. Bank fixed deposits contributed more than 75% of investment in aggregate. Its second priority was on the government saving bonds. It had invested least portion of investment in policy loan maximum 4.10% in highest contribution in F. Y. 2012/13.

The above Table :4.16 revealed that the life fund invested by NLI was in inconsistent of all investment Sectors. In Government saving Bonds in 2010/11 its decreasing by 21.33% and highest increment was in 2011/12 i.e.92.57%. In Bank fixed deposit its highest was in 2010/11 i.e. 28.38% than after decreasing trend. There was highly fluctuation in policy holder loan. Its increment least ranged from 27.07% to 53.94%. The total life investment was also in highly fluctuate condition.

From the above Table: 4.17, it showed that NLG had invested its general fund in all sectors. In oppose to the life investment it preferred bank fixed deposits followed by government saving bonds, corporate securities and other sectors. Investment in bank fixed deposits was highly fluctuated from highest 55.69% in 20010/11 to least 47% in 2008/09. There is highly fluctuation in the investment in bank fixed deposit. Ratio of securities was steady. It ranged 0% to 10.97%. Other sectors investment was also in steady. In other sectors it had invested in mutual fund in one time only. That is why there was no fluctuation in its ratio. The total investment was in fluctuation trend. It showed that there was no consistency of investment general funds.

4.3.2.9 Investment to Total Premium Collection Ratio

It is a rate of average premium investment. It shows the ratio or proportion of investment with comparison to premium collection. This ratio measures the investment ratio in percentage. This ratio helps to show, what proportion of collected premium is invested in different sectors in aggregate. But, perhaps the starting time the entire insurer invests their fund (capital) in different sectors that's why the ratio cannot calculate exact for investment portion in collected premium. This ratio is computed by using this equation.

Life Fund Investment to Total Life Premium Collection Ratio

Table: 4.18
Life Investment to Total Life Premium Collection Ratio

Year	GSB	BFD	Policy Loans	Total
2008/09	44.05%	336.75%	9.51%	390.37%
2009/10	40.05%	372.25%	11.25%	423.55%
2010/11	28.09%	368.20%	10.95%	407.24%
2011/12	45.16%	310.24%	11.52%	367.02%
2012/13	53.65%	327.48%	16.31%	397.24%

Sources: Annual Reports of NLI & NLG

From the above Table: 4.18, it indicated that investment of life insurance fund went to government saving bonds, bank fixed deposits & policy loans. Other sectors were remaining untouched. The company preferred bank fixed deposits to invest to life fund. It had invested 372.25% in 2009/10 which was the highest ratio of contribution then after it goes on decreasing ratio up to 2011/12. Government saving bonds it is invested 44.05% in 2008/09, 40.05 in 2009/10, 28.09% in 2010/11, 45.16% in 2011/12 and 53.65% in 2012/13 It shows GSB is fluctuate nature. The least investment went to policy loans, it covered 16.31% in highest ratio in FY 2012/13. The total investment was in fluctuating. Its highest investment was 423.55% in 2009/10 and lowest was 367.02% in 2011/12.

General Fund Investment to Total General Premium Collection Ratio

Table:4.19

General Investment to Total General Premium Collection

Year	GSB	BFD	Cor. Sec.	Other Sectors	Total
2008/09	44.16%	49.85%	10.79%	1.26%	106.06%
2009/10	54.69%	22.44%	9.65%	1.02%	87.80%
2010/11	53.55%	33.39%	9.60%	1.01%	97.55%
2011/12	57.18%	41.25%	11.17%	1.08%	110.68%
2012/13	44.16%	37.54%	10.79%	1.26%	93.75%

Sources: Annual Reports of NLG

From the above Table: 4.19, it showed that NLG had invested its general fund in all the sectors. In oppose to the life investment, it preferred bank fixed deposits followed by government saving bonds, corporate securities & other sectors. Investment in bank fixed deposit was fluctuated from highest 49.85% in 2008/09 to least 37.54% in 2012/13. There were little fluctuation in the investment in government saving bonds. Ratios of corporate securities were slight consistency. In others sectors, it had invested in mutual fund in one time only. That is why there was no fluctuation in its ratio. The total investment was in fluctuation trend. It showed that NLG had disinvested its general fund many times.

4.4 Claims Paid

Insurance company ensure compensation that if the accident, damage, death, disablement, theft are happened to property and life of the policyholders with in the policy period. The compensation paid is known as claims in insurance term. It held significant important for any insurance company because if the policyholder get the compensation quickly and reasonable then only renew it otherwise goes to other insurance company. On the other hand if claims paid held the majority part of the total premium collection, insurance company cannot arrange other management expenses and return to owners.

4.4.1 Claims Paid to Premium Collection

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

Claims Paid to Premium Collection

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

Life Claims Paid to Total Life Premium Collection

It is the ratio that measures the life claims paid portion to total life premium collection. The ratio reveal the risk involves in life insurance business undertakes by NLG & NLI. It can compute using following equation

Table: 4.20
Claims Paid to Total Life Premium Collection

Year	Ratio in %
2008/09	23.08%
2009/10	20.90%
2010/11	17.00%
2011/12	20.00%
2012/13	22.00%
Average	20.60%
CV	10.05%

Sources: Annual Reports of NLI & NLG

From the above Table: 4.20 showed that claim paid to total life premium collection were 23.08%,20.90%,17.00%,20.00%, and 22.00% in 2008/09 to 2012/13 respectively. It showed that life insurance was in low risky. So, the claims paid were ranged from 17.00% to 23.08%. The highest claims paid were 23.08% in 2008/09 and the lowest were 17.00% in 2010/11. The average of 20.60% covered the life claims paid to total life premium collection. Its C.V. was 10.05% indicated there was inconsistency in life claims paid.

