

CHAPTER – I

INTRODUCTION

1.1 Background of the Study

The word “Risk” is a buzzword pounced by the people from every nook and corner of the world. Generally risk refers to the exposure of peril, possibility of suffering loss or injury, chances of meeting dangerous situation. Human life and material possessions are continually exposed to loss or damage by numerous destructive forces, which create great uncertainty in life, in commerce, in industry etc. It is an undisputed fact that the risk is undeniable in the modern complex life and society. More specifically risk denotes the uncertainty of loss. Uncertainty refers to the unknown future outcome or result of an event. ‘Risk’ is a blessing because it gives rise to discussion, hope, planning accomplishment and progress. It is a curse in so far as it gives rise to dispute, fear, defensive tactics, failure and retrogression. The uncertainty about future is basic universal fact of human life or earth.

No human activity is free from risk. Moreover, sophisticated scientific innovations, escalating violence and terrorism have made risk a glaring critical issue. In this context the idea of risk management and the idea of the insurance have emerged. Insurance plays a significant role in risk management. Insurance is devised as a financial security against risk. The wheel of development is accelerated by industrialization and industrialization is possible only with the support of two big institutions - banking and insurance. The one pillar, banking provides capital and helps in the financial transaction of business in many ways. Another, pillar insurance offers a high economic relief to different types of industrialist, businessmen and individuals. Insurance has become the pillar of alertness, courage and eagerness to develop the life and living standard of common people, industrialist and traders of today’s world. Insurance has been introduced to safeguard the interest of people from uncertainty by providing

certainty of payment at a given contingency. Insurance company's are integrated part of the same business. These two are the two wheels of a cart. In the absence of one, the other cannot function. Insurance is equally important for common people and businessmen. It is part and parcel of the business houses.

The insurance market in global perspective has been an important ingredient for economic development. In a every countries, Insurance companies have played a very significant intermediaries role in mobilizing funds through the combination of investment portfolio. However, in developing countries like Nepal, the role of insurance companies is still to be realized as an important vehicle of mobilizing the internal saving through various insurance schemes of life and non-life sectors in the economy. This can be done with proper and optimal combination of risks as an organized method of dealing with pure risks to which individual, family, firm or other organizations are exposed. Insurance is a social device, which combines the risk of individuals into a group, using funds contributed by members of the group to pay for losses.

1.1.1 Meaning of Insurance

“It is quite hard to define insurance to satisfy every viewpoint of insurance. Insurance may be defined as a system of combining many loss exposures with the cost of the losses being shared by all of the Participants” (*Crane, 1980: 8*).

“According to nature, characteristics and objectives of the insurance company, they are also referred to as financial intermediaries. Hence, insurance industry, a composite structure of insurance companies, is regarded as financial institution bearing very difficult characters among very financial institutions and intermediaries. It may be an economic system of reducing risk through transfer and pending of losses. A legal method of transforming risk in a contract of indemnity, a business institution providing many jobs in a free enterprise economy, a social device in which the losses of few are paid by many, or as actuarial system of applied mathematics” (*Bickihaup,1983:43*).

Insurance works as a co-operative device to spread the loss caused by a particular risk over a number of persons who are exposed to it and who agree to ensure themselves against that risk. Insurance gives relief from the risk. It performs the task of paying compensation for financial loss under the insurance, in return of little fixed amount if loss or damage has taken place.

Insurance companies are capable of providing industrial finance, government finance or even personal finance. They provide different finance through their own investment policy and pattern based upon their own corporate objective and nature of the line of insurance business. In the context of Nepalese insurance companies they provide various insurance policies and charge premium under insured risk and nature. Insurance companies collect fund through various client (people and organization) as premium. Therefore, all the insurance companies are responsible for their client's interest. This study looks and analyses insurance company's premium collection and investment situation. Everyone pays a premium those who suffer a loss are paid a sum of equivalent to loss (loss according to the term of contract) and those who don't suffer loss by the premium paid. The protection against unforeseen events is purchased through a contract of insurance.

From the above mentioned definitions it is clear that the insurance reduces the risk and provides financial security in return of payment of a certain amount. Hence, we can say that Insurance is a powerful weapon to manage risk.

1.1.2 History of Insurance

The term of insurance developed through the faith and co-operation. The origin of insurance is lost in antiquity. Evidence is on record that arrangements embodying the idea of insurance were made in Babilonia and India at quite an early period. In Rig-Veda, the most sacred book of Hindus, reference were made in the concept 'yogkshema' more or less akin to the well being and security of the people. The codes of Hammurabi and of Manu had recognized the advisability of provision for sharing the future losses.

The earliest traces of insurance in the ancient world are found in the form of marine trade loans or carriers contract, which included an element of insurance. Evidence shows that the marine insurance is the oldest form of insurance. Travelers by sea and land were very much exposed to the risk of losing their vessels and merchandise because the piracies on the open seas and highway robbery of caravans were very common. Besides, there were several risks. The risk to owners of such ships was enormous and, therefore, to safeguard them, which could not be conveniently borne by the unfortunate individual victim. The co-operative devices were quite voluntary in the beginning, but the insurance development was not confined to the Lombard's and to the Hansa merchants, it spread through out Spain, Portugal, France, Holland and England.

After marine insurance, fire insurance developed in its present form. It originated in Germany in beginning of the sixteen- century. It got momentum in England after the great fire in 1666 when the fire losses were tremendous. Gradually all the types of insurance were developed at this form.

In the Context of Nepal

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

With the development of trade, commerce and industry, the necessity of insurance in our country was felt long ago. But there was no evidence of any organized form of insurance in Nepal until 1947. Society was organized in an agricultural basis and the socio-economic organization took care of any problem or calamity confronted to the community.

Before the emergence of insurance company in Nepal, there were several broker offices of Indian company operating in Nepal. The first insurance company in Nepal was Nepal Malchalani Tatha Beema Company Ltd, which was established in 1947 A.D. as a subsidiary Company of Nepal Bank Limited, the first commercial Bank of Nepal. The main objective of that company was to transport the goods imported by the bank and to keep the goods in its custody. The company took responsibility of cash transaction of the bank. After sometimes, the company changed its name from Nepal Malchalani Tatha Bema Company Ltd to Nepal Insurance and Transport Company Ltd.

Transporting goods and issuing insurance policies were the core objectives of Nepal Insurance and Transport Company Ltd. but it mainly concentrated only on insurance sector. So again, it changed its name and became Nepal Insurance Company Limited. Even though Nepal Insurance Company Limited was established to sell insurance, it was reluctant to accept other business except Nepal Bank Ltd. Since foreign (Indian) insurance Companies were still transacting insurance business through their broker offices in Kathmandu and other branches in major cities in Nepal before and after establishment of Nepal Insurance Company Limited.

After the restoration of Democracy in 1990 A.D., Insurance environment began to change simultaneously along with other factors. Thus to meet the requirement of the changing situation Insurance Act 1968 was repealed by new Insurance Act 1992 (Beema Ain 2049 B S). The preamble of the act clearly states the purpose of the act. An insurance Board was established to Systematize, regularize and develop the insurance business. To achieve the goal as stated in the preamble, Beema Samiti (Insurance Board) was formed as an autonomous body under the Insurance Act of 1992 A.D under the direct supervision of the government. After the introduction of Insurance Act, 1992, the number of private insurance companies came into existence. There are altogether 25 Insurance companies functioning in Nepal both in life and non life insurance business in Nepal.

1.1.3 Development of Insurance

First Phase: Emergence of Marine Insurance

After the emergence of the concept of insurance, it was most commonly used for marine insurance. So, marine insurance is the first modern form of insurance in the history of insurance. In 1300 A.D. the first insurance contract called: polizza was made in Italy. Later on the word “policy” was developed from “polizza”. The concept of marine insurance was commonly used in Lombard of Italy and in Venice in 14 century. In fact the Lombard of Northern Italy had main role in bringing the international extension of marine insurance in England. Later the Jewish of Lombard were banished, and then settled in different countries of Europe. The name of street,” Lombard street” of London was named after the name Lombard. At that time this street was called the central point of the marine insurance.

The significant role of Lloyds institution for the development of insurance cannot be ignored. The underwriters who took the marine risk used to carry out the work of marine insurance, meeting personally in the coffee house of Edward Lloyds in the tower of street of England. Slowly the coffee house was successful to introduce itself as a centre of marine insurance. The Lloyds institutions established in 1771 is the first institution to make formal marine insurance. Till now, this institution is the one of the most popular insurance company in the world.

Second Phase: Development of Life Insurance

After the development of marine insurance, people used the concept of the insurance to provide security to their lives. To talk about the modern life insurance, by an associate 16 persons, the first life insurance policy of the world was issued in the name of a person named “William Gybbons” in 1583 A.D. It is recorded that insurance policy was issued for one year. One astronomer named: “Admand Heley” submitted a ‘Mortal Table’ in 1693 A.D. to the royal security. This mortal table was useful tool for calculating insured

amount and the first time life insurance institution insured amount technology on the basis of data.

In 1744 A.D. passing the life insurance Act created the foundation of the modern insurance. Thereafter different laws later removed the defects that came to the business. Many companies were closed and some of them went and mixing or merging with another insurance company. There is no controversy that the Life Insurance Act 1870 was passed to control the operation of the life insurance business for protection of the customers. Before the beginning of the 19 century many life insurance were that already established in the world. We find that the life insurance business in our neighboring country India had started with the establishment of the Mutual Association. In 1971, both life and the non life insurance were nationalized in India; as a result, the Life Insurance Corporation for life and general insurance company ltd for non life insurance were established. During the reign of Elizabeth 1 the life insurance used to effect for only one year. After one year, it was not renewed, the insurance automatically used to be cancelled. But the job of effecting long term insurance, started from 18 century has been increased continuously.

Third Phase: Emergence of Fire Insurance

In the history of insurance, the fire insurance comes after the life insurance. However there is some controversy about it. In the opinion of some people, the concept of fire insurance had come after marines insurance. The function of the fire insurance was done in 14th century. The beginning of the fire insurance for the first time can be found in the municipality of the city of Hamburg in Germany in about 13 century, it is said that after the birth of life insurance the fire insurance was developed.

In 1666 A.D. after the fierce incident, many buildings were turned into ash in England. It is known from the history of insurance that many people were in difficulties. So, the fire insurance was introduced with the main objective of the providing the financial protection to the people to save from the risk and the

ruin. In 1680 A.D. Dr. Nicholas Barbon started the fire business related with the fire insurance in England. The office of Barbon was called the fire office, later name as Phoenix Insurance Company was established with the development of the fire insurance today many people, industry and businessmen are breathing the air of the pace.

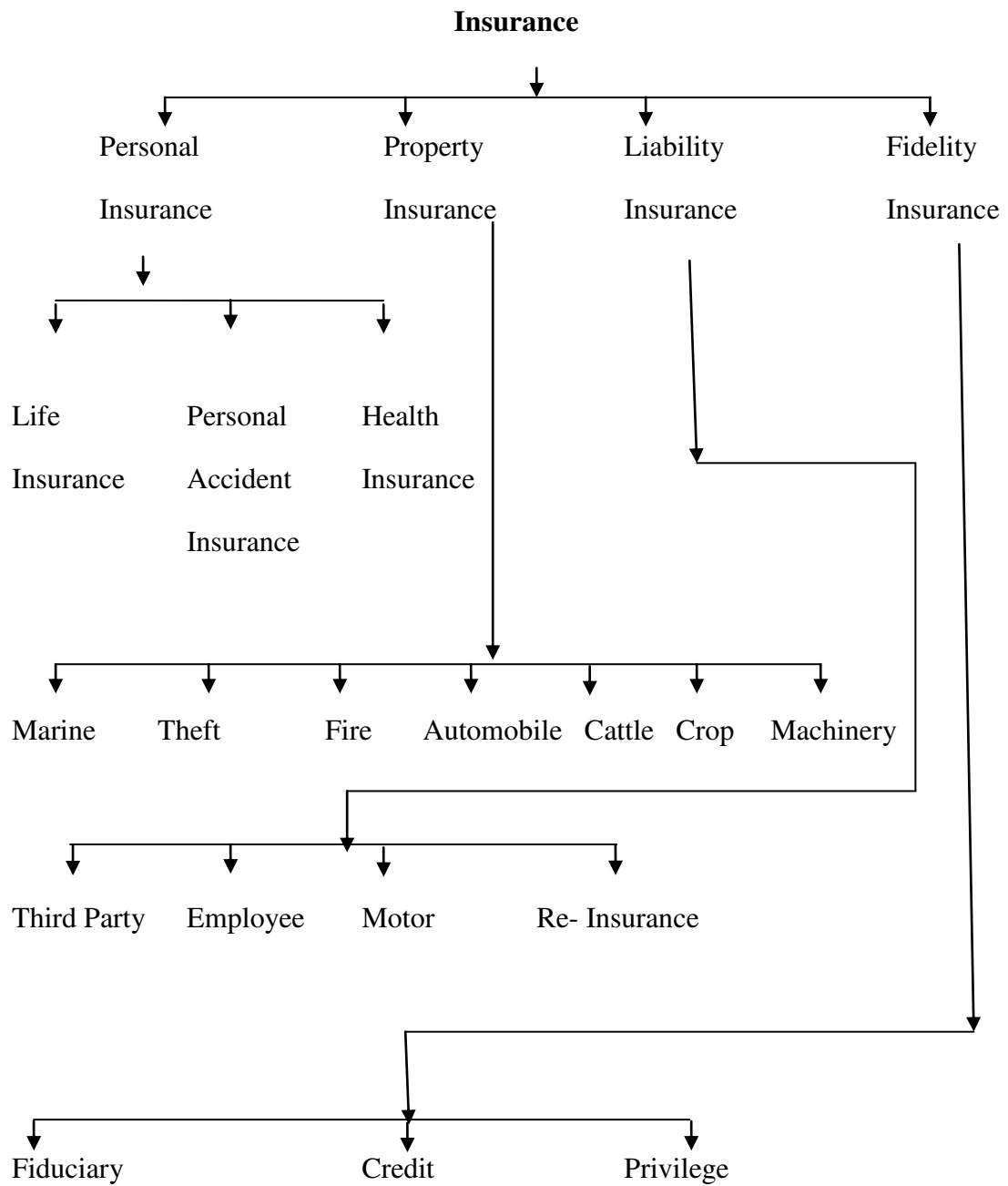
Fourth Phase: Practice of Miscellaneous Insurance

After the fire insurance, many other types of insurance came in use. Thus, by such insurance policies man is trying to be protected from many types of risks. Under the miscellaneous insurance, fidelity guarantee insurance started from 1848, personal accident insurance from 1880 liability insurance from 1875, public liability insurance from 1877, burglar and house breaking insurance from 1903, motor insurance from 1911, and aviation insurance came in practice, earthquake insurance, the vocal of the male singer and female singer, model beauty as miscellaneous insurance.

