

**INVESTMENT MANAGEMENT OF INSURANCE COMPANIES IN  
NEPAL**

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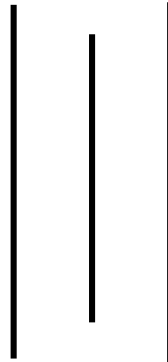
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***In Partial Fulfillment of the Requirement for the degree of***

***Master of Business Studies (MBS)***

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**TRIBHUVAN UNIVERSITY**  
**FACULTY OF MANAGEMENT**  
**NEPAL COMMERCE CAMPUS**  
**New Baneswor, Kathmandu, Nepal**

**RECOMMENDATION**

This is to certify that the thesis

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**INVESTMENT MANAGEMENT OF INSURANCE COMPANIES IN  
NEPAL**

has been prepared as approved by this Department in the prescribed format of the  
Faculty of Management of Tribhuvan University. This thesis is forwarded for  
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**VIVA-VOCE SHEET**

We have conducted the viva –voce of the thesis presented

By

**Kiran maharjan**

Entitled:

**INVESTMENT MANAGEMENT OF INSURANCE COMPANIES IN  
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And found the thesis to be the original work of the student and written according to the prescribed format of Faculty of Management of Tribhuvan University. We recommend the thesis to be accepted as partial fulfillment of

*The Requirement for Degree of*

**Master of Business Studies (MBS)**

**Viva-Voce Committee**

Head, Research Department .....

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Member (External Expert) .....

Date :.....

## DECLARATION

I hereby declare that the work reported in this thesis entitled “**A Study on Public Debt in Nepal**” submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the degree of Master of Business Studies (MBS) under the supervision of **Ass. Prof. Sushil Bhakta Mathema** of Nepal Commerce Campus, Tribhuvan University.

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## ABBREVIATION

A.D	:	Anno domini
AICL	:	Alliance Insurance Company Ltd.
B.B.S	:	Bachelor in Busiess Studies
B.S.	:	Bikram Sambat
Coeff.	:	Coefficient
Cor.	:	Correlation
CV	:	Coefficient of Variation
EICL	:	Everest Insurance Company Ltd.
EPS	:	Earning per Share
Etc.	:	And the other
Eng.	:	Engineering
FY	:	Fiscal Year
G.D.P	:	Gross Domestic Product
Govt.	:	Government
$H_1$	:	First Hypothesis
$H_0$	:	Null Hypothesis
Inn.	:	Insurance
Inv.	:	Investment
Ktm.	:	Kathmandu
Ltd.	:	Limited
M.B.A	:	Master in Business Administration
M.B.S.	:	Master in Business Studies
MPS	:	Market Price per Share
M.	:	Million
M.A.	:	Master in Arts
Misc.	:	Miscellaneous
Max.	:	Maximum
Mm.	:	Minimum
N.C.C.	:	Nepal Commerce Campus
NG.	:	Nepal Government
NICL	:	Neco Insurance Company Ltd.
No.	:	Number

NRs.	:	Nepalese Rupees
P	:	Page
P.a.	:	Per annum
P.E	:	Probable Error
PICL	:	Premier Insurance Company Ltd.
Pvt.	:	Private
R	:	Coefficient of Determination
r	:	Coefficient of Correlation
Rs.	:	Rupees
S.N.	:	Serial Number
SD	:	Standard Deviation
Sec.	:	Section
SIcL	:	Sagarmatha Insurance Company Ltd.
TU.	:	Tribhuvan University
Vol.	:	Volume
-ve	:	Negative
+ve	:	Positive
%	:	Percentage

# CHAPTER I

## Introduction

### 1.1 Introduction

Risk is an everyday reality. This is the reason people make calculations instinctively to avoid risk. They forget that their own negligence (lack of foresight, lack of skill to prevent loss) is the paramount reason why property insurance is there in the first place. Future is always uncertain and that uncertainty gives a birth of risk. No job and activities is free from risk in human life. Before conducting any activities, every person must play with risk because that activities may be fail or unsuccessful in future. Being, a rational animal human being is always afraid of risk and they always wish to be safe and secured his present as well as future life. The development of consciousness in human being introduced ways and system for safety against future risk and uncertainty. One of the ways is the insurance. Insurance has stability and resources to shield you from the volatile risks in everyday life.

Among financial institutions and intermediaries, Insurance companies are also the major ones. Integrated and speedy development of the country is possible only when a competitive insurance service reaches nooks and corners of the country. Insurance companies occupy quite an important place in the frame work of every economy 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 companies are capable of providing industrial finance, government finance or even personal finance. They provide different finance through their own investment policy pattern based upon their own corporate objective and nature of the line of insurance business. Insurance contributes to society by favorably affecting the apportionment of the factors of production, engaging in loss prevention activities, identifying losses serving as a basis of credit structures, eliminating worry and providing a channel for investible fund. *“Insurance policies are written by business organizations called ‘insurer’. In order to function properly, these insurers must have large number policyholders who are obtained either by directly representatives or through agents”*. [Robbert I. Mehr and Enerson Cammack]. *“Insurance is a technical business involving the skills of statistician, financial analysts,*

*engineers, physicians, economists, lawyers and others. Contracts must have been carefully drafted, underwriting restrictions must be determined, rates must be established equitable by analysis all the factors including public interest.” [Robbert I. Mehr and Enerson Cammack]*

Insurance distributes the cost of the risk over a large group of individuals subject to same risk, in order to reimburse the few who actually suffer from the risk. It is a social service whereby one party, the insurer or insurance company, agrees to meet certain stated risk in return for a money consideration paid by number of other parties, the insured; the money consideration is called the premium. Fire insurance company, *for example*, will in consideration of payment of a premium, issue a Contract called a policy, in which the insurance agrees to reimburse the insured for a Fire loss, but not in excess of amount stated in the policy and with the provision that the loss occurs during the period for which the policy runs. The essence of the insurance scheme is that, it is a social device, that it involves the accumulation of fund, that it involves a group of risks, and that each person of firm who becomes a member of the group transfers his risk to the whole group. The purpose of insurance is to reduce the uncertainty and worry caused when it becomes aware of the possibility of loss. It does this by spreading the economic burden of losses among members of group. Insurance does not prevent loss but it relieves the financial burden.

In the context of Nepalese insurance companies, they provide various insurance policies and charge premium under insured risk and nature. Insurance companies collect fund through various clients (people and organization) as premium and invest on various sectors. So, all the insurance companies are responsible for their client’s interest. This study looks and analyses different insurance company’s investment situation and sector.

## **1.2 Focus of the Study**

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

As significant differences in the nature of insurance, mainly there are two types of insurance life and non-life. Life and non-life premium is non-refundable. For life insurance companies, they have to refund the premium that collected to insured with bonds. However, general insurance does not have such burden. That is why the premium collection of both businesses dealt in different headlines.

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

I.e. Investment Fund = Premium Collection - (Claim Paid + Managerial Expenses)

The investment fund should be used in such sector that they could maximum return. But Insurance company's investment portfolios are regulating by the Insurance Board of Nepal. Under the rules and regulation, every insurance company must invest their 75% investible fund declared as compulsory sectors and rest 25% in other sectors. Premium collection and investment are the major tasks for every insurance company. So success and failure of insurance companies depends upon this task. More premium collection means more income and more investment means more return.

Therefore, this study is concentrated on investment position and its management of Insurance Industry in Nepal. Companies are aimed at evaluating and analyzing the premium collection trend, investment sector and ratio.

### **1.3 Introduction of Insurance Industries**

Due to higher interest and believe of people towards, numbers of insurance companies also rises up. Now, 25 companies are working in Nepali market having different nature and ownership. The market structures of Nepali insurance companies are listed below.

*Table No. 1 Market structure of Nepali insurance companies*

Ownership	Nature of the Company			Total
	General	Life	Composite	
Government owned	-	-	1	1
Private Sector	12	5	-	17
Foreign	2	1	-	3
Joint Venture	2	2	-	4
<b>Total</b>	<b>16</b>	<b>8</b>	<b>1</b>	<b>25</b>

Source: Annual Report 2010, Insurance Board

Since the establishment of first insurance company, Nepal Insurance Co. Ltd. in 1947, a number of insurance companies are established and operate. After the introduction of Insurance Act 1992, the number of private insurance companies came into existence.

Insurance companies working now are listed below:

Table No. 2 - List of insurance companies

S.N.	Name of Insurance Company	Insurance Type	Established at
1	Nepal Insurance Co. Ltd.	General	1947
2	The Oriental Insurance Co. Ltd.	General	1967
3	Rastriya Beema Sansthan	Life and General	1968
4	National Insurance Co. Ltd.	General	1974
5	National Life Insurance Co. Ltd.	Life	1998
6	Himalayan General Insurance Co. Ltd.	General	1993
7	United Insurance Co. (Nepal) Ltd.	General	1993
8	Premier Insurance Co. (Nepal) Ltd.	General	1994
9	Everest Insurance Co. Ltd.	General	1994
10	Neco Insurance Co. Ltd.	General	1996
11	Sagarmatha Insurance Co. Ltd.	General	1996
12	Alliance Insurance Co. Ltd.	General	1996
13	N.B. Insurance Co. Ltd.	General	2001
14	Nepal Life Insurance Co. Ltd.	Life	2001
15	American Life Insurance Co.	Life	2001
16	Life Insurance Co. Ltd.	Life	2001
17	Prudential Insurance Co. Ltd.	General	2002
18	Shikhar Insurance Co. Ltd.	General	2004
19	Lumbini General Insurance Co. Ltd.	General	2005

20	N.L.G. Insurance Co. Ltd.	General	2005
21	Siddhartha Insurance Co. Ltd.	General	2006
22	Asian Life Insurance Co. Ltd.	Life	2007
23	Prime Life Insurance Co. Ltd.	Life	2008
24	Gurans Life Insurance Co. Ltd.	Life	2008
25	Surya Life Insurance Co. Ltd.	Life	2008

*Source: Insurance Board Annual Report, 2010*

Out of 25, eight insurance companies are life insurance companies which are Rastriya Beema Sansthan, National life Insurance Co. Limited, Nepal Life Insurance Co. Limited, Life Insurance Corporation (Nepal) Limited, American Life insurance etc. Sixteen companies are General and, one Composite of life and general insurance. In this study, five general insurance companies having similar policy heads and established at almost same date are taken as sample in which primary and secondary data are analyzed for the purpose of conclude the result accordance to the objectives.

The short profiles of these five sample insurance companies are given below.

#### **Premier Insurance Co. (Nepal) Ltd.**

Incorporated on 12th May 1994, Premier insurance Company (Nepal) Ltd. has emerged as a renowned general insurance company. Presently it has five branches and 2 sub-branches in main cities of the country. New offices in other parts of the country are scheduled to be opened soon. Up to the end of fiscal year, 2067/68 it has authorized capital of 200 million in which 120 million was issued and 102 million was paid up.

Premier insurance is trying to offer quality service on all aspects of insurance risk management and claims payment. It covers Fire insurance, Loss of profit insurance, comprehensive household insurance, Marine insurance, Motor insurance, Burglary / Housebreaking insurance, Cash in transit insurance, Personal guarantee insurance, Overseas medical insurance, Engineering insurance, Aviation insurance, Public liability insurance etc.

#### **Everest Insurance Co. Ltd.**

It was established in 1994 as a public limited company. Presently it has five branches and 3 liaison branches in various cities of country. Up to the end of fiscal year,

2067/68 it has authorized capital of 150 million and the issued capital was 105 million and 101.25 million was paid up.

Regarding the insurance business it is also involved in to non-life insurance only, which includes Fire & allied perils insurance, Vehicle Comprehensive insurance, Aviation insurance, Marine transit insurance, duty insurance, Banker's blanket insurance, Cash in transit insurance, Burglary and house breaking insurance, etc.

### **Sagarmatha Insurance Company Limited**

It is a native insurer operating in the field of non-life insurance business. It was organized as on the year 2051 but started its operation in year 2053. It is joint ventured with Ceylinco insurance Company Limited of Sri Lanka. Presently, it has Seventeen branches up to the end of the fiscal year 2067/68. Its authorized capital is 200 million in which 150 million was issued and 129.159 million was paid up.

Regarding the insurance business, it is involved in to non-life insurance only, which includes Fire insurance, Marine insurance, Personal accident insurance, Cash in transit insurance, Hospital and surgical insurance, Aviation insurance, Motor insurance, Engineering insurance, Workmen's compensation insurance, Fidelity guarantee insurance, Public liability insurance, Combined fire and theft insurance etc.

### **Neco Insurance Company Limited**

It is also a major insurer operating in Nepalese insurance industry. It was established under the company act on 1st of Poush, 2051(16th December 1995) and was authorized by Beema Samiti to commence business w.e.f. 17/2/2053 (30th May. 1996) with authorized capital of 500 million and the issued capital 231 million of which 115.5 million was fully paid up to fiscal year 2067/68. Presently, it has ten branches, one sub-branch and two contact offices.

Regarding the insurance, it is involved in to non-life insurance business, which includes Engineering insurance, Personal and group accident instance, Fire insurance, Motor insurance, Aviation insurance, Burglary and household insurance, Cash insurance. Marine insurance, Travel medical and Hospitalization insurance, Contractor's all risk insurance. Mountaineering and trekking insurance etc.

## **Alliance insurance Company Limited**

It is also an insurer operating within the Nepalese insurance industry. It was organized as on the year 2052 but started its operation one year later 2053. Presently, it has ten branches up to the end of fiscal year 2067/68 it has authorized capital was 150 million and the issued capital was 150 million of which 137.905 million was fully paid up.

Regarding the insurance business it is also involved in to non-life insurance only, which includes Fire insurance, Motor insurance, Aviation insurance, Marine insurance, Engineering insurance. Personal accident insurance, Cash in transit insurance, Burglary and house breaking insurance, Employ groups insurance, Goods in transit and Comprehensive shopkeeper insurance etc.

### **1.4 Statement of Problems**

Nepalese insurance companies are the successful enterprises of Nepal, which are still running the insurance business without suffering any losses from the date of establishment until now. So, not only national insurance companies, nowadays, more international insurance companies are also opened in our country to transact insurance business. Many investors and business person involved in insurance business, so there are 25 insurance companies established and operate their service and activities. Most of the companies are earning profit each year. However, it is not significant and satisfactory against the volume of transaction if we give an overlook in the balance sheet and Profit loss account. The volumes of transaction are increasing tremendously year by year but the growth of net earnings is not in the same ratio. It is because of cut-throat competition in the market. All the insurance companies of Nepal are earning less because of the following reasons.

1. Lack of attractive collection schemes by providing discounts, and incentives to the policyholder for encourage paying premium in time.
2. Negligence of agents, brokers and development officer for not helping to the company for premium collection despite receiving the insurance commission in huge amount.
3. Negligence in evaluation of investment sector before investing fund.

4. Most investment is made to increase output and not to improve quality.
5. Less research and development in market conditions.
6. Low rate of return.

Another big problem of such institutions is to mobilize collected fund in suitable sector. Nepal is an under developed country and most of people live in village and they are illiterate. Like this, the geographical situation is not favour for the expansion insurance business. Poverty is also main problem, the last reason is most of Nepalese people do faith on insurance, and insurance companies are not taking interest to solve these kinds of problem.

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

### **1.5 Objectives of the Study**

Every Study has their own objectives. There are so many objectives of this study, but the main is to find out the current situation investment position of insurance companies. The specific objectives of this study are spelled out as:

1. To find out the investment pattern of insurance companies in Nepal.
2. To analysis the role of insurance companies in the development of Nepalese economy.
3. To suggest and recommended probable corrective measure for the improvement based on findings of the study.

### **1.6 Significance of the Study**

Insurance is one of the most flourishing services even in the developing country like Nepal. There are 25 insurances companies existing in Nepal. Among which 16 are general insurance, 8 are life insurance and 1 underwrites composite business. The expert said that the life insurance companies could easily collected more than one

thousand million without suffering any difficulties that is why foreign life companies has also opened their branches in Nepal. As insurance companies are focusing only in Urban and main city of the country, they are capturing each other's market. They do not try to issue new policy and create potential market. They are satisfied with the existing position and do not get suitable and steady sectors to invest their fund for more return. Now, they are investing their fund in traditional sectors only.

The study is needed to frame out the investment position of Nepalese Insurance companies need soundly mobilize its collected fund. Thus, it would be better to evaluate the condition of Nepalese insurance companies. It is also needed to disclose the utility of insurance in Nepalese prospects. The study focuses the insurance market and probability of future expansion in Nepal and is concerned to trace the weak area to suggest fund, policy of insurance and scenario of premium collection and investment too. It is the study on investing fund under various policies and suggests what the weaknesses are and how to improve them. The study is important itself because it is the researcher's study of the heart of insurance system.

Now a day, insurance is overcoming commonly as almost business but the concept of insurance is not old in Nepal. Liberal economic policy breaks the monopoly system and brings competition in insurance business; private insurance companies have been started competitive and aggressive competition in this business. Because of such type's competition, management has to be made efficient. On the other hand, premium rate has been reduced. Reduction in rate brings the strong possibility of reduction in profit volume, but at the same time it can make people motivate in insurance company. It also helps the researcher to research in new way and field of investment of fund, and series of the studies on other insurance companies in Nepal.

### **1.7 Limitations of the Study**

The study aims at findings the facts and the trend of the investment within the Nepalese insurance industry. Therefore, the scope is limiting within the insurance companies operating. Every activity has its own boundary, as 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 the study are:

1. The whole study is dealt with some selected (sample) insurance company's investment pattern.

2. This study is concentrated in investment management from sample companies and the data is collected from respective insurance companies and website, Insurance Board (Beema Samiti), Nepal stock exchange, as [www.bsib.org.np](http://www.bsib.org.np), [www.nepalstock.com.np](http://www.nepalstock.com.np), and other sources. Research based on secondary data is not far from the limitation to inherent character.

3. The study will concern at list five years period's data and conclusion drawn confines only to the limit duration.

4. Time and resources constraints can be another factor that limits the scope of the study.

The generation and trustworthy of the study depends upon the reliability of responses or respondent and data provide from the source.

## **1.8 Organization of Study**

This study has been organized into five chapters, which are as follows:

1. Introduction
2. Review of literature
3. Research Methodology
4. Presentation and Analysis of data
5. Summary, Conclusion and Recommendation

**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, limitations of the study, and organization of the study.

**Second chapter** deals with the review of literature. A literature review is an essential part of all studies. It is a way to discover what other researchers have covered and left in the area. It contains conceptual review of the study and review of related studies. Conceptual review covers theoretical review of terms and items used in thesis writing and review of related studies is all about the studies made before related to this topic.

**Third chapter** is research methodology. Research methodology is a systematic way to solve the research problem. In other words, research methodology describes the

methods and process applied in the entire aspect of the study. It contained research design, population and sample, types of data, and tools used for analysis.

**Fourth chapter** deals with data presentation, tabulation and analysis of the study. In this chapter the study are presented and these data are analyzed. Base on these analyses data, major finding of the study are confined.

**Fifth chapter** contained summary, conclusion and recommendation of the study. In this chapter, the summary of the thesis after data interpretation and analysis is presented. Also from the summary conclusion of the thesis and recommendation for improvement or growth are presented.

## CHAPTER II

### Review of Literature

#### 2.1 INTRODUCTION

A literature review is an essential part of all studies. It is a way to discover what other researchers have covered and left in the area. A critical review of the literature helps the researchers to develop a thorough understanding and insight into previous research works that relates to the present study. Thus, a literature review is the process of locating, obtaining, reading and evaluating the research literature in the area of the student's interest. The purpose of literature review is to find out what research studies have been conducted in one's chosen field of study and what remains to do. The primary purpose of literature review is to learn not to accumulate. It enables the researcher to know:

- ) What theories have been advanced?
- ) Whether there are gaps that can fill through the proposed research?
- ) To gain background knowledge of the research topic.
- ) Find out problems in the area of interest to the researchers that have already been investigated in the past.
- ) Know what other have found out about the subject and how they have done so.
- ) To find out various concepts relating to it and the potential relationship between them.
- ) To identify potential areas and hypothesis for research.
- ) To get some support for design of research methodology and techniques of analysis.
- ) To identify potential sources of information for conducting the detailed research.
- ) Area of agreement or disagreement.

#### 2.2 REVIEW OF BOOKS

##### Conceptual Framework

It covers theoretical review of terms and items used in thesis writing. The main source of this part is from review of books, booklets, annual reports etc. The following studies have been undertaking conceptual framework:

### **2.2.1.1 Meaning of Insurance**

Insurance is a precaution against a possible unwanted outcome: in life and in business, it's a way of managing risk and keeping things on the move. We use insurance to protect against the possibility of loss, usually financial. When we buy insurance, we transfer our risk to someone else in exchange for a payment or premium. Then, if we suffer a loss, insurance puts us back into a position pre-claim (reinstatement). And if you think about it, nothing happens without insurance! We couldn't run businesses or drive cars, own homes or travel anywhere without it, because the potential risks would be too great. Insurance gives us the peace of mind and security we need to operate. It works because insurance companies group together a large number of people who all feel exposed to the same possible circumstances. The company knows that, in any one year, the total premium collected from the group of people should cover the cost of the claims made by the unfortunate few who actually suffer a loss.