General Claims paid to Total General Premium Collection

Similarly to the above ratio, this ratio measures the percentage of claims paid general insurance to total general premium collection. This ratio prevails the risk involve in underwriting general insurance business. This can be computed using the following equation:

General Claims Paid to Total General Premium Collection:

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

Table: 4.21
Claims Paid to Total Premium Collection Ratio

Year	Ratio in %
2008/09	22.90%
2009/10	16.23%
2010/11	17.11%
2011/12	15.64%
2012/13	9.74%
Average	16.32%
CV	25.66%

Sources: Annual Reports of NLI & NLG

The above Table: 4.21 revealed that the total claims paid held the large portion of general premium. It showed that general insurance was more risky than life insurance. So, claims paid held 22.90% in 2008/09, 16.23% in 2009/10, 17.11% in 2010/11, 15.64% in 2011/12, and 9.74% in 2012/13. The highest claim paid was 22.90% in 2008/09 and the lowest claim paid was 9.74% in 2012/13. Those revealed the fluctuation of claims paid. It concluded that general insurance become riskier and the claims paid decreased in 2011/12. The average of 16.32% of general premium collection went to claims paid. The C.V. 25.66% indicated highly inconsistency in general claims paid by the company.

4.5 Return on Investment

Insurance company always thinks about profit or return. It invests its fund in different sector hoping for better return from it. So, this ratio measures the return on investment. This ratio reveals which of the investment sectors earning more return in respect of investment on these sectors. The following equation is used to compute the return on investment.

Return on Investment

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

4.5.1 Return of Life Fund Investment

In Government Saving Bonds

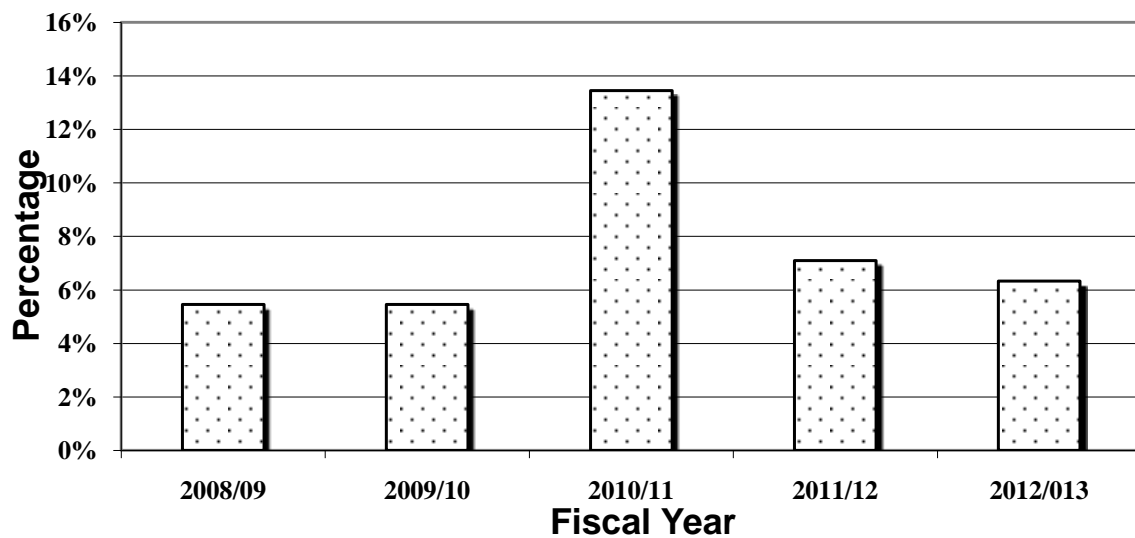
Table: 4.22
Return of Government Saving Bonds to Total Investment on it

Year	Ratio in %
2008/09	5.45%
2009/10	5.45%
2010/11	13.45%
2011/12	7.10%
2012/13	6.33%
Average	7.56%
CV	26.87%

Sources: Annual Reports of NLI & NLG

Figure: 4.8

Return on Government Saving Bonds



So
urces: Table 4.22

From the above Table: 4.22, it showed that return on investment of life fund in government saving bond in F.Y. 2008/09 was 5.45%. Then increased in 2010/11 and then decreased in 2011/12&2012/13. The highest return was 13.45% in 2010/11 and the lowest was only 5.45% in 2008/09. The average return was 7.56% from it and C.V. was 26.87%, it indicated highly inconsistency on return.

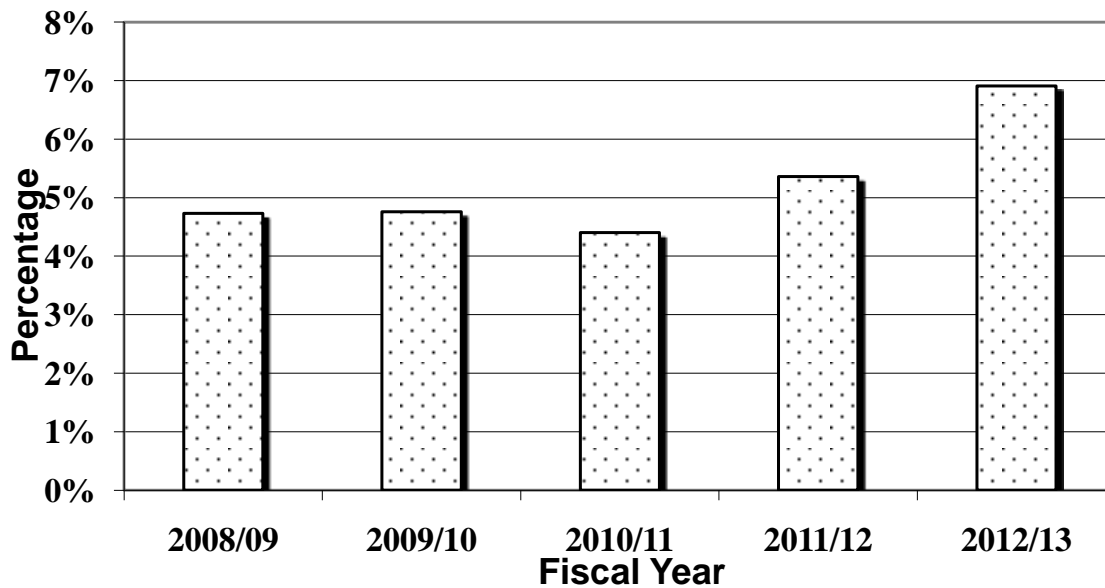
In Bank Fixed Deposits

Table: 4.23
Return of Bank Fixed Deposits to Total Investment on it

Year	Ratio in %
2008/09	4.73%
2009/10	4.76%
2010/11	4.40%
2011/12	5.36%
2012/13	6.91%
Average	5.23%
CV	17.01%

Sources: Annual Reports of NLI & NLG

Figure: 4.9
Return on Bank Fixed Deposit



Sour

ces: Table 4.23

The above Table:4.23 revealed that the return on bank fixed deposits was steady percentage. The ranged from 4.40% the least to 6.91% the highest return. The average return of bank fixed deposit was 5.23% and C.V. was 17.01%. The C.V. indicated highly inconsistency of its return.