1.1.4 Types of Insurance

Nowadays, insurance has become the pillar of alertness, courage and eagerness to develop the life and living standard of the common people, industrialists and traders of the world. When insurance defined in the generic concept, it will take the form like social insurance and private insurance. But we have divided the insurance into two parts as life insurance and general insurance. Life insurance may be defined as the contract, whereby the insurer in consideration of a premium undertakes to pay a certain sum of money either on the death of the insured or on the expiry of the fixed period. General insurance considers all insurance except life insurance. However, we can classify the insurance as a life insurance and non-life insurance. We can view all the insurance under risk point of view in following way.

Kinds of Insurance from Risk Point of View



Source: *Insurance Principle and Practice*. (Mishra, 1997:82)

Life Insurance

Insurance provides protection against a wide variety of risks. However, life insurance provides sum of amount against the various risks relating to the human being body through issuing different policies. Life insurance is a type of insurance plan conducted by the insurers which is directly related with providing assurance against the economic part of total human life. It is financial instrument for providing post death resources to support survivors or pay obligations of the state of the deceased.

“Life insurance contract may be defined as the contract, whereby the insurer in consideration of a premium undertakes to pay a certain sum of money either on the death of the insured or on the expiry of a fixed period” (*Mishra, 1997: 49*).

Since the earning power of an individual is the greatest assets a person does have, it really will be the most important part of human life. Life insurance is particularly concerned with that aspect of human life. Since the insurance or assurance of a persons life is impossible because of the certainty of the death of a person once born. Life insurance only provides assurance against unseen future accident and it helps to live comfortably in retirement life. Life insurance is written to economically protect the insured against financial loss in the circumstances like living upto the age of retirement when he will not have potential earning power, protecting insured’s beneficiary if the untimely death of the insured took place, or protecting the interest of the other parties like insured creditor who are economically associated with the life of the insured. Life insurance provides a protection for two major contingencies. A man insures his life either to make provision for leaving a certain sum for his dependents when he dies, which may happen he is able to say and accumulated sufficient amount. Life insurance has several business and financial advantage. In life insurance it is provided that the insured interest amount is to become payable in the happening of death or in some cases on the attainment of certain age, whichever is earlier. The concept of Life Insurance is based on pooling the

risks of many to a group, accumulating a fund by contribution from the members of the group and paying from this fund the losses of those who suffers loss.

Non-life Insurance

Insurance, other than life and social insurance are called non-life or general insurance. The subject matter affected under it is in nature of property. The insurance company provides indemnity to the insured. Such compensation should be based on the actual value. Non-life insurance is also known as general insurance. It is a pure insurance because it can measure any risk in terms of money. General insurance is the insurance of property and liabilities risks 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 risk and it provides certainty against risk through certain sum of money. This part of insurance includes the insurance and risk transfer of the property and liability of the insured where, “property insurance against loss arising from the ownership or use of the property, include two general classifications. The first, indemnifies- the insured in the event of loss growing out of damages too or destruction of his /her property. The second form pays damages for which the insured is legally liable, the consequence of negligent acts that result in injuries to other persons or damage to their property. This is known as “Liability Insurance”. General insurance is responsible to payment of an amount to the insured. But when the incident is held by negligence of insured, the insurer is not responsible to pay any amount against risk. The insurers providing various kinds of non-life insurance policies are as follows –

Marine Insurance Policy

The oldest form of insurance, the marine insurance policy will be written to provide the security against the perils of sea. Ships sailing on are exposed to various kinds of risk. They may collide against one another, spring a leak,

caught by fire, captured enemies and seized by pirates. The ship and cargo may be lost in such a case and a tremendous loss may be caused to its owners. Such risks if not covered will greatly discourage the international trade, which is mostly sea borne. That is why the marine insurance is considered to be the land mind of modern international trade, which is indispensable auxiliary. The modified modern insurance policy provides the protection against various risks which does not belong to sea. The modern insurance policy provides the protection against inland transit loss, which is arising in the way to seller and buyer, and protection against loading and unloading also. In practice we can see following insurance policy under marine insurance: a) Ship insurance b) cargo insurance c) Freight insurance.

Fire Insurance

Fire insurance had been originated in Germany in the beginning of sixteenth century. Fire insurance policies are issued to indemnify owners of property, whether buildings or contents, against destruction or damage caused by fire and lightening. In generic form fire insurance provides indemnity for loss or damage caused by fire. Fire insurance policy may be taken on residential houses or on factories and business premises. Under fire insurance policy, if any property lost by fire the insured amount would pay as indemnity. The property should be in its full market value. The claim under the fire insurance policy is determined on the basis of present value of property. The field of fire insurance can be modified or extended to include a number of peril closely allied to fire like wind , storm, earthquake, riot and strike, damage, terrorism, explosion, landslide or else. Insurer may charge higher premium as per the nature of risk and insurance policy.

Aviation Insurance Policy

Aviation insurance is related the risk occurring due to peril, hazards or risks created by the aircraft. Aviation insurance provides the indemnity against the risk, which is created on flight, landing and the time of take off of an aircraft.

The subject matter of this type of insurance will be aircraft itself, which require very huge capital investment. Aviation insurance requires the risk of passenger, cargo, hull (plane) also. The Aviation Insurance is essential and important in aviation field. Because of huge capital outlay, individual organization operating the airlines business couldn't bear the risk associated with the aircraft and the insurance companies particularly form a syndicate to bear the risk associated.

Automobile Insurance Policy

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

Engineering Insurance Policy

Engineering insurance policy is directly related against the risk of engineering tools and technique. Engineering insurance is related with the risk transfer arrangement against peril, hazards or risk arising within manufacturing organization or within technical job sectors. A manufacturer has the risk of break down of his/her plant and machinery and may produce disqualified goods. However, Engineering insurance provides the protection against that situation. Usually under this policy there will be basic risks contracts.

Boiler Insurance

Usually, all the big and small industry has installed the boiler machine to produce steam power. Under this arrangement, the risk occurring due to explosion or damage of industrial boiler will be insured. Where the boilers are used, there is always the possibility of explosion or breakdown. Therefore, the boiler owner wants to get protection of such types of risk. In such breakdowns

the person may be injured or the property may be destroyed. At that condition boiler insurance provides the protection against the risks of boiler.

Contractors All Risk Insurance

Under this arrangement the hazards, perils and losses occurring from the mutually accepted risk class will be provided for the contractors, whether they are individuals or organizations. Under this risk class the loss occurring from natural disasters, accidents or other inevitable uncertainties will be incepted. It insures the contractors or builders financial instability though there occurs heavy loss on contract, upon which they are working.

Machinery and All Insurer Risk Insurance

Under this arrangement the loss occurring due to the damage of the machinery will be insured. Under this insurance an insured assure his/her machinery against the risk of breakdown and failure. When the machine is broken-down at that situation s/he has to bear the losses of worker wages and repairing cost too. But the machinery all risk insurance provides the certainty against such types of risk. Such policy includes financing for the failed machinery, providing financial security against the indirect cost like repairing cost, cost of the idle workers or similar losses.

Miscellaneous Insurance Policy

There exists many insurance covering different fields of risk classes. “ A number of coverages” written by ‘causality 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” (*Maher & Cammack, 1974:344*).

Household Policy

Under this policy insurer writes the insurance against the risk of personal house/building and other properties. In this policy, the loss occurred due to the natural disaster like earthquakes windstorm, lightening and the loss occurred due to the other disasters like earthquake windstorm, lightening and the loss occurred due to the other disasters like vandalism; riot is financially protected from the insurer if this insurance policy is written.

Medical Aid Scheme Insurance

Under this policy insurer provides the financial support against the health problem to the insured. In this policy, insurer will be responsible to pay the all medical expenses for the insured if the insured needs medical treatment unexpectedly within the insurance written period.

Fidelity Guarantee Insurance

The word stays at the faith. But the fidelity guarantee insurance is attended in the case of fraud and dishonesty. Under this policy the owner of the firm, organization gets the guarantee against the fraud or betrays or dishonesty caused by the employees like accountants, cashiers distributors etc. The insurer fulfills the loss occurring due to the discard of the fidelity of the beloved person “ banks saving and loan associations, and other business in which employees have access to large sums of money in variably carry fidelity bonds for protection” (*Welshman & Meliche, 1980:214*).

Workmen’s Compensation and Employers Liability Insurance

This insurance is a means of motivation to the worker because a firm/organization gives indemnity to the worker if they get occupational accident. For this purpose, the owner of the firm on behalf of the worker will purchase workmen’s compensation and employer’s liability insurance. In this policy the insurer provides the financial support if the worker meets with the

accident within the working place and time. This scheme will be written by the owner of the firm to secure from the unexpected claims occurring due to the occupational accident that took place on the work place. Workmen's compensation and employers liability insurance assumes the expenses of compensation and provide for medical, surgical and hospitalization requirements as determined by the compensation laws of the state.

1.2 Focus of the Study

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 outflow of the fund at adjustable return.

“Investment may be defined broadly as the employment of capital with the aim of producing again in the shape of income or appreciation in value or both”
(Dowry & Fuller, 1950: 5).

Investment is required to both new and established companies. Generally, the organizations use their fund to owned land, building, machines etc. But it is not only sufficient; there are so many sectors to invest for a business firm. Investment is the use of resources, particularly the financial resource, with the aim of reproducing in the firm of future income or appreciation in the value of the resources or some times.

Investment is the source of capital formation as well as gain return. Every organization invests their fund with profit motive. Because all financial institution and intermediaries require working capital and certain current assets to run and operate their organization, so most of the financial organizations collect a required the return of their investment.

For the purpose of investing, investment pattern is the formulation of the investment strategy based upon the organizational and financial character of the particular firm itself. It will be the primary 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 at the optimized or agreed mixture of risk return from the investment.

We know insurance company is also one kind of the financial institution. Since it is also involved in financial activities, insurance company collects fund as premium and make investment. Premium means a certain charged amount, which is paid by the insured to the insurer for bearing risk and uncertainty. Premium is of two types- Net premium and gross premium. The two premiums are further sub-divided into two parts. They are single premium and level premium. Usually the insurance companies follow only one premium types with accordance to their nature and corporate objective. This study is concentrated on the premium collection and investment position and aimed at evaluating and analyzing the premium collection trend and investment.

1.3 Statement of the Problems

Nepalese insurance companies are successful public enterprise of Nepal, which are still running in the insurance business without suffering any losses from the date of establishment till now. Subsequently today there are 25 insurance companies operating their service and activities. Nowadays, international insurance companies are also opening in our country to participate in insurance business. An overlook on the balance sheet and profit and loss account of insurance company reflects that the company is earning profit each year; however it is not significant and satisfactory against the volume of transaction. There are number of constraints that hinder the development of insurance. Limited market opportunities, low per capita income and lack of knowledge of insurance poses a serious threat to the insurance business in Nepal. The competition in the insurance business has become more intense. Moreover, increasing violence and terrorism has been threatening the insurance business. Therefore the insurance companies should be very much cautious about their business operation.

The big problem of such institution is to collect premium and mobilize in suitable sector. Nepal is an underdeveloped country and more than 70% of people live in village and more than 40% are illiterate. The geographical situation also doesn't favour for the expansion of insurance activities. Most of Nepalese people don't have faith on insurance and also do not have living standard to get insurance services. Poverty is also the main cause in dropping the insurance business. The main problem of this insurance company is finance and collection of premium fund. Finance means the source of funds and its proper utilization. This study aims to analyze and find out answers through various methods of analysis and techniques. Specifically, the main issues of the study are as follows:

- What is the position of the premium collection and claim settlement of past five year?
- What is the trend of premium collection and investment?
- What are the future prediction regarding premium collection and investment?
- Is there any relationship between premium collection and investment of the company?

1.4 Objectives of the Study

The basic aim of this study is to define current situation of Shikhar Insurance Company Ltd and find out the premium collection and investment position of it. Here it lays the specific objectives of this study.

- To evaluate ratio of the individual Premium Collection to Total Premium collection and individual claim to total claim by ratio analysis.
- To analyzed the trend of insurance premium collection last five years.
- To Future prediction premium collection and investment of fund.

- To evaluate relationship between premium collection and investment of fund.
- To provide appropriate suggestions.

1.5 Significance of the Study

Insurance is a legal contract that protects people from financial cost resulting from loss of health, loss of life, law suit or property damage. It provides means for individuals or societies to cope with some of the risks faced in everyday life. People purchase contract of insurance called policies from a variety of insurance organization. Almost everyone living in modern industrialized countries buys insurance. For instance, law in most states requires people who own a car to buy insurance before driving it on a public road. Lenders require anyone who finances to purchase home or car with borrowed money to insure that property. Business partners take out life insurance on each other to make sure that the business will succeed even if one of the partners dies.

