

**PREMIUM COLLECTION AND INVESTMENT PATTERN  
OF NEPALESE INSURANCE COMPANIES**

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## INTRODUCTION

### **Background of the Study**

The world is full of risk. 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. As the dawning of each new day brings different uncertainties, one needs to be more than prepare to handle the thorny patches in life. Insurance has the stability and resources to shield you from the volatile risks in everyday life. For the development of the country, the existence of financial market and capital market is regarded as an essence. The government and individuals firms are playing vital role in financial and capital market through investing the collected resources within the recognized and national sector like productive industry and financial area yet expecting reasonable benefits themselves.

Among such financial institutions and intermediaries, insurance companies are also the major ones. Integrated and speedy development of the country is possible only when a competitive insurance service reaches nooks and corners of the country. Insurance company occupy quite and important place in the frame work of every economy because it provides certainty to the industry, business and capital for the development of the 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 objectives 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 the credit structures, eliminating worry and providing a channel for investible fund.

According to Magee, J. H., "Insurance has been defined as a plan by which large members of people associates themselves and transfer to the shareholders of all risks that attach to individuals." Mehr, R. I. and Cammack, E. outline the insurance as, "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". He again stated ' insurance is a technical business involving the skills of statistician, financial analysts. Engineers, Physicians, Economists, Layers and others. Contracts must have been carefully drafted, underwriting restrictions must be determined, rates must be established equitable by analysis all the factors including the public interest.

Insurance distributes the cost of the risk over a large group of individuals subject to the 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 premium. A 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 is 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 funds, that it involves a group of risks, and that each person of firm who becomes the members of the group transfers the 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 the losses among members of group. Insurance does not prevent the loss but it relives 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 premium collection and investment situation and sector.

### **Statement of Problems**

Nepalese insurance companies are the successful enterprises of Nepal, which are still running the insurance business with out 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 to 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 the profit and loss account. The volumes of transaction are increasing tremendously year by year but the growth of net earning is not in the same ratio. It is because of private waiting under raining and cut-throat competition in the market.

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

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.

## **Objectives of the Study**

The main objective of this study is to analyse the current situation of premium collection and investment position of insurance companies in Nepal. The specific objectives of this study are spelled out as:

1. To evaluate the patterns of premium collection from different insurance policies of Nepalese insurance companies.
2. To examine the investment pattern in different portfolios of Nepalese insurance companies.
3. To analyse the relationship of premium collection with investment pattern and net profit.
4. To test whether there are significant difference of variables among Nepalese insurance companies.
5. To analyze the opinion of insurance companies and their clients about problem facing by them.

## **Research Questions**

All the insurance companies of Nepal are less because of the following reasons.

1. What is the pattern of premium collection from different insurance policies of Nepalese insurance companies?
2. What is the investment pattern of different insurance companies?
3. What is the relationship between premium collection and investment?
4. What is the relationship between premium collection and net profit?
5. Are there significant difference of premium collection among different insurance companies?
6. Are there significant difference of investment pattern among different insurance companies?
7. Are there significant difference of net profit among different insurance companies?

8. What are the problems facing by the insurance company related to the premium collection and investment pattern?
9. What are the problems facing by the clients in insurance policies?

### **Limitations of the Study**

The study aims at findings the facts and the trend of the investment and premium collection 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 deals with four insurance company's premium collection and investment pattern.
2. This study is based on secondary data as well as primary data.
3. This study concentrated in premium collected from sample companies and the data will collected from insurance board (Beema Samiti), Nepal stock exchange, respective insurance companies and website as [www.bsib.org.np](http://www.bsib.org.np), [www.nepalstock.com.np](http://www.nepalstock.com.np) and other sources.
4. The study will concern five FY 2006/07 to 2010/11 period's data and conclusion drawn confines only to the limit duration.
5. Time and resources constraints can be another factor that limited the scope of the study.

### **Research Gap**

There is long gap between the previous researcher's and this study. This study uses three insurance companies which is selected different from previous researcher's. They did not focus on comparable tools likes EPS and MPS but this study use EPS and MPS. Previous researchers focused on investment policy only while this study based on premium collection and investment pattern of insurance companies. They used only financial tools and ignored

statistical tools but this study used both financial and statistical tools. Previous researcher's study based on descriptive way only but this study used descriptive and analytical basis. This study takes primary data while previous researcher's studies are based only in secondary data.