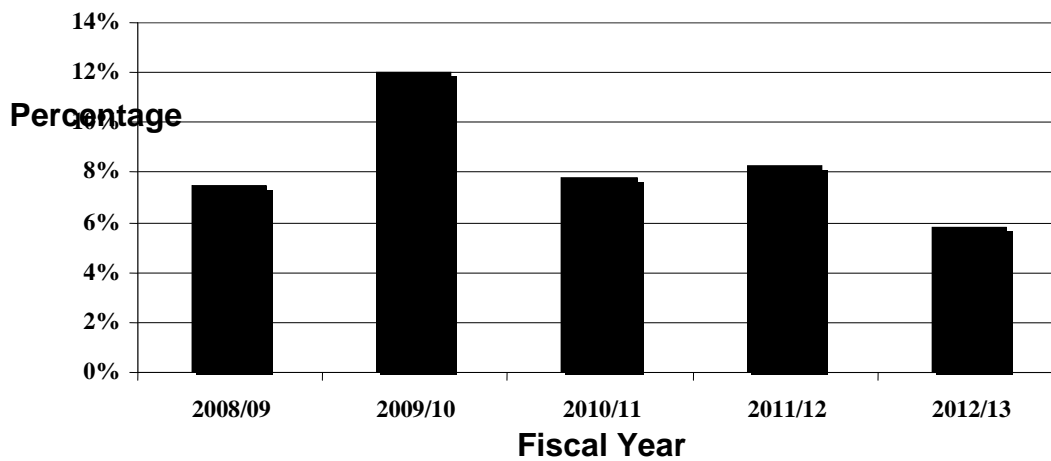
In Policy Loans

Table: 4.24
Return of Life Policy Loans to Total Investment on it

Year	Ratio in %
2008/09	7.57%
2009/10	12.03%
2010/11	7.76%
2011/12	8.26%
2012/13	5.84%
Average	8.29%
CV	24.48%

Sources: Annual Reports of NLI & NLG

Figure 4.10
Return on Policy Loans



Sources: Table 4.24

From the above Table: 4.24, it showed that the company had invested least fund in policy loans and return of it fluctuated yearly. The highest return was 12.03% in 2009/10 and the lowest return was only 5.84% in 2012/13. The average return of it was 8.29% and C.V. was 24.48% that revealed the highly inconsistency of its return.

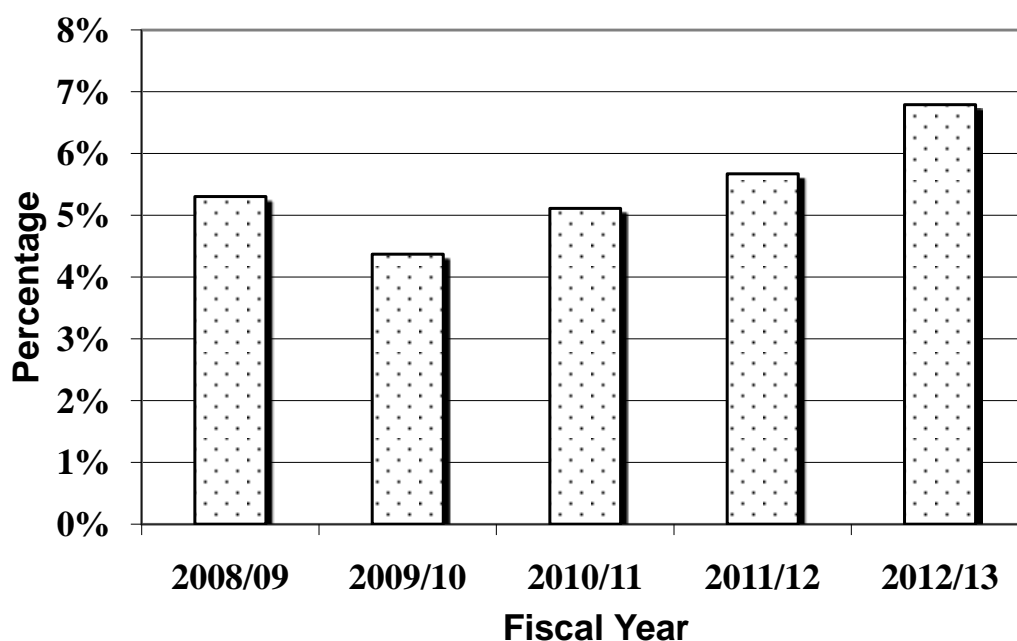
In Total Investment

Table: 4.25
Total Return to Total Life Investment Ratio

Year	Ratio in %
2008/09	5.30%
2009/10	4.37%
2010/11	5.11%
2011/12	5.67%
2012/13	6.79%
Average	5.45%
CV	43.32%

Sources: Annual Reports of NLI & NLG

Figure:4.11
Total Return



Sources: Table 4.25

From the above Table: 4.25, it revealed that the total return of life insurance fund investment was highly inconsistency. The highest return was 6.79% in 2012/13 whereas the lowest return was 4.37% om2009/10. The average return of total investment of life insurance fund was 5.45% and C.V. was 43.32%, which indicated the inconsistency of return.