Running a business of any kind involves a certain amount of risk. Whether it's the risk of fire, the risk of damage to exported goods or the risk of natural disasters, all these incidents will have a financial impact on your business if they occur. This is what is being referred to when we use the term 'risk'. Most businesses take small steps to manage the effects of risk. For example, by installing smoke alarms and sprinkler systems to reduce the damage caused by fire or by installing security alarms to deter thieves.

However, business owners also want to protect themselves against the financial consequences of something untoward happening, and this is where insurance comes in effect, the business can transfer the risk away from themselves and on to someone else. This transfer of risk is the basis of all insurance, and is something that Lloyd's has been doing since the 17th century.

Developing modern society plays various roles in a society. They bear a major character, the inevitable uncertainty surroundings. Due to the uncertainty and competition factor, the concept of insurance and its evolution was enforced and these days it is for more strengthening due to very competitive business environment and many dropped-down situations. Thus, the insurance seems as an auxiliary for the modern society and organized business company as well as individuals. Before familiarizing to the concept of insurance, it is essential to know about risk and risk management.

### **2.2.1.2 Risk**

Risk is a situation involving exposure to danger or uncertainty about future losses. In other words, it is the inability to predict the occurrence or size of a loss. Generally, risk can be defined as the probability of unfavourable outcomes. There are different meanings of risks. It can be defined in statistical terms and in insurance terms too. In the context of insurance, it is the uncertainty of occurrence of economic loss. Everyone wants to be saved from the risk of an unfavourable situation. Thus, people want to safeguard themselves by insuring with insurance companies. Therefore, insurance is the tool for reducing risk. In the case of any damages and loss, it compensates the risk and provides a fund for that loss. Insurance distributes the cost of the risk over a large group of individual subjects to the same risk, in order to reimburse the few who actually suffer from risk.

### **2.2.1.3 Risk Management**

We have a clear concept of risk in the context of insurance. After it, the risk management concept is also essential to understand. Risk management is the systematic and efficient handling of pure risks. In simple words, risk management is the planning, organizing, directing, coordinating and controlling process of risk. In practice, risk management is the device and process of decision making for either personnel or organizational risky situations. Risk management is *“a general management function that seeks to identify, assess and address the cause and effect of uncertainty and risk on an organization. The purpose of risk management is to enable an organization to progress towards its goal and objectives in the most direct, efficient and effective path”*. [Williams and Young, 1995: 27].

The strategies to manage risk typically include transferring the risk to another party, avoiding the risk, reducing the negative effect or probability of the risk, or even accepting some or all of the potential or actual consequences of a particular risk.

### **2.2.2 Evolution of Insurance**

The first methods of transferring or distributing risk were practiced by Chinese and Babylonian traders as long ago as the [3rd](#) and [2nd millennia](#) BC, respectively. Chinese merchants travelling treacherous river rapids would redistribute their wares across many vessels to limit the loss due to any single vessel's capsizing. The Babylonians developed a system which was recorded in the famous [Code of Hammurabi](#), c. 1750

BC, and practiced by early Mediterranean sailing merchants. If a merchant received a loan to fund his shipment, he would pay the lender an additional sum in exchange for the lender's guarantee to cancel the loan should the shipment be stolen.

[Achaemenian](#) monarchs were the first to insure their people and made it official by registering the insuring process in governmental notary offices. The insurance tradition was performed each year in [Nowruz](#) (beginning of the Persian New Year); the heads of different ethnic groups as well as others willing to take part, presented gifts to the monarch. The most important gift was presented during a special ceremony. When a gift was worth more than 10,000 Derrik (Achaemenian gold coin) the issue was registered in a special office. This was advantageous to those who presented such special gifts. For others, the presents were fairly assessed by the confidants of the court. Then the assessment was registered in special offices.

The purpose of registering was that whenever the person who presented the gift registered by the court was in trouble, the monarch and the court would help him. Jahez, a historian and writer, writes in one of his books on ancient Iran: *"Whenever the owner of the present is in trouble or wants to construct a building, set up a feast, have his children married, etc. the one in charge of this in the court would check the registration. If the registered amount exceeded 10,000 Derrik, he or she would receive an amount of twice as much."*

A thousand years later, the inhabitants of [Rhodes](#) created the '[general average](#)', which allowed groups of merchants to pay to insure their goods being shipped together. The collected premiums would be used to reimburse any merchant whose goods were jettisoned during transport, whether to storm or sinkage.

The [Greeks](#) and [Romans](#) introduced the origins of health and life insurance c. 600 BCE when they created guilds called "benevolent societies" which cared for the families of deceased members, as well as paying funeral expenses of members. Guilds in the middle Ages served a similar purpose. The Talmud deals with several aspects of insuring goods. Before insurance was established in the late 17th century, "*friendly societies*" existed in England, in which people donated amounts of money to a general sum that could be used for emergencies.

### **2.2.3 Development of Insurance in Nepal**

In our society, the concept of insurance can be traced down to the 'Guthi System' and joint family culture that has been prevalent since the ancient times. These

systems have provided security and assistance to individuals and families in time of need. With the change in the economic and social perspectives and the increasing complexities of the upcoming small- scale industries, an immense need for a domestic company was felt to insure against any loss that could arise due to mishaps in industries.

With the development of trade, commerce and industry, the necessity of insurance in our country was felt long ago. However, there was no evidence of any organized form of insurance in Nepal until 1947. Society was organized and settled in an agricultural basis and the socio-economic organization took care of any problem or calamity confronted to the community. The fire insurance in Nepal, at first was started by "*Mal Chalani Ra Beema*," (Transport and Insurance Company). The "National fire insurance company" of Calcutta is the first insurance company to open branch in Kathmandu in 1958, to transact fire insurance business in Nepal. With the development of trade and industry, establishment of Nepal Rastra Bank (Central Bank), Nepal Bank Ltd, Rastriya Banijya Bank (Commercial Banks), Agricultural Development Bank, Co-operative Bank, Nepal Industrial Development Corporation, numerous other companies and corporations, the need of fire insurance in Nepal is growing in a manifold way. To meet ever-growing needs of fire insurance Indian branches such as 'Rubu, Oriental, Sterling General and Hindustan General' and the domestic insurance company 'Insurance and Transport Company' and 'Rastriya Beema Sansthan' are transacting fire insurance business.

Though there is no organized form of life insurance in Nepal, a kind of life that can be better termed "death insurance" is practiced since a long time. Like "insurance", there is "Guthee", which helps its member in facing financial burden out of death. Its policyholders are known as "Gutheear" instead of insured. Though they do not have policies in black and white, they have a kind of verbal understanding by which they can work smoothly without facing any difficulties. Gutheears pay a certain amount of money to the Guthee, in the same way as the insured pays premium to the insurer. Before 1951, Patna branch of Indian Life Insurance Company was exploring life insurance business, with the nationalization of Life Insurance Corporation of India. It is solely and wholly transacting life insurance business in Nepal. It established a branch office in Kathmandu in 1962. Thus, this corporation has a kind of monopoly in life insurance business. However a need for an insurance company that would incorporate every type of insurance function was also felt at the national level. This resulted to establishment of Rastriya Beerna Sansthan on 15th December 1968. The company was established as a private company with an authorized capital of NRs. 10

million and capital issued was NRs. 2.5 million under the Nepal Company Act, 2021. The company started its business by insuring king Mahendra's Car. A year later, the company started operating with same name but under National Insurance Corporation Act, 2025. On February 21, 1973, five years after its establishment life insurance was introduced.

After the introduction of Insurance Act, 1992, the number of private insurance companies came into existence. There are altogether 25 insurance companies in Nepal, which are operating until now. The lists of companies are stated in company profile, introduction chapter.

#### **2.2.4 Types of insurance**

Insurance is divided into two parts as life insurance and general insurance. Life insurance may be defined as the certain sum of money either on the death of the insured or on the expiry of a fixed period. Life insurance is concerned, only about physical and mental accident risk.

Whereas, General insurance considers all insurance except life insurance. However, we can classify the insurance as a life insurance and non life insurance. Some of experts and writers separator the insurance in different viewpoint i.e. forms the potential insurers' view and other. When viewed from professional use insurance will take two board forms as life and non life insurance. We can to see all the insurance under the view of risk point.

##### **2.2.4.1 Life Insurance**

It is a contract between an insurance policy holder and an insurer, where the insurer promises to pay a designated beneficiary a sum of money (the "benefits") upon the death of the insured person. Depending on the contract, other events such as terminal illness or critical illness may also trigger payment. The policy holder typically pays a premium, either regularly or as a lump sum. Other expenses (such as funeral expenses) are also sometimes included in the premium.

The advantage for the policy owner is "peace of mind", in knowing that the death of the insured person will not result in financial hardship for loved ones.

Since the insurance of assurance of a person's life is impossible because of the certainty of death of a person once born, life insurance only provides assurance

against the economic aspects of human life, not the assurance against the life, itself. Life insurance provides future benefits against unseen future accident and it helps to live comfortably in retirement life. Life insurance never fulfills losses of human life, it measures in amount of various risk and provides sum of amount in accordance to policy. Life insurance plays a vital role in the society. Therefore, it is also known as social insurance too.

Nepal insurance Act, 2049 (section 1 - 3) has defined as *"Life Insurance Business" means the business relating to a contract regarding to the life of any person under which he/she or his/her heir in the event of his/her death, will be paid a particular amount in case a specified amount is paid in installment on the basis of his/her age.*

Following insurance companies provide the life insurance service in Nepal.

1. Rastriya Beema Sasnthan
2. Asian Life Insurance Co. Limited
3. Surya Life Insurance Co. Limited
4. Gurans Life Insurance Co. Limited
5. Prime Life Insurance Co. Limited
6. National life Insurance Co. Limited
7. Nepal Life Insurance Co. Limited
8. Life Insurance Corporation (Nepal) Limited
9. American Life Insurance Company (ALICO)

The scope of life insurance business is seen to be bringing because of its nature and popularity. Therefore, the various investors are interested to invest in life insurance business, although having restriction of Government and challenges of other affecting factors.

#### **2.2.4.2 Non Life insurance**

Non life insurance or general insurance is a pure insurance because it can measure any risk in terms of money. General insurance is the insurance of property and liabilities risk of insured against some specified cost i.e. the premium. It includes property insurance, liability insurance and other forms of insurance. General insurance considers all the risks and it provides certainty against the risk through certain sum of money. General insurance responsible to payment of an amount to insured. But when the accident is held by negligence of insured, where the insurer does not responsible to pay any amount against the risk. Insurer and insured may agreed to accept every kind of risk under their contract and the risk transfer through

the assurance. But the coverage written by the property and liability insurance insurers may be divided into five types, physical damage or loss, loss of income and extra expenses resulting from physical damage to property, liability, health and collateral.

Nowadays, the insurers provide various types of non-life insurance policies, which are as follows:

### **A. Fire Insurance**

Insurance that is used to cover damage to a property caused by fire. Fire insurance is a device to compensate for the loss consequent upon destruction by fire. *“Basic form of fire insurance offers protection to the insured against the destruction of physical property as a result of fire”*. (Welshman and’ Melcher, 1980: 213). There is hardly any material object, which is not susceptible to fire in varying degree. Hence, any movable and explosion of domestic boilers/gas and can be extended to cover riot & strike, malicious damage, storm & flood, earthquake, terrorism, electric short circuiting etc.

### **B. Marine (Cargo) Insurance**

Marine insurance covers the loss or damage of ships, cargo, terminals, and any transport or cargo by which property is transferred, acquired, or held between the points of origin and final destination. It can be say as the one of the oldest forms of insurance. It has developed with the early growth of trade. It was in progress during the middle ages in Italy and then in England. Marine insurance is concerned with overseas trade and commerce. The foreign trade involves transportation of goods from one country to another by ships. The sending of goods by sea involves risks of enemies, pirates, robbers and thieves. Therefore, marine insurance was developed to eliminate the risk in business.

*“Marine insurance is a contract between the insurers and insured whereby the insurer undertakes to indemnify the insured in manner and to the interest thereby agreed marine losses incident to marine adventure”*. [Mishra, 1997: 315] Usually, marine insurance provides the assurance not Only against the natural disaster, but also against piracy and other manmade disaster. In practice, marine insurance provides insurance on ship insurance, cargo insurance and freight insurance.

### **C. Aviation Insurance**

People who own and operate aircraft generally purchase aviation insurance so that they are covered in a wide variety of situations, and so that their aircraft will be replaced if they are damaged, lost, or stolen. Owners may also cover insurance on aircraft they rent out, lease, or hire pilots to fly, in which case the individual pilot may need to carry additional insurance to be fully covered in the event of an incident.

### **D. Motor Insurance**

Every motorist runs the risk of incurring legal liability to pay compensation to third party for death, bodily injury, and property damage arising out of use of vehicle, with further heavy loss of accidental damage to vehicle itself. It covers full comprehensive policy and third party liability insurance too. This policy indemnifies vehicle owners against such contingencies. Private car, motorcycle, commercial vehicle owners can avail this insurance cover against comprehensive risks including third party personal injury and property damage and additionally riot & strike, earthquake, flood, personal accident to passengers, drivers etc.

### **E. Loss of Profits Insurance**

It is also known as Business Interruption insurance. The intention of this insurance is to restore the business to the same financial position as if the loss had not occurred. Insurers insist that any property is insured against loss or damage so that funds are provided to pay for the repair or replacement of the 'bricks and mortar.'

The sources of revenue to be insured need to be identified and can be either gross income rentals or revenue or fees or rates or other sources of income, or a combination. Some income, such as, interest on investments or profits on the sale of assets are not insurable in normal Business Interruption insurances.

### **F. Comprehensive Household Insurance**

This is an economical insurance scheme that covers the customer's residence including contents therein against the risk of fire and its allied perils, burglary/house break-ins and risk against natural disasters like earthquake, floods etc. Additionally, this also covers personal accident of the insured or a nominated member.

### **G. Burglary / Housebreaking Insurance**

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

### **H. Cash in Transit Insurance**

This cover is intended for banks, business houses, manufacturing organizations who deal in cash, periodically drawn from bank/other sources providing indemnity in respect of loss of such money carried by authorized employees while in actual transit from one place to another as specified in policy, i.e. from the time money is taken out from one place until delivered at other place (Money in transit by employees). Thus, risks covered are robbery, accident or fortuitous cause and riot / strike.

### **I. Fidelity Guarantee Insurance**

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

### **J. Personal Accident Insurance**

This insurance provides payment of compensation in the event of the insured sustaining death/disablement by bodily injury resulting solely/directly from accident caused by external violent and visible means. Individuals or groups including employees, students and professionals can be insured against death, permanent total / partial disablement, temporary total disablement (TTD). This cover can also be extended to include medical expenses incurred.

### **K. Hospitalization / Medical Insurance**

Life is uncertain; you never know what will befall you tomorrow. This cover is dedicated to take care of the insured's expenses incurred during his treatment in

hospital/nursing home due to some illness or accidental incurred during domiciliary treatment. Therefore, this policy provides the financial support against the health problem to the insured.

#### **L. Overseas Med Claim Insurance**

This is a travel insurance policy, which provides medical expenses for sudden and unexpected illness or accident whilst travelling outside the kingdom of Nepal. This insurance has policy limits and excesses. The policy limit is the maximum amount that insurers will pay for any loss and the excess is the first amount of each and every claim that the insured person is required to pay.

#### **M. Public Liability Insurance**

Negligence of worker or defect in premises resulting into third party personal injury and property damage can be covered by this type of insurance. It is generally used in construction work, foreign employment, travelling and transportation, lease etc.

#### **N. Engineering Insurance**

Engineering insurance is directly related with the risk against engineering tools and technique. It is of various natures depending upon the nature of the risk exposure e.g., construction/erection/boiler and pressure plants/machinery breakdown/electric equipment/certain forms can be extended to cover third party liability. Combined cover is also available for marine-cum-erection / storage-cum-erection.

Loss, of profits following machinery breakdown or boiler explosion is also available. For construction phase risks, Advanced Loss of Profits (ALOP) is available to take care of financial consequences of delay in commencement of commercial operation caused by physical loss or damage to the contract works, including extra expenses to avoid or minimize a delay. Additional, contractual all risk insurance, Machinery all risk insurance and Broker insurance are also cover by this.

#### **O. Workmen Compensation & Employees Liability Insurance**

This provides compensation to all workers engaged in any particular work against injury in the course of and out of employment. This cover could also extend to cover medical expenses incurred. Workmen's compensation and employer's liability insurance assumes the expenses of compensation and provides for medical, surgical

and hospitalization requirements as determined by the compensation laws of the state.

## **P. Miscellaneous Insurance**

A number of coverage's written by casualty insurers are available that cannot be classified neatly as liability, auto or crime insurance but nevertheless are important to those with the exposure that these forms are designed to protect. They are discussed under the innocuous heading of miscellaneous coverage and are written by property and liability insurance. Some of are: banker's blanket insurance, credit guarantee insurance, crop insurance, theft insurance, boiler insurance, burglary insurance etc.

### **2.2.5 Investment**

Investment may be defined as the purchase by an individual or institutional investor of a financial or real asset that produces a return proportional to the risk assumed over some future investment period. Investment is the current commitment of the savings that compensates for the time involved, the expected rate of inflation and uncertainty involved. To stare in other words, an investment is a vehicle into which funds can be placed with the expectation that they will generate positive return and / or their value will be preserved or increased. Investment, in its broadest sense means the sacrifice of current dollars for future dollars. Two different attributes are generally involves: time and risk. The sacrifice takes place in the present and is certain. The reward comes later, if at all, and the magnitude is generally uncertain.

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

For the financial institution, the investment and investment problems are revolve around the concept of managing the surplus financial assets in such a way, which will lead to the wealth maximization and providing a significant future source of income. Thus, resources in such a way as to make it work for providing benefits to the owners

by increasing the total assets simultaneously providing benefits to the supplier of the funds by letting the third party to use such resources. However, the investment needs be procedural task. It must follow a definite investment process. This definitely begins from the formulation of proper investment policy.

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

Further, to invest any funds requires sources of funds. Insurer also invests their fund different sectors. The funds with the insurers are accumulated from the various sources, which are explained in these forms.

- i) Premium
- ii) Interest
- iii) Capital Gain
- iv) Saving in Expenses
- v) Non payments of claims

However, the insurer has advantages of investing above-mentioned sources of funds but they cannot invest all they are collected cash in profitable investment. It is so because of the primary function of the insurer, which is to provide financial assurance against insurable risks and the regulatory provisions governing them. In fact, insurer only gets a portion of their inflows as invisible fund after arranging for various items. For running, it is essential for three insured invest the fund. An insurance or insurer must mobilize its collected premium and other funds in profitable, secured and marketable sector. So, that it can earn a handsome profit, secured, and can be converted in to cash whenever needed.

#### **2.2.5.1 Principle of Investment**

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

Generally, policy will be a plan or a course of future action that is proposed to adopt regarding a particular field of activities. For our purpose, investment policy will also be the plan or course of future action that is purposed to adopt regarding the investment. The investment policy may be different according to the objective and nature of the organization. But, all the investment policies must be balanced as of risk return character and suggested to invest at liquidity, safety and profitable sectors. While investment policies needed to be formed, the investors need to consider many factors. Usually these are the factors to be considered in investment planning decisions, security of principle stability of income and rate of return, marketability and liquidity.

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

#### **2.2.5.1.1 Safety & Security**

The safety and security principle is a primary and basic principle of the investment policy. The insurer should never invest its funds in these securities, which are subject to much depreciation and fluctuation because a little difference may cause great loss. Therefore, insurers perhaps invest their funds in fixed deposits and treasury bills of NRB. The collected premium is a liability for an insurer; therefore, they are always conscious on security and safety of the investment. American life insurance association also enforced the principle of safety. The basic principle for limiting the investment to those with the high margin of safety not only is imposed on the companies by the system of state investments laws described presently, it has long been recognized as a paramount consideration by the insurance companies themselves. To obtain the security on investment insurer required sound matching in their investment portfolio. To maintain the secure investment holding, the insurer needs to analyze and concentrate on the secured lending. The secured investment provides the good / sweet return and liquid cash flow whenever required. For instance, *“the safety of the investment assured by the high credit standing of the borrower as evidenced by his ability to meet the interest payments or to provide or continuous flow of dividends to investors. Further, the security of investment depends upon the legal claims of the lenders and value of the underlying security but also upon the borrower’s ability to manage its affairs efficiently and its willingness as well as ability to repay”*. Thus, safety and security principle is very important for an insurer.