### **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 premium collection and investment pattern of insurance companies, five insurance companies as sample are selected. Portions included in the sample will be carefully selected by consulting with lecturers and best judgment of researcher. So precisely saying, all 25 insurance companies are the population of this study and among them, only 5 are chosen as sample from total population. For selecting the samples, simple selection method according to nature and types of insurance facilities are used. In this study, 5 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 sampled among the insurance industries in Nepal, which short description is already presented in chapter first, company profile.

### **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 and premium and other relevant factors. Primary data

can be collected through questionnaires, field visit and information received from the respondents. Altogether, views of 60 respondents including staff, experts and concerned persons of sample insurance companies, insurance board and Rastrya Beema Sansthan are taken in preformatted questionnaire sheets.

### **Secondary Data**

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

### **Major Findings of the Study**

This chapter concentrated on drawing the conclusion of all analysis and providing suggestive package of premium collection and 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:

- 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, however the return on premium and interest earned to total premium collection ratio of insurance industry are in fluctuate trend in study period.
- Among, the insurance policy, the ratio of premium collection is higher in fire insurance and motor insurance and lower in marine and engineering policy.
- Claim paid ratio is increasing according but the percentage increase is very low in respect to increase in premium collection.

- Return on investment is not satisfied, as the maximum return is only 18.73% and minimum is 0.29%. The average of return on investment of insurance of five years is about 8.67%.
- Interest earned on total investment is also not satisfied. Interest earned on investment is lower that is only 5.85% in an average.
- Investment on premium shows that more than 50% of premium amount is investment in different sector. The percentage is up to 111% due to investment from other source like capital and share.
- The coefficient of correlation between investment and average net profit earned seems to be high degree but insignificant relationship in case of premier insurance but all other have high degree positive correlation and significant relationship.
- The coefficient of correlation between premium and investment of Nepalese insurance industry has high degree positive correlation with significant relationship.
- The analysis of correlation between premium collection and investment of sampled companies show different relationship among the companies. Except Sagarmatha insurance because it has significant and high degree positive correlation.
- The analysis of correlation between premium collection and claim paid of sampled insurer and industry has positive relationship. However premier insurance has insignificant relation but all other have significant relationship.
- The test of hypothesis of total premium 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 insurer has significantly different. It indicates that the investment amount of companies has differed.
- 'F' test for claim paid for insurance industries seems that, there is significant difference in claim paid. Hence, the claim paid is also differ among the Nepalese insurer.
- 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.

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:

- In the case of premium collection condition of Nepalese insurance, there are variations of view. 75% of the insurers are side of good, 25% are in side of satisfactory and none is in side of excellent. But, 50% of the viewers are satisfied with the premium collection system and rest 43% and 7% are in side of somewhat right and wrong system.
- However, almost, of the insurer can collect the premium under their target. Only 33% of the insurer cannot collect under target and 67% are able to collect in between target. However, more than 72% of the insurance are not agree with the premium rate that is issued by Beema Samittee(Government of Nepal).
- Regarding customer's satisfaction of service and premium rate, different result has come out. About 5% have excellent service while 30% are in good side, 40% are in satisfactory side and 25% are satisfied with present premium rate and services.
- The premium collection rate of Nepalese insurance industry has been fluctuating trend under all respective policy in each year and differentiation in investment amount with respective investment sector (optional and

compulsory). But almost of the insured chargeable rate of premium is based on beema samittee's regulation. However, as for life insurance, premium is calculates personal character sticks of insured person under based on Beema Samittee's regulation and policy.

- 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 among the insurer. Among the investment sector 33% of the insurer addressed their importance in fixed deposit, 20% are in side of government saving bond and rest of favor to make combination of investment sectors. Their view shows the higher preference to bank fixed deposit of insurer.
- Giving priority while forming investment policy, more than 35% are inside of portfolio, 42% concerned with the return from investment and 23% give priority to objectives. So, most companies now are focusing on the return from the investment.
- 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.