4.5.2 Non-life Fund

In Government Saving Bond

Table: 4. 26
Return of Government Saving Bonds on Total Investment on it

Year	Ratio in %
2008/09	11.84%
2009/10	9.22%
2010/11	11.15%
2011/12	9.37%
2012/13	0.00%
Average	8.32%
CV	15.72%

Sources: Annual Reports of RastriyaBeemaansthan

Figure: 4.12
Return on Government Saving Bonds

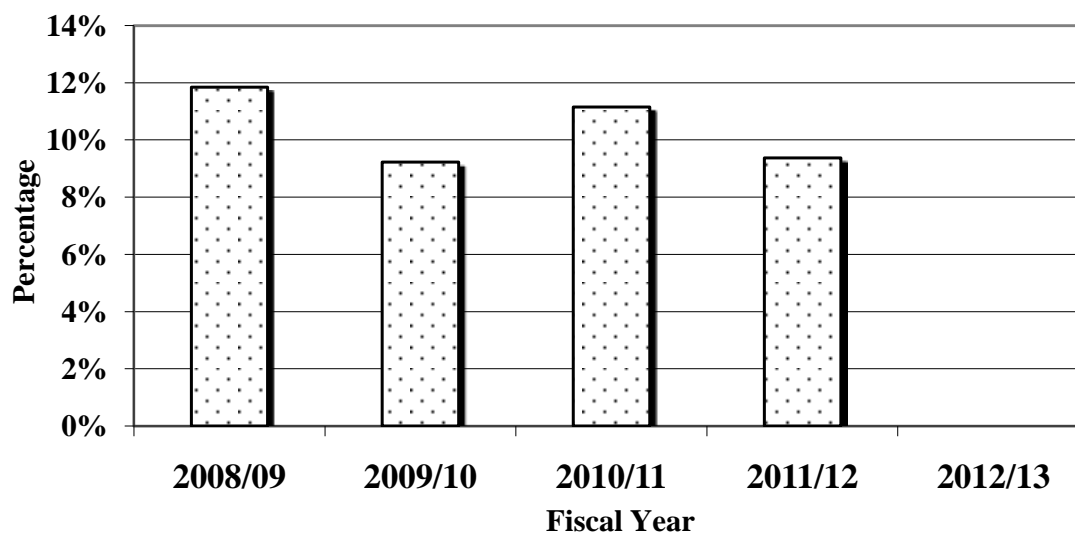


Table 4.26

From the above Table: 4.26, it is cleared that NLG had disinvested its general fund many times. Its second priority of investment of general investment was given to the government saving bonds. The return of it in 2012/13 was 0.00% which is the lowest return and the highest return of it was 11.84% in 2008/09. From F.Y. 2008/09 to 2010/11, the return of it was nearly same and the average return of it was 8.32%. And its C.V. was 15.72%, which indicated the inconsistency of its return.

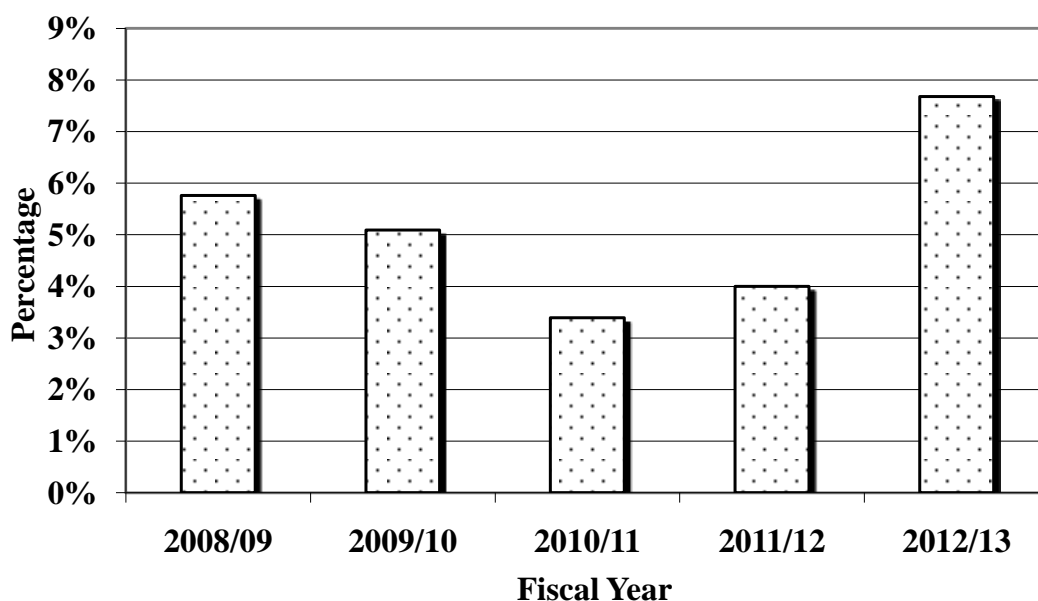
In bank Fixed Deposits

Table: 4.27
Return of Bank Fixed Deposit to Total Investment on it

Year	Ratio in %
2008/09	5.76%
2009/10	5.09%
2010/11	3.39%
2011/12	4.00%
2012/13	7.68%
Average	5.18%
CV	28.88%

Sources: Annual Reports of RastriyaBeemaSansthan

Figure: 4.13
Return on Bank Fixed Deposits



Sources: Table 4.27

The above Table: 4.27 revealed that the return of bank fixed deposits was in decreasing trend except in 2012/13 i.e.7.68%. Highest increment was 7.68% in 2012/13. The average return of it was 5.18% and C.V. was 28.88%, which indicated inconsistency of return of bank fixed deposits to total investment.