The process of insurance has been involved to safeguard the interest of people from uncertainty by providing certainty of payment at a given contingency. It doesn't serve the end of individuals but tend to spread through and to transform our modern social order. From an institutional viewpoint, the insurance companies are primarily aimed at providing the security against definite risk for an individual or organization. However, as supplementary to their basic aim the insurance perform as the financial intermediaries too. The insurer will have a huge amount to invest, which they collect as individual savings or as the cost of being insured. So, the study analyses the premium collection and investment pattern. This will show the fund's actual scenario. Insurance company need to soundly mobilize its collected fund. Thus, it would be better to evaluate the condition of premium collection and investment pattern of the company. It is also needed to disclose the utility of insurance in Nepalese prospects. This study will highlight the investment sector of insurance fund, policy of insurance scenario of premium collection and investment too. It is the study on

collected premium under various policies which put light on what are the weaknesses and how to improve them? The study is important itself because it is the study of the heart of insurance system.

Now-a-days, insurance is a common business, but the concept of insurance is not that old in Nepal. Liberal economic policy has been adopted and government has emphasized on privatization policy. When the policy breaks the monopoly system it brings competition in insurance business. Hence, so many private insurance companies have been opening up with cut throat competition in this sector. Because of such types of competition, management has to be made more efficient; and the premium rate has to be reduced. Reduction in rate brings the strong possibilities of reduction in profit volume, but at the same time can make people motivated to insure. For seeing this fact, this study concerns on analyzing about premium collection and investment related matters among the insurers, which is beneficial to insurance business.

1.6 Limitations of the Study

The study aims at findings the facts and the trend or pattern of the investment and premium collection of Shikhar Insurance Company Ltd. During the report preparation there were some boundaries which cannot be ignored. These boundaries are called as the limitations of the study. Following are the limitations of the study.

- Even though the fiscal year 2069/70 has already been finished, it doesn't includes the data of fiscal year 2069/70 as the company has not completed its audit at the time of thesis making.
- It includes the premium collection and investment position of Shikhar Insurance Co. Ltd. only the period of past 5 years.
- This study is based on the secondary data also which are collected from the annual report, reports of Insurance Board, journal, article and other available records.

- This study has not included overall condition of Shikhar Insurance because the study will focus only on relationship of premium collection and investment.
- This is the case study, so it is not applicable all types of insurances companies.

1.7 Organization of the Study

The research study has been organized into five chapters namely.

Chapter-I Introduction

The introduction chapter provides general information and concepts of insurance, premium collection and investment. This chapter gives a brief picture of what is going to be studied, why the study is important and what are the limitations of the study.

Chapter - II Conceptual Framework and Review of Literature

Review of literature deals with the general information related to the study. It deals with the theoretical concept of insurance premium collection and Investment. This chapter gives definition, meaning and need of premium collection and investment in the Insurance Industry.

In this chapter, I have included and discussed couples of articles written by the foreign experts in the related field (Insurance), which will further throw some more light in the understanding of the related subject vividly. All the articles that I have so selected shall put some light into different facets of the insurance sector.

Chapter - III Research Methodology

For any type of study, a sound research methodology is necessary. Research is the process of systematic and in-depth study or search for any particular topic, subject area of investigation, backed by collection, compilation, presentation

and interpretation of relevant details of data. It is careful search or inquiry into any subject matter, which is an endeavor to discover or find out valuable facts which would be useful for further application or utilization.

Research Methodology refers to the conceptual structure with in which the research is being conducted. It is a way to solve the research problem systematically. It facility the research work and brings reliabilities the research work and validity on it. It discusses the procedure employed on study including data collection and analysis. A research work should follow the scientific methods while collecting the data and analyzing them.

Chapter - IV Data Presentation and Analysis

It deals with the issues identified in the introduction chapter. This is the major part of the whole study in which collected data are analyzed and interpreted by the help of the financial and statistical tools. Major findings of the study are also discussed in this chapter.

Chapter-V Summary, Conclusions & Recommendations

This is concerned with the summary, conclusions and recommendations. This is suggestive to all the concerned authorities and the researchers. Conclusion of the whole study is in this chapter.

CHAPTER – II

CONCEPTUAL FRAMEWORK & REVIEW OF LITERATURE

2.1 Conceptual Framework

The world today is full of risk. Moreover, the development of sophisticated technology and different scientific innovation has changed the human life. It has made the whole world a global village. But it has also increased a great deal of risk. Some sort of risk is beyond the human control. To reduce such type of risk, the idea of insurance is developed. Insurance is a way of reducing uncertainty of future outcome. It provides financial security against risk. Before getting into the concept of insurance and its major areas one must be clear to understand the risk and risk management.

Risk

Risk means uncertainty about future losses, or in other word, the inability to predict the occurrence or size of loss. In general risk can be defined as the probability of the occurrence of unfavorable outcomes. There are different meanings of risk. It can be defined as statistical terms and in insurance terms too. In the context of insurance, it takes uncertainty of occurrence of economic loss. Thus, people who want to safeguard lay insuring them to the insurance companies.

Risk, as a term, will be the composite of perils, loss and hazard which are the intimate parts of the term risk.

Peril

A peril is the cause of loss. Peril will be the matter that is capable of causing loss to the physical or human condition. Peril may be in the form of wind storm, explosion, collision, pre-mature death, accidents etc.

Loss

Loss is an untimely decline in value or disappearance of value; it is the undesirable result of risk, usually in an unexpected or least relatively unpredictable manner.

Hazard

The acts or condition that increases the likelihood of a loss is termed as hazard. It may be the condition that may create or increase the chance of loss from a given peril.

Risk Management

After having the concept of risk it is important to know about risk management. Risk management is the systematic and efficient handling of pure risks. In simple words, risk management is the planning, organizing, directing, controlling process of risk. In practice risk management is the device and process of decision making for either personnel or organizational risky situation.

“Risk management is a general management function that seeks to identify, assess and address the cause and effect of uncertainty and risk of an organization. The purpose of risk management is to enable an organization to progress toward its goals and objectives in the most desirable, efficient and effective path” (Williams & Young, 1995: 27).

2.2 Premium

Premium is the certain amount of payment, which is paid by the insured to the insurer for bearing uncertain risk, peril or hazards. Usually premium is calculated under different method as considering different affected factor. : “premium can be ascertained either by numerical rating system, evaluating each and every item and marks are assigned to them according to their merits and degrees of influencing risk” (Robinson & Wrights, 1968:87).

In fire insurance rates are quoted on per mille basis and are applied to the sum insured to produce the premium. In marine cargo insurance and burglary, the rates are quoted on percent basis. In workmen's compensation insurance rates are quoted on per mille basis and are calculated on the wage roll of employees. In the motor vehicle insurance, the method of premium calculation varies according to the types of vehicle and the type of cover. The premium is based on the cubic capacity of the vehicle, estimated value of the vehicle and the geographical area in which it is used. The third party liability policies are rated only according to the cubic capacity of the vehicle. Generally, the insurer charges higher premium for higher riskier insurance and lower premium for less riskier insurance policy. The premium is always directly affected by the nature of risk, expenditure of office, other expenses and written time period.

2.3 Investment

In general, investment means to flow cash in different sectors at profit motive. Investment in its broadest sense means the sacrifice of certain present value for (possibly uncertain) future value.

In pure financial sense "the subsequent use of the term investment will be the prevalent financial sense of the placing of money in the hands of other for their use, in return for a proper instruments entitling the holders to fixed income payments or the participation in expected profits" (Dowie & Fuller, 1950: 6).

Collecting the premium from the clients by issuing the insurance policies is one of the most important functions of any insurance companies. The main sources of fund are premium and the income from the investment. Premium collection and investment are the main functions of every insurance company. So success and failure of the insurance company depends upon these two tasks. Premium is calculated by the insurance company under the tariff by insurance board. The tariff is fixed by observing risks involve in that insured. Here applies higher the risks higher the premium.

Insurance is a double edged weapon. On one hand it provides capacity to the financial security against future losses and on the other hand it provides security to the business. In other words, insurance is one kind of security in a real sense. The industrial and commercial development is not possible unless they get a type of security, their capacity would be idle and unproductive if kept in a vault. The investment opportunities would be the other hand, make it possible for the industrialists and businessmen to reap good profits.

Investment as a term is quite confusing and multi-faceted. We can define the terms of investment at manufacturing and trading forms “those long term expenditures that aim at increasing plant capacity of efficiency or at building up goodwill, there by producing an increased return over a period”.

Experts define the terms of investment from economic viewpoint that investment as a productive process by means of which additional are made to capital equipments. For the study of financial institution, the investment and investment problem will 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 further source of income. Thus, resources in such a way so 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 to be a procedural task. It must follow a definite investment process. This definitely begins from the formulation of proper investment policy.

Since, we are dealing with the insurers whose primary function is to accept other risk against some benefits in the form of the premium; the investment problem will be the employment of available fund. Such fund will be the portion of others claims over them and it should be invested with the objective of attaining the gain whether in the shape of income or appreciation in value. The insurance companies handle investment management as secondary function or a supplementary of its major function. Therefore, they need to

coincide with the insurance business and investment management. Since they trade on the claims of others, their investment management must enhance the benefit of their policyholders, too. The policyholders expect to get the enhanced level of benefit from the insurer, which otherwise couldn't have been possible if they individually involved into saving- investment process, which is quite reasonable and rational too.

Though, the insurers have advantage of investing the individual saving collectively, they cannot invest all their above mentioned inflows, as 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. Infact, insurer only gets a portion of their inflows as investment fund after arranging various items as per act. The insurer gets the investment funds after making various provisions, various expenses and other else. Such investment funds includes the claims of the owners, the claims of the policyholders as the premium payments or appreciation in value as interest, the surplus that retains within the firm and other inflows.

2.3.1 Investment Policy

Generally, policy will be a plan or course of future action that are proposed to be adopted, regarding a particular field of activities. Similarly, investment policy will also be the plan or course of future action that are proposed to be adopted regarding the investment. The investment policy varies according to the field of operation relating particular firm or individual. Thus, investment policy will be to formulate the investment strategy based upon own objective and nature of the investment fund and their future use. Such investment policy must be balanced as of the Risk- Return character, where the risk includes the stability in value, liquidity, marketability of the investment or similar inconveniencies caused by the readily unavailability of the fund and return includes the appreciation in value of the investment and the regular income or similar benefits. Investment policy must also concentrate on the component of investment and usually such components will be capital markets instruments

like common stocks or bonds and financial/money markers instruments like commercial paper, government securities or some less than one year maturity bonds. Further, the investment policy must also indicate the use of the variable income components or fixed income components where, variable income components are those where neither the principle nor the income are contractually set in advance where as fixed income components are those which promises a stated amount of income, periodically.

Such investment policy will be the outcome of various interrelated considerations. Regarding the insurance business also, it will be the outcome of various principles of investment that need to be followed.

2.3.2 Principles of Investment

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

Investment policy will be the outcomes of various interrelated considerations. Regarding the insurance business also, it will be the outcomes of various principles and other affecting matters along with the basic principles of investment that need to be followed, because investment policy is formulated under regarding the principle of investment.

“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” (Shim & Siegel, 1989: 256).

2.3.2.1 Security of Principle

The safety and security of principle is a primary and basic function of investment policy. The insurer should never invest its fund in these securities, which are subject to too much depreciation and fluctuations because a little different 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. Since the insurers' primary aim will be to provide the “risk financing assurance”, they need to be prompt in claim payments. Besides, the insurers mostly trade on others claim over them, especially claims of the equity holders and policyholders. Therefore, they should always be concentrating not to let decrease of go-off the value of their claims. Since investible funds are also derived from the claims of the owners or policyholders, the security of such assets will be an essence to be successful in “risk financing assurance” as well in the “collective saving- investment process”. Regarding the insurance business, this principle is enforced by the federal state laws, to “the basic principles for limiting the investment to those with high margin of safety not only is imposed on the companies by the system of state investment laws described presently it has long being recognized as paramount consideration by the insurance companies themselves (*Life Insurance Company; 1969: 60*). To attain the principle of security the investor needs to analyze the portfolio matching thief funds character and the line of insurance business. To maintain the secure investment holding the insurer need to concentrate on the secured landing; which may be against some assets of the borrower or by the illegal consideration. The secured investment provides the good/sweet return and liquid cash flow whenever required. In other instances, the safety of the investment is 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 his affairs efficiently and his willingness as well as ability to repay".

2.3.2.2. Procedures of Investment

Investment policy is the outcome of various considerations. Regarding the insurer, investment policy and selection criteria will be the factors to be considered while investing the fund.