### **2.2.5.1.2 Profitability**

Generally, insurance companies or insurer obtains their name and era through paying claim in simple procedure and right time. In order to pay claim and maintain office expenses the fund is required. An insurance company can maximize its value of wealth and collection of fund through maximization of return on their investment. So, they must invest their fund where they can gain maximum profits.

The insurer must earn at least the assumed rate of interest; otherwise, they will suffer loss. The investment 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 earnings higher interest and thus, will be able to increase his business, it has been realized that the safety and the profitability is important for insurer investment.

### **2.2.5.1.3 Diversification**

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

Diversification of investment helps to sustain loss according to the law of average because if securities of a company deprived, there may be appreciation in the securities of other companies. In this way, the loss can be recovered and the company may be able to earn more profit. The diversification provides maximum security with high yield and better liquidity provided the diversification is done taking in to account of all these factors. Do not invest all the funds at one, spread over the widest possible range to minimize unfavourable consideration and to gain favourable advantages. Under diversification, the law of average reduces the losses to minimum.

### **2.2.5.1.4 Liquidity**

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

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

#### **2.2.5.1.5 Marketability**

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

#### **2.2.5.2 Investment Policy under Different Insurance Companies**

Usually, all the insurers follow the main principle of investment under investment policy, which is mentioned above. The principle of investment is based on nature of business and line of business. Therefore, they include the different investment policy to invest collected fund in accordance to the character, nature and time period of the policy.

Since life insurance and general insurance differ in their risk assurance character, their claims nature, volume and nature of their policy handling of each type, the timing of insurance claims related to payment of premium etc. Hence, the insurers obtain different investment policy on their investment of different policy fund.

##### **2.2.5.2.1 Life Insurance and Investment Policy**

Life insurance business is a long period coverage insurance business. An insurer can mobilize the collected premium fund of the life insurance in long term. Because they do not require the funds in short term. An important attribute of the insurance fund is that they are of long term nature. The claims against them by the policyholders materialize in regular pattern overtime i.e. usually upon the death of the insured or at the maturity of the endowment policy.

Life insurance is a main source of collection of the funds. It can collect large amount of fund, so insurer needs policy to invest these funds. *“The main objective in the management of the funds of life insurance companies is to have adequate funds with which to meet claims, which includes not only the death, disabilities, and annuity payments called for policies but also the demand for the cash surrender value by person cancelling their policies or for loans secured by the cash surrender value”*. [Dowrie and Fuller, 1950:229]. This aspect of insurance business desires the investment policy, because the fund of life insurance is liability for an insurer. Therefore, insurer has responsibility to invest profitable sector and securely also. Thus, the fundamental purposes of the life insurance investment are: -

- (a) To make possible fulfillment of contractual obligation to policyholders,
- (b) To make availability of life insurance protection at low cost as possible.

To meet these objectives an investment must give promise of

- (a) Certain return on principle,
- (b) A stable and reasonable income yield. To attain the basic objective and strategy, the insurer should invest the life insurance fund under investment policy.

#### **2.2.5.2.2 Non Life Insurance and Investment Policy**

Commonly, non life insurance companies or insurer follows the principle of investment on investing the fund. Insurer cannot predict correctly, when they required the fund. However, if the insured held accident then, the insurer is responsible to pay certain indemnity. Therefore, to match the convertibility or liquidity, insurer successful Operation of the business and be prompt in claim payment, the insurer needs to hold major part of their inflows available to pay future losses and expenses. *“Because accident, casualties and disasters are not all that predictable property and liability insurance companies must have reserve of funds to cover large claims and settlement if and when occurs”*. [Mishra, 1997: 305] To attain the attractively and maintain the goodwill insurer needs to make balance in their transactions. So, they collect premium and pay the reasonable indemnity with accordance to the written policy. To transact all function of insurance company is they need certain amount / fund.

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

## **2.3 REVIEW OF RELATED STUDIES**

Various experts, authorities and master degree's students have conducted a number of researches relating to the insurance business. Among them, only few are related with the investment aspect of the insurer and insurer business. Therefore, this may be the suitable and worthy attempt on this subject matter.

### **2.3.1 Review of Articles**

**2.3.1.1 Insurance Act, 2049 (1992)**, (Act No. 42 of 2049 B.S.) Date of the Royal seal and the publication: 2049.9.2 B.S. (16 December, 1992)

First amendment: 2052.9.20 (4 January, 1996),

Second amendment: 2058.10.10 B.S. (29 Jan, 2002)

Third amendment: Amended by the Act amending gender equality some Nepal Acts, 2063.7.17

Only related terms and conditions are reviewed form insurance act 2049 as:

#### **Preamble:**

Whereas, it is expedient to establish an Insurance Board to systematize, regularize, develop and regulate the Insurance Business, in the twenty- first year of the regime of KING BIRENDRA BIR BIKRAM SHAH DEVA, the Parliament has made this Act.

#### **Short Title and Commencement:**

(1) This Act may be called the "Insurance Act, 2049" (1992).

(2) It shall come into force on such dates as Nepal Government, by notification published in the Nepal Gazette, may appoint.

#### **Definition:**

Unless the subject or context otherwise requires, in this Act,

(A) "Board" means the Insurance Board constituted pursuant to Section 3.

(B) "Chairman" means the Chairman of the Board.

(C) "Member" means the Member of the Board and the word includes the Chairman.

(D) "Insurer" means a corporate body registered pursuant to Section 10 and the word includes the re-insurer.

(E) "Insurance Business" means Life Insurance Business or Non-Life Insurance Business and the word includes the re-insurance.

(F) "Life Insurance Business" means the business relating to a contract regarding to the life of any person under which he or his heir in the event of his death, will be paid a particular amount in case a specified amount is paid in installment on the basis of his age.

(G) "Non-Life Insurance Business" means other Insurance Business other than the Life Insurance Business.

(H) "Re-Insurance Business" means re-insuring the portion of the risk that is excess of the risk to be hold by the Insurer.

(I) "Insurance Policy" means a document mentioning the rights and liabilities relating to the contract of the Insurance.

(j) "Actuary" means a person having the qualification as prescribed and is appointed by the Insurer for assessing and calculating the liabilities of the Insurance Business.

(k) "Insured" a person or organization holding a Life Insurance and Non-Life Insurance Policy.

(L) "Insurance Agent" means a person other than a salaried employee of an Insurer who has obtained a license pursuant to Section 30, to work on behalf of the Insurer based on commission.

(M) "Surveyor" means a person who has obtained a license pursuant to Section 30A to make a financial valuation of the destroyed property and the word includes an adjuster and a person who makes a valuation of losses.

(N) "Broker" means a person who has obtained license pursuant to Section 30B, to work as an intermediary between an Insurer and Insurer relating to the Insurance Business.

(O) 'Auditor" means an auditor who has obtained a license to audit pursuant to prevailing law.

(P) "Fiscal Year" means the period beginning from 1<sup>st</sup> day of Shrawan to last day of Ashadh of each year.

(Q) "Prescribed" or "As prescribed" means prescribed or as prescribed in the Rule made under this Act.

### **Insurance Fund:**

(1) An Insurer shall maintain separate fund for each category of Insurance Business and the amount to be received from each Insurance Business shall be deposited in the concerned fund.

(2) The fund maintained for one category of Insurance Business shall not be utilized to bear the liabilities relating to other category of Insurance Business.

### **Compulsory Reserve Fund:**

(1) Every Insurer shall maintain a reserve fund as specified by the Board for the liability relating to its Insurance Business inside the Kingdom of Nepal.

### **Insurance Premium to be paid Before Holding the Risk:**

(1) No Insurer shall hold the insurance risk of any category of Insurance Business until it receives the premium of the Insurance to be obtained by it. It shall be deemed that the Insurer has undertaken the Insurance Business only after receiving the Insurance premium by it for holding the risk.

(2) Provided that, if any practical difficulty arises due o any reason for paying the amount in a lump sum, this Section shall not be deemed to be prohibited to issue an Insurance Policy on the guarantee of a bank or the Nepal Government relating to the payment of the outstanding amount within a specified period.

### **Repeal and Saving:**

(1) The Insurance Act, 2025 is hereby repealed.

(2) All the actions taken and functions performed before the commencement of this Act shall be considered to have been taken or performed pursuant to this Act.

## **2.3.2 Review of Journals**

### **2.3.2.1 Insurance Industry and Risk Management in Nepalese Prospective**

Source: Upadhaya, Sudyuman, Everest Insurance, Insurance News and Views, 2006, Insurance Board

The insurance industry clings to tariffs as a way of generating their income rather than evaluating risks and pricing, not singled out for understanding for risk factors in each. Beema Samhi have been directly controlling over premium rate factor in fire and allied insurance and motor insurance portfolio. The decision of Beema Samathi is mandatory and has the force of law. This control over premium rates through tariff indicates that the industry is still nascent in the development of its underwriting skills, and cannot compete internally; we have yet pretensions of technical expertise to face market reality of risk management. The insurance industry is afraid that without tariff barriers, it will collapse. As long as the industry does not learn how to rate individual risk on their own merit, risk management will not gain a foothold.

Businesses that are profitable and unprofitable are both under the tariff regime. Motor business that is contributing to huge losses is still under tariff. Why not remove the tariff barriers and permit the industry to adopt a realistic rating for motor business that each company feels is good for it? By adopting a flexible rating, each company for its survival will learn how to treat good drivers with benefits and bad drivers with penalties. Companies are however, afraid that a non-tariff regime will let loose forces of indiscipline in the own den which they will not be able to control. It is a management problem and not customer made issue. Unless challenges are thrown and tougher market, conditions created for progress and survival. The industry cannot grow with sled maturity.

### **2.3.2.2 CORPORATE INVESTMENT PRACTICES IN NEPAL**

#### **Factors affecting investment decisions**

A survey of literatures reveals several factors affecting investment decisions. The prominent among them are availability of financing source, projected cash flow and profitability of new project, availability or ability to borrow by the company, market growth potential of project, and risk factor in investing new project. In this context, respondents were asked to rank these five factors on a scale of 1(most important) to 5 (least important) and the result shows the majority of respondents ranked the projected cash flow and profitability of new project as the most important factors affecting investment decision. The risk factor in investing new project, the availability of financing source, and market growth potential of the new project were ranked as the second, third and fourth important factors by the majority of respondents. Ability to borrow by the company has been considered as the least important factor governing the investment decision and the respondents placed it as the fifth rank in comparison to others factors.

This result suggests that the investment decisions in the majority of the Nepalese enterprise are affected by projected cash flow and profitability of the new project. Virtually, the availability of funding source also affects and explains the investment behavior of Nepalese enterprises. However, if the separate mean ranking is computed for public and private sectors, the results are contradictory for the first and second priority. For the private sector respondents, the riskiness of assets to be

financed is more important factor for making an investment than the projected cash flow or earning of the assets to be financed. But the same is not true for public sectors respondents. For them, if the projected cash flow or profitability of the project is good then it becomes the first and most important determinant for making any new investment. Only after it they consider the riskiness of the project as another determinant of the investment decision. But there are no any significant differences in public and private sector responses across the different factors affecting investment decisions. F –statistics shows that there is a not significant difference in views of public and private sector respondents. The standard deviation of responses ranges from 1 to 1.558 to their mean ranking indicating the higher consistency in responses among the respondents. The first and second mean ranking score of these two factors is tentatively equal to each other. Hence, it seems that the riskiness of the assets to be financed is equally important factor affecting investment decisions in new project with respect to its projected cash flow and its expected future profitability. In aggregate the mean ranking lies between the 2.42 to 3.87 score. It indicates that the factors considered are the central and equally important determinants for the investment decisions.

#### **Observations on corporate investment practices in Nepal**

At the end of questionnaire, the respondents were provided with a list of eleven different statements of observations on corporate investment practices in Nepal and they were asked to rank them in order of importance. In order to highlight the significance of the selected statements of observations, mean and standard deviation values of responses for each statement of observation have been computed. The first criterion applied is the value of mean. The higher value of mean indicates that the observation is highly important to majority of respondents. To assess the variability of responses, standard deviations are computed. The higher the value of standard deviation indicates the higher variability in responses among the respondents. Applying these criteria, the statements of observations with their mean and standard deviation value have been presented in order of importance.

The mean values of observations statements varied from 3.90 to 2.73. Among the statements, 'Managers prefer running large firms as opposed to simply profitable ones' has been regarded as the most significant observation. The statement 'Managers have better information than outside investors about the most aspects of firm's investment.' carries the mean value of 3.87 and it indicates that the majority of respondents agree the asymmetric information problems in Nepalese capital

markets. The least significant observation for the majority of the respondents is Investment in fixed assets will decrease with high debt ratio. These results imply that there are many possible manifestations of the manager-stockholder agency conflict in Nepalese enterprises. The conclusion that can be derived from this table is that a firm's cash position may contain information about its investment opportunities and access or availability of finance significantly influences the investment decisions of Nepalese enterprises. The conclusion is that even firms that are extremely in need of external finance (external equity and debt)—say because they have good investment opportunities but scarce internal resources—may even be unable or unwilling to raise it.

#### **2.4 Research Gap**

This study uses five insurance companies which are selected different from established in around same year. Previous researchers used only financial tools and ignored statistical tools but this study used both financial and statistical tools. Their studies are based on descriptive way only but this study used both descriptive and analytical basis. This study takes primary data too while previous researcher's studies are based only in secondary data. They are only focused on investment of funds but this study is focused on investment as well as its management to produce optimum return. That's why this study is worth reading than previous ones.

## CHAPTER III

### RESEARCH METHODOLOGY

#### 3.1 Introduction of Research Methodology

Research Methodology is a systematic way to solve the research problem. In other word, research methodology describes the methods and process applied in the entire aspect of the study. It refers to the various sequential steps (Along with a rational of each steps) to be adopted by a researcher in studying a problem with certain objectives in view. Thus, the overall approach to the research is presented in this chapter.

These study aims at presenting, evaluating and finding about the investment pattern, along with investment return of insurance companies. The study will draw an actual scenario of investment pattern and its management of Nepalese insurance industry. This chapter describes research design, population and sample, types of data, and tools used for analysis.

#### 3.2 Research Design

*“Research design is a plan, structure and strategy of investigation to obtain answers to research questions and to control variance”, [Kerlinger].* A research design is the specification of methods and procedures for acquiring the information needed. It is the overall operational pattern of framework for the project that stipulates what information is to be collected, from which sources and by what procedures. Thus, a research design is a plan for the collection an analysis of data and is a plan, structure and strategy of the investigation to obtain and answer to research questions. For research there exits different types of research design like; Historical research, Descriptive research, Case study research, Field study research, analytical research, True experimental research and so on. This study mainly concerned with descriptive research. However, the primary data and information are also used whenever and wherever necessary. If applicable, sometime descriptive and analytical approach may be used.

#### 3.3 Population and Sample

A population refers to any collection of specified group of human beings or non

human entities. In other words, population refers not only to people but also to all items or universe that have been chosen for study in which the research is based. A small portion chosen from the population for studying its properties is called a sample and the number of units in the sample is known as the sample size. The method of selecting for study a small portion of the population to draw conclusion about the characteristics of the population is known as sampling.

In order to fulfill the objectives of the study investment management of insurance companies' five insurance companies are taken as samples by using purposive sampling method. So precisely saying, all 25 insurance companies are population of this study and among them, only 5 are chosen as samples from total population. For selecting the samples, simple selection method according to nature and types of insurance facilities are used. In this study, five insurance companies secondary data are analyzed for the purpose of conclude the result accordance to the objectives. Here, Premier insurance Company, Everest Insurance Company, Sagarmatha Insurance Company, Alliance Insurance Company, and Neco Insurance Company are taken to the study as a sample among the insurances industries in Nepal, which short description is already presented in chapter first.

### **3.4 Types of Data**

In order to achieve the objectives a definite series of analysis can be introduced. The research is based on the description of the primary and secondary data for the historical performance assessment and the future prediction of planning and upcoming policy and implementation among the insurers. Hence, in the study primary as well as secondary sources of data is used to collect necessary data and information.

#### **Primary Data**

The sources of primary data are the opinion survey. The primary data can be collected from various insurance companies for the opinion on investment of insurance fund, its policy, premium and other relevant factors. Primary data can be collected through questionnaires, field visit and information received from the respondents.

#### **Secondary Data**

This study is mainly based on secondary sources of data. The data relating to premium collection and investment pattern of insurance companies can be collected

from different insurance companies and Beema Samiti, Nepal Stock Exchange, government agencies and bodies. Published and unpublished books, journals, newspapers, reports, thesis articles etc are used as the sources of the secondary data.

### **3.5 Data Analysis Tools**

In order to get the concrete results from this research the various collected data from primary sources and secondary sources have been coded and tabulated in required form. Tabulated data has been processed and analyzed in descriptive way by using mathematical tools, statistical tools and financial tools wherever necessary. Graphs and charts have also been presented to interpret the finding of the study. As per topic requirements, emphasis is given on statistical tools rather than financial tools. So for this study like Ratio analysis, Trend analysis, Percentage indices, Standard deviation, Coefficient of variation, Coefficient of determination, F-test etc. are going to use.

#### **Financial Analysis Tools**

Generally, the financial analysis tools were used for the purpose of the assessment of the financial position to a particular organization. For the purpose of this study, ratio analysis, earning price per share (EPS), Market price per share (MPS), are performed in the study. Certainly, ratio analysis showed the position of premium collection, investment, return and their contribution on overall performance.

##### **3.5.1.1 Ratio Analysis**

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

As for this study, ratio analysis is used to present the position of the investment and its performance as compared with the overall position and performance of the insurer. In order to analyze, the investment pattern and performance of premium collection, following ratios are used.

Return on Investment	=	$\frac{\text{Net Income}}{\text{Total Investment}}$
Premium to Investment	=	$\frac{\text{Total Premium}}{\text{Total Investment}}$
Govt. Saving Bond to Total Investment	=	$\frac{\text{Govt. Saving Bond}}{\text{Total Investment}}$
Fixed deposit to Total investment	=	$\frac{\text{Fixed Deposit}}{\text{Total Investment}}$
Investment on Share to Total Investment	=	$\frac{\text{Investment on Share}}{\text{Total Investment}}$
Interest Earned to Total Investment	=	$\frac{\text{Interest Earned}}{\text{Total Investment}}$

### Statistical Analysis Tools

Generally, the statistical tools are used for attaining accuracy on analysis and study. According to this study's objectives, here following tools are used.

#### 3.5.1.2 Trend Analysis

In order to draw the valid conclusion of investment aspect, trend analysis is used for showing the basic nature of investment in the past years which gives us ideas of pattern of investment and clear the picture of future trends also.

#### 3.5.1.3 Mean

The mean is the average of all the samples, which is denoted by  $\bar{X}$ . It can be computed using following Formula.

$$\bar{X} = \frac{1}{n} \cdot \sum_{i=1}^n x_i$$

### 3.5.1.4 Standard Deviation

The standard deviation is the best tools to study fluctuation in any data. It is usually denoted by the letter sigma ( $\sigma$ ) Karl Pearson suggested it as a widely used measure of dispersion and is defined as the positive square root of their arithmetic mean of squares of the deviation of the given observations from their arithmetic mean of a set of value.

It can be computed by using following formula.

$$S.D (\sigma) = \sqrt{\frac{1}{n} \sum (X - \bar{X})^2}$$

Greater the magnitude of standard deviation, higher will be the fluctuation and vice versa.

### 3.5.1.5 Coefficient of Variation (CV)

It is defined as the standard deviation divided by the mean of expected return. CV is the relative measure of risk. It measures the risk associated with each unit of return. It should be used to compare investment or return when the standard deviation and expected values of companies or scheme differ.

$$CV = \frac{\sigma}{\bar{X}}$$

A project, scheme, or company with low CV has less risk per rupee than having high CV.

### 3.5.1.6 Coefficient of Correlation

By this statistical tool, the degree of relationship between to variables is identified. In other words, this tool is used to describe the degree to which one variable is linearly related to other variables. Two or more variables are said to be correlated if change in the value of one variable appears to be linked with the change in the other variables. The correlation analysis refers the closeness of the relationship between the variables. Correlation may be positive or negative and ranges from -1 to +1.

Simple correlation between interest rate and deposit amount, interest rate and credit or lending amount and interest rate (both deposit rate and lending rate) and inflation is computed in this thesis. For example, let us say that the correlation between interest rate and inflation is positive. It indicates that when inflation increases, interest rate also increases in same direction and vice versa. For our study following reference is used.

Correlation may be positive or negative and ranges from -1 to +1. When  $r = +1$ , there is positive perfect correlation; when  $r = -1$ , there is perfect negative correlation; when  $r=0$ , there is no correlation and when  $r < 0.5$  then there is low degree of correlation.