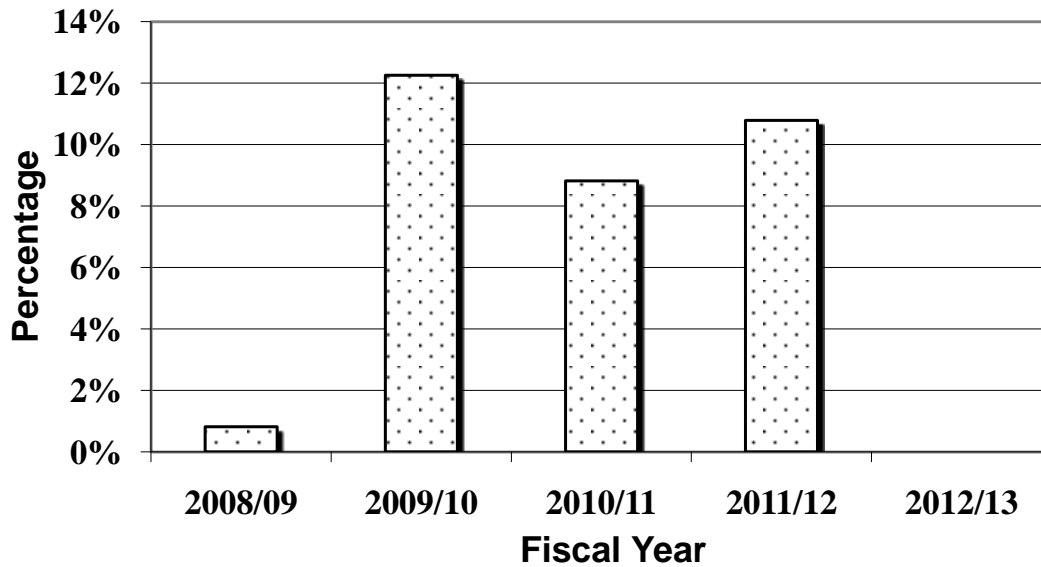
In Corporate Securities

Table: 4.28
Return of Corporate Securities to Total Investment on it

Year	Ratio in %
2008/09	0.82%
2009/10	12.26%
2010/11	8.82%
2011/12	10.79%
2012/13	0.00%
Average	6.54%
CV	61.23%

Sources: Annual Reports of RastriyaBeemaSansthan

Figure: 4.14
Return on Corporate Securities



Sources: Table 4.28

From the above Table:4.28, it is cleared that the return of corporate securities was highly fluctuated from the least return of 0.00% in 2012/13 and the highest return of 12.26% in 2009/10. Its average return was 6.54% and C.V. 61.23% showed the highly inconsistency of its return.

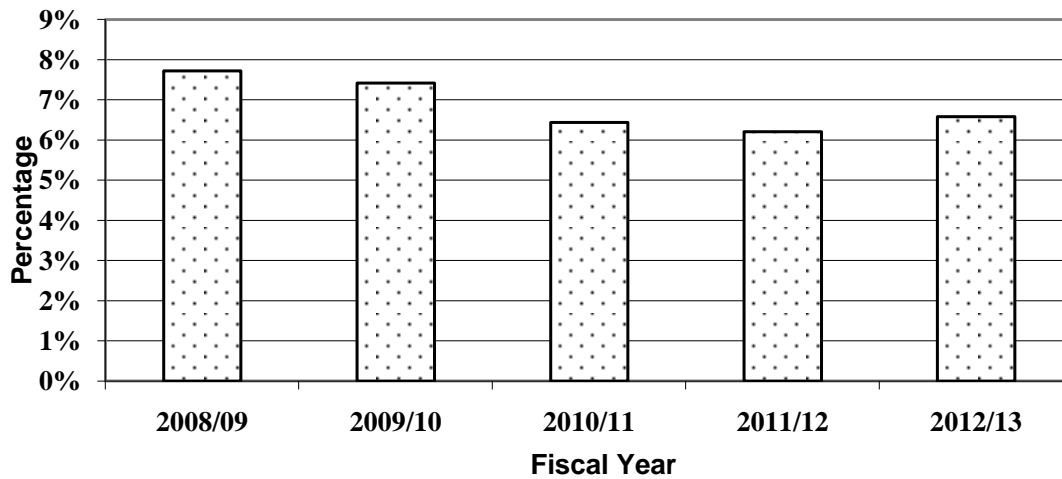
In Total

Table: 4.29
Total Return to Total General Investment on it

Year	Ratio in %
2008/09	7.72%
2009/10	7.42%
2010/11	6.44%
2011/12	6.21%
2012/13	6.58%
Average	6.87%
CV	34.35%

Sources: Annual Reports of RastriyaBeemaSansthan

Figure: 4.15
Total Return



s:Tabl

e 4.29

The above Table: 4.29 indicated that the return of total general investment was in increasing and decreasing trend. The total return of general investment decreased from 7.72% in 2008/09 to 6.21% in 2011/12 and increasing from 2012/13. The average return of general investment was 6.87% and C.V. was 34.35% indicated that there was consistency in its return.

4.6 Re-insurance

It is the contract between two insurance companies where by, one insurance company acts as insurer and the other one is insured. The company who is the insured pays certain amount as premium to recover the loss. Re-insurance is a contact that is done only for the purpose of recovering the loss that is thought can't be met by the company regarding the client's loss that can be goods, Services, health, business etc. Reinsurance in life companies vary from those that of non life company in following ways:

- Re-insurance in life companies is done mainly for death claim, which is quite vague.
- In Non-life companies re-insurance is done to meet the risk of fire, marine and miscellaneous insurance.
- Re-insurance in Non-life companies is a must since there is more chances of huge amount of loss of assets than life.

Re-insurance of NLG and NLI is in contract with a company named Scottish RE.

4.6.1 Re-insurance Paid to Total Life Premium Collection

It is the ratio that measures the re-insurance premium to total premium Collection.

It shows the portion of re-insurance paid from the premium collection. The ratio reveals the degree of risk involve in premium collection. The ratio is computed using by following equation.

Re- insurance premium Total Premium Collection Ratio:

$$= \frac{\text{Re-insurance}}{\text{Total premium collection}}$$

In Total

Table: 4.30
Total Life Re-insurance Premium to Total General Life Premium on it

Year	Ratio in %
2008/09	2.00%
2009/10	2.00%
2010/11	2.00%
2011/12	2.00%
2012/13	1.23%
Average	1.85%
CV	16.79%

Sources: Annual Reports of RastriyaBeemaSansthan

The above Table:4.30 revealed that the re-insurance paid by the company was least amount of total premium. It was not more than 2%. The highest contribution was 2.00% in 2008/09,2009/10&2010/11 than after 1.23% in 2012/13. Average re-insurance was 1.85% and the c.v. was 16.79% showed that the in consistency in re-insurance.