Investment Criteria of Non Life Insurers

Category of Investment	Investment Sector	Investment Percentage	Remarks
A.	Debentures of Govt. & Central Bank or Debenture/Saving Certificates guaranteed by Govt.	In any condition, not less than 15% of total investment should be invested in Category 'A'.	
B.	(1) Fixed Deposit of Commercial Bank	(1) In any condition, not less than 35% of total investment amount should be invested in FD of commercial banks.	(1) Maximum of 20% of the total investment amount can be invested in the fixed deposit of the same commercial bank which has been in operation for at least 3 years and has done periodic audit and maximum of 5% of the total amount can be invested on the basis of appropriateness in case of the commercial bank which has not reached 3 years operation.
	(2) Fixed Deposit of Development Bank	(2) Not more than 20% of total investment amount.	(2) Maximum of 5% of the total investment amount can be invested in the fixed deposit of the same development bank which has been in operation for at least 3 years and has done periodic audit and maximum of 2% of the total amount can be invested on the basis of appropriateness in case of the development bank which has not
	(3) Investment in Citizen Investment Trust (In Ekanki Nagarik Lagani Plan)		

			reached 3 years operation.
Compulsory Investment (A+B)	As specified above	In any condition, not less than 65% of total investment amount.	
Optional Investment (C)	(1) Preference Shares (not transferable to ordinary shares), Secured Debentures & Other Debentures of commercial banks, development banks and finance companies	(1) Not more than 10% of total investment amount.	(1) Maximum 5% of total investment amount or 10% of the paid-up capital of banks or finance companies, whichever is lower can be invested in preference shares (not transferable to ordinary shares), secured debentures and other debentures of commercial banks or development banks or finance companies.
	(2) Fixed Deposit of Finance Company	Not more than 15% of total investment amount.	(2) Maximum of 3% of the total investment amount can be invested in the fixed deposit of the same finance company which has been in operation for at least 5 years and has done periodic audit and maximum of 1% of the total amount can be invested on the basis of appropriateness in case of the finance company which has not reached 5 years operation.
	(3) Ordinary Shares of Public Limited Company or Public Limited Housing Company	Not more than 5% of total investment amount.	(3) 2% of total investment amount or 10% of the paid-up capital of the public limited company, whichever is lower can be invested in ordinary shares of public limited company.
	(4) Ordinary Shares of Public Limited Company (except above mentioned)	Not more than 5% of total investment amount.	(4) 2% of total investment amount or 10% of the pre-paid capital of the public limited company, whichever is lower can be invested in ordinary shares of public limited company.

Source: Beema samiti directives (www.bsib@org.np)

- In case of term investment, upon maturity, reinvestment should be done as specified above.
- If debentures of Govt. and Central Bank or debentures/saving certificates guaranteed by Govt. are not available, remaining part of investment to be made in those sectors should be invested in FD of commercial banks and same should be informed to Insurance Board.
- In case of every new investment and renewal of investment, specified limitations should be followed.
- Investment should be made for overall benefit of the Insurer.
- While determining the amount to be invested in FD of banks, the amount deposited in the Call Deposit or any other interest bearing account of the bank should also be counted.
- While investing as per Insurance Board's directives, it should be done conscientiously and failure to do so will hold the Board of Directors as responsible.
- Banks scheduled by Nepal Rastra Bank of not having sufficient liquidity should not be invested and should be withdrawn the past investment in those institutions (www.bsib@org.np)

2.3.2.3. Profitability

Generally, the insurance companies or insurer obtain their name and era through paying claim in simple procedure at 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 profit. The funds must be invested in the higher yielding components. The rate of return must be matched with the rate of return to be

provided on the policy reserve or simply the externally achieved return must exceed the return to be allocated internally.

“In considering yield in realization to company’s operation, it is important to realize that the investment income must provide the addition to policy reserve in accordance with the basis upon which premiums and reserves are calculated and that the effective amount of such income will be partly determined both by the expenses of investment and by capital gains or losses” (*Maclen; 1999: 261*).

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

2.3.2.4. Diversification

Another principle of the investment will be the diversification of fund. It can be either in the form of diverse components or in the form of different field of business or in the form of different geographical regions. An insurer 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. Diversification can also be a way to achieve safe and secure investment assets. Diversification is needed as an investment

principle because such diversification will reduce the risk of being the fund insecure in aggregate and the rate of return can be maintained in a level too.

2.3.2.5 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, any one unseen time there will be the requirement of fund. Thus, the insurer has to invest under the principle of liquidity. It is the principle required to match the function of insurer as financial institution against the function of insurance service provider. Liquidity represents convertibility of investment into cash without undue loss of capital the insurer needs to maintain working cash and balance in order to carry out the normal transaction of receiving payments and making disbursements. Further they need to finance the unforeseen claims occurring in the form of matured contracts. Therefore, insurer needs to maintain the liquidity at their investment. Beside these, the liquidity will also enable the insurers to catch up the speculative benefits occurring on some special occasion. To maintain the liquidity principles with respect to the investment, the insurer need to concentrate on the investment companies which holds the property of being very near cash or cash and bank balance. The principle of liquidity is against the principle of profitability, because the idle cash will earn nothing and invested cash will have no liquidity.

2.3.2.6 Marketability

Another important principle of investment for an insurer will be marketability or convertibility. The principle of marketability suggests the insurer to invest in that sector where easy possibility of cash convertibility exists. Insurer may not have any information about the requirements of funds to pay the claim of the insured. So, they need to invest in those sectors where marketability exists. The investible funds will be the claim of policyholders or the owners and they are payable on the specified condition or on the specified time. Generally, such timing or the condition will be uncertain. Therefore, it is not always possible to

predict exactly how much fund will be needed to replenish the claims arriving due to uncertainties, thus, it is quite important to concentrate on the marketability with respect to the investment components. Therefore, the convertibility or marketability principal must match with other principle as well as with the line of insurance business and the nature of the required fund.

2.3.2.7 Other Factors Affecting Investment Policies

Beside above-mentioned basic principles, some basic factors really affect the investment policy and composition of the components. However, their degree of affecting power may vary. The other factors that have significant affecting powers are Regulatory Provisions, Management Perception, and Present Composition of the Investment Portfolio and Availability & Accessibility of the Investment Components.

2.4 Investment Policies and the Insurers Operating under Difference Insurance Industry

Usually, all the insurers follow the main principle of investment under investment policy. The principle of investment is based on the nature of business and the line of insurance. An insurer has written the different policy in different policy insurance business. Therefore, they include the different investment policy to invest collected fund in accordance to the character, nature and time period of policy. Further, the legal provisions regarding the investment components and enforcement on the kinds of component also affect the investment policies of insurer.

Since the life insurance and general insurance differ in their risk assurance character, their claims, nature, volume and nature of their policy holding of each type, the timing of insurance claims relative to payment of premiums etc, both differs with respect to the investment policy and the choice among the various components of investment. In this study also, both are treated separately.

2.4.1 Life Insurance and Investment Policy

Life Insurance business is a long period coverage insurance business. An insurer can mobilize the collected premium fund of life insurance in long term. Because they do not require the fund in short term. An important attribute of the insurance fund is that they are of the long term nature. The claim against them by insurance fund is that they are of the long term nature. The claims against them by the policyholders materialize in a fairly regular pattern over time i.e. usually upon the death of the insured or at the maturity of the endowment policy. Insurer written the life insurance under different policy has perhaps a nature of long period like whole life policy, Endowment policy etc.

“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 chief 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 canceling their policies or for loans secured by the cash surrender value. This aspect of insurance business desires the investment policy, because the fund of life insurance in 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 the fulfillment of contractual obligation to policyholders. (b) To make available life insurance protection at a cost as low as possible. To meet these objectives an investment must give promise of (a) certain return on principle (b) a stable and responsible income yield”(*Magee, 1959: 743*).

2.4.2 Non- Life Insurance and Investment Policy

The Non-life or property and casualty insurance are the kind of institution, which are specially purposed to transfer the property and liability risk of others against some benefit. "Unlike life insurance companies, Property and Casualty insurance companies do not collect saving, they sell service, and their liability

do not represent firms dollar (amount) obligations to policy holders” (*Dougall and Gaumnit,; 1980: 99*).

Though these kinds of insurers are not expected to function as financial institutions at all, they need to involve into the 'saving-investment process'. It is so because they try to be in more profitable position or earn a portion of inflow for risk financing, beside their regular profitability arriving from being a composition of larger number of exposure units of same risk class to gain surplus from financing unfortunate few from the premium contribution of the fortunate many. Further, being the institution of the money and capital market, they do not want to let their fund being idle. For these reasons, the investment will be significant for them, too.

Since, this type of insurance are the risk financier for the insured against the loss on subject matter and the third party obligation, their field of operation will be quite unpredictable. The financial burden filling upon the insurer is also unpredictable. Further, this type of insurance contracts includes the major part of its liability as unearned premiums, which will be collected on advance. Such advance collection system also makes unpredictable demand of the funds.

"Liquidity is of much greater consequences than it is to a life insurance companies” (*Dowrie & Fuller, 1950: 236*).

Regarding the investment policy of the insurers the liquidity, marketability, safety principle matters more than the maximization of the yield. Therefore, this kind of insurer's investment contains major part as the short-term money or capital market instruments and the long –term maturing components are used in least portion. The insurer can invest their permanent funds or earned funds like equities, surplus etc. in the components like corporate capital components, mortgages or real estates. These components bear the higher yield either in the form of interest or dividends or in the form of the capital gains. However, while investing on these kinds of components the proper security analyses need to be done to maintain the safety of the principle. The other portion of the funds i.e.

the portion of funds including the unearned premiums, loss reserves, need to be invested in the short term maturity components like Government securities having short maturity period, commercial papers, deposits on the banks and financial institutions.

2.5 Related Studies and Review of Journals & Articles

2.5.1 Review of Journal & Articles

Shrestha, (1991), in his article *"Rastriya Beema Sansthan Changing Investment Portfolio"*, has attempted to analyze the investment portfolio holding pattern and its effect to financial performance of RBS. He found, the dominant part of total volume of investment portfolios in development bonds of Nepal Government and a very negligible figure of total investment in share of other companies, due to his fact, the contribution of income from development bond to total incomes from the portfolios is dominant part the creation by a sound investment project is very crucial to RBS to minimize return rather than always taking same traditional policy of investing in Govt. Securities fixed deposits, certificates and others. But the time has come for the Sansthan to cope with increasing competition to tap profitable investment opportunities by taking initiating in new industrial ventures for encouraging capital formation in the country.

Shrestha, (2002), in his article, *"Insurance Business: Opportunity and Threats"*, has stated that the Govt. properties including corporation is insured to Govt. Co. is priority basis, it is difficult to pursue in such corporation and Govt. Offices, so the environment is not very positive. Only lip service from Govt., the economic growth of the country is very slow. People cannot afford to pay insurance premium. The sense for insurance unawareness and unconscious mass is very high. Thus insurance business is very challenging. One has to create the market tremendous market potentiality and opportunity is felt due to the right person. After the formation of Nepal Insurance Association, The companies can plead their problem jointly to the Govt. and should to

forward for the interest and benefit of insurers. This platform should be taken as an opportunity.

2.5.2 Review of Previous Works

As far as I am concern, very few number of thesis studies has been made regarding to insurance business of Nepal. However; various experts, authorities, MBA and MBS students have conducted number researches relating the insurance business. Among them only few are related with the investment aspect of the insurer and insurer business. Among them least are related to the premium collection and investment.

Ghale (1998) had conducted a research topic on, "*A Comparative Financial Analysis of Nepal Insurance Company and National Life and General Insurance Company Limited*". This study is descriptive and analytical too. Ghale uses both primary and secondary data in his study and analyzed the financial position, liquidity position, profitability position and other.

The main objectives of thesis study were:

- To evaluate the liquidity position of both insurance companies.
- To evaluate the General Insurance Company and Nepal Insurance Company for the year.
- To review the recent financial position and make suggestion to remove obstacles in making decision regarding financial management.

The major findings were:

- Premium collection of both life and non life insurance shows growing trend of this business in the recent year of the study period.
- The net profit percentage of Nepal Insurance Co. Ltd. is found better than Nepal Life and General insurance Company Ltd. nut the liquidity position of both companies are found better.

- Current assets turnover ratio of NLGI followed decreasing trend, which is the indication that the efficiency of utilizing current asset deteriorated over the period due to negligence of management. The average turnover on current assets on NIC was 24 paisa whereas NLGI's return was 15 paisa.
- Changes in insurance premium collection of NIC ranged about 18.04% to 36.64% whereas the same of NLGI ranged about 17.10% to 61.97%. High fluctuation is observed in NLGI as compared to NIC.

Aryal (2000) had conducted a research topic on, "*Evaluation the Financial Performance of NIC Ltd.*" He had attempted to provide independent views of the financial performance of NIC and focusing on the challenges ahead of NIC. The major objective of the study is to evaluate the financial performance of NIC Ltd.

The main objectives were:

- To highlight various aspects relating to financial performance of Nepal Insurance Company Ltd.
- To study the trend of premium collection and payment of claim and utilization of available resources.
- To analyze the financial performance through the use of appropriate tools.
- To provide a package of suggestions and possible guidelines to improve the insurance business based on the findings of the study).

The major findings were:

- The company's outstanding premium in the 10 years period jumped from Rs. 2.38 million in 2046/47 to Rs. 30.11 million in 2055/56.

- The re-insurance premium is increasing trend except in FY 2047/48. The average outstanding re-insurance premium in FY2046/047 is Rs. 11.48 million and Rs. 37.98 million in FY 2055/56.
- The total claim to net premium ratio come to the highest 38.65% in FY 2055/56 and to the lowest 10.16% in FY 2046/47, taking the deviation from average ratio of 10 years during the study period, i.e. 11.85%.
- The investment and income from investment have been increasing year by year. The NIC has not practiced risk diversified investment principle but adopted traditional investment portfolio.
- The raised funds are invested indifferent area i.e. HMG securities, fixed deposit, other investment, purchase of fixed assets and repayment of loan.

Pathak (2008) had accomplished a thesis on, "*Evaluation of Financial Performance of Nepal Insurance Company and Himalayan General Insurance Co. Ltd.*" The primary objective of the study was to analyze and evaluate the financial performance of HGI and NIC.

The objectives of this study were:

- To review the existing situation of sample insurance companies.
- To analyze financial performance of both insurance companies.
- To provided recommendation on the basis of findings.

The major findings of this thesis were:

- HGI and NIC have not been following better policy to keep sound liquidity position.
- Creditors of both companies are in safe side investment in total assets through net worth of-HGIC is higher than NIC. The degree of financial risk of NIC is higher than HGIC.

- HGIC has mobilized its assets effectively than NIC.

The profitability ratio, which measures the insurance, companies capability to earn profit. The profitability ratio shows the following position of both companies.