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

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

The simple correlation coefficient 'r' is calculated by using following formula:

$$\text{Simple Correlation Coefficient (r)} = \frac{n \sum X_1 X_2 - (\sum X_1) (\sum X_2)}{\sqrt{n \sum X_1^2 - (\sum X_1)^2} \sqrt{n \sum X_2^2 - (\sum X_2)^2}}$$

Alternately,

$$r = \frac{\text{Cov}(X_1 X_2)}{\text{Var } X_1, \text{Var } X_2}$$

Or,

$$r = \frac{\sum x_1 x_2}{\sqrt{\sum X_1^2 \sum X_2^2}}$$

Where,

$$\text{Covariance } (X_1, X_2) = \frac{1}{n} \sum (X_1 - \bar{X}_1)(X_2 - \bar{X}_2)$$

$n$  = Total number of observations.

$X_1$  and  $X_2$  = two variables, correlation between them are calculated.

### 3.5.1.7 Hypothesis

Every Researcher has to start with certain assumption and presumption through

which subsequent study might prove and disapprove. A hypothesis helps the researcher in proceeding further and finding solution of the problem, which we want to study. The hypothesis helps in organizing the collected data in very systematic way and in fact it stands at the midpoint of research directing towards particular way of finding tentative solution to the question of how and why.

So a hypothesis is conjectural statement of the relationship between two or, more variables. Again, a hypothesis is a provisional formulation or possible solution or tentative explanation or suggested answers to the problems facing the scientists. If the hypothesis is proved, the tentative solution of the problem is answered if not so alternative situation would need to be formulated and tested. Generally, hypothesis can be divided as null and alternative hypothesis.

#### **i) Null hypothesis:**

It is the simplest and useful tool in significance of difference between two populations in respect of some property and that difference, if any is only accidental and unimportant. It is referred that there is no difference in the sample and the population. In other words, null hypothesis is a principle, which states that a person is innocent unless he is proved guilty. Generally, it is stated negatively and the object is to avoid personal bias of the investigator in the matter of collection of data. It is used to collect additional support for the known hypothesis. The null hypothesis is denoted by  $H_0$ .

#### **ii) Alternative hypothesis:**

It is the set of alternatives to the null hypothesis. In other words, the complement of null hypothesis is called alternative hypothesis. It always represents all other possibilities that are not included in null hypothesis. A researcher will determine which of the alternative course of action or solutions or explanations can be applied to the problem while finding out efficient alternative the researcher will of course; have to think in terms of money, manpower, predictability, area to be covered etc. the alternative hypothesis is denoted by  $H_1$  or  $H_a$ .

### **3.5.1.8 F-test for Significance of Sample Correlation Coefficient**

Fisher's F-distribution is defined as a distribution of the ratio of independent chi-square variables each divided by the corresponding degree of freedom. However, F-

test ratio is used to examine the significance of the difference between more than two sample means at the same time. The F-test enables us to test the significance of the difference between more than two samples. This technique can be used to conclude whether the regression equation provide significant result or not.

If ' $S_1$  and  $S_2$ ' are the sample variance of 'n' pairs of observations from normal population, the test statistics for significance of null hypothesis is given by

$$F = \frac{S_1^2}{S_2^2} \text{ if } S_1 > S_2$$

$$F = \frac{S_2^2}{S_1^2} \text{ if } S_2 > S_1$$

Or

$$F = \frac{\text{Variance between samples}}{\text{Variance within samples}}$$

## CHAPTER IV

### Data Presentation and Analysis

#### 4.1 Presentation, Analysis and Interpretation of Secondary Data

For the purpose of study and analysis, secondary and primary data are used. Based upon the data, interpretation and analysis are done for findings and conclusion. All the theoretical concept of Investment is mentioned in the above chapter, which may be enough for the theoretical idea. Therefore, here, only quantitative analysis are described, which is related to the investment pattern and their composition. For this purpose, the trend analysis 'F' test, Mean, Standard Deviation and Coefficient of Variation are used and for comparison various ratio analysis are computed which gives the actual proportion to the particular insurance company. This evaluation chapter is also separated into two parts as financial analysis and statistical analysis likewise evaluations of investment patterns.

##### 4.1.1 Analysis through Financial Tools

##### 4.1.1.1 Earning Per Shares (EPS) of Insurance Companies

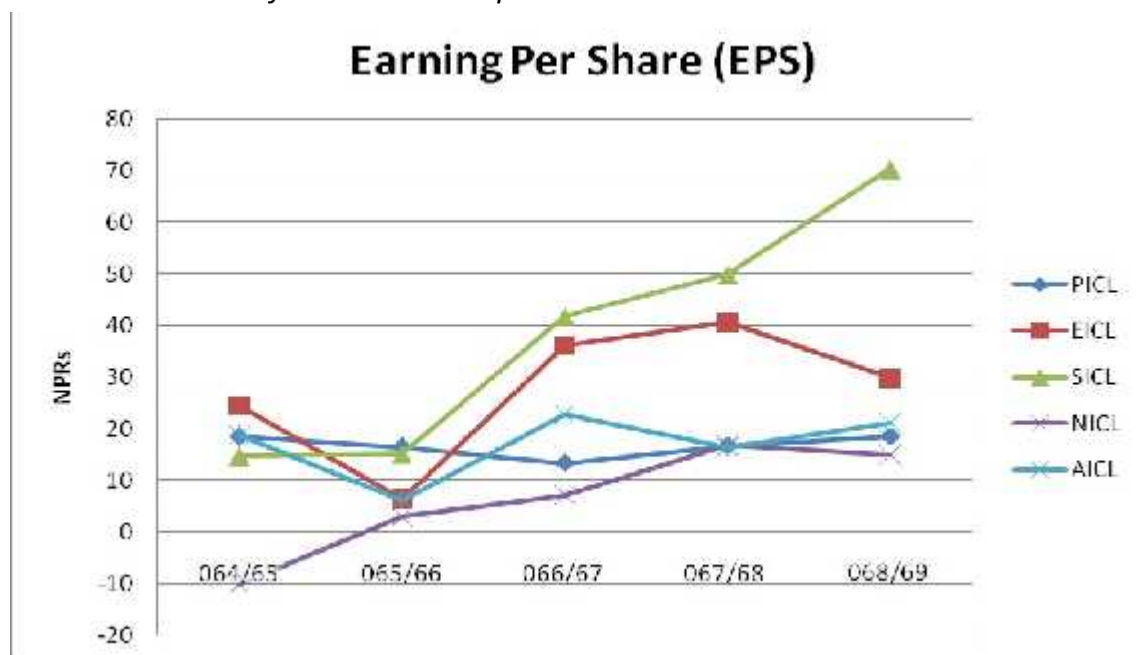
This ratio measures the net profit to number of shares of insurance companies that is earning per share (EPS). It shows the net income per share in a year of insurance company. Hence, from it the shareholder wealth can be measured. Increase in EPS increases the shareholder wealth and vice-versa.

Table No. 3 - EPS of Insurance companies

Insurance company	Fiscal Year				
	064/65	065/66	066/67	067/68	068/69
PICL	18.43	16.51	13.37	16.64	18.5
EICL	24.54	6.42	36.16	40.56	29.86
SICL	14.72	15.09	41.8	49.86	70.33
NICL	-10.03	2.97	7.23	16.9	14.89
AICL	18.76	6.27	22.86	16.35	21.11

Source: <http://www.sebon.gov.np/sebon/companies/oInsurancen.html>

Chart No. 1 - EPS of Insurance Companies



From the above table and chart, we can find out the trend and position of earning per share of sample insurance companies. All companies have fluctuated nature of EPS. Premier insurance has EPS of 18.43 in 064/65 that decrease to 16.51 in 065/66 and 13.37 in 066/67 and it increase to 16.64 in 067/68 and 18.5 in 068/69. Everest insurance has fluctuating nature of EPS as it decreases from 24.54 in 064/65 to 6.42 in 065/66 and increase to 36.16 in 066/67 and 40.56 in 067/68 and again decreased to 29.86 in 068/69. Sagarmatha insurance has totally increasing trend of EPS from 14.72 in 064/65 to 70.33 in 068/69. Neco insurance has also increasing nature of EPS as it increases from -10.03 in 064/65 to 16.9 in 067/68 and decrease to 14.89 in 068/69. Alliance insurance has fluctuating nature of EPS. Its EPS starts decrease from 18.76 in 064/65 to 6.27 in 065/66 and increase to 22.86 in 066/67, again decrease to 16.35 in 067/68 and then increase to 21.11 in 068/69. Sagarmatha insurance has highest EPS of 70.33 in 068/69 while Neco insurance has the lowest -10.03 in 064/65. Sagarmatha and Everest insurance have comparatively higher EPS while Premier and Alliance has medium EPS and Neco Insurance has the lowest EPS. Since, EPS directly depends on the profit made by the company; Neco insurance is unable to earn more return, which may be due to low premium collection or lower investment to premium ratio or poor policy on premium collection or investment pattern.

#### 4.1.1.2 Market Price per Share (MPS) of Insurance Companies

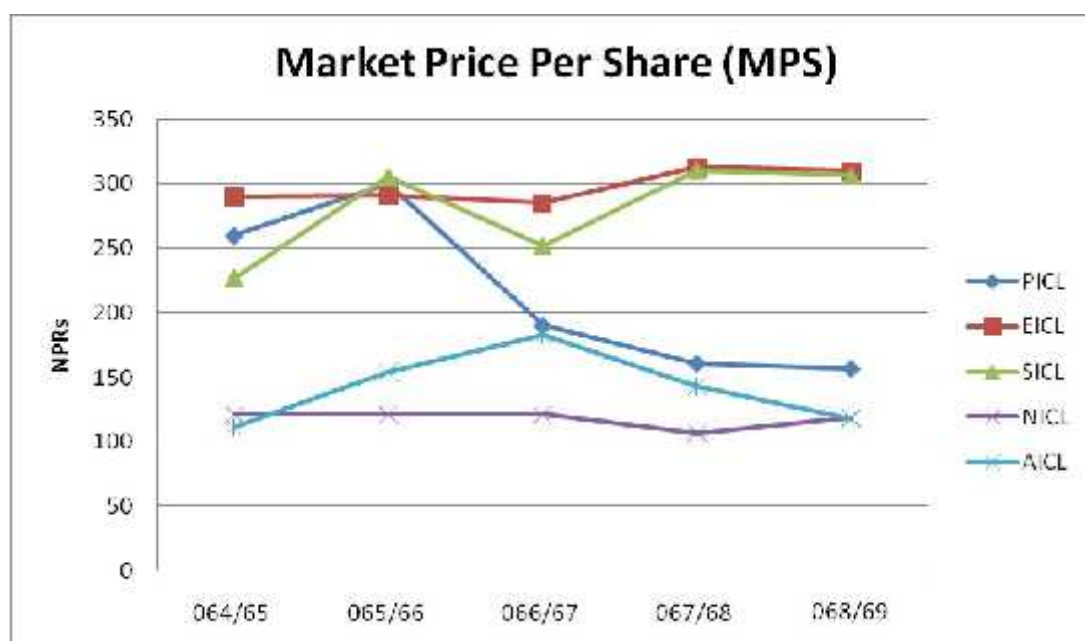
This ratio measures the current share value of insurance companies that is market price per share (MPS). It shows the net worth of share in a year of insurance company. Hence, from it the shareholder wealth can be measure. Increase in MPS increases the shareholder wealth and vice-versa.

Table No. 4 - MPS of Insurance Companies

Insurance company	Fiscal Year				
	064/65	065/66	066/67	067/68	068/69
PICL	260	300	190	161	157
EICL	290	291	285	313	310
SICL	227	306	252	311	307
NICL	121	121	121	107	118
AICL	111	154	183	143	118

Source: <http://www.sebon.gov.np/sebon/companies/oInsurancen.html>

Chart No. 2 - MPS of Insurance Companies



From the above table and chart, we can find out the trend and position of MPS of sample insurance companies. All companies have almost fluctuated nature of MPS. Premier insurance has MPS of 260 in 064/65 that increase to 300 in 065/66 and it

gradually decreased from 190 in 066/67 to 161 in 067/68 and again 157 in 068/69. Everest insurance has fluctuating nature of MPS as it has MPS of 290 in 064/65 and 291 in 065/66, 285 in 066/67, 313 in 067/68 and 310 in 068/69. Sagarmatha insurance also has fluctuate trend of MPS, as it increase from 227 in 064/65 to 306 in 065/66 and began to decrease to 252 in 066/67 and reach 311 in 067/68 and then 307 in 068/69. Neco insurance has constant nature of MPS for few years as it is constant to 121 from 064/65, 065/66 and 066/67. Then it increased to 107 in 067/68 and 118 in 068/69. Alliance insurance has increase and decrease nature of MPS. Its MPS increased from 111 in 064/65, 154 in 065/66 and 183 in 066/67, then decreased from 143 in 067/68 to 118 in 068/69. Everest insurance has highest MPS of 313 in 067/68 while Neco insurance has the lowest of 107 in the fiscal year of 067/68. Everest and Sagarmatha insurances have comparatively higher MPS, greater than 200 while Premier Insurance has moderate MPS. Lastly, Neco & Alliance has lower MPS below than 200. Since, MPS directly depends on the profit and performance made by the company; Neco and Alliance insurance are unable to increase their market price per share due to various reasons.

#### **4.1.1.3 Evaluation of Investment Pattern and Composition**

Investment may be defined as the purchase by an individual or institutional investor of a financial or real asset that produces a return proportional to the risk assumed over some future investment period. Investment is the current commitment of the savings that compensates for the time involved, the expected rate of inflation and uncertainty involved. To stare in other words, an investment is a vehicle into which funds can be placed with the expectation that they will generate positive return and their value will be preserved or increased. Here, quantitative analysis is mentioned which are related to the investment and investment pattern.

Analysis and evaluation of investment portfolio and its management could be done efficiently through statistical and financial tools. Here, investment analysis is calculated through trend analysis and F-test. For the comparison of all respective matter of investment, the mean standard deviation and coefficient of variation is also used. Likewise, to evaluate the return on respective portfolios and investment ratio analysis is used. To attain the objective of study purpose all the concerned studies and analysis are used. This evaluation chapter purpose moves along with studies objectives therefore only those ratios are calculated and analyzed, are very important to evaluate in investment policy and pattern, which are mentioned below.

#### 4.1.1.3.1 Return on Total Investment

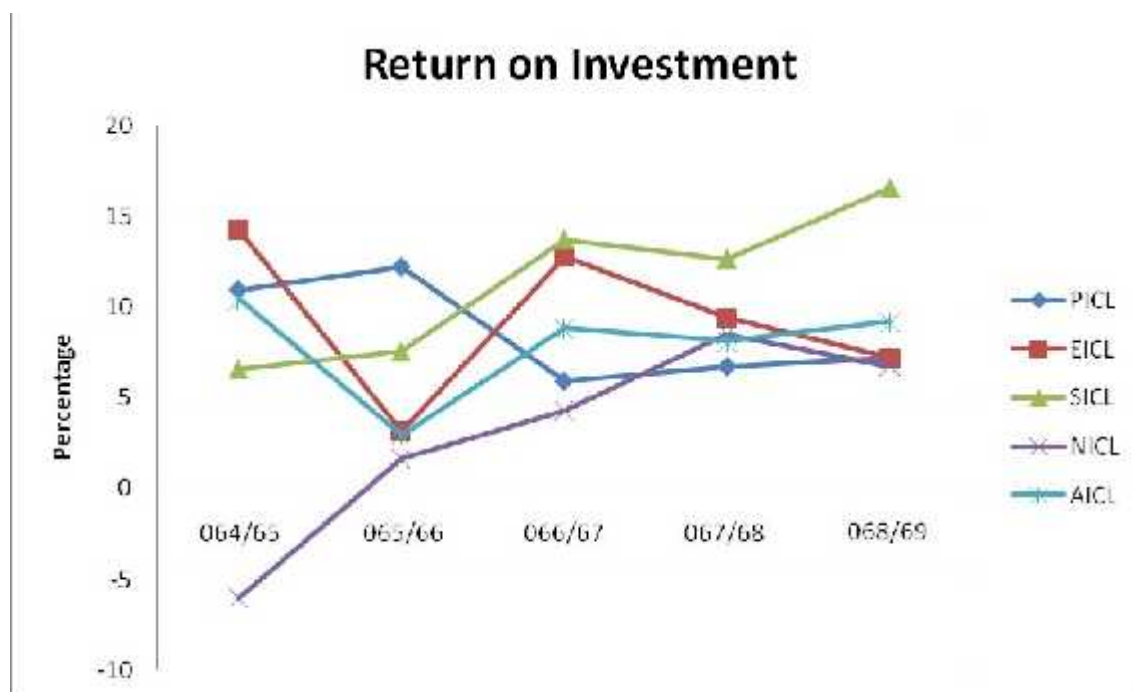
This ratio shows the performance of the investment and it indicates whole investment portfolio performance. Here the total investment consist the long term investment and short term investment and the net income carried from profit and loss account. For meeting the objective, every financial institution has to invest capital and get certain return on it. Return on investment shows the success and failure of company. It is the rate of average investment income. It shows the proportion with respect to investment. It is calculated as;

Table No. 5 – Return on Total Investment

Insurance company	Fiscal Year					Mean	S.D.	CV
	064/65	065/66	066/67	067/68	068/69			
PICL	10.96	12.24	5.92	6.74	7.23	8.62	2.50	0.29
EICL	14.30	3.12	12.76	9.40	7.18	9.35	3.99	0.43
SICL	6.57	7.56	13.73	12.66	16.56	11.42	3.79	0.33
NICL	-6.06	1.66	4.27	8.51	6.75	3.03	5.10	1.68
AICL	10.46	2.91	8.80	8.08	9.17	7.89	2.60	0.33

Source: Appendix - III

Chart No. 3 - Return on Total Investment



The table and chart show that the return on investment varies between companies differ from year to year. The lowest return, -6.06 %, was of Neco insurance in 064/65

and the highest was 16.56 %, of Sagarmatha insurance in 068/69. The net return of all companies is in fluctuating nature. Premier insurance has return of 10.96 in 064/65 then it raise to 12.24 in 065/656, it fell to 5.92 in 066/67 and again raised to 6.74 in 067/68 and 7.23 in 068/69. Everest insurance had return of 14.30 in 064/65 and fell to 3.12 in 065/66 and again rose to 12.76 in 066/67, and gradually fell to 9.40 in 067/68 and 7.18 in 068/69. Sagarmatha has almost increasing rate of return of 6.57 in 064/65, 7.56 in 065/66, 13.73 in 066/67 and it fell to 12.66 in 067/68 and again raised to 16.56 in 068/69. Neco has also almost increasing rate of return on investment as return rose from -6.06 in 064/65, 1.66 in 065/66, 4.27 in 066/67 8.57 in 067/68 and it fell to 6.75 in 068/69. Alliance has also fluctuating nature as it had 10.46 in 064/65, then fell to 2.91 in 065/66, again increase to 8.80 in 066/67, then fell to 8.08 in 067/68 and again rose to 9.17 in 068/69.

From the mean value calculate, it is shown that the return of all companies is not satisfied as it varies from 3.03 to 11.42. The standard deviation shows that there is low variation in return. Coefficient of variation show that except Neco insurance has low return in high risk while other companies have higher return in moderate risk.

Thus from the calculated and analyzed data, it is clear that the net profit on investment was not satisfied. Insurance companies should invest on the sector that is secure and give more return.