### **Summary**

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 the credit structures, eliminating worry and providing a channel for investigable 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

21<sup>st</sup> 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. Life insurance 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 outflow of the fund as 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 concentrate on the premium collection and investment position and pattern of insurances industry in Nepal. Companies are aimed at evaluating and analyzing the premium collection trend, 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 premium collection investment and profit earned are fluctuated. There is no informality rate of premium of insurance policy, which regulates by government (Beema Samiti) 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 direction. The regulatory limits relating the investment should be promptly changed according to the change in over all 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 premium collection and investment pattern of industry through the sample basis. The study analyzed the annual report of five years starting from 2006/07 to 2010/11 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 premium collection and investment pattern 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.

## **Conclusion**

As there is no any evidence or 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 and working which is going today also. Altogether, there are 25 insurance companies until 2069. From the analysis and presentation of the data we are coming into following conclusions:-

- This study is concentrate on the premium collection and investment position and pattern of insurances industry in Nepal. Companies are aimed at evaluating and analyzing the premium collection trend.
- 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 the credit structures, eliminating worry and providing a channel for investible fund.
- The rules and regulation relating to 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.
- 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 fluctuated nature and investment fund is low in comparison to other financial companies.
- Nepalese insurance has followed traditional policy. They are not innovating modern and developed method and policy head for collecting premium. Under only limited insurance head, they are providing services. Similarly, in very few factors, 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.
- 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 draw out.
- Because of poor performance of premium collection and mobilization i.e. investing in suitable sectors, insurance companies are unable to meet the target and are unable to contribute great percentage on 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 ascending trend.
- 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 earning is not in the same ratio. It is because of private waiting under raining and cut throat competition in the market.
- 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, however the return on premium and interest earned to total premium collection ratio of insurance industry are in fluctuate trend in study period.

- The premium collection rate of Nepalese insurance industry has been fluctuating trend under all respective policy in each year and differentiation in investment amount with respective investment sector (optional and compulsory). But almost of the insured chargeable rate of premium is based on beema samittee's regulation. However, as for life insurance, premium is calculates personal character sticks of insured person under based on Beema Samittee's regulation and policy.
- 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 process of insurance and followed scientific insurance system.
- 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 premium collection investment and profit earned are fluctuated.
- 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 if too.
- Giving priority while forming investment policy, more than 35% are inside of portfolio, 42% concerned with the return from investment and 23% give priority to objectives. So, most companies now are focusing on the return from the investment.
- Investment on premium shows that more than 50% of premium amount is investment in different sector. The percentage is up to 111% due to investment from other source like capital and share.
- The trends of investing the fund of insurance companies are limited. They are investing is only specified or certain sectors. The bank deposit amount covers more than 70% of total investment, then in government bond, share

and emergency investment fund respectively. So, they extend their investing sectors for more return and profit.

### **Recommendation**

The recommendation are made as per the analysis of primary, secondary and valid findings from the study as well as relating information about Nepalese insurance industry. They have barrier from government rules and regulation and through other relevant side these correctives action needs 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 programmed train their work force effectively and scientifically.
- The entire insurer should follow the investment policy and improves its management. In addition, should maintain and make uniformity on premium collection under all insurance policies and should try to reduce in claim paid amount.
- The insurer should enforce the diversification among the investment portfolio. In past, the insurer didn't seem to enforce the diversification. Such diversification will be able to manage level for rising and minimized in the long run.
- From the analysis of study and research on interview, field observation of Nepalese insurer, 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 investment and gain return without risk.
- As immediate corrective measure, they should look for increased net rate of investment return in aggregate. In present condition, some of the insurers are in worse position that their return is lower than 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 process of insurance and followed scientific insurance system.
- Insurance premium fund should be invested in different sector other than HMG bond and bank fixed deposit in order to enhance the life standard of people thereby increase the insurance premium.
- Premium earning and changes in premium analysis suggests insurer to be competitive in the market as well as their premium earnings percentage followed fluctuate trend almost all the year during the study period. Thus, the Nepalese insurance draws the attention of marketing division/department.
- Insurance companies should maintain their claim paid ratio as for size of the transaction because the claim paid ratio directly affected to the income generate.
- Insurance companies are suggested to expand insurance activities in rural area by the establishment of branches or by the appointment of agents according to its potentiality.
- The insurance companies should introduce new policies and attractive strategy 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.