In Total

Table: 4.31
Total Fire Re-insurance Premium to Total Fire Premium on it

Year	Ratio in %
2008/09	92.25%
2009/10	78.47%
2010/11	70.18%
2011/12	91.34%
2012/13	77.57%
Average	83.36%
CV	10.44%

Sources: Annual Reports of RastriyaBeemaSansthan

The above Table: 4.31 one can easily conclude that NLG had paid large amount of fire premium for re- insurance. It was paid 92.25% in 2008/09. This was the highest contribution & lowest re-

insurance 70.18% in 2010/11. Average re-insurance was 83.36% and the C.V. 10.44% showed inconsistency.

In Total

Table: 4.32
Total Marine Re-insurance Premium to Total Marine Premium on it

Year	Ratio in %
2008/09	69.65%
2009/10	95.22%
2010/11	58.32%
2011/12	61.83%
2012/13	55.05%
Average	68.01%
CV	21.24%

Sources: Annual Reports of Rastriya Beema Sansthan

From the above Table: 4.32 it was clear that marine re- insurance was fluctuated .It is 55.05% in 2012/13 which is the lowest paid by the Company. The highest Marine re-insurance was 95.22% in 2009/10. And the average re- insurance was 68.01%. The c.v. was 21.24%. It showed the inconsistency of marine re- insurance paid by the company.

In Total

Table: 4.33
Total Miscellaneous Re-insurance Premium to Total Fire Premium on it

Year	Ratio in %
2008/09	36.78%
2009/10	35.71%
2010/11	32.57%
2011/12	48.64%
2012/13	37.42%
Average	38.22%
CV	14.31%

Sources: Annual Reports of Rastriya Beema Sansthan

From the above Table: 4.33 showed that the total miscellaneous Re- insurance premium paid were 36.78%, 35.71%, 32.57%, 48.64% and 37.42% respectively. It showed that the general insurance was low risky so the miscellaneous re- insurance paid were ranged from 32.57 to 48.64%. The highest re-insurance were 48.64% and the lowest were 32.57% in 2010/11. The average of 38.22% covered miscellaneous re-insurance premium to total miscellaneous premium collection .It c.v. was 14.31% indicated that there was in consistency in miscellaneous re-insurance paid.

4.8 Major Findings

The most important means of transfer risk is insurance. Insurance is the heart and essence of risk management. Without supporting of insurance, industrial and commercial sector of a country can not achieve successfulness. Therefore, the study has been focus on evaluating the premium collection & investment position of one of the leading private insurance company, NLG & NLI. The position of premium collection & investment of NLG & NLI has been already analyzed by using various financial & statistical tools. Based on the analysis some of the major findings are as follows:

1. **Premium collection on first life premium to total life premium collection**

From the analysis found that the ratios were falling & rising trend. During the study of five years period, highest ratio was in F.Y. 2011/12 and the least was in 2010/11. The average premium collection of First Life Premium to Total Life Premium was 20.93%. There was inconsistency in first premium collection.

2. **Premium collection on Renewal Life premium to Total Life Premium Collection**

Ratios calculated were seemed fluctuated in each year. The highest ratio was noticed in F.Y. 2010/11& the lowest in 2011/12. The average contribution of renewal life premium towards total life premium collection was 79.07% and the C.V. 4.16% revealed the consistency in it.

3. **Fire premium collection to total general premium collection**

From the analysis, it was found that ratios were varied from 27.03% to 40.97%. It indicated that fluctuation rate was not so much diversified. The average fire premium collection was 33.71%. There was diversification in fire premium collection.

4. **Marine premium collection to total general premium collection**

From the analysis, it was found that the ratio varied from 1.56% to 3.05% which indicated that the ratios were in approximately in stable order. Marine premium contributed only average of 2.33% to total general premium collection.

5. **Misc. premium collection to total general premium collection**

The ratios that were calculated in analysis part had slightly fluctuated and varied from 57.47% to 70.30% during the study periods. The misc. premium contributed 62.41% on an average to total general premium collection and there was consistency on it.

6. **Investment on government saving bonds to total life investment**

From the analysis, this study found that the ratios were in fluctuating. The highest contribution was 13.50% and the lowest contribution was only 6.90%. The average of 10.96% portion of life investment went to government saving bonds but there was highly inconsistency on it.

7. Investment on bank fixed deposits to total life investment

From the analysis, it is clear that the majority portion of life investment went to bank fixed deposits. It contributed 90.41% in highest and 82.40% in lowest. The highest average of 86.07% of life investment went to bank fixed deposits. There was inconsistency on it.

8. Investment on policy loans to total life investment

Analysis of data showed that, the least portion of total life investment to policy loan. It ranged only 4.10% to 2.43% of contribution to total life investment. The average of only 2.98% of life investment went to policy loans but there was only highly inconsistency on it.

9. Investment on government saving bonds to total general investment

From the analysis, it is found that investment on government saving bond varies each year. It ranged 0.00% to 41.63%. The average of 28.23% portion of total general investment went to government saving bond but there was inconsistency on it.

10. Investment on bank fixed deposits to total general investment

Analysis prevailed that the majority portion of general investment went to Bank fixed deposit. But the ratios of investment on government Bank fixed deposit were in increasing trend. The highest ratio was 100.00% and the lowest was 47.00%. The average of 62.31% went to Bank fixed deposit. There was consistency on it

11. Investment on corporate securities to total general investment

The analysis revealed that the ratios were fluctuating each year. The highest share of corporate securities was 10.97% and the lowest was 0.00%. The average share was 8.42% and it was consistency on it.

12. Investment on others sectors to total general investment

From the analysis, the researcher found that the company had invested in the heading of others at once only. The company had invested on mutual funds. The contribution of it was not more than 1.19%.

13. Life investment to total life premium collection

The analysis shows that life investment was fluctuating to total life premium collection. The highest ratio was 423.55% and lowest was 367.02%.

14. General investment to total general premium collection

From the analysis, the study found that the general investment to total general premium collection was fluctuating each year, which revealed that the company had disinvested many times.

15. Life claims paid to total life premium collection

From the analysis, it is cleared that least portion of total life premium collection went to compensation. The ratios were fluctuating each year. It ranged from 17% to 23.08%.