#### 4.1.1.3.2 Investment to Total Premium Collection

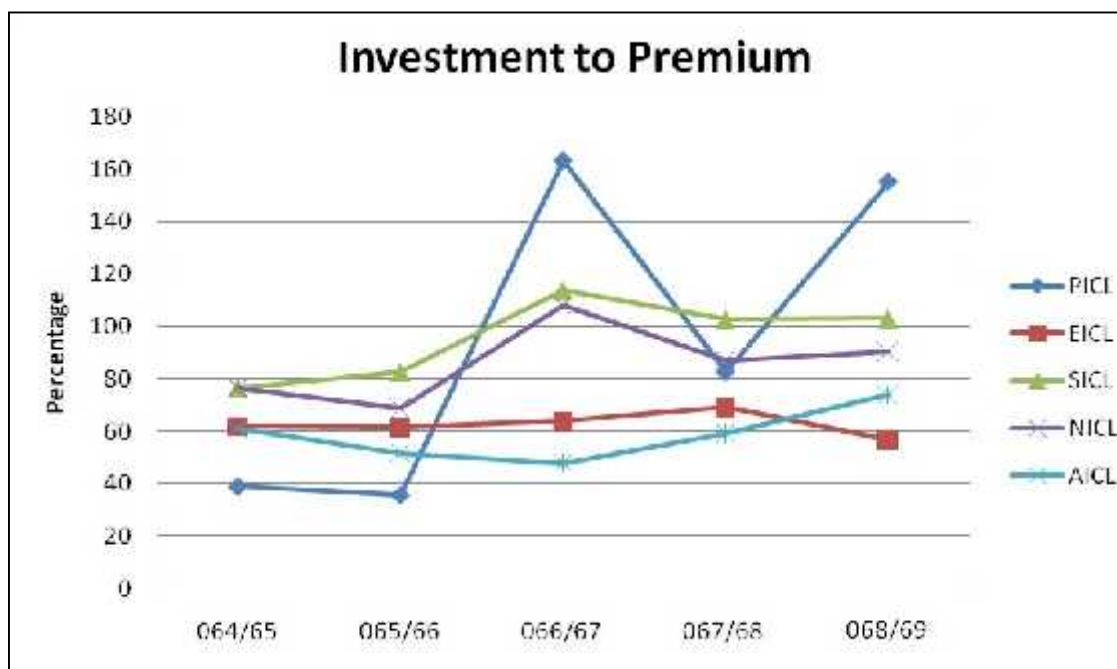
It is the rate of average investment to premium collection. This ratio measures the investment ratio in percentage. It helps to know what amount of premium collected is invested in different sectors in aggregate. It is calculated as:

*Table No. 6 - Investment to Premium*

Insurance company	Fiscal Year					Mean	S.D.	CV
	064/65	065/66	066/67	067/68	068/69			
<b>PICL</b>	39.09	35.90	163.22	82.73	155.21	95.23	54.86	0.58
<b>EICL</b>	62.12	61.50	63.77	69.12	56.88	62.68	3.95	0.06
<b>SICL</b>	76.32	82.63	113.67	102.62	102.96	95.64	13.93	0.15
<b>NICL</b>	76.58	68.73	108.03	86.84	90.37	86.11	13.36	0.16
<b>AICL</b>	61.04	51.93	48.04	59.20	73.91	58.82	8.90	0.15

*Source: Appendix- III*

Chart No. 4 - Investment to Premium



The above table shows the investment to total premium ratio of insurance companies. The table shows the ratio of investment to premium ratio of all companies fluctuated. Premier Insurance company has highest as well as lowest investment ratio i.e. it has the investment of 39.09 in 064/65, 35.90 in 065/66 which is lowest investment, 163.22 066/67 which is highest investment, 82.73 in 067/68, and it rose 155.291 in 068/69. Everest Insurance has 62.12 in 064/65, it fell to 61.50 in 065/66, and rose to 63.77 in 066/67, 69.12 in 067/68 and again fell 56.88 in 068/69. Sagarmatha Insurance increased its investment from 76.32 in 064/65, 82.63 in 065/66, 113.67 in 066/67 and decreased to 102.62 in 067/68 and again slightly increased to 102.96 in 068/69. Neco Insurance has 76.58 in 064/65, 68.73 in 065/66, 108.03 in 066/67, 86.84 in 067/68 and 90.37 in 068/69. Alliance Insurance has 61.04 in 064/65, 51.93 in 065/66, 48.04 in 066/67, 59.20 in 067/68 and 73.91 in 068/69.

The standard deviation and coefficient of variation of insurance companies has fluctuated from 3.95 to 54.86 and 0.06 to 0.58 respectively. Everest insurance has low SD and CV of 3.95 and 0.06 respectively, while Premier insurance has high SD and CV of 54.86 and 0.58 respectively. It means Everest has low variation at low risk and Premier has high variation with high risk.

From the investment policy published by insurance board in 2060, it has been stated that all insurance companies must keep 50% of the collected premium amount in

saving fund for payment of claim. So, companies could invest only 50% of their premium collection and other investment through shares and capital.

#### 4.1.1.3.3 Investment on Government Saving Bond to Total Investment Ratio

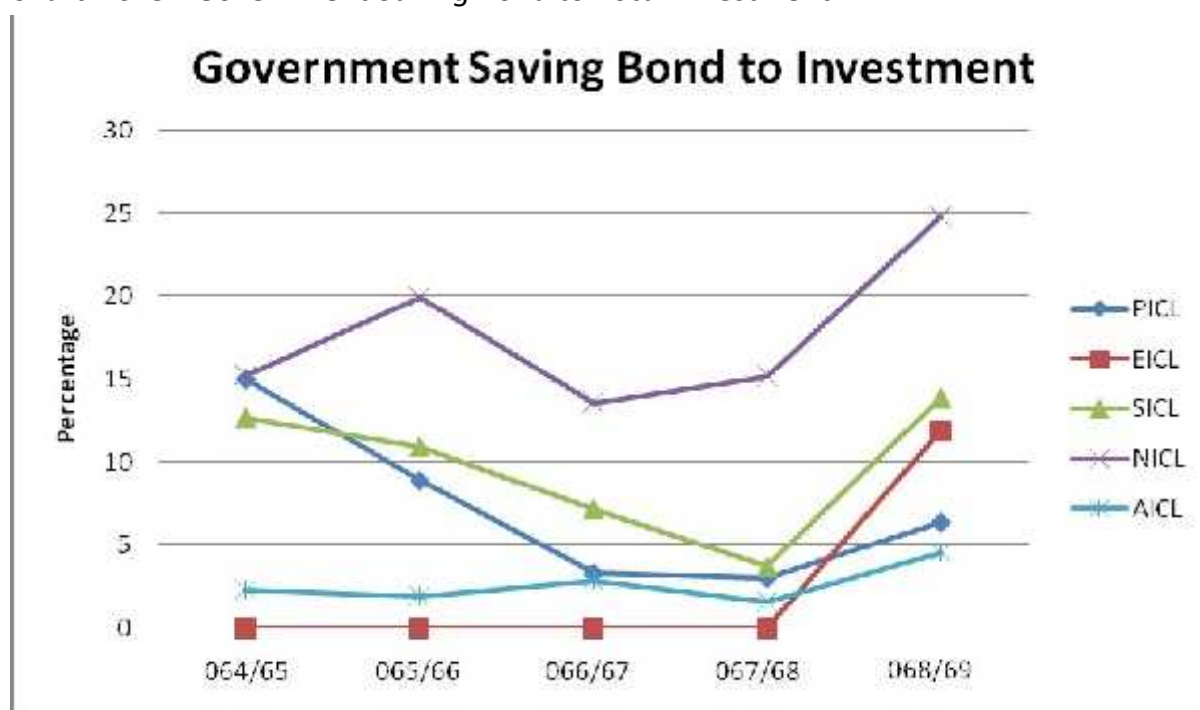
This ratio is the average government saving bond investment. It shows the proportion of investment on government saving bond. The entire insurer invests their fund making portfolio planning. Among the various areas of investment portfolio, it is the secured investment instruments. In this, the companies have not to bear risk in their investment. This investment has low and certain return. The ratio measures the percentage of investment of particular insurer in government saving bond. This ratio is calculated as:

Table No. 7 – Government Saving to Total Investment

Insurance company	Fiscal Year					Mean	S.D.	CV
	064/65	065/66	066/67	067/68	068/69			
PICL	14.97	8.88	3.28	3.00	6.37	7.30	4.40	0.60
EICL	0.00	0.00	0.00	0.00	11.87	2.37	4.75	2.00
SICL	12.67	10.95	7.18	3.76	13.85	9.68	3.72	0.38
NICL	15.22	19.97	13.58	15.18	24.81	17.75	4.13	0.23
AICL	2.32	1.94	2.91	1.62	4.58	2.67	1.05	0.39

Source: Appendix – III

Chart No. 5 - Government Saving Bond to Total Investment



Above table shows the average percentage of government bond in total investment. According to table, Premier Insurance has 14.97 in 064/65 and decreased to 8.88 in 065/66, 3.28 in 066/67, 3.00 in 067/68 and finally increased to 6.37 in 068/69. Everest Insurance has not invested for last four years but it has invested 11.87 in 068/69. Sagarmatha Insurance has decreased its investment as it has 12.67 in 064/65, 10.95 in 065/66, 7.18 in 066/67, 3.76 in 067/68 and rose to 13.85 in 068/69. Neco insurance has fluctuated trend as it has 15.22 in 064/65, 19.97 in 065/66, 13.58 in 066/67, 15.18 in 067/68 and finally 24.81 in 068/69. Alliance Insurance has also fluctuated nature as it has 2.32 in 064/65, 1.94 in 065/66, 2.91 in 066/67, 1.62 in 067/68 and 4.58 in 068/69.

The standard deviation and coefficient of variation of all insurance companies are almost in same range. The low value of standard deviation and coefficient of variation shows the investment in government saving bond has low or little variation and low risk. Everest Insurance has moderate risk because it hasn't invested in Government saving bond for 4 years.

#### 4.1.1.3.4 Investment on Fixed Deposit to Total Investment Ratio

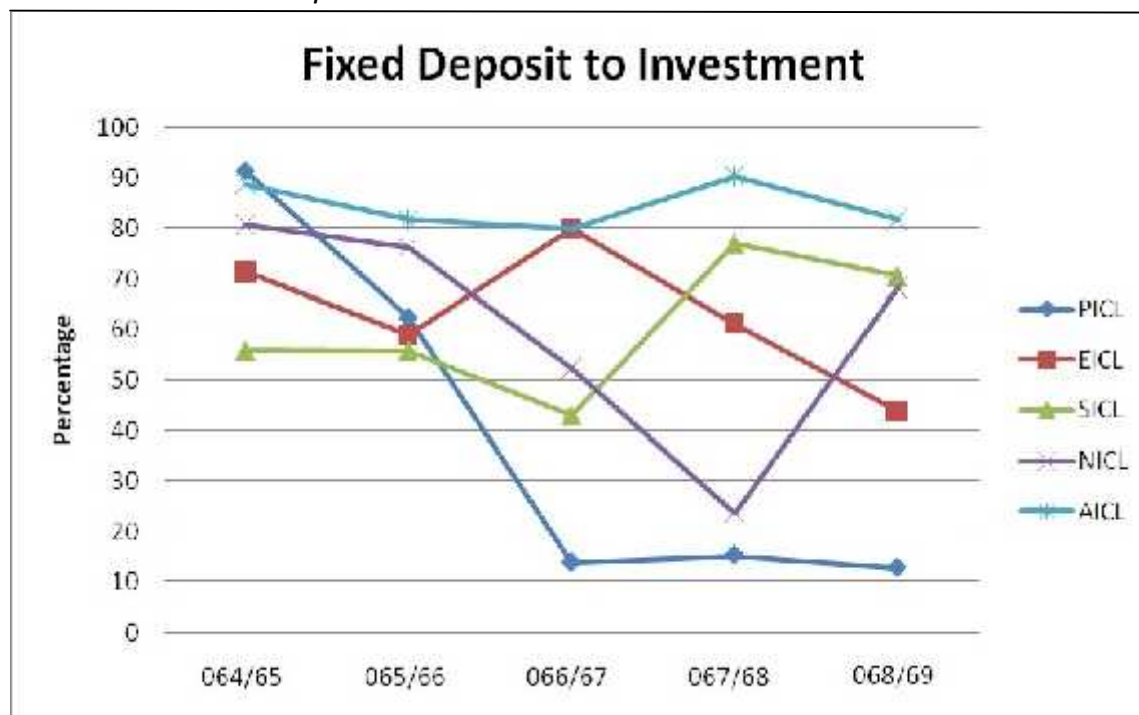
The banks fixed deposit is the main investment sector of Nepalese insurer. The entire insurers deposit their fund in fixed deposits. The investment on bank fixed deposits to total investment is the average of investment on fixed deposit. It is the secured investment sector therefore, almost all insurer invest their higher fund in fixed deposits. This is calculated as;

Table No. 8 - Fixed Deposit to Total Investment

Insurance company	Fiscal Year					Mean	S.D.	CV
	064/65	065/66	066/67	067/68	068/69			
PICL	91.39	62.34	13.92	15.38	12.86	39.18	32.12	0.82
EICL	71.41	58.83	80.06	61.22	43.74	63.05	12.27	0.19
SICL	55.98	55.83	43.08	77.07	70.60	60.51	12.02	0.20
NICL	80.86	76.42	52.33	23.72	68.29	60.32	20.73	0.34
AICL	88.90	81.65	79.87	90.46	81.85	84.55	4.28	0.05

Source: Appendix-III

Chart No. 6 - Fixed Deposit to Total Investment



Above table shows that, all insurance companies have almost highest percentage of investment in fixed deposit. Premier insurance has highest as well as lowest investment in fixed deposit as it has 91.39 in 064/65, 62.34 in 065/66, 13.92 in 066/67, 15.38 on 067/68 and 12.86 in 068/69. Everest insurance has 71.41 in 064/65, 58.83 in 065/66, 80.06 in 066/67, 61.22 in 067/68 and 43.74 in 068/69. Sagarmatha insurance has 55.98 in 064/65, 55.83 in 065/66, 43.08 in 066/67, 77.07 in 067/68 and 70.60 in 068/69. Neco Insurance has 80.86 in 064/65, 76.42 in 065/66, 52.33 in 066/67, 23.72 in 067/68, and 68.29 in 068/69. Alliance Insurance has 88.90 in 064/.65, 81.65 in 065/66, 79.87 in 066/67, 90.46 in 067/68 and 81.85 in 068/69.

The standard deviation and coefficient of variation values of premier insurance is 32.12 & 0.82, Everest insurance is 12.27 & 0.19, Sagarmatha insurance is 12.02 & 0.20, Neco insurance is 20.73 & .034 and Alliance insurance is 4.28 & 0.05. These value shows that, Alliance insurance has low variation in fixed deposit and Premier insurance has highest variation. But all insurance has very low value which proof that there is low variation and risk in fixed deposit investment.

The greater percentage of fixed deposit investment shows that till now insurance companies are not investing in other sector having high return and high risk. For the development and growth, these companies should invest on other secure and high return sector also.

#### 4.1.1.3.5 Investment on Emergency investment Fund to Total Investment Ratio

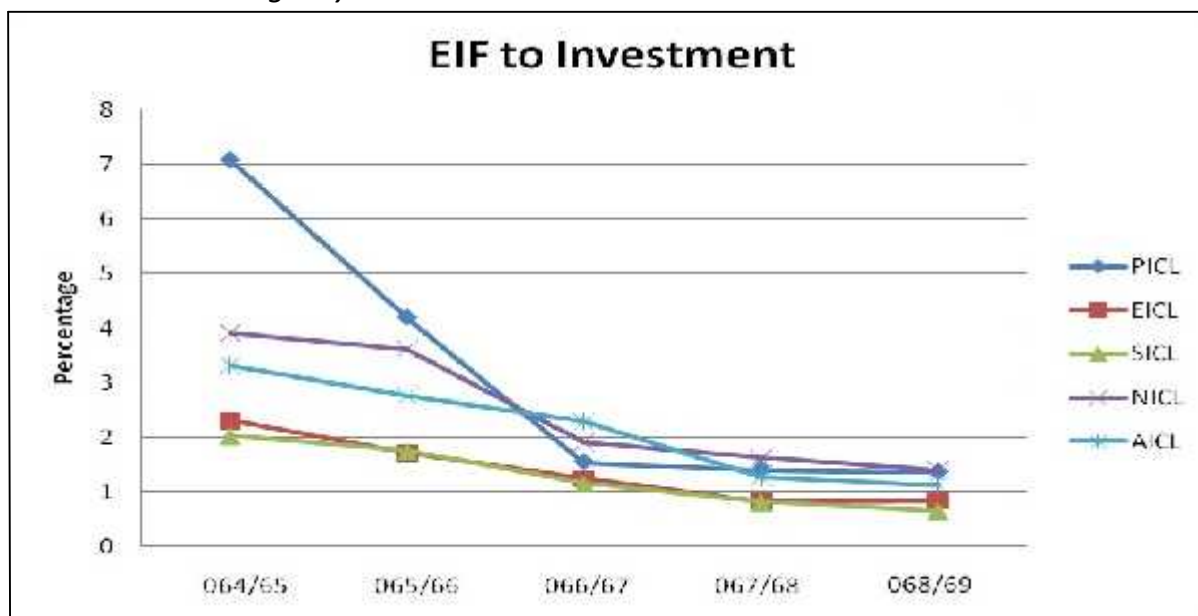
It is the average of investment of emergency investment fund to investment. It includes emergency fund and amount of insurance pool. All insurance companies have same amount of Rs. 35,71,000/- in this fund. It is calculated as;

Table No. 9 - Emergency Investment Fund to Total Investment

Insurance company	Fiscal Year					Mean	S.D.	CV
	064/65	065/66	066/67	067/68	068/69			
PICL	7.08	4.20	1.55	1.42	1.37	3.12	2.25	0.72
EICL	2.31	1.71	1.24	0.82	0.85	1.39	0.56	0.41
SICL	2.03	1.75	1.15	0.81	0.65	1.28	0.53	0.42
NICL	3.92	3.62	1.92	1.63	1.40	2.50	1.06	0.42
AICL	3.32	2.77	2.29	1.28	1.13	2.16	0.84	0.39

Source: Appendix-II

Chart No. 7 - Emergency Investment Fund to Investment



All insurance companies have same amount of investment on this sector. The different on figure is due to the different on total investment amount from companies to companies in different fiscal year. All the insurance companies have decreasing nature of EIF investment due change in the total investment. Premier insurance has 7.08 in 064/65, 4.20 in 065/66, 1.55 in 066/67, 1.42 in 067/68, and 1.37 in 068/69. Everest Insurance has 2.31 in 064/65, 1.71 in 065/66, 1.24 in 066/67, 0.82 in 067/68 and 0.85 in 068/69. Sagarmatha Insurance has 2.03 in 064/65, 1.75 in

065/66, 1.15 in 066/67, 0.81 in 067/68 and 0.65 in 068/69. Neco Insurance has 3.92 in 064/65, 3.62 in 065/66, 1.92 in 066/67, 1.63 in 067/68, and 1.40 in 068/69. Alliance Insurance has 3.32 in 064/65, 2.77 in 065/66, 2.29 in 066/67, 1.28 in 067/68 and 1.13 in 068/69.

The standard deviation and coefficient shows that there is low variation in investment on emergency or insurance pool on total investment. From the appendix table of investment, we can see that all insurance companies have same amount on this head. The difference in ratio is due to different on total investment amount.

#### 4.1.1.3.6 Investment on Share to Total Investment Ratio

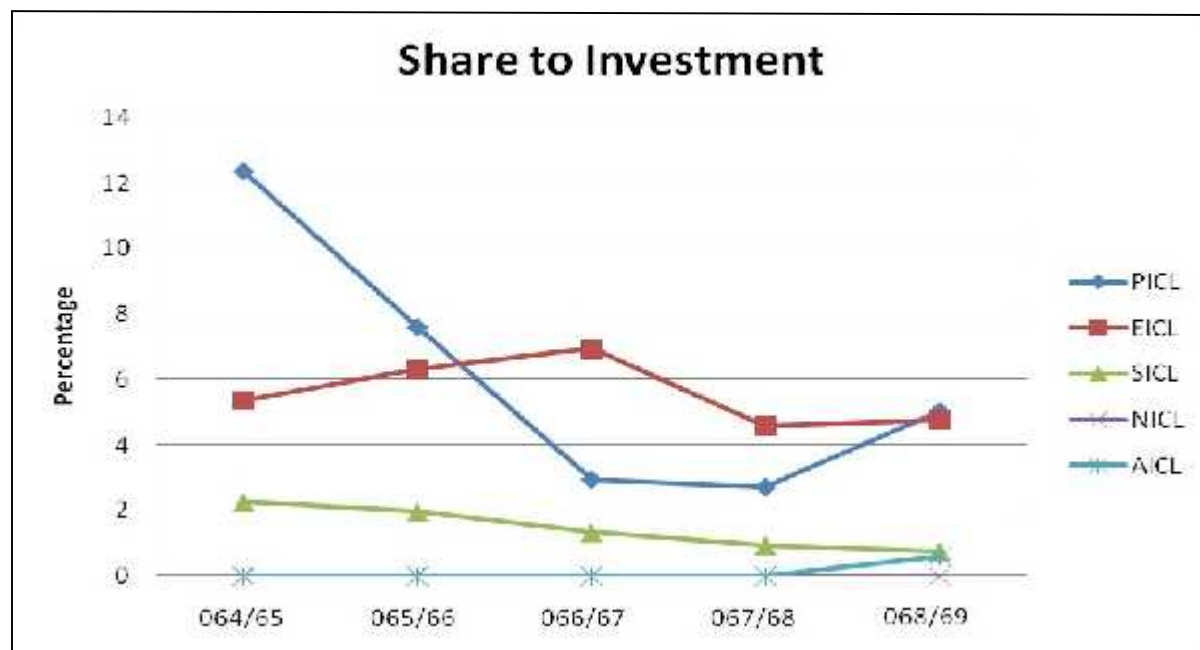
It is an average of share investment. This ratio shows the share investment of different company's share in total investment of particular insurer and insurance industries as well. It is calculated as;

Table No. 10 - Share investment to Total investment

Insurance company	Fiscal Year					Mean	S.D.	CV
	064/65	065/66	066/67	067/68	068/69			
PICL	12.34	7.59	2.94	2.71	5.02	6.12	3.57	0.58
EICL	5.36	6.30	6.94	4.58	4.78	5.59	0.90	0.16
SICL	2.25	1.95	1.33	0.93	0.75	1.44	0.58	0.40
NICL	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
AICL	0.00	0.00	0.00	0.00	0.58	0.12	0.23	2.00

Source: Appendix – III

Chart No. 8 - Share Investment to Total Investment



The above table and chart shows that Neco insurance has not invested in share while Alliance has very little percentage in share that is only 0.58%. Other insurance has almost decreasing nature in investment in share but with little variation it's because current share price has been going down from last few years. Premier insurance has highest value of 12.34% in 064/65, and then it decreased to 7.59 in 065/66, 2.94 in 066/67, 2.71 in 067/68 and increased to 5.02 in 068/69. Everest insurance has 5.36 in 064/65, 6.30 in 065/66, 6.94 in 066/67, 4.58 in 067/68, and 4.78 in 068/69. Sagarmatha Insurance has 2.25 in 064/65, 1.95 in 065/66, 1.33 in 066/67, 0.93 in 067/68 and 0.75 in 068/69.