Change in insurance premium collection of HGIC ranged about 6.6% to 196.84% where as the same NIC ranged about 9.7% to 34.54% high fluctuations are found is HGIC than NIC.

Khanal (2010), had conducted a research on, “*Insurance Industry in Nepal; A Comparative Study on Premium Collection and Investment Pattern*” where he uses both primary and secondary sources of data. The period covered was for 2060/61 to 2065/66.

The basic objective of this thesis was to examine how far the different insurance premium are collected and invested them properly.

The major objectives of the thesis were:

- To compare the various companies premium collection and investment pattern.
- To examined the trend and pattern of investment and premium collection.
- To analyze the management opinion instance to premium collection and investment
- To analyze the current situation of the Nepalese insurance business.

Khanal used many financial and statistical tools like ratio analysis, standard deviation, and co efficient variation etc. to analysis his study.

The main findings were:

- The premium collection rate of Nepalese insurance industry has been fluctuating trend.

- The insurance industry has not consisted in the investment proportion and various investment sector and investment portfolio too.
- Among the insurance policy, the ratio of premium collection is higher in fire insurance and lower in engineering policy.
- The co-efficient of correlation between premium and investment of Nepalese insurance industry has high degree of positive correlation with signification relationship.

2.6 Research Gap

There is close relationship between Khanal's study and this study because both studies are about premium and investment. Both studies use five years data to analyze premium and investment. There are gaps between these studies also. Khanal emphasis the investment patterns but this study emphasis on premium collection and investment position. Khanal uses all non life companies but this study is based on single a non life insurance company.

Ghale's study and this study both dealt with NIC (General Insurance Company) and NLGI (Under writes both life and general insurance business) but Ghale analyzed financial performance and this study analyzed premium collection and investment position.

Ghale emphasis financial tools (ratios) and ignores statistical tool like Correlation. Since, this study and Ghale's study is related to different type of two insurance companies some difficulties will arise in analysis of data. Ghale's study was comparative but study is not comparative.

The relationship between Pathak and this thesis are only on conceptual sector because; both studies are on insurance business. Pathak focuses on financial performance and he includes in his study premium collection and investment position also. As a whole, the thesis is related because, premium collection is the major tasks of all insurance companies and investment properly is the second major task. He focused his study on financial performance.

This study and Aryal's study is not actual related because Aryal gave emphasis to evaluate the financial performance of only one insurance company but this thesis emphasis premium collection and investment position of insurance company. Financial and statistical tools used to analyze the study are little bit same except some unfitted tools.

CHAPTER – III

RESEARCH METHODOLOGY

3.1 Introduction

For any type of study, a sound research methodology is necessary. Research is the process of systematic and in-depth study or search for any particular topic, subject area of investigation, backed by collection, compilation, presentation and interpretation of relevant details of data. It is careful search or inquiry into any subject matter, which is an endeavor to discover or find out valuable facts which would be useful for further application or utilization.

This study aims at presenting, evaluation and finding about the investment position, premium collection condition and investment return of SICL. The study will draw an actual scenario of investment position and premium collection condition of SICL. To accomplish this goal, the study follows the research methodology described in this chapter as such.

Research Methodology refers to the conceptual structure within which the research is being conducted. It is a way to solve the research problem systematically. It facilitates the research work and brings reliability to the research work and validity on it. It discusses the procedure employed on study including data collection and analysis. A research work should follow the scientific methods while collecting the data and analyzing them.

This study is based on secondary data. Information will be gathered from various published annual reports, journals, Newspapers, Reports of Insurance Board and other published and unpublished documents related to this study.

3.2 Research Design

A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with

economy in procedure. It is the plan and formulation of investigation idea and strategy so as to obtain answers to research questions and to control variance.

Research design is the main part of any research work. It is the preplan of any research or thesis work. “A research design is the management of condition for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure” (Selltitz & Abbociates, 1962).

To achieve the objective of this study descriptive and analytical research designs have been used. The research is so designed that the analysis and interpretation of the secondary data relates to the evaluation of past behavior of the insurer relating to the premium collection and investment position of SICL.

3.3 Populations and Sample

The large group about which the generalization is made is called the population under study, or the universe, and small portion on which the study is made is called the sample of the study (Shrestha & Silwal , 2064: 78).

In this study, all the financial statement published by the concerned company from the beginning till the period of study are taken as the population of the study and the statement taken to analyze about the company are taken as the sample of the study. So the entire operating period of the companies from establishment till now is the population of the study and the period covered by this study is the sample period of the study.

In Nepal, there are 25 insurance companies functioning to underwrite insurance business. But this study undergoes to research the premium collection and investment position of Shikhar Insurance Company Limited among 25 insurance companies. Shikhar Insurance Company is one of leading insurance company of Nepal.

3.4 Source of Data and Data Collection Procedure

This study is based on secondary sources of data. Statistics and other information and relevant data have been collected from the following sources as:

- Thesis and reports conducted by various Ph. D, MBA and MBS students relating insurance field.
- Publications of Nepal Stock Exchange & Beema samiti web site: www.nepalstock.com and www.bsib.org.np
- Publications of Insurance Board of Nepal.
- Published or unpublished financial statements of insurer.
- Various Publications of the Government agencies and Bodies relation to the field.
- Various Brochure, Journals as well as Booklets Published by the insurers.

3.5 Analysis of Data

The data collected from SICL, Beema Samiti and other authorities have been reorganized and refined in the form of tables, charts and then necessary statement, ratios, trend analysis, percentage indices etc. have been established in necessary.

3.6 Tools of Analysis

Data collected for the purpose to show premium collection and investment positions are analyzed through the use of two important tools. The first important tool is financial tool and second important tool is statistical tool. The following paragraphs are briefly discussed in this study.

3.6.1 Financial Analysis Tools

Generally, the financial analysis tools were used for the purpose of the assessment of the financial position to a particular organization. There were

various tools in financial sector but for the purpose of this study Ratio analysis was performed in the study. Certainly ratio analysis showed the position of premium collection, investment, return and their contribution on overall performance.

3.6.1.1 Ratio Analysis

The term ratio refers as arithmetical relationship between two figures, in order to take rational decisions of financial variability of the company, the ratio analysis is adopted. Ratio can be expressed as percentage, fraction and stated comparison between numbers. It is an indicator yardstick or measuring rod or evaluating the financial performance and position of firm. In order to analyze premium collection and investment position of SICL, the following ratios are used.

Ratios use for SICL:

Fire Premium Collection to Total Premium Collection

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

Marine Premium Collection to Total Premium Collection

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

Miscellaneous Premium Collection to Total Premium Collection

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

Investment to Total Premium Collection

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

Return on Investment

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

Interest Earned to Total Premium collection

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

Claims Paid to Total Premium Collection

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

Investment on Govt. Saving Bonds to Total General Investment

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

Interest earned to Total Investment Ratio

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

Return on Premium

$$= \frac{\text{Return}}{\text{Premium}}$$

3.6.2 Statistical Analysis Tools

Statistical tools were used for attaining accuracy on analysis and study. We can use different statistical tools to analyze and type of study. According to this study's objective here, mean, standard deviation, coefficient of correlation and Trend analysis were performed.

3.6.2.1. The Mean

Simple arithmetic mean is the sum of total valued to the number of values in the sample, thus

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

$$\text{Mean} (\bar{X}) = \frac{\sum X}{N}$$

3.6.2.2 Co-Efficient of Correlation

Co-efficient of correlation is used for measuring the magnitude of linear relationship between two variables. In this study to attain the relationship between ‘premium collection and Investment’, ‘Premium collection and claim paid’ and ‘Investment and Net income earns, co-efficient of correlation is used.

The value of co-efficient of correlation lies between +1 and -1, when co-efficient of correlation (r) = +1, it means there is perfect positive correlation between the variables, r = -1, it means there is perfectly negative correlation between the variables and r = 0 refers there is no relationship between variables. Among the various methods of finding out co-efficient of correlation, Karl person’s method is applied in this study.

$$\text{Co-efficient of correlation (r)} = \frac{\sum xy}{\sqrt{x^2} \sqrt{y^2}}$$

Probable error of correlated by the following formula.

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

3.6.2.3 Trend Analysis

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

3.6.2.4 Standard Deviation

Standard deviation is commonly used to measure of risk. It shows the deviation of actual mean with average mean. Standard deviation measures the absolute dispersion or variability of a distribution. The greater variability or dispersion, greater the standard deviation for the greater will be the magnitude of the deviation of the value from variability, smaller the standard deviation for the high degree of uniformity of the observation as well as homogeneity of series. Hence, standard deviation is extremely useful in judging the representative of the mean.

$$\text{Standard deviation } (\delta) = \frac{\sqrt{(x-\bar{x})^2}}{n}$$

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

The corresponding relative measure of dispersion is known as the co-efficient of variation. It is used in such problems where the study needs to compare the variability of two or more then the series the higher co-efficient of variation of series refers more variable or less consistency or loss uniformity and vice versa. It is calculated as follows:

$$\text{Co- efficient of Variation (C.V.)} = \frac{\sigma}{\bar{X}}$$

Where,

$$\bar{X} = \text{Mean} \qquad \delta = \text{Standard deviation}$$

In this study, the coefficient of variation is calculating the measure the variability on net premium of various insurance.

CHAPTER – IV

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

The objectives of the study have been already highlighted in the first chapter. In order to accomplish the above objectives, descriptive and analytical research design has been followed, which are mentioned in the third chapter. The main objective of this study is to evaluate the premium collection and investment position of SICL. As mentioned earlier, various financial and statistical tools have been used, in order to accomplish the targeted objectives.

For the purpose of study and analysis, secondary data is used. Based upon the data analysis and study major findings are conclude. This data presentation and analysis chapter separated in to two parts, as 'evaluation of premium collection and composition through financial tools' and 'evaluation of investment pattern and composition through financial tools' and statistical analysis.

4.1.1 Evaluation of Premium Collection and Composition through Financial Tools

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

All the theoretical concept of premium is mentioned in the above chapter, which may be enough for the theoretical idea. There fore, here, only quantitative analysis is described, which is related to the premium collection and its composition. For the purpose of the evaluation of the premium collection condition and composition among the portfolios, mean, standard deviation and coefficient of variance are used. For the comparison of all the

respective matter in premium collection, various ratio analyses are computed. This evaluation chapter is also separated in to two parts as financial analysis and statistical analysis like wise evaluation of investment patterns chapter.

4.1.1.1 Fire Premium to Total Premium Collection and Fire Claim Paid to Total Claim Paid

This ratio used to measure the collection of fire premium collection in total premium collection and fire claim paid to total claim paid. It reveals the weight of fire premium collection and fire claim over the total premium collection and total claims paid respectively of SICL. It measure using following equation:

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

And,

$$\text{Fire Claim Paid to Total Claim Paid} = \frac{\text{Fire Claim Paid}}{\text{Total Claim Paid}}$$

Table: 4.1

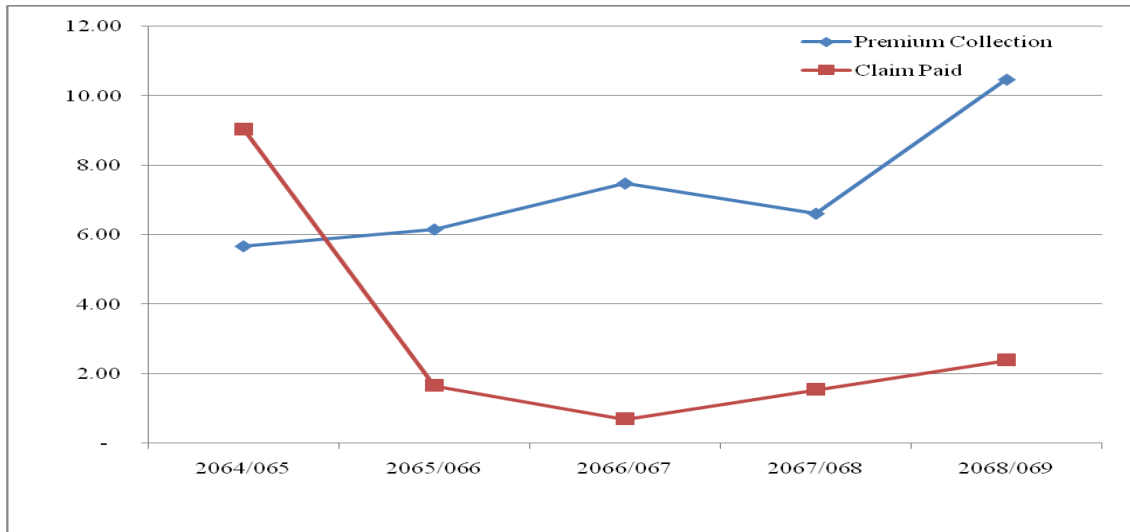
Fire Premium to Total Premium Collection and Fire Claim Paid to Total Claim Paid

F/Y	Fire Premium Collection	Total Premium Collection	Fire Claim Paid	Total Claim Paid	Fire Premium to Total Premium Collection (%)	Fire Claim paid to Total Claim Paid(%)
2064/065	3,794,629	66,951,713	45,74,063	15,937,087	5.67	9.04
2065/066	4,897,578	79,580,046	702,347	42,384,377	6.15	1.66
2066/067	75,17,294	100,494,591	223,852	32,231,093	7.48	0.69
2067/068	13,109,563	198,338,889	841,414	54389672	6.61	1.55
2068/069	9,057,672	86,415,755	2063021	86,415,755	10.48	2.39
Mean					6.11	3.07
S.D					0.94	3.04
CV					15.44	99.00

Sources: SICL Annual Reports

Figure: 4.1

Fire Premium to Total Premium Collection and Fire Claim Paid to Claim Paid



Fire insurance premium hold one of a major portion of the total premium in the company. The above table & figure show the average of fire premium to total premium collection and fire claim to total claim paid of the insurer. The data shows that the highest contribution of SICL is 10.48 % in the year 069/69 and lowest 5.67 % in the year 064/65. The data shows the increasing trend of collection of fire premium up to F/Y 068/69. The average fire premium collection to total Premium collection in this 5 years period is 6.11%. Similarly, the claim paid to fire insurance has been dramatically decreased in the fiscal year 2065/66. The highest portion of fire claims to total claims is 9.04% in the year 064/65 and lowest 0.69% in the year 066/67. By the above data, we can say that the fire insurance is a most profitable and less risky business of this company.