16. General claims paid to total general premium collection

There was highly fluctuation of general claims paid to total general premium collection. The highest percentage was 22.90% whereas the lowest was only 9.74%.

17. Return on investment

LIFE FUND

➤ Government saving bonds

From the analysis, the research found that there was highly fluctuation in the return on government saving bond. The highest return was 13.45% and the lowest was 5.45%. The average return was 7.56%.

➤ Bank fixed deposits

The analysis reveals that there was fluctuation in return of bank fixed deposits. The return ranged from 4.40% to 6.91%. The average return was 5.23%.

➤ Policy loans

From the analysis, the research found that there was highly fluctuation in return of policy loans. The return ranged from 5.84% to 12.03% and average return was 8.29%.

➤ Total investment

From the analysis, it is clear that there was fluctuation in return on the total investment of life fund. The highest return was 6.79% and the lowest was 4.37% and average return was 5.45%.

GENERAL FUND

➤ Government Saving Bonds

There was highly fluctuation in government saving return. The return of it ranged from 0.00% to 11.84%. The average return of it was 8.32%.

➤ Bank fixed deposits

From the analysis, the researcher found that there was also highly fluctuation in bank fixed deposits return. The highest return was 7.68% whereas the lowest return was only 3.39%. The average return was 5.18%.

➤ Corporate Securities

There was also highly variation in the return of corporate securities. The highest return of it was 12.26% whereas the lowest return was only 0.00%. Total investment:

In the total investment of general fund, there was slightly fluctuation in return of it. The total general return ranged 6.21% to 7.72%. The average return was 6.87%.

CHAPTER V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

Now in the 21st century, the world is suffering from competition which enhances the need financial intermediaries. Country is moving towards revolution and trying to initiate the modern technology in every field. For the entire development of the country, the government recognized the liberal economy policy and open competition view thus after the creation of democracy, financial intermediaries have been grown rapidly. Financial intermediaries consist of commercial banks, mutual bond & saving, finance company, insurance company etc.

Among such financial institutions and intermediaries, insurance company is also the major one. Integrated and speedily development of the country is possible only when competitive insurance services reaches nooks and corners of the country. Insurance companies occupy quite and important place in the frame-work of every economic because it provides certainty to the industry, business and capital for the development of industry, trade and business investing the fund collected as premium. Insurance in modern age is associated with every aspect of human activities.

As a consequence of development of trade and industries, the need for a national insurance company for ensuring life property was felt. With the company coming a Nepal Bank Limited & Ropeway, NEPAL insurance and transportation company limited, wholly owned by Nepal Bank Limited, was established in 1948.

Meanwhile demand for insurance facilities in the country started increasing to meet this growing demand a few Indian Insurance Companies started functioning in Nepal. National Life & General Insurance Co. Ltd. (NLG & NLI) was established in 1986. The company commences its general business after it was formally given permission by the Insurance Board on 8th January 1988.

Among the 24 insurance companies, this present study has been taken to evaluate the premium collection & investment position of NLG & NLI. The annual reports of 5 years starting from 2008/09 to 2012/13, has been taken into consideration for the purpose of the study.

5.2 Conclusions

This Study was under taken to find out the position of NLG & NLI in the insurance Industry of Nepal and to suggest recommendation based .Furthermore, to examine the trend of Premium Collection & investment Pattern of NLG & NLI. Various Financial Ratio which are related to premium collection are studied to evaluate and analyze the preference of NLG & NLI.

Regarding the life insurance, total 1st premium collection is increasing in ratio from 2010/2011 to 2011/2012(24.69 & 23.99%) slightly decreasing in ratio from. (2008/2009to 2009/2010) ie (17.35% and 16.82%) Whereas renewal premium collection is satisfactory and consistency is consecutive years i.e., in 2008/09 – 78.19%, 2009/10- 82.65%, 2010/11- 83.18% 2011/12- 75.31% and 2012/13-76.01%.

For Premium Collection in NLG – First Premium collection in increasing ratio from 2008/09 to 2012/13ie. 27.03%, 29.12%, 32.40%, 38.95%, & 40.97% so the ratio indicated that it have increasing trend in premium collection & company was able to maintain the mean ratio 33.71%

Every insurance company must follow the rules of investment policy regulated by insurance Board of Nepal Beema Samiti. NLG & NLI also invests their investment funds as per rule & regulation set by the insurance board. It investment fund in government saving bonds, Bank fixed deposit & finance fixed deposit, corporate securities: the investment Portfolio for NLI highly fluctuation condition. The life fund investment by NLI was in consistent of all investment sectors. In government saving bond in 2010/11 its decreasing by 6.90% The main cause of its that does not issue the bond in the market in inconsistent may so, investment in government securities was fully depends on the government in the fluctuation in investment in Bank Fixed deposit its highest was in 2008/09ie, 86.28% which shows increase trend. The investment in government securities in NLG has in decreasing trend on investment. It range 0% to 41.63% which indicates in consistency in investing fund. Where as in the bank fixed deposit it has a increasing in trend. I.e.2008/09 47% to 2012/13 100% shows that it preformed bank fixed deposit then government saving bonds. The return on investment for life insurance business the average rate of return in govt. securities is 7.56% Bank fixed deposits is 5.23% & policy loans is 8.29% in life insurance business. It is clear that there was fluctuation in return on the total investment of Life fund.

The average rate of return in govt. securities is 8.32% Bank fixed deposit is 5.18% In general insurance business . It shows that slightly fluctuation in return of it.

5.3 Recommendations

All the study is analyzed reviewing the secondary data from the journals, articles, annual reports of the company to reveal the problems; financial as well as statistical tools are applied. The recommendation is provided on the basis of findings from the analysis.

Insurance business has been on integrating part of the national financial system. Since growing number of insurance companies are having competitions to attract policyholders with different purpose of insuring risk not only in life but also properties and the overseas trade. In this regard, NLG & NLI after having gained few years of experience is trying to play a more prominent role in the funds transfer process within the economy. But, to be specific, and attempt has been made to provide independent views of what this company has performed financially and also focusing on the findings with identified issues and gaps, some workable recommendations are provided to improve the future performances of this company.