The standard deviation and coefficient of variation of different insurance are also in low values which tell that there is low variation in share investment ratio. Except Alliance Insurance hasn't invested in share for 4 years and it has high variance.

#### 4.1.1.3.7 Interest Earned on Total Investment Ratio

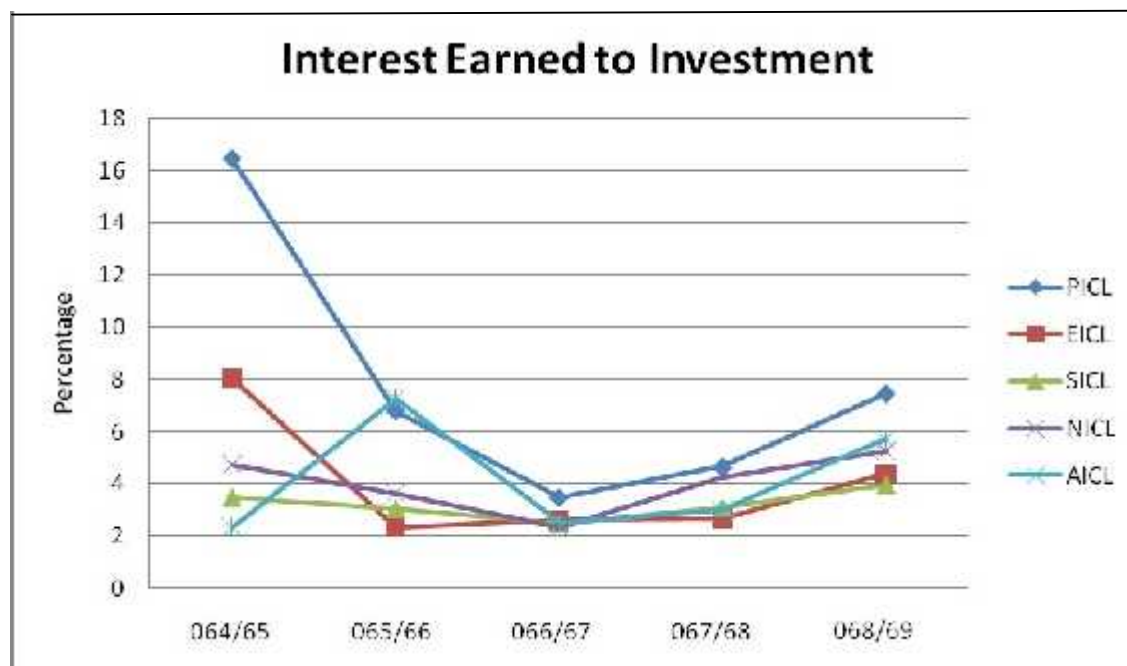
It is an average of interest earned on total investment. This ratio represents the return from interest in total investment. Total interest earned to total investment ratio reflects the extent to which insurer is success to earn interest as income on total investment. This ratio actually reveals the earning capacity of insurance companies by investing its all collected premium and other capital fund. Higher the ratio higher will be the income as interest. For getting the higher return from investment as interest companies, have to deposit their fund in fixed deposit or to grant loan as high percentage of rate of interest. However, as they investment all their fund in deposit or loan they are not able to investment in other sector of portfolio, which is not good policy. So all the companies should first make portfolio planning and then only invest their fund. This ratio is calculated as;

*Table No. 11 - Interest Earned on Total Investment*

Insurance company	Fiscal Year					Mean	S.D.	CV
	064/65	065/66	066/67	067/68	068/69			
<b>PICL</b>	16.45	6.79	3.48	4.66	7.45	7.77	4.57	0.59
<b>EICL</b>	8.04	2.35	2.62	2.70	4.39	4.02	2.13	0.53
<b>SICL</b>	3.48	3.08	2.49	3.11	3.98	3.23	0.49	0.15
<b>NICL</b>	4.76	3.67	2.35	4.28	5.28	4.07	1.01	0.25
<b>AICL</b>	2.34	7.29	2.51	2.99	5.73	4.17	1.98	0.48

*Source: Appendix- III*

Chart No. 9 - Interest Earned on Total Investment



Above table and chart, show the return on deposit or loan, i.e. interest on investment ratio. From the table it is clear that none of the insurance companies is in good stand in earning form interest, as the highest percentage of interest ratio is of Premier insurance, which was 16.45 in 064/65. The lowest interest earned, 2.34%, is by Alliance insurance in 064/65. All the companies have little variation in interest earned. Premier Insurance has 6.79 in 065/66, 3.48 in 066/67, 4.66 in 067/68 and 7.45 in 068/69. Everest Insurance has 8.04 in 064/65, 2.35 in 065/66, 2.62 in 066/67, 2.70 in 067/68 and 4.39 in 068/69. Sagarmatha Insurance has 3.48 in 064/65, 3.08 in 065/66, 2.49 in 066/67, 3.11 in 067/68 and 3.98 in 068/69. Neco Insurance has 4.76 in 064/65, 3.67 in 065/66, 2.35 in 066/67, 4.28 in 067/68 and 5.28 in 068/69. Alliance Insurance has 2.34 in 064/65, 7.29 in 065/66, 2.51 in 066/67, 2.99 in 067/68 and 5.73 in 068/69.

The mean value of all insurance companies is almost same with little different except Premier Insurance. The lowest value, 3.23%, is of Sagarmatha and highest value, 7.77%, is of Premier. Everest has 4.02, Neco has 4.07 and Alliance has 4.17 of mean value. Sagarmatha insurance has lowest standard deviation of 0.49, coefficient of variation of 0.15. Premier insurance has highest SD of 4.57 and has highest CV of 0.59.

#### 4.1.2 Statistical Analysis

Uses of financial tools only are not considerable for analysis and evaluation of this study. So, some statistical analysis tools should also to use for analysis. Under this term various statistical mathematics like, Trend analysis, coefficient of correlation and F-test are used for the purpose to find out tendency, relation and distinguish between investment patterns. For this purpose, following measurers are analyzed.

##### 4.1.2.1 Trend Analysis

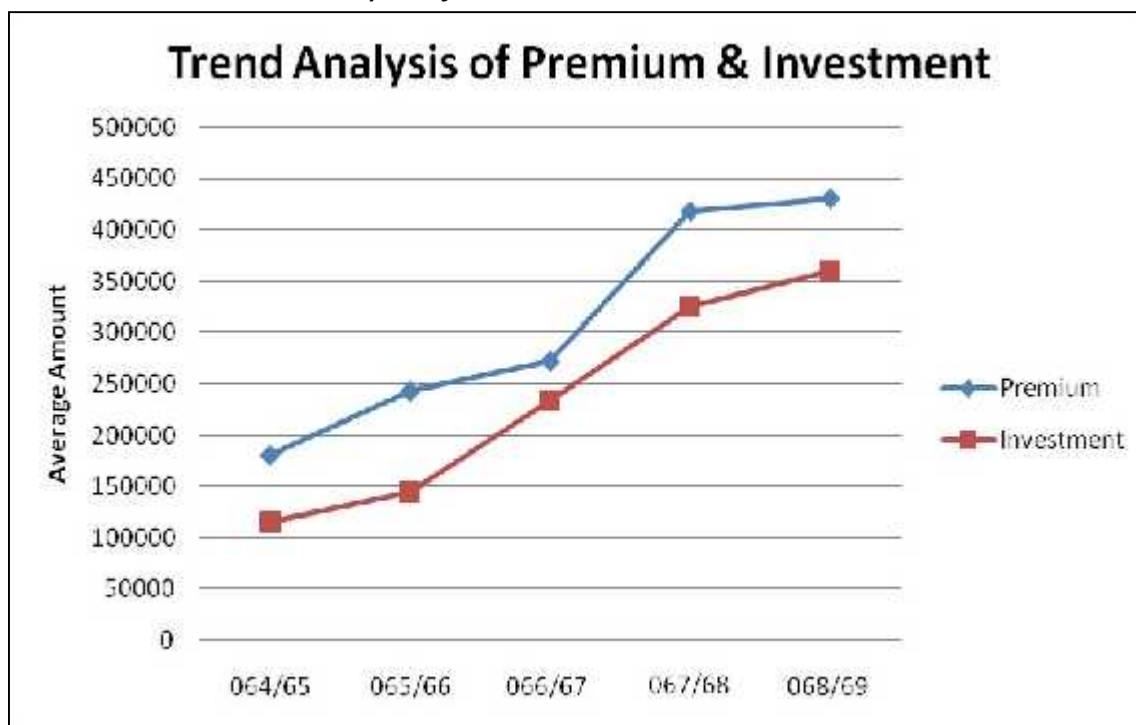
Variation of quantities with time can be systematically studied and analyzed by presenting on the graph is called trend analysis or time series analysis. It enables researcher to forecast the future behavior of the variables under study, changes in the values of different variables and past behavior of a variable in trend analysis.

Here, for trend analysis, average of premium collection and total investment, in million, of different insurance are taken.

*Table No. 12 – Trend Analysis of Premium Collection and Investment Pattern*

Account Types	Fiscal Year				
	064/65	065/66	066/67	067/68	068/69
Premium	180663	242880	272193	418151	430492
Investment	115892	144974	233977	325744	360493

Chart No. 10 – Trend Analysis of Premium and Investment



From the above table and chart, it is clear that the amount of investment is less than premium collection even in the beginning year. Amount on premium collection is almost same figure. Both premium and investment amount has been increased accordingly from year to year. The table shows that the average collection of premium and its investment of insurance companies have been going up from 180.663 million in 064/65 to 430.492 million in 068/69 and 115.892 million in 064/65 to 360.493 in 068/69 respectively.

From the above trend of premium collection and investment pattern we can forecast that the amount on investment will increase accordingly and investment will also be made on new area. Due to lack of proper information about insurance among customers, poor marketing and unhealthy competition the amount of premium collection may remain constant or slightly fail or rise in coming year.

#### 4.1.2.2 Correlation and Determination Analysis

By this statistical tool, the degree of relationship between two variables is identified. In other words, this tool is used to describe the degree to which one variable is linearly related to other variables. Two or more variables are said to be correlated if change in the value of one variable appears to be linked with the change in the other

variables. The correlation analysis refers the closeness of the relationship between the variables. It helps to determine whether;

- i) A positive or a negative relationship exists,
- ii) The relationship is significant or insignificant and
- iii) Establish causes and effects relation if any.

The statistical tools, correlation analysis is preferred in this study to identify the relationship between different investment and total investment, whether the relationship is significant or not. Detail calculation is shown in appendix IV and V.

The coefficient of determination ( $R^2$ ) is a measure of the degree of linear association or correlation between two variables, one of which is the independent variables and other, dependent variable, in case of this study, total investment is the independent variable and different investment is the dependent variable.

Generally, probable error is used to measure the significance of the relation between two variables. If the coefficient of correlation ( $r$ ) is greater than the  $6 \times PE$ , the relation is significant and if the ( $r$ ) is lower, the relation is insignificant. The significant relation shows the reliability of relation between the comparative terms of companies, while insignificant relation is the sign of existing of numerous errors.

#### **4.1.2.2.1. Correlation between Averages of Net Return and Investment of Insurance Companies**

Generally, the profit earned strongly depends upon the investment. If the investment amount is high then definitely profit will be high. In this, total investment is assumed as independent variable and net profit is dependent variable. This correlation gives the relation between the average net profit and investment of insurance companies in the particular year, which gives the overall sign of insurance companies of Nepal.

Coefficient of Correlation, $r$	0.9967
Coefficient of Determination, ( $R^2$ )	$(0.9867)^2 = 0.9934$
Probable Error (P.E)	0.002
$6 \times P.E = 6 \times 0.002$	$6 \times 0.002 = 0.012$

Source: Appendix IV A

Therefore, from the above-calculated data, we can conclude that, as the coefficient of correlation between return and investment of insurance companies is 0.9967, which is high degree of positive correlation. The coefficient of determination is 0.9934, means the variation in independent variable (investment) explains the variation in return and remaining by other factors. As coefficient of correlation is

higher than the value equal to 6 X PE, there is high degree of positive relationship between average net return and investment. Therefore, there is significant in relationship between average net return and investment.

#### 4.1.2.2.2 Correlation between Net Profit and Total Investment of Insurance Companies

This relation is between the premium collection and investment of particular insurance company within the five years period. Generally, the profit earned strongly depends upon the investment. If the investment amount is high then definitely profit will be high. In this, investment is assumed as independent variable and net profit is dependent variable.

*Table No. 13 - Correlation between Net Profit and Total Investment*

Insurance company	Coeff. of cor.	Relationship	R <sup>2</sup>	Probable Error	(r) 6 x P.E	Remarks
PICL	0.94	High degree +ve	0.89	0.03	0.19	Significant
EICL	0.70	High degree +ve	0.49	0.15	0.93	Insignificant
SICL	0.99	High degree +ve	0.97	0.01	0.05	Significant
NICL	0.94	High degree +ve	0.89	0.03	0.19	Significant
AICL	0.93	High degree +ve	0.86	0.04	0.25	Significant

*Source: Appendix V A, Research Calculation*

The table presents the relationship between investment and net profit earned by insurance companies. Premier, Everest, Sagarmatha, Neco and Alliance insurance companies have 0.94, 0.70, 0.99, 0.94 and 0.93 respectively. All the Insurance companies have high degree positive relation between investment and net profit. So, profit earned mostly depends on investment other thing remaining constant.

The coefficient of determination between investment and net profit earned of Premier, Everest, Sagarmatha, Neco and Alliance insurance companies are 0.89, 0.49, 0.97, 0.89 and 0.86 respectively. These calculation indicates the percentage of variation in independent variable (investment) explaining the variation in dependent variable (return) of insurance companies.

From the table, significant relationship exists in all the insurance companies except Everest Insurance. The significant relation shows the reliability of relationship between investments and net profit. Everest Insurance has insignificant relationship

between investment and net profit. It means there are some numerous errors, so the relationship shows insignificant.

#### 4.1.2.2.3 Correlation between Average of Premium Collection and Investment of Insurance Companies

This correlation gives the relationship between the average of premium collection and investment to all insurance companies in which average premium and investment are from the mean value of all companies in the particular year.

Coefficient of Correlation, r	0.9764
Coefficient of Determination, (R <sup>2</sup> )	(0.9764) <sup>2</sup> = 0.9534
Probable Error (P.E)	0.0141
6 X P.E = 6 X 0.0141	6 X 0.0141 = 0.0846

Source: Appendix IV B

Therefore, from the above-calculated data, we can conclude that, as the coefficient of correlation between average premium collection and investment of insurance companies is 0.9764, which is High degree of positive correlation. It means they have positive relation. The coefficient of determination is 0.9534, means the variation in independent variable (premium) explains 95% of the variation in investment and remaining by other factors. As coefficient of correlation is higher than the value equal to 6 X P.E, there is significance relationship between average premium collection and investment.

#### 4.1.2.2.4 Correlation between Premium Collection and Investment of Insurance Companies

This relation is between the premium collection and investment of particular insurance company within the five years period. It gives the correlation between premium collection and investment of companies through which we can compare and analysis its relationship.

Table No. 14 - Correlation between Premium and Investment

Insurance company	Coeff. of Cor.	Relationship	R <sup>2</sup>	Probable Error	(r) 6 x P.E	Remarks
PICL	0.26	Low degree +ve	0.07	0.28	1.69	Insignificant
EICL	0.97	High degree +ve	0.95	0.02	0.10	Significant

SICL	0.98	High degree +ve	0.96	0.01	0.08	Significant
NICL	0.95	High degree +ve	0.91	0.03	0.17	Significant
AICL	0.93	High degree +ve	0.87	0.04	0.24	Significant

*Source: Research Calculation*

The table presents the relationship between premium collection and investment of insurance companies. Premier, Everest, Sagarmatha, Neco and Alliance insurance companies have 0.26, 0.97, 0.98, 0.95 and 0.93 respectively. All the Insurance companies have high degree positive relation except Premier insurance between premium collection and investment. So, investment mostly depends on premium collection other thing remaining constant.

The coefficient of determination between premium collection and investment of Premier, Everest, Sagarmatha, Neco and Alliance insurance companies are 0.07, 0.95, 0.96, 0.91 and 0.87 respectively. These calculation indicates the percentage of variation in independent variable (premium) explaining the variation in dependent variable (investment) of insurance companies.

From the table, significant relationship exists in all the insurance companies except Premium Insurance. The significant relation shows the reliability of relationship between premium collection and investment. Premier Insurance has insignificant relationship between premium collection and investment. It means there are some numerous errors, so the relationship shows insignificant.

#### **4.1.2.3 Test of Hypothesis**

A hypothesis is a tentative generalization, the validity of which remains to be tested. According to Webster, a hypothesis is a proposition, condition or principle, which is assumed, perhaps without belief, in order to draw out its logical consequence and by this method to test its accord with facts that are known or may be determined.

Here, test of hypothesis is a process of testing of significance regarding the parameter of the population based on sample drawn from the population. We examine based on statistics, computed form the sample drawn, whether the sample drawn belongs to the parent population with certain specified characteristics or not.

Generally, following steps are followed for the test of hypothesis.

- ❖ Formulating hypothesis
  - ) Null hypothesis
  - ) Alternative hypothesis

- ❖ Computing the test statistic
- ❖ Fixing the level of significance
- ❖ Finding critical region
- ❖ Deciding two tailed or one tailed test
- ❖ Making decision

#### 4.1.2.3.1 “F” Test for Premium Collection

##### First Hypothesis

##### Null Hypothesis

$\mu_1 = \mu_2 = \mu_3 = \mu_4 = \mu_5$  there is no significant difference between total premium of Premier insurance, Everest insurance, Sagarmatha insurance, Neco insurance and Alliance insurance companies.

##### Alternative Hypothesis

$\mu_1 \neq \mu_2 \neq \mu_3 \neq \mu_4 \neq \mu_5$  there is significant difference between total premium of Premier insurance, Everest insurance, Sagarmatha insurance, Neco insurance and Alliance insurance companies.

##### Computation of Test Statistics ‘F’, from appendix VI A

Correction Factor (C.F.)	2,385,109.58
Total Sum of Square (SST)	625,804.47
Sum of Square (SSC)	288,252.43
Sum of Square (SSE)	337,552.05
$F_{0.05}$ (Calculated)	5.98
$F_{0.05}$ (Tabulated)	3.07

Source: Appendix VI A

##### Decision

The tabulated value of F at 5% level of significance or  $F_{0.05}$  (3, 21) is 3.07. Since the calculated value of  $F_{0.05}$  at 5% level is greater than tabulated value,  $H_0$  is rejected. There is significant difference between premium collections of all insurance companies.

From this test, we can conclude that the premium collection ratio also differs for all insurers. There is no equality in premium collection. For the differentiation of

premium, numerous factors play vital role, which may be transaction size, insurance policy, service system, agent commission etc.

#### 4.1.2.3.2 “F” Test for Investment

##### First Hypothesis

##### Null Hypothesis

$\mu_1 = \mu_2 = \mu_3 = \mu_4 = \mu_5$  there is no significant difference between total investment of Premier insurance, Everest insurance, Sagarmatha insurance, Neco insurance and Alliance insurance companies.

##### Alternative Hypothesis

$\mu_1 \neq \mu_2 \neq \mu_3 \neq \mu_4 \neq \mu_5$  there is significant difference between total investment of Premier insurance, Everest insurance, Sagarmatha insurance, Neco insurance and Alliance insurance companies.

##### Computation of Test Statistics ‘F’,

Correction Factor (C.F.)	1,394,963.67
Total Sum of Square (SST)	379,123.32
Sum of Square (SSC)	119,154.25
Sum of Square (SSE)	259,969.07
$F_{0.05}$ (Calculated)	3.21
$F_{0.05}$ (Tabulated)	3.07

Source: Appendix VI B

##### Decision

The tabulated value of F at 5% level of significance or  $F_{0.05}$  (3, 21) is 3.07. Since the calculated value of  $F_{0.05}$  at 5% level is greater than tabulated value,  $H_0$  is rejected. There is significant difference between total investments of all insurance companies.