4.1.1.2 Marine Premium Collection to Total Premium Collection and Marine Claim Paid to Total Claim Paid

This ratio is used to measure the contribution of marine premium collection to total premium collection and marine claim paid to total claim paid of the company. The following equation is used to measure it:

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

And,

$$\text{Marine Claim Paid to Total Claim Paid} = \frac{\text{Marine Claim Paid}}{\text{Total Claim Paid}}$$

Table: 4.2

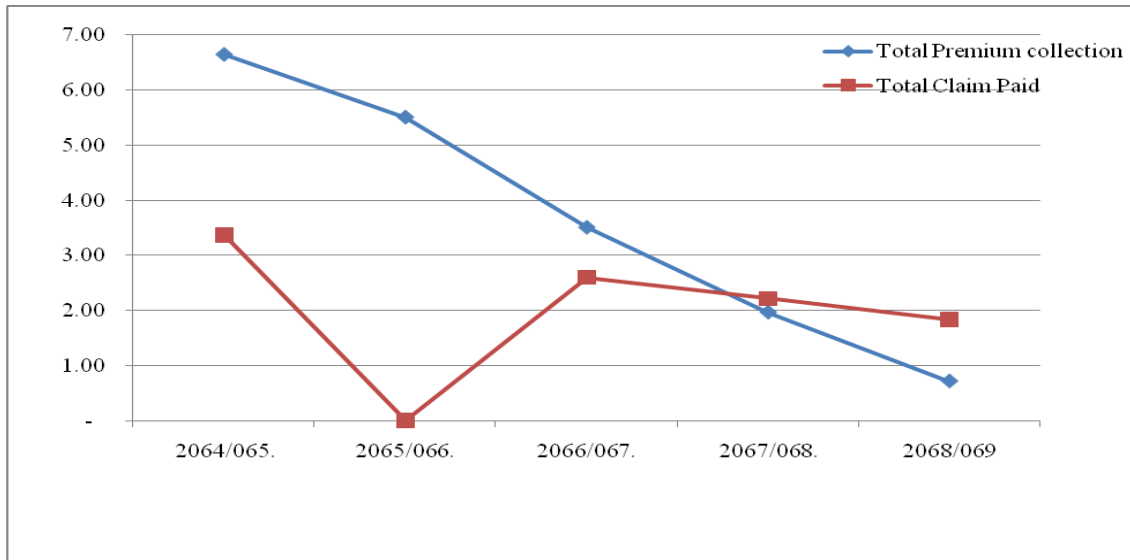
**Marine Premium Collection to Total Premium Collection and
Marine Claim Paid to Total Claim Paid**

Fiscal Year	Marine Premium Collection	Total Premium Collection	Marine Claim Paid	Total Claim Paid	Marine Premium to Total Premium Collection (%)	Marine Claim paid to Total Claim Paid (%)
2064/065	4,449,716	66,951,713	537,185	15,937,087	6.65	3.37
2065/066	4,383,381	79,580,046	1,606,215	12,384,377	5.51	0.01
2066/067	3,529,819	100,494,591	836,434	32,231,093	3.51	2.60
2067/068	3,901,747	198,338,889	1,204,768	54,389,672	1.97	2.22
2068/069	1,402,401	194,763,679	1,587,734	86,415,755	0.72	1.84
Mean					3.67	2.01
S.D					2.18	1.12
CV					59.51	55.85

Sources: SICL Annual Reports

Figure: 4.2

**Marine Premium Collection to Total Premium Collection and
Marine Claim Paid to Total Claim Paid**



The above table and figure reveal that the contribution of Marine premium collection is downward sloping. The highest premium collection of Marine insurance premium of SICL is 6.65 % in the year 064/65 and lowest contribution is 0.72% in the year 068/69. The average marine premium collection to total premium collection in this 5 years period is 3.67%.

Whereas, the claim paid of marine insurance to total claim paid is fluctuating. The highest portion is 3.37% in the year 064/65 and lowest portion is 0.01% in the year 065/66. The table shows that the average claims paid to total claim is 2.01% and S.D. is 1.12. It shows that the marine insurance is less risky than fire insurance.

**4.1.1.3 Motor Premium Collection to Total Premium Collection and
Motor Claim Paid to Total Claim Paid**

This ratio is used to measure the contribution of motor premium collection towards total premium collection and Motor claim paid to total claim paid of the company. It shows the percentage of share hold by motor premium

collection in total collection and motor claim paid portion to total claim paid.

The following equation is used to measure it:

$$\text{Motor Premium Collection to Total Collection} = \frac{\text{Motor Premium Collection}}{\text{Total Premium Collection}}$$

And,

$$\text{Motor Claim Paid to Total Claim Paid} = \frac{\text{Motor Claim Paid}}{\text{Total Claim Paid}}$$

Table: 4.3

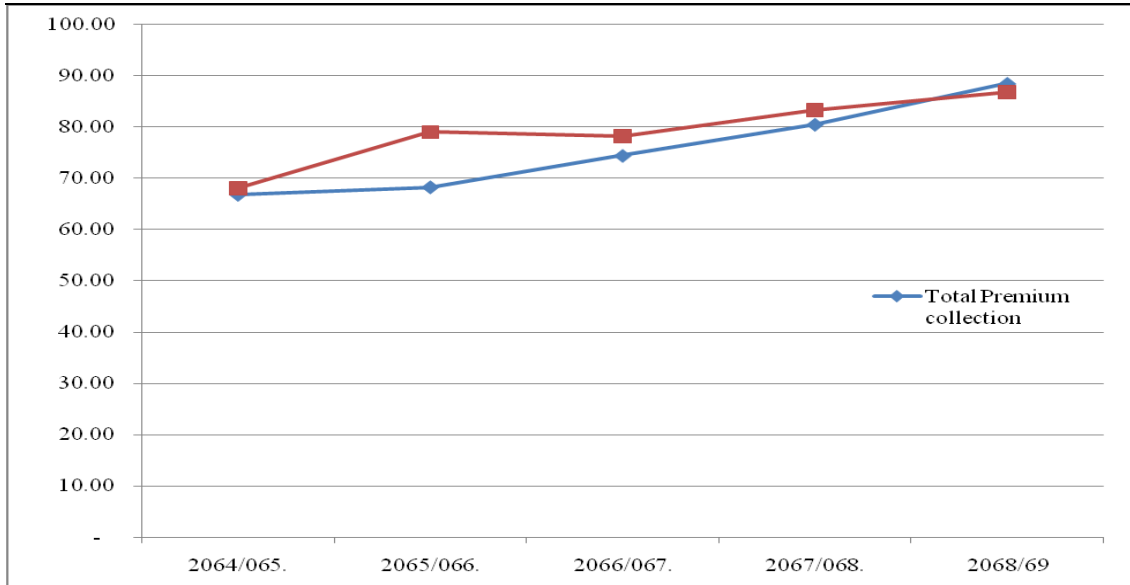
Motor Premium Collection to Total Premium Collection and Motor Claim Paid to Total Claim Paid

Fiscal Year	Motor Premium Collection	Total Premium Collection	Motor Claim Paid	Total Claim Paid	Motor Premium Collection To Total Premium Collection (%)	Motor Claim Paid To Total Claim Paid (%)
2064/065	44,698,743	66,951,713	10,839,228	15,937,087	66.76	68.01
2065/066	54,291,413	79,580,046	33,464,623	42,384,377	68.22	78.96
2066/067	74,734,591	100,494,591	25,191,042	32,231,093	74.37	78.76
2067/068	159,531,268	198,338,889	45,228,402	54,389,672	80.43	83.27
2068/069	172,208,508	194,763,679	74,952,964	86,415,755	88.42	86.74
Mean					75.64	79.03
S.D					8.02	6.32
CV					10.60	7.99

Sources: SICL Annual Reports

Figure: 4.3

Motor Premium Collection to Total Premium Collection and Motor Claim Paid to Total Claim Paid



The above table and figure illustrate that the contribution of premium is 66.76% in the year 064/65 and is in increasing trend from beginning F/Y 064/65 to till F/Y 068/69 with 88.42%. The average motor premium collection to total premium collection in this 5 years period is 75.64%.

Likewise, the above table and figure show the highest portion of total claims has occupied by motor claims of this company. The highest portion of motor claim to total claim is 86.74% in the year 068/69 and lowest 68.01% in the year 064/65. Its average claim paid within these 5 years is 79.03% of total claim paid and standard deviation and C. V. are 6.32% and 7.99% respectively. It seems motor insurance too risky and bad sector of insurance in this company.

4.1.1.4 Engineering Premium to Total Premium Collection and Engineering Claim Paid to Total Claim Paid

It is the ratio used to measure the collection of engineering premium collection in total premium collection and Engineering Claim Paid to Total Claim Paid. It

reveals the weight of engineering premium collection over the total premium collection weight of Engineering Claim Paid to Total Claim Paid of SICL. It measure using following equation:

$$\text{Engineering Premium to Total Premium Collection} = \frac{\text{Engineering Premium Collection}}{\text{Total Premium Collection}}$$

And,

$$\text{Engineering Claim Paid to Total Claim Paid} = \frac{\text{Engineering Claim}}{\text{Total Claim Paid}}$$

Table: 4.4

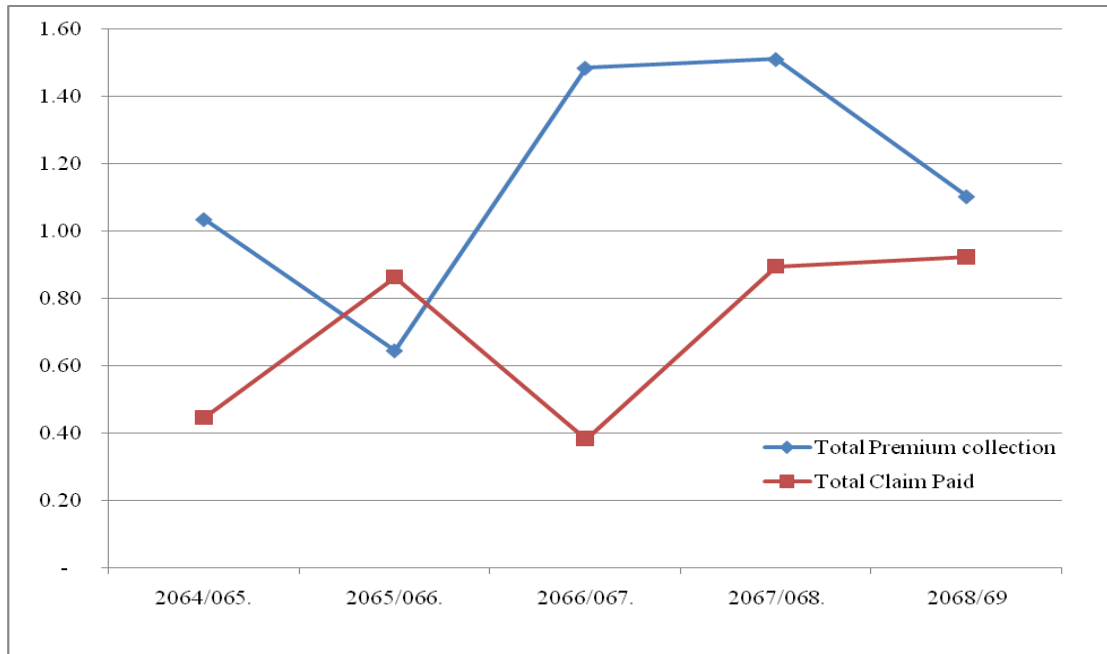
**Engineering Premium to Total Premium Collection and
Engineering Claim Paid to Total Claim Paid**

Fiscal Year	Engineering Premium Collection	Total Premium Collection	Engg. Claim Paid	Total Claim Paid	Engineering Premium Collection to Total Premium Collection (%)	Engg. Claim Paid to Total Claim Paid (%)
2064/065	692,414	66,951,713	70,819	15,937,087	1.03	0.44
2065/066	512,928	79,580,046	365,942	42,384,377	0.64	0.86
2066/067	1,490,843	100,494,591	122,898	32,231,093	1.48	0.38
2067/068	2,993,823	198,338,889	487,031	54,389,672	1.51	0.90
2068/069	2,146,363	194,763,679	798,093	86,415,755	1.10	0.92
Mean					1.15	0.70
S.D					0.32	0.24
CV					27.70	33.84

Sources: SICL Annual Reports

Figure: 4.4

Engineering Premium to Total Premium Collection and Engineering Claim Paid to Total Claim Paid



The above data shows that the Engineering insurance premium holds smallest portion in this company. The highest premium collection of this company seems 1.51% in the year 067/68 and lowest 0.64% in the year 065/66. According to the graph, its contribution is sharp down in 065/66 and then dramatically increased in 66/67. The Engineering Premium Collection dramatically decreased in the year 068/69. The average engineering premium collection to total premium collection in this 5 years period is 1.15%.

The above table and figure show that engineering claim is a smaller portion to total claim paid. However, comparing the collection of premium and claim paid, we can't say it is a less risky business.