On the basis of major finding some useful recommendation that would be implemented a guideline to NLG & NLI management team for future adoption:

1. The company should collect more first life premium

Premium is the key factor of Insurance companies. First life premium shows the future prospective of total life premium. If one has taken life policy, he has to renew it till the expiry of the due date. So, if the company imposes to collect more fresh life premium, it automatically increases the total life premium collection in subsequent years.

2. The company should diversify its life investment

The insurance companies are facing the serious problem in investment portfolio management under government constraints and unorganized capital market of the country. Every insurance company should invest 75% of it's invest able fund towards compulsory sectors set by Insurance Board of Nepal; rest 25% can be diversified. So, after maintaining this rule NLG & NLI can diversify its life fund in others sectors like hydro power projects, industries, real estate & housing etc to get more return.

3. The company should increase investment in policy loans

The least portion of total life investment goes to policy loans. It is also one kind of secured investment because original life policy is pledge to get policy loan and the company gets 10.00%

interest from it. It is the better return for the company because all the financial institution is decreasing their interest rate due to economy crisis in the country. This is the good deal for the company. On the other hand the clients of the company get facility to use it. So, the company should encourage to clients for policy loans.

4. The company should its share in life insurance industry

The study includes only two life insurance companies RBS and NLG & NLI for the position of life insurance in Nepal. But RBS held majority portion of the life industry. In 2009 eight more life insurer is waiting for permission to undertake life insurance business. So, NLG & NLI should increase if not it should not loose existing share.

5. The company should issue new policies

There are 16 general insurance companies underwriting general insurance business and 3 more insurance companies are permitted to operate. The insurance market of Nepal is very small. So, all these 13 general insurers are capturing others market without trying to create new market. All these insurance companies are functioning traditionally. So, NLG & NLI should issue new general policies like: household policy, umbrella policy, health insurance policy, medical insurance policy, overseas policy etc as well as new life policies. It can help increasing premium collection & its share in insurance industry.

6. Claims should be settled in time

Settlement of claims should be furnished in time. Delay in settlement of claims may affect the business potentially. Further, attention has to be adequately provided towards the faithfulness of the insured in connection with the claims arising due to the specified events.

7. The company should prohibit proxy agents

The company should not give agency to its employees & his family members mainly in life insurance. All new life insurance companies are adopting this rule because the marketing staffs can not reach all the corners of the country. These companies encourage agents to bring business because they have better recognition and network than the marketing staffs. And the new comers are get success on it. In short time of one year they collect millions of life premium. On the other hand the altitude of administration staffs is negative towards it because they are also contributing equally for getting more premium but all the facilities and commission goes to marketing staffs. The single effort of marketing staffs does not increase premium collection. So, the company should prohibit proxy agents in the company.

8. The company should establish research and development department

The company should set up a separate research and development department. This department looks the present and potential business opportunities in the market. This department calculate the risk involve in the every insurance business because insurance business is becoming more risky

than the previously. The majority portion of general insurance goes to claims paid. This department suggest for issuing new policies as per the market situation. As a matter of financial principle, it is better to ignore extra costs and efforts so low as the benefits of research and development if greater than that of the costs. If the company follows our suggestion it would be able to find more reliable and worthy policyholder towards the company. The company will be able to grab the profitable opportunities.

9. The company should increase the efficiency of employees

The company should provide the employees development programs in the country and abroad for top and middle level employees only to produce competent and skilled manpower in the field of Insurance. Such programs should be carried out even within the country to develop lower level employees. Therefore, it is recommended to manage such programs viewing the productive efficiency of lower level employees.

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1 Annex I

Premium Collection, Investment, Claim Paid & Net Profit of NLI & NLG Insurance Co. Ltd and Premium Collection & Investment of Industry of Nepal

Premium Collection	2008/09	2009/10	2010/11	2011/12	2012/13
	2062/63	2063/64	2064/65	2065/66	2066/67
Life	395700288	435236908	591767672	708747805.77	777029228.43
General	117085935	130491999	144813683	171700310	127427959
Total	512,786,223	565,728,907	736,581,355	880,448,115.77	904,457,187.43
2.1 Investment					
Life	1,544,449,211	1,957,464,934	2,409,907,238	2,601,225,836	2,409,907,238
General	124,186,250	123,432,758	129,355,429	129,056,533	64,450,000
Total	1,668,635,461	2,080,897,692	2,539,262,667	2,730,282,369	9,019,078,189
2.2 Claim Paid					
Life	74,207,792	90,978,452	100,985,516	145,147,642	170,068,795
General					
Total					
Return on investment					
Life	75,375,724	98,155,446	122,480,445	147,383,065	209,624,334
General	9,587,196	9,161,010	8,286,295	8,009,694	4,949,760
Total	94,962,920	107,316,456	130,766,740	155,392,759	214,574,094
Industry Premium Colln					
Life					
General					
Total					

Sources: Annual Reports of NLI& NLG

Annex II **Life Insurance Business of NLI**

Premium Collection	2008/09	2009/10	2010/11	2011/12	2012/13
	2062/63	2063/64	2064/65	2065/66	2066/67
First	86,295,475	75,511,771	99,545,395	175,019.811	186,382,062

Renewal	309,404,813	359,725,137	492,222,277	533,727,994,93	590,647,166
Total	395,700,288	435,236,908	591,767,672	708,747,805.93	777,029,228
2.3 Investment					
G.S.B.	17,42,95,436	211,298,436	166,227,130	320,100,100	416,900,000
B.F.D	1,332,533,588	1,697,222,249	2,178,889,276	2,198,794,072	2,544,614,761
1.3.1 Policy Loans	37,617,187	48,944,249	64,790,832	82,331,763	126,741,173
1.3.2 Total	1,544,449,211	1,957,464,934	2,409,907,238	2,601,225,836	2,409,907,238
2.4 Return					
G.S.B.	9,489,194	10,191,000	6,891,000	6,231,000	11,489,334
B.F.D	27,210,977	35,701,472	46,379,276	51,509,470	51,144,212
1.4.1 Policy Loans	493,051	221,755	304,825	1,416,199	1,901,199
1.4.2 Total	37,193,222	46,114,227	53,575,101	59,156,669	64,534,745

Sources: Annual Reports of NLI