From this test, we can conclude that the total investment ratio also differs for all

insurers. There is no equality in investment. For the differentiation of investment, numerous factors play vital role, which may be transaction size, investment policy, investment sectors, collection of premium etc.

#### 4.1.2.3.3 “F” Test for Net Profit

##### First Hypothesis

##### Null Hypothesis

$\mu_1 = \mu_2 = \mu_3 = \mu_4 = \mu_5$  there is no significant difference between net profit of Premier insurance, Everest insurance, Sagarmatha insurance, Neco insurance and Alliance insurance companies.

##### Alternative Hypothesis

$\mu_1 \neq \mu_2 \neq \mu_3 \neq \mu_4 \neq \mu_5$  there is significant difference between net profit of Premier insurance, Everest insurance, Sagarmatha insurance, Neco insurance and Alliance insurance companies

##### Computation of Test Statistics ‘F’,

Correction Factor (C.F.)	11,605.37
Total Sum of Square (SST)	9,837.89
Sum of Square (SSC)	3,960.63
Sum of Square (SSE)	5,877.27
$F_{0.05}$ (Calculated)	4.72
$F_{0.05}$ (Tabulated)	3.07

Source: Appendix VI C

## Decision

The tabulated value of F at 5% level of significance or  $F_{0.05}(3, 21)$  is 3.07. Since the calculated value of  $F_{0.05}$  at 5% level is greater than tabulated value,  $H_0$  is rejected. There is significant difference between net profits of all insurance companies.

From this test, we can conclude that the net profit ratio also differs for all insurers. There is no equality in net profit. For the differentiation of net profit, numerous factors play vital role, which may be transaction size, insurance policy, service system, agent commission, claim amount, premium collection, investment sector etc.

## Contribution of Insurance Business in GDP

Insurance companies are the major financial institutions. Integrated and speedy development of the country is possible only when a competitive insurance service reaches nooks and corners of the country. Insurance companies occupy quite an important place in the frame work of every economy 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 companies are capable of providing industrial finance, government finance or even personal finance. They provide different finance through their own investment policy pattern based upon their own corporate objective and nature of the line of insurance business. Therefore, insurance companies have played a vital role in increasing gross domestic product (GDP). The contribution of insurance in GDP is just like other financial institution and banks, so we cannot neglect its significant on the development of Nepalese economy system. The following table shows the GDP of insurance companies from fiscal year 061/062 to 068/069.

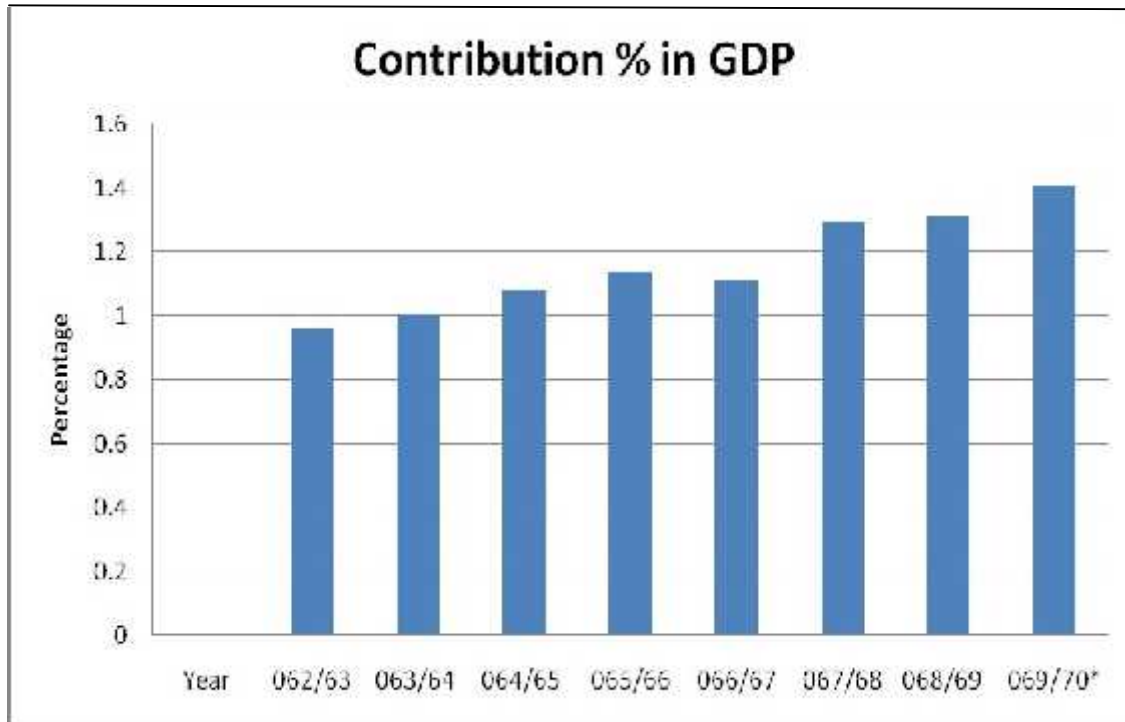
*Table No. 15 - GDP on Nepalese Economy by Insurance Companies*

<b>Fiscal Year</b>	<b>Premium (NRs. in Millions)</b>	<b>Premium as % of GDP</b>
062/63	5682.4	0.96
063/64	6643.8	1.01
064/65	7912.2	1.08
065/66	9341.8	1.14

066/67	11056.1	1.11
067/68	15262.7	1.30
068/69	17486.1	1.31
069/70*	19700.0	1.41
* Projected		

Source: Insurance board (<https://www.bsib.org.np>) 2013

Chart No. 11 - GDP by Insurance Companies



From the above presented table, it is clear that the amount contribution by insurance companies in GDP is increasing every year. In the fiscal year of 066/67, the percentage of GDP from insurance is decreased by some values. The GDP of insurance companies is 1.11% of total while it is increasing year by year and reached 1.31% in 068/69. After that, the insurance board has projected 1.41% of GDP by insurance in 069/70.

In conclusion, we can say that insurance companies are also the main source of GDP which cannot be neglected. From the trend of line graph, it is clear that its involvement in GDP will increase year by year.

### **Existing Problems for the Growth of Nepalese Insurance Companies**

It is obvious to have progressive approach by any institution. However, if the different circumstances come to play anti-role for their healthy growth, that is, of course, is unpleasant condition. As far as the problems for the growth of Nepalese Insurance Companies are concerned, it comes to be necessary to cite some points in this context. These are as follows:-

#### **1. Limited scope for business: -**

The volume of business is, undoubtedly, one of the key factors to check about any company's economic condition. The limited resources, land locked background, inefficient utilization of existed resources & political unsuitability etc. are seemed responsible for playing anti-role in the context of not getting proper opportunity for increasing business activities in the Insurance field.

#### **2. Educational level: -**

Education, undoubtedly, plays vital role for the growth of any sector. Moreover, this level is found low (below 50%) in Nepal. Naturally, this found unpleasant (condition) educational average is affecting adversely for the growth of Insurance Development in Nepal. On the one hand, we find poor condition about overall educational performance, the other side; the government policy is not conducive to develop the influence of Insurance education.

#### **3. One sided economic condition: -**

The paradox of Nepalese economic condition is to be one sided in nature. In spite of being, maximum part of Nepal "rural", the economic condition is found centered on limited town. Naturally, the existed insurance companies in town are facing tight competition as well as unhealthy.

In this way, these sorts of problems are generally seen in Nepalese Insurance Market Field. For the long lasting growth and development of insurance companies all sectors should work together and try to overcome the problems.

#### **4. Lack of supervision from the government: -**

Lack of observation from Government Company's ministry encourages many insurance to follow some unethical practices like make harassment to policy holder and showing less in the financial statement. This not only destroying the reputation of the well known insurance companies but also creates negative impact in the mind of the people about insurance. Besides this government sometimes impose conflicting rules and regulation without discussing with insurance companies governing body. It creates conflict among insurance companies with government and act as one of the main hindrances of growing insurance business.

#### **5. Lack of motivation program towards public: -**

According to Green Delta Life Insurance Company the people of our country are not much motivated by the company to take insurance policy for safeguarding themselves against any kind of risk. Almost every time they failed to understand the people that insurance policy makes their life risk free all time. For lack of motivation among the mass people insurance companies are always lagging behind from their expected target.

#### **6. Great competition among existed companies:-**

The interest of getting business of the present existed so many General Insurance Companies comes to meet with each other due to lack of volume of insurance business in the market. The popular sentence that one's gain is other's loss comes to be suitable in Nepalese Insurance field.

#### **7. Lack of awareness: -**

The backbone of development of Insurance field is awareness about the importance of its coverage. In Nepalese context, it is seen that people get their property insured only coming under Bank or other financial institution's compulsion. As far as getting, their personal property insured is concerned they show their passive reaction about that. Only, the nominal case comes to be seen in that case.

#### **8. Lack of marketing policy: -**

One of the major problems in insurance company is lack of marketing policy. Management is not taking initiative to increase their marketing expansion. They provide tiny amount advertisement, which is not sufficient for increasing business development.

### **9. Too much complexity: -**

To take an insurance policy there are great number of rules and regulations which must be compelled by the insured person. And into those rules a vast number of complexities are present there. Therefore the people are discouraged to take insurance policy because they think that the complexities will create extra pressure on their mind which may hamper other job.

## **4.2 Presentation, Analysis and Interpretation of Primary Data**

Primary data are the first hand data, which are relevant for analysis in a meaningful manner. Thus, primary data are collected for the, first time from the related field and possessing original character. Primary data are also called field data.

This chapter concentrates on using the aforementioned methodology to meet the objectives of the study and set forth a logical and qualitative framework to recommended probable solution to the problems that is in herein within investment aspect of the insurance industry. For this proposes, the collected questionnaire answers are analyzed and studied. The questioner was distributed to the people related with insurance industries as well as common people. The respondents were regarded as the representative of the entire management for the purpose of analysis and classification of the primary data, a simple ranking method is used where ever felt appropriate. Where the ranking was not possible or necessary, a simple objective (yes / no) question was used. For classification of the views, percentage method was used, considering the total number of respondent as 100%. Further, such classification was supported with the graphical and tabular presentation, wherever necessary.

A sample of questionnaires is attached in the Appendix - VII A. The number of respondents for the queries has differed due to the differentiation regarding the formation of the insurers. So, the number of respondents for each query is shown in sample questionnaire separately. Altogether, views of 60 respondents including staff, experts and concerned persons are taken in preformatted questionnaire sheets. The focus of study is on investment management and the problems faced by insurance companies, so questionnaires are prepared for fulfilling the objectives.

**Note: Primary data collection model, tabulation and calculations are shown in Appendix VII B**

## 4.2.1 Evaluation of Insurer Views Regarding the Investment Pattern Aspect

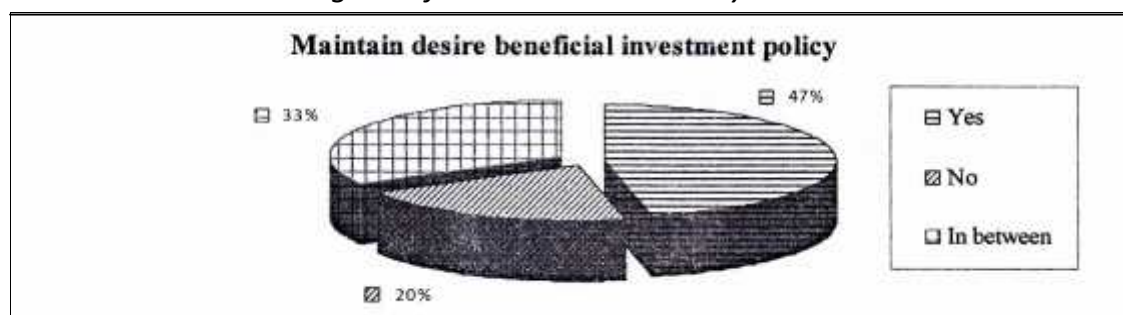
### 4.2.1.1 Concerned with investment management and portfolio

For success, plan, policies and effective management must be well designed and applied. To find out how well insurance companies are aware about it, this query is intended. Through this question, the weight given by the insurer to their functioning is, as financial institution through investment management can be known. Here, 100% of insurers are in the favour of option 'significant concern'. It means all of the companies invest their fund according to the investment management and portfolio.

#### 4.2.1.1.1 To maintain desired maximum beneficial investment policy

This question was intended to find out the present status of the insurer related to the investment policy and their perception regarding the present environment. Here, the opinions of the viewers are segregate in term of maintaining desired level of investment policy. The following chart shows the number of person and percentage in the favour of options given in the opinion survey.

Chart No. 12 - Following Beneficial Investment Policy

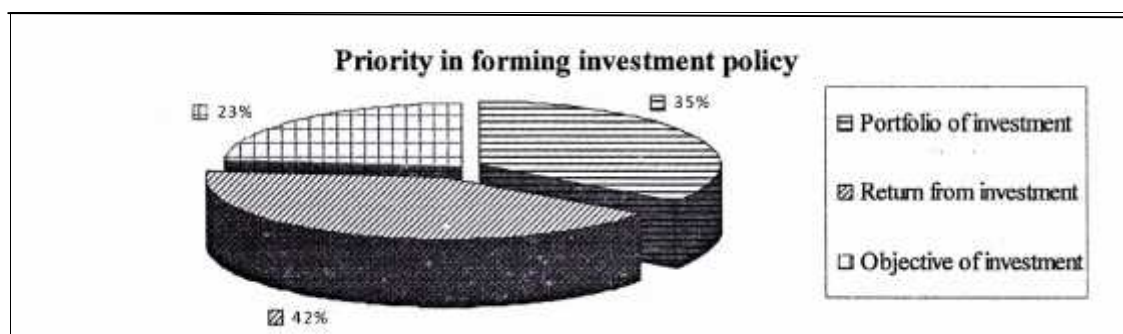


From the chart above, we can say 47% of the viewers think that insurance companies are success to maintain the desired beneficial investment policy as they have planned to implement. About 33% are in between and 20% of the viewers are in against regarding to maintain desire beneficial investment policy.

#### 4.2.1.1.2 Priority in formulating investment policy

As different companies give focuses to different terms and conditions, to find the views of insurer regarding the priority in forming investment policy, this query is mentioned in questionnaires. The following chart shows the number of person and percentage in the favour of options given in the opinion survey.

Chart No. 13 - Priority in Forming Investment Policy

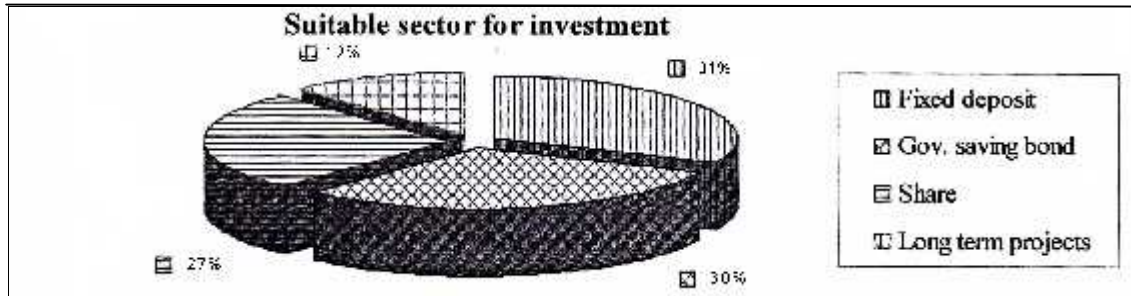


Above chart shows that about 35% of the viewer are in the favour of giving priority in portfolio while forming investment policy. About 42% think that they should focus on return from investment and 23% are in the opinion of objectives. Therefore, viewers are totally diversified in the case of giving more priority while formulating investment policy.

#### 4.2.1.1.3 Suitable sector for investment

More premium collection only cannot neither fulfill the companies' objectives nor meet the target of companies' profit. Therefore, for getting the objective and increasing the wealth of companies, every company should invest their collected fund in most profitable, liquid able and secure sector. So, to know in which sector today insurance companies are investing, this query is prepared. The following chart shows the number of person and percentage in the favour of options given in the opinion survey is suitable Sector for Investing Fund.

Chart No. 14 - Suitable sector for investing fund

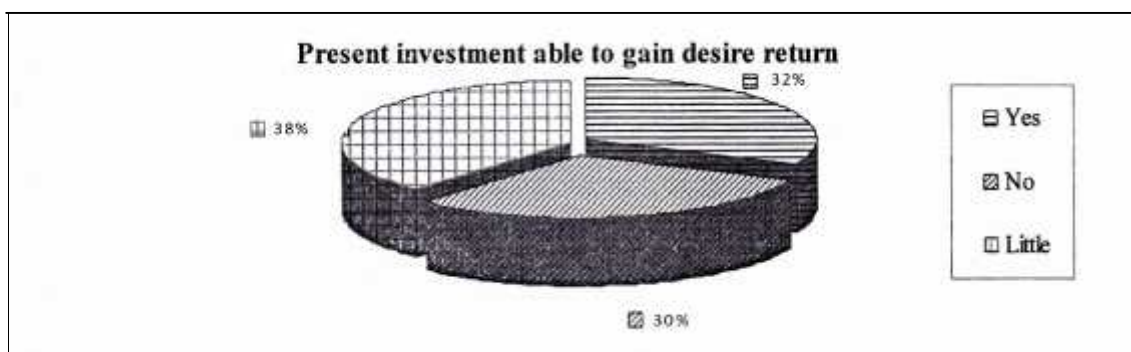


The above chart shows that the investment sector is different for different insurance companies. About 31% of the viewers are interested to invest the collected premium and fund in fixed deposit while 30% wants to invest in government saving bond, 27% in share of different companies and 12% in long-term projects. The upper three sectors are the use to insurance companies, which get more weight. 12% of the viewers are interested to invest in new sector like long-term projects.

#### 4.2.1.1.4 Able to get desired return from investment

Choosing the best method and sector of investment only does not fulfill the objective of the companies. To determine the success, one should look into the return of investment that the company. Thus, this query is intended to find out whether insurance companies are able to get the desired return from the investment or not.

Chart No. 15- Gaining Desired Level of Return from Investment



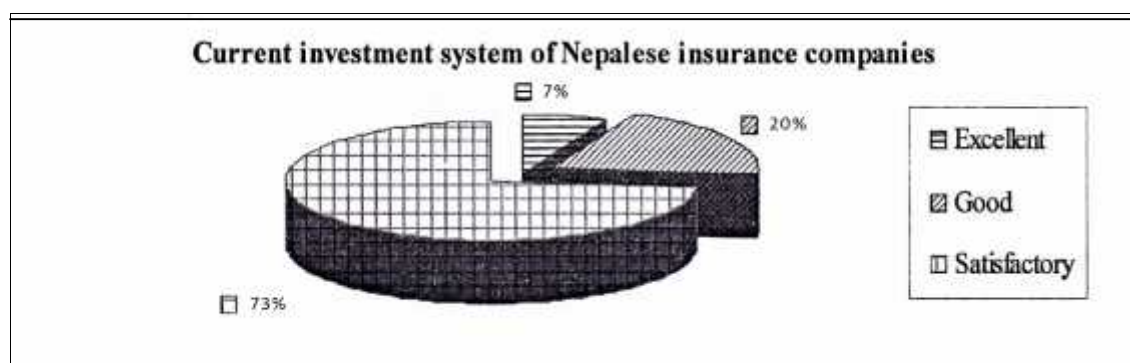
Among the observed query around only 32% of the viewer, think that they are getting the desired level of return from present return. Besides these about 30% of viewer are in against and suggest improving the investment policy or sector as they

have seen the return from the investment in present context is not sufficient. About 38% of the viewers give opinion that only little return is gaining from present investment so need to improve this situation.

#### 4.2.1.1.5 Current investment situation of Nepalese insurance companies

This question intended to find out the weight given by the insurers to the current investment system of Nepalese insurance companies. Now-a-days, we are facing critical crises and worse situation in national economy, which directly affect the insurance companies also. For finding how well companies are taking this situation, this query is forwarded. The following chart shows the number of person and percentage in the favour of options given in the opinion survey.

*Chart No. 16 - Current Investment System of Insurance Companies*



Among the observed query, around 73% are in the favour of the option satisfactory. It means Nepalese insurance companies are facing problems from current situation. Other 20% viewer think that the current system of investment is good and only 7% are in the favour of excellent option. This observation and figure clearly shows that the current investment systems of Nepalese insurer are not so bad and excellent and good, it is about in satisfactory position.