4.1.1.5 Aviation Premium Collection to Total Premium Collection and Aviation Claim Paid to Total Claim Paid

It is the ratio used to measure the collection of Aviation premium collection in total premium collection and Aviation Claim Paid to Total Claim Paid. It

reveals the weight of Aviation premium collection over the total premium collection weight of Aviation Claim Paid to Total Claim Paid of SICL. It measure using following equation:

$$\text{Aviation Premium Collection to Total Collection} = \frac{\text{Aviation Premium Collection}}{\text{Total Premium Collection}}$$

And,

$$\text{Aviation Claim Paid to Total Claim Paid} = \frac{\text{Motor Claim Paid}}{\text{Total Claim Paid}}$$

Table: 4.5

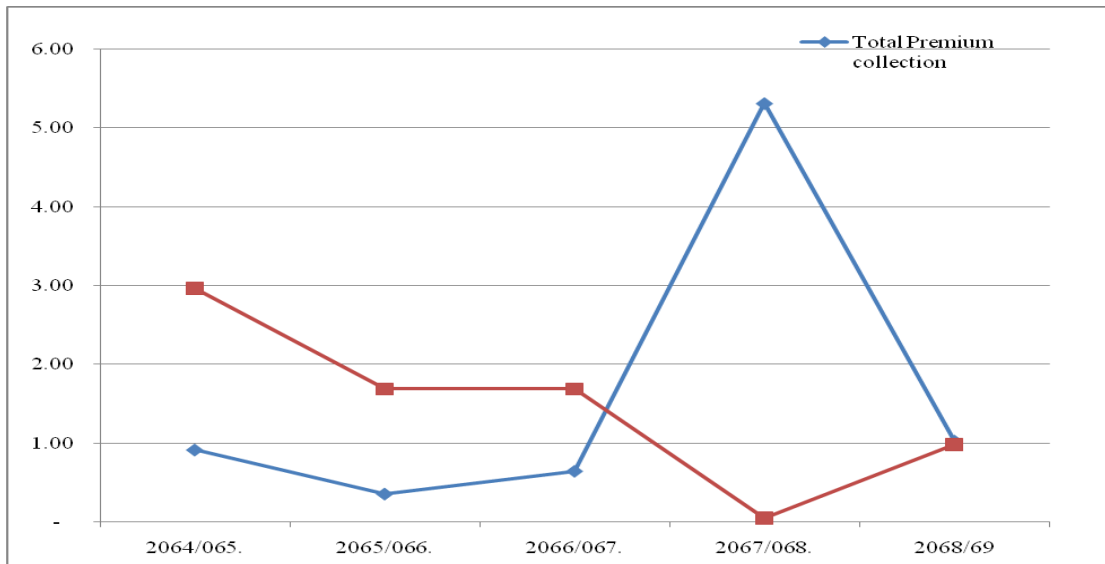
Aviation Premium to Total Premium Collection and Aviation Claim Paid to Total Claim Paid

Fiscal Year	Aviation Premium Collection	Total Premium Collection	Avain. Claim Paid	Total Claim Paid	Aviation Premium Collection to Total Premium Collection (%)	Avai. Claim Paid to Total Claim Paid (%)
2064/065	610,934	66,951,713	472,787	15,937,087	0.91	2.97
2065/066	280,835	79,580,046	715,271	42,384,377	0.35	1.69
2066/067	645,669	100,494,591	5,312,964	32,231,093	0.64	1.69
2067/068	10,538,244	198,338,889	23,435	54,389,672	5.31	0.04
2068/069	1,998,308	194,763,679	845,391	86,415,755	1.03	0.98
Mean					1.65	1.47
S.D					1.85	0.96
CV					111.96	65.20

Sources: SICL Annual Reports

Figure: 4.5

Aviation Premium to Total Premium Collection and Aviation Claim Paid to Total Claim Paid



From the above table and figure, it shows that the aviation premium holds smaller portion in this company at beginning Fiscal year. The highest premium collection of this company is 5.31% in the year 067/68 and lowest contribution is 0.35% in the year 065/66. Firstly, it is downward inclined up to the year 065/66 and then there is a steady up 066/67 then after premium collection has been dramatically increased to 5.31% in the year 067/68 and then again dramatically decreased 1.03% in the year 068/69. The average Aviation premium collection to total premium collection in this 5 years period is 1.65%. The claim paid ratio is decreasing trend from 2.97 to 0.04 in fiscal year 64/65 to 67/68. However, there has been slightly increase in 068/69.i.e 0.98%.

Since, the premium portion of Aviation insurance is most fluctuated, the claim paid to this sector is also smaller to total claims paid. However, it is quite risky in the sense that the claim if lodged will have huge loss.

4.1.1.6 Miscellaneous Premium Collection to Total Premium Collection and Miscellaneous Claim Paid to Total Claim Paid

Insurance considers various policies in miscellaneous insurance. Therefore it is a major source of premium collection. This ratio is used to measure the contribution of miscellaneous premium collection towards total premium collection and misc. claim paid to total claim paid of the company. It shows the percentage of share hold by miscellaneous premium collection and claim in total collection and claim paid by the company. The following equation is used to measure it:

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

And,

$$\text{Misc. Claim Paid to Total Claim Paid} = \frac{\text{Misc.Claim Paid}}{\text{Total Claim Paid}}$$

Table: 4.6

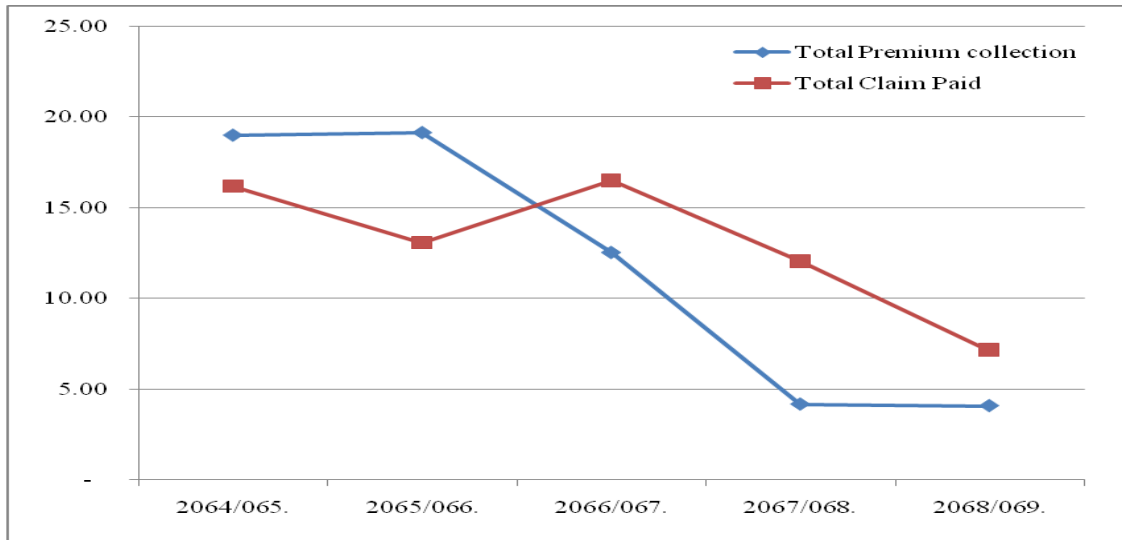
**Miscellaneous Premium Collection to Total Premium Collection and
Miscellaneous Claim Paid to Total Claim Paid**

Fiscal Year	Misc. Premium Collection	Total Premium Collection	Misc. Claim Paid	Total Claim Paid	Misc. Premium Collection to Total Premium Collection (%)	Misc. Claim Paid to Total Claim Paid (%)
2064/065	12,705,277	66,951,713	2,576,297	15,937,087	18.98	16.17
2065/066	15,213,911	79,580,046	5,529,979	42,384,377	19.12	13.05
2066/067	12,576,375	100,494,591	5,312,964	32,231,093	12.51	16.48
2067/068	8,264,244	198,338,889	6,544,622	54,389,672	4.17	12.03
2068/069	7,950,427	194,763,679	6,167,552	86,415,755	4.08	7.14
Mean					11.77	12.97
S.D					6.68	3.39
CV					56.78	26.13

Sources: SICL Annual Reports

Figure: 4.6

**Miscellaneous Premium Collection to Total Premium Collection and
Miscellaneous Claim Paid to Total Claim Paid**



The above table and figure illustrate that the miscellaneous premium holds higher portion in this company for first three year. The highest premium collection of this company is 18.98% in the year 064/65 and lowest contribution 4.08% in the year 068/69. From above, we can see there has been slightly increase in 065/66 than 064/65 from 18.98% to 19.12% and then dramatically decrease upto 4.17% in the year 2067/68 and approximately constant 4.08% in year 068/69. The average misc. premium collection to total premium collection in this 5 years period is 11.77%.

Since, the claim paid of misc. insurance to total claim paid is fluctuating trends. The highest portion is 16.48% in the year 066/67 and lowest portion is 7.14% in the year 068/69. Claim paid is more than premium collection in the year 066/67 the total premium is calculated considering the reinsurance premium. The average claim paid within five years is 12.97% whereas Standard deviation and C.V. are 3.39 and 26.13% respectively.

4.1.2 Evaluation of Investment Position and Composition through Financial Tools

All the concept of insurance and investment are mentioned in the above chapter, which may show the detail of insurance business. Here, only quantities analysis is mentioned which are related to the investment and investment position.

For the purpose of the evaluation of the investment position and composition among the portfolio the trend analysis is used. For the comparison of all respective matter on investment, the mean, standard deviation and coefficient of variance is also used. Likewise, to evaluation the return on respective portfolio and investment amount the ratio analysis is also used. To attain the objectives of the study purpose all the concerned studies and analysis are also used. Basically this evaluation chapter is separated into two parts as financial analysis and statistical analysis the purpose of this part is to study, evaluate and analysis those major matters, which are related to the investment position and composition of SICL. This analysis moves along with studies objective therefore only those ratios are calculated and analyzed which are very important to evaluate in investment policy, position for this purpose are mentioned below:

4.1.2.1 Investment on Govt. Saving Bonds to Total Investment

This ratio shows the proportion of investment on government saving bond. The entire insurer invests its fund to making separate portfolio. It is known as secured investment instrument. The ratio measures the percentage of investment of the insurer in the government saving bond. This ratio is calculated by using this equation:

$$\text{Govt. Bond to Total Investment} = \frac{\text{Investment on Govt./NRB Bond/Debenture}}{\text{Total Investment}}$$

Table: 4.7

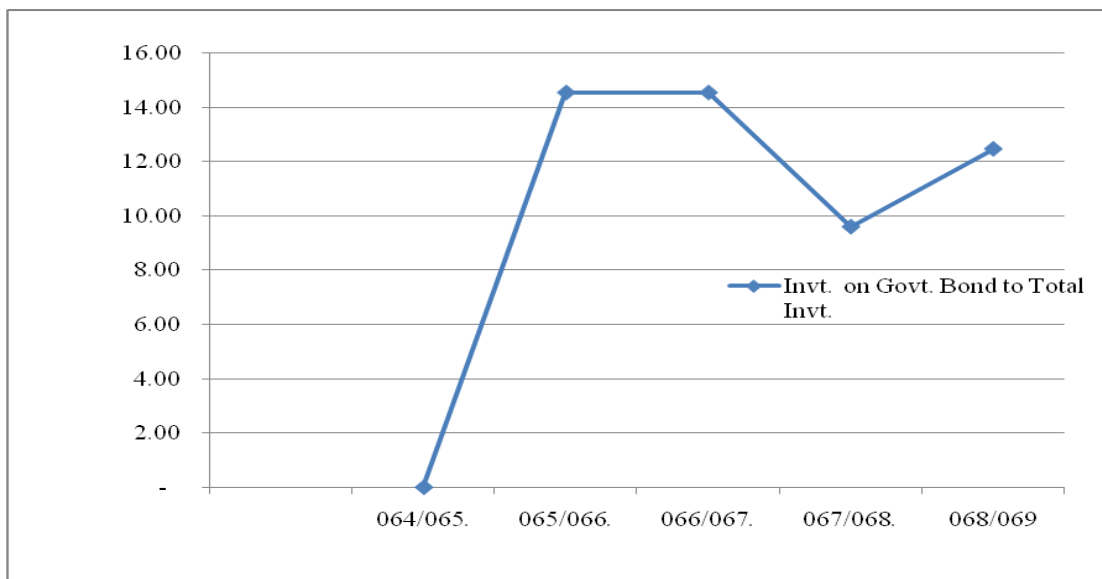
Investment on Govt. Saving Bonds to Total Investment

Fiscal Year	Govt./NRB Bond	Total Investment	Investment on Govt. Bond to Total Investment (%)
2064/065	0	13,94,06,594.00	0
2065/066	2,30,00,000	15,81,16,114.00	14.55
2066/067	2,30,00,000	15,81,16,114.00	14.55
2067/068	2,30,00,000	23,95,46,429	9.60
2068/069	3,5875,000	28,76,96,429	12.47

Sources: SICL Annual Reports

Table: 4.7

Investment on Govt. Saving Bonds to Total Investment



The above table and figure show the fluctuation in investment in government saving bonds to total investment. According to the table, the high portion of investment on govt. saving bond to total investment of SICL is 14.55% in the year 065/66 & 066/67 and least is 0% in the year 064/65.