#### 4.2.1.2 Evaluation of Insurer Views Regarding the Current Situation, Problems Facing and Others Aspect

##### 4.2.1.2.1 Role of insurance business for economic growth of country

In order to find out the contribution of insurance companies in Nepalese economy, this query is included. As every business or financial institution helps to develop the

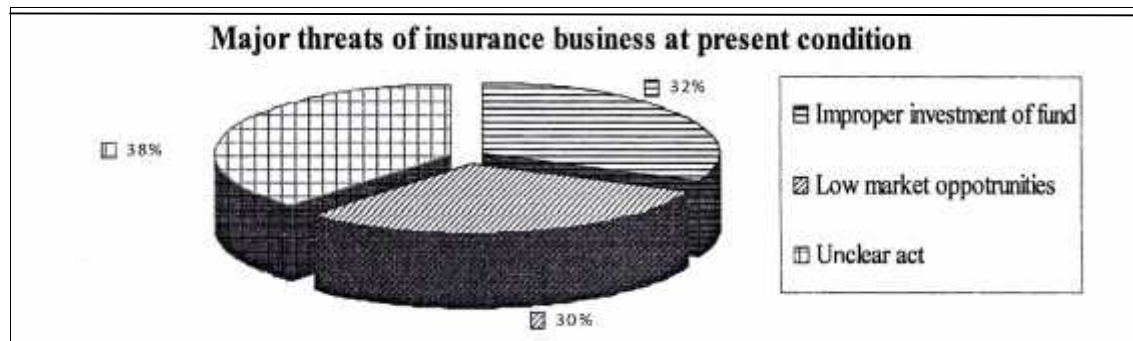
economy situation of the country, insurance companies are not separate from it. Insurance companies have great role in developing economic condition as it provides investment fund and large number of employment opportunities.

All the viewers have the same opinions regarding the role of insurance company in economic growth of country i.e. significant role. Nobody has said of insignificant and minor role. Therefore, we can conclude that insurance companies have great deal of role in economic growth of the country.

#### 4.2.1.2.2 Major threats of insurance business at present condition

Due to the liberal and global economic system, every financial and business company are facing new threats and problems and looking after the opportunities bringing by it. In the similar way Nepalese insurance companies also have many threats, to find out the major, this query is prepared. The following chart shows the number of person and percentage in the favour of options given in the opinion survey.

*Chart No. 17 - Major Threats of Insurance Companies*

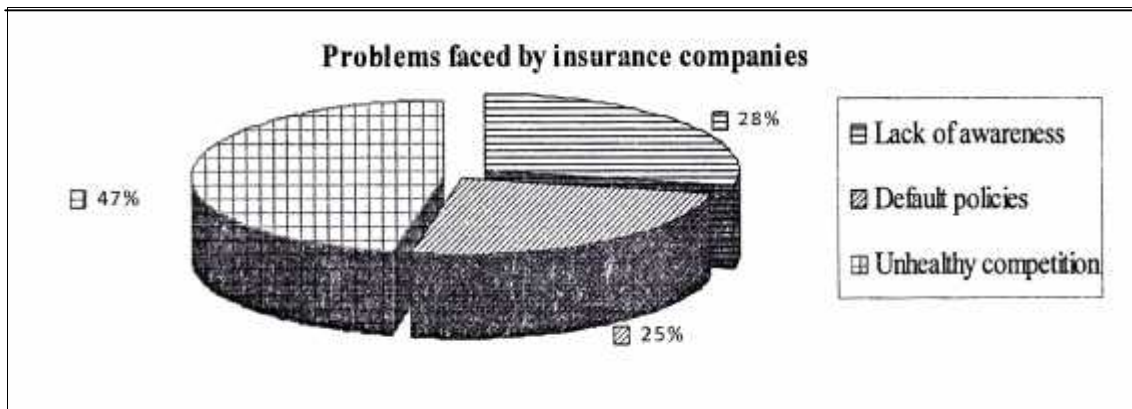


The above chart and figure show that 32% of the viewer accept improper investment of fund as major threats while 30% take low market opportunities as threats and highest percentage of 38% think unclear act published by government regarding insurance business is major threats. So, different viewers accept different types of threats as major.

#### 4.2.1.2.3 Problems facing by insurance companies

Due to many national and international conditions and situations, many problems are emerging as the day and month passing on. Nepalese insurance companies have to face many problems on their operation and policies. In order to find out the major problems facing by these companies, this query is included. The following chart shows the number of person and percentage in the favour of options given in the opinion survey.

Chart No. 18 - Problems Facing by Insurance Companies

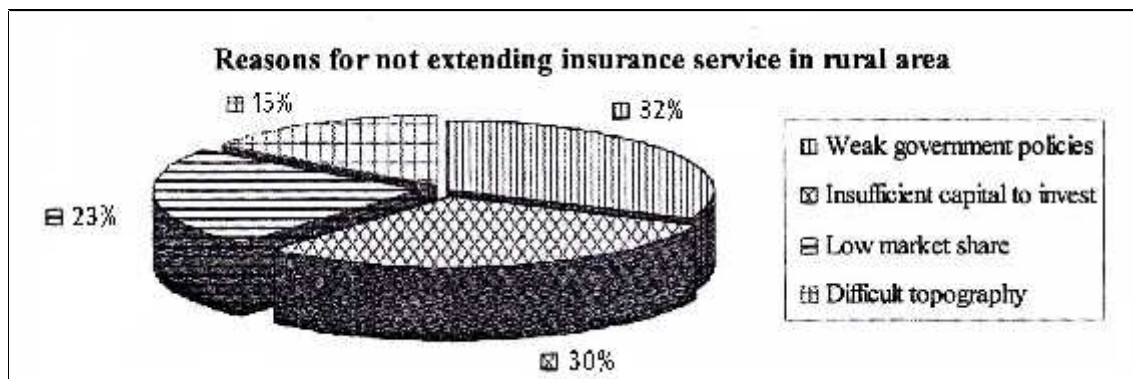


Among the viewers, 28% accept lack of awareness as major problems by insurance companies while 25% think the main problem is default policies of government and companies too. Rest 47% of the viewers considers unhealthy competition is the main problems, which the insurance companies are facing now. As the numbers of companies are increasing day by day, companies are practicing unhealthy competition for their existence and growth.

#### 4.2.1.2.4 Reasons for not focusing rural area by insurance companies

As most of the insurance companies focus only in the urban area, this question is forwarded to find out the actual reasons for it. Rural area also has great market opportunities and needs insurance companies. However, Nepalese companies are giving not priority for this. Therefore, I asked this question to the some experts and general people to find out the actual reason. The following chart shows the percentage of person and percentage in the favour of options given in the opinion survey.

Chart No. 19 - Forces not to extend Insurance Service in Rural Area

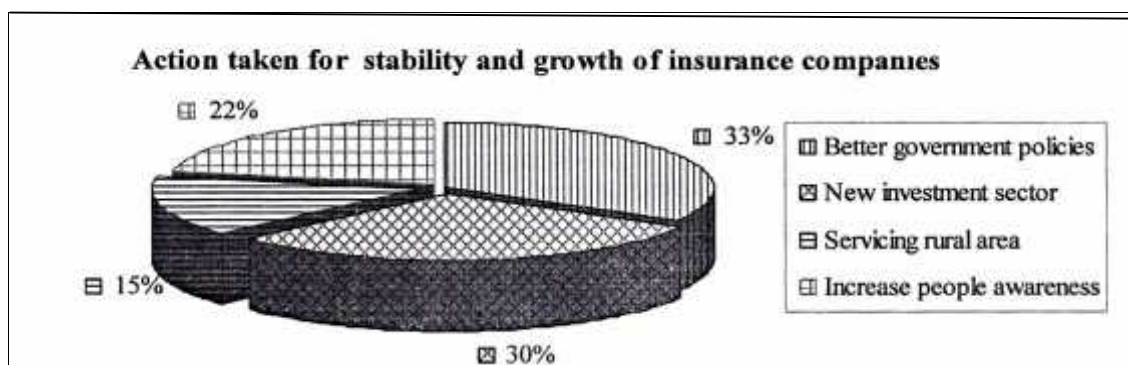


From the chart presented above, we can say that neglecting services in the rural area is not of only one reason. All the reasons presented above play role for it. According to it, 32% of the viewer think that it due to weak government policies, 30% think that of insufficient capital to invest, 23% suppose due to the low market share and only 15% people emphases on the difficult terrain and topography.

#### 4.2.1.2.5 To be done for the stability and growth of insurance companies in Nepal

Insurance companies are also considering as the major financial transaction institution. They have play a very much role in developing economy condition of the country and provides better services, recover damages, control on risk, contribution on gross domestic product (GDP), they should be control, supervise and develop significantly and effectively. To query about the most essential factor, this question is included here. The following figure and chart show the percentage of persons in the favour of options in the opinions survey.

Chart No. 20 - Improvement for Stability and Growth of Insurance



The above figure and chart tells us that we should take necessary step for the growth and stability of insurance companies. About 33% of the viewers suggest for the better government policies, 30% of viewer think to invest the fund in new area, 15% of people suggest extending the insurance service to rural area also and 22% of viewer suggest improving on people awareness about insurance need and importance.

### **4.3 Major Findings of the study**

This chapter concentrated on drawing the conclusion of all analysis and providing suggestive package of investment aspect of Nepalese insurance industry with the help of secondary and primary data.

Based on secondary data presentation and analysis some important findings were as follows:

- Earning per share of insurance companies are fluctuate nature. Sagarmatha insurance has only increasing trend in EPS. Sagarmatha insurance has highest EPS of 70.33 in 068/69 while Neco insurance has the lowest -10.03 in 064/65. Sagarmatha Insurance has comparatively higher EPS while Premier, Everest and Alliance have medium and Neco Insurance has lower EPS.
- Market value of share of all insurance companies is differing from each other and their trend is also fluctuating by the year passes. Everest insurance has highest MPS of 313 in 067/68 while Neco insurance has the lowest 107 in 067/68. The variation in market price is due to increase in number of shares and high competitions among companies.
- The insurance industry has not consisted in the investment proportion of various investment sector and investment portfolio too but they have similarity in investment sectors.
- Return on investment is not satisfied, as the maximum return is only 16.56% and minimum is -6.06%. The average of return on investment of insurance of five years is about 8.06%. Interest earned on investment is also lower that is only 4.65% in average.
- Investment to premium shows that more than 50% of premium amount is investment in different sector. The percentage is up to 163.22% of Premier Insurance due to investment from other source like capital and share.
- The trends of investing the fund of insurance companies are limited. They are investing in only specified or certain sectors. The bank deposit amount covers more

than 61.52% in average of total investment, then in government bond, share and emergency investment fund respectively. So, they extend their investing sectors for more return and profit.

- The trend analysis of investment shows that there is increasing trend in investment amount but has fluctuating trend in return on investment.
- The coefficient of correlation between investment and net profit earned seems to be high degree of positive and significant relationship in all insurance companies except Everest Insurance which has insignificant relationship.
- The coefficient of correlation between premium and investment of Nepalese insurance industries have high degree of positive with significant relation except Premier Insurance which has low degree of negative correlation with insignificant relationship.
- The test of hypothesis of total premium amount of five-sampled insurer has significantly different. It indicates that the premium amount of companies has differed.
- The test of hypothesis of total investment amount of five sampled insurance companies has significantly different. It indicates that the investment amount of companies has differed.
- The test of hypothesis 'F' statistic of an income earned is significant different at 5% Level of significance. It means there is variation in income earned ratio of Nepalese Insurance Industry.
- From the analysis of GDP in Nepalese economy by insurance companies is increasing year per year. However, the ratio is not satisfied in respect to total GDP.
- Various problems are existing for the development and growth of insurance companies in which main are limited scope for business, great competition among existed companies, and lack of awareness, educational level and one-sided economic condition, etc.

Based on empirical investigation i.e. primary data, data were collected, presented, and analyzed. Some important findings can be drawn from the investigation, which were as follows:

- Almost of the companies followed the investment policy at investing a fund but some insurer give less importance on investment policy and they invest their fund only accordance to government rules and regulation and management desire. Although the entire insurer concerns with investment management and they heartily accepted it too.
- All the insurer or insurance industry prefers the portfolio to investment a fund and they accept its essence in investment. However only 47% of insurer utilizes and

maintain the maximum beneficial investment policy, 20% doesn't and 33% are in between among the insurer.

- Giving priority while forming investment policy, more than 35% are in side of portfolio, 42% concerned with the return form investment and 23% give priority to objectives. So, most companies now are focusing on the return from the investment.
- Among the investment sectors 31% of the insurer addressed their importance in fixed deposit, 30% are in side of government saving bond and rest favoured to make combination of investment sectors. Their views show the higher preference to bank fixed deposits of insurer.
- Regarding the earning desired return from the investment, 32% are able to get desired level of earning while 30% are unable to reach desired level and 38% earn only little in desired earning.
- From the data collected from the viewer, 7% think that current investment system of insurance companies is excellent while 20% think of good and remaining 73% are only satisfied with present investment system.
- Like other business, insurance business has also very much contribution on economic growth. There is no different view on it. 32% Viewers think improper investment of fund, 30% low market opportunities and 38% unclear act as major threats of current insurance business in Nepal.
- The major problems indicated are 28% lack of awareness, 25% default policies and 47% unhealthy competition and the focus is on unhealthy competition among companies.
- Viewers pointed 32% on weak government policies, 30% on insufficient capital to invest, 23% on low market share and remaining 15% in difficult topography as the reasons for not extending insurance business in rural area.
- 33% of companies expect better government policies, 30% think to invest in new sector, 15% desire to extend business in rural area and 22% want to increase people awareness for the stability and growth of insurance companies.

## CHAPTER V

### Summary, Conclusion and Recommendation

#### 5.1 Summary

Insurance contributes to society by favourably affecting the apportionment of the factors of production, engaging in loss prevention activities, identifying losses serving as a basis of the credit structures, eliminating worry and providing a channel for investible fund. Insurance has been introduced to safeguard the interest of people from uncertainties by providing certainty of payment at a given contingency. According to nature, characteristic and objective of the insurance company, they are also referred to as financial intermediaries. In the 21st century's business age, it plays vital role through beating and providing certainty. Therefore, insurance is an assist of world's economy.

As significant differences in the nature of insurance, mainly there are two types of insurance life and non-life. Non-life premium is non-refundable. For life insurance companies, they have to refund the premium that collected to insured with bonds. However, general insurance does not have such burden. That is why the premium collection of both businesses dealt in different headlines. Insurer charges the premium differently accordance to nature of risk. Thus, the judgment and personal evaluation play vital role in rating/fixing premium.

Investment means to out-flow of the fund at adjustable return. For investing, investment pattern is the formulation of the investment strategy based upon the organizational and financial character of the particulars firm itself. Investment policy will be the preliminary decision of selecting the proper investment sector based upon single or joint consideration of safety, liquidity, marketability, profitability, and stability or else. Usually, such investment pattern aims at arriving to the optimized or agreed mix of risk-return from the investment. Investment fund for the insurance companies are the excess amount after claims paid and managerial expenses. Premium collection and investment are the major tasks for every insurance company. More premium collection means more income and more investment means more return. Therefore, this study is concentrated upon investment position and pattern or its management of Insurance Industry in Nepal. Companies are aimed at evaluating and analyzing the investment sector and ratio.

In the context of Nepal, insurance business is one of the business, which has not any loss and it suffered at profit from establishment date to till now. But the trend of investment and profit earned are fluctuated. There is no informality rate of premium of insurance policy, which regulates by government (Beema Sameeti) is also unscientific. It is needed to restudy and reanalyzed as for present condition and situation. The insurance act 2049-aimed regulation should be clear enough to guide the investment related matter to a direction. The regulatory limits relating the investment should be promptly changed according to the change in overall economy and money capital condition.

After the formation of Nepal insurance association, the companies can place their problems jointly to the government and go forward for the interest and benefit of insurers. This platform should be taken an opportunity. Insurance business is found in urban area only. In Nepal, there is the possibility of extending the insurance business in remote area. This party can be taken as an opportunity.

Among the 25 insurance companies, the study has been taken to evaluate the investment management of industry through the sample basis. The study analyzed the annual report of five years starting from 063/64 to 067/68 of Premier, Everest, Sagarmatha, Neco and Alliance insurance are taken for the purpose of the study. Primary and secondary data are collected from relevant sources and to reveal the problems, financial as well as statistical tools are applied. The recommendation is provided based on findings from analysis.

In this study, an attempt is made to find out and provide independent views of the investment management of insurance companies. For the presentation, analysis and evaluation primary and secondary data from the various sources are taken like annual reports of respective companies and other applicable sources as well as journals, articles, newspaper related to concerned subject matter. Necessary help is taken from insurance board, Nepal stock exchange, and relevant web sites.

## **5.2 Conclusion**

As there is no any evidence of establishment of insurance companies, people were engaging in Guthee. In Nepal, the history of insurance companies began only after the 2024 under the Nepal Company Act, 2021. A year later, the company started

operating with same name but under National Insurance Corporation Act, 2025. On 2030, five years after its establishment, life insurance was introduced. However, due to unclear act and policy only few companies came into existence. The growth of insurance business starts effectively only after the Nepal insurance act 2049. After the 2049, a number of insurance companies are established. There are 25 insurance companies until 2070.

Ratio analysis and trend analysis show that as the transaction amount is increased, the increase in percentage is not so satisfactory. Increase in premium collection has fluctuate nature and investment fund is low in comparison to others financial companies. Nepalese insurance has followed traditional policy. They are not innovating modern and developed method and policy heads for collecting premium. Under only limited insurance heads, they are providing services. Similarly, in very few sectors, insurance companies are investing their fund. They have seen only the fixed deposit and government saving fund as save and risk free sectors. Some insurance companies have net return low than interest received from deposit. Similarly, EPS and MPS of insurance companies are not satisfactory in respect to other financial institution like bank and finance. Even some insurance companies have lower rate of income than interest received from fixed deposit and market share value lower than called up price. For increasing these sectors, better performance and result should be drawn out.

Because of poor performance of investing in suitable sectors, insurances companies are unable to meet the target and are unable to contribute great percentage in GDP. As the amount, contribution in GDP is increasing and the role of insurance companies in economic growth is significant but percentage increase is not in ascending trend. Insurance companies occupy only 1.31% of total GDP until 068/69.

Although, Nepali insurance industry runs smoothly with profit, they faced various problems. The main problem is cut throat competition because of the liberalization and privatization. Under rating, price-cutting and unhealthy competition are the problems of insurance business in Nepal. Submission procedures for claim and premium are not clear to clients. Thus, there is delay in claim settlement. The volumes of transaction are increasing tremendously year by year but the growth of net earnings is not in the same ratio. It is because of cut-throat competition in the market.

### 5.3 Recommendation

The recommendations are made as per the analysis of primary, secondary, and valid findings from the study as well as relating information about the Nepalese insurance industry. They have barriers from government rules and regulations and through other relevant sides these corrective actions need to be introduced:

- All insurance companies must take some steps to decrease the inconsistency. To take any proper decision, to run the organization smoothly, each ratio should be consistent. Therefore, the companies must start research and development programs to train their work force effectively and scientifically.
- The entire insurer should follow the investment policy and improve its management. In addition, should maintain and make uniformity on premium collection under all insurance policies and should try to reduce the claim paid amount.
- The insurer should enforce the diversification among the investment portfolio. In the past, the insurer did not seem to enforce the diversification. Such diversification will be able to manage the level for rising and minimized yield in the long run.
- From the analysis of the study and research on interview, field observation of the Nepalese insurer, the following facts are concluded; there is no sound policy and separate department for investing a fund but it is necessary to manage. Therefore, the entire insurer should manage a separate department for the purpose of investment and gain return without risk.
- As an immediate corrective measure, they should look for an increased net rate of investment return in aggregate. In the present condition, some of the insurers are in a worse position that their return is lower than the market rate of return from bank fixed deposits.
- The entire insurer should improve their premium collection system and investment systems too and try to increase customer service by providing different facilities and to withdraw unnecessary processes of insurance and followed scientific insurance systems.
- Insurance premium funds should be invested in different sectors other than Government's bond and bank fixed deposits in order to enhance the life standard of people thereby increase the insurance premium.
- The collected premium should be invested in large and beneficial sectors so that insurance companies can return their clients expected return in a timely manner.
- Insurance companies are suggested to expand insurance activities in rural areas by the establishment of branches or by the appointment of agents according to its potentiality.
- The insurance companies should introduce new policies and attractive strategies to

make ease for the development of insurance business.

- Nepalese insurance business should be social responsibility oriented rather than premium oriented in order to develop this business at present situation.
- The insurance act and regulation should be clear enough to guide the investment related matter to a direction. The regulatory limits relating the investment should be promptly changed according to the change in over all macroeconomic and money capital market condition.
- The rules and regulation relating the investment aspect of life and non life insurance industry must be differentiating according to the differentiating nature of the future use of the invested funds, occurrence of the invested funds, and the invisibility of such funds.
- New, less risky and more profitable investment sector should be developed for making the investment pattern more safety and returnable.
- To regain and maintain a positive public image the insurance companies should overcome the dissatisfaction in regards to services and claim settlements and should maintain a service standard.

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