4.1.2.2 Investment on Bank Fixed Deposits to Total Investment

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

Investment on Bank Fixed Deposits to Total Investment

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

Table: 4.8

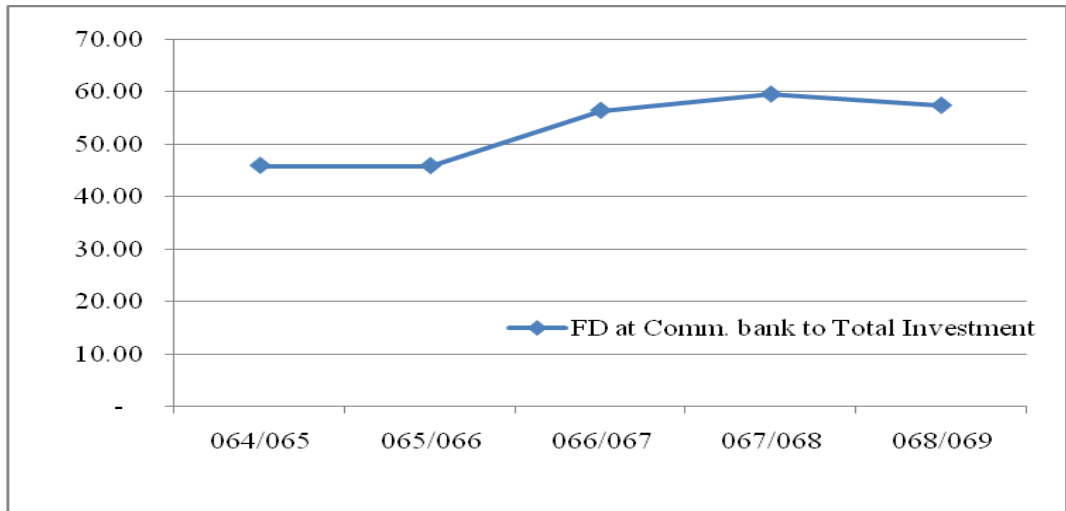
Investment on Bank Fixed Deposits to Total Investment

Fiscal Year	Fixed Deposit at Commercial Bank	Total Investment	Fixed Deposit at Commercial Bank to Total Investment (%)
2064/065	64,000,000	13,94,06,594	45.91
2065/066	7,25,00,000	15,81,16,114	45.85
2066/067	8,92,00,000	15,81,67,232	56.40
2067/068	14,25,00,000	23,95,46,429	59.49
2068/069	16,50,00,000	28,76,96,429	57.35
Mean			53
S.D			5.90
CV			11.13

Sources: SICL Annual Reports

Figure: 4.8

Investment on Bank Fixed Deposits to Total Investment



The above table and figure illustrate that SICL has invested its major portion of investment in bank fixed deposit. Investment on Bank fixed deposits on total investment of SICL is in fluctuation trend. Its highest contribution is 59.49% in the year 067/68 and the lowest is 45.85% in the year 065/66. According to the figure, its contribution slightly increased till the year 067/68 and then slightly decreased in the year 068/69.

4.1.2.3 Investment on Fixed Deposit at Development Bank/ Financial Institute to Total Investment

It is the ratio that measures the weight of development bank/ financial institute fixed deposits investment to total investment made by the company. It is computed, here, using following elution:

Investment on Fixed Deposit at Dev. Bank/ Financial Institute to Total Investment

$$= \frac{\text{Investment on Dev. Bank/ Financial Institute Fixed Deposit}}{\text{Total Investment}}$$

Table: 4.9

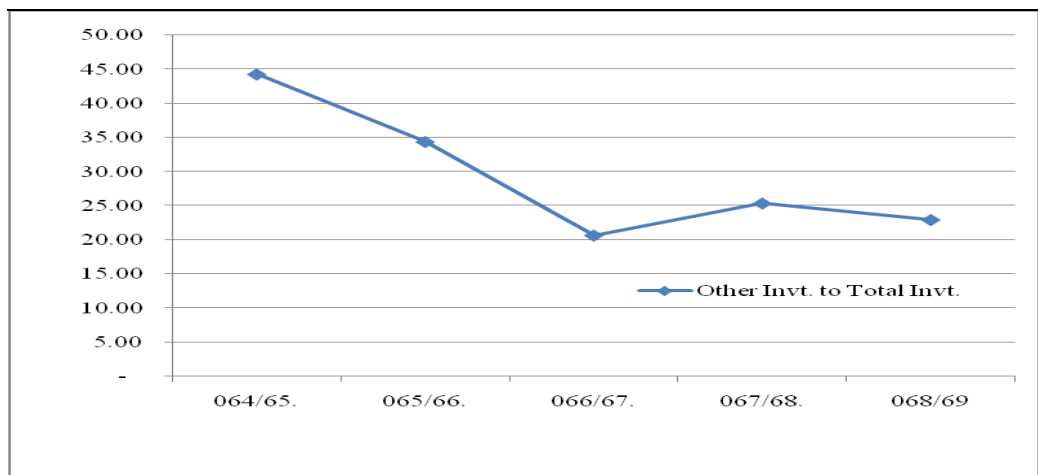
Investment on Fixed Deposit at Development Bank/ Financial Institute to Total Investment

Fiscal Year	Fixed Deposit at Dev. Bank/Financial Institute	Total Investment	Fixed Deposit at Dev. Bank/Financial Institute to Total Investment (%)
2064/065	61,708,697	13,94,06,594	44.27
2065/066	54,364,685	15,81,16,114	34.38
2066/067	32,715,803	15,81,67,232	20.68
2067/068	60,795,000	23,95,46,429	25.38
2068/069	66,070,000	28,76,96,429	22.97
Mean			29.54
S.D			8.71
CV			29.49

Sources: SICL Annual Reports

Figure: 4.9

Investment on Fixed Deposit at Development Bank/ Financial Institute to Total Investment



The second major sector of investment of this company is Fixed Deposit at Dev. Bank/ Financial Institute. According to the above table and figure the

highest portion of investment in this sector is 44.27% in the year 064/65 and least is 20.68% in the year 066/67. The graph shows fluctuation trend of investment portion in this sector (i.e. fixed deposit at dev. bank/ financial institute).

4.1.2.4 Investment on Other Investment to Total Investment

Other Investment means other than aforesaid investment i.e. Govt. /NRB Bond/ Debenture, Bank Fixed Deposit, etc. like Insurance pool, NCM Mutual Fund etc. It is the ratio that measures the weight of other investment to total investment made by the company. It is computed, here, using following elution:

$$\text{Investment on Other Investment to Total Investment} = \frac{\text{Other Investment}}{\text{Total Investment}}$$

Table: 4.10

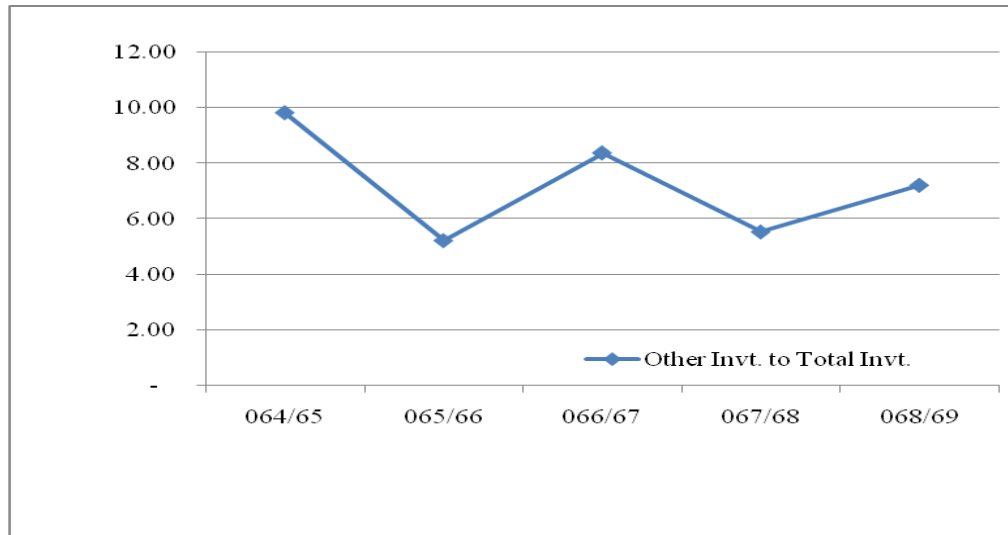
Investment on Other Investment to Total Investment

Fiscal Year	Other Investment	Total Investment	Other Investment to Total Investment
2064/065	13,697,897	119,815,530.00	9.83
2065/066	8,251,429	140,161,452.00	5.22
2066/067	13,251,429	123,947,679.00	8.38
2067/068	13,251,429	120,786,429.00	5.53
2068/069	20,751,429	110,466,429	7.21
Mean			7.23
S.D			1.73
CV			23.93

Sources: SICL Annual Reports

Figure: 4.10

Investment on Other Investment to Total Investment



There shows the highly fluctuation in investment on other investment portion to total investment. Its highest contribution is 9.83% in the year 064/65 whereas the least is 5.52% in the year 065/66. The portion of investment in this sector has dramatically increased in the year 066/67 then after decrease in 067/68 to 5.53%. Again, there is a slight and dramatically increment till 068/69. As a whole, it shows fluctuating trend of investment in this sector.

4.1.2.5 Investment to Total Premium Collection Ratio

It is rate of average premium investment. It shows the rate of investment with comparison on premium collection. This ratio measures the investment ratio in percentage. This ratio helps to show what proportion of collected premium is invested in different sector in aggregate. That ratio is calculated by using this formula:

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

Table: 4.11

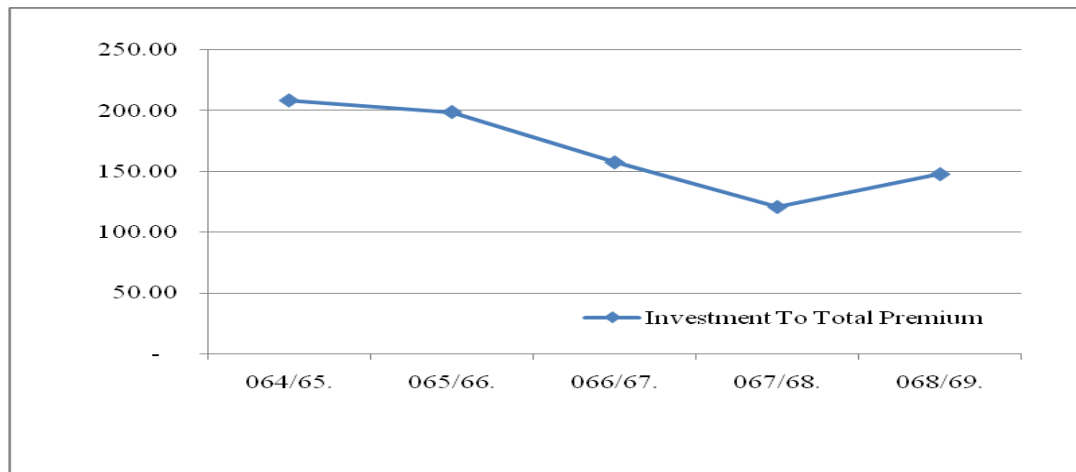
Investment to Total Premium Collection Ratio

Fiscal Year	Total Investment	Total Premium Collection	Total Investment to Total Premium Collection (%)
2064/065	139,406,594	66,951,713	208.22
2065/066	158,116,114	79,580,046	198.69
2066/067	158,167,232	100,494,591	157.39
2067/068	239,546,429	198,338,889	120.78
2068/069	287,696,429	194,763,679	147.72
Mean			166.56
S.D			32.57
CV			19.55

Sources: SICL Annual Reports

Figure: 4.11

Investment to Total Premium Collection Ratio



The above table and figure show that the investment on total premium calculation ratio of SICL IS in decreasing trend till 067/68 and then

dramatically increased in the F/Y 068/69. The highest ratio is 208.22% in the year 064/65 and lowest 120.78% in the year 067/68.

4.1.3 Interest Earned to Total Investment Ratio

This ratio represents the return from interest in total investment. Total interest earned to total investment ratio reflects the extent to which insurer is successful to earn interest as major income on total investment. This ratio actually reveals the earning capacity of an insurance company by investing its all collected premium and other capital fund. Higher the ratio higher will be the income as interest. The ratio calculated used by following equation.

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

Table: 4.12

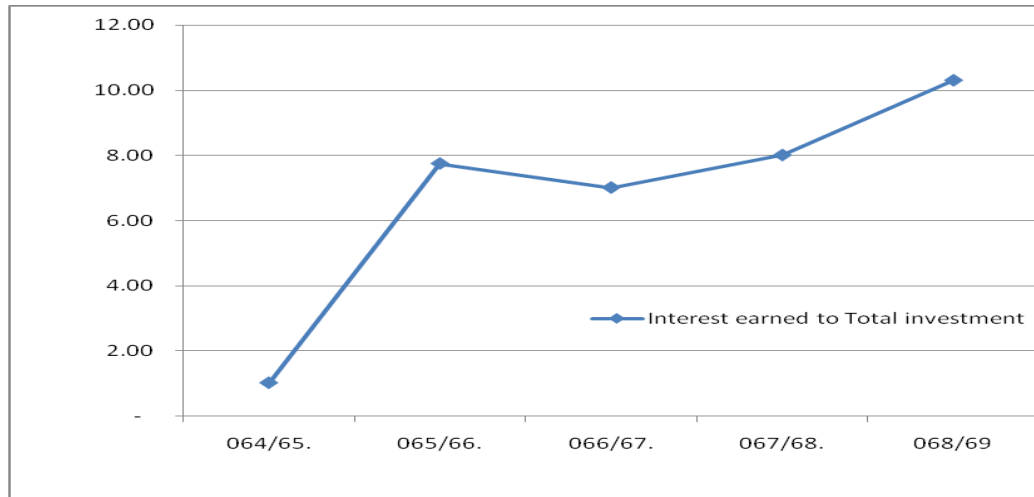
Interest Earned to Total Investment Ratio

Fiscal Year	Interest Earned	Total Investment	Interest Earned to Total Investment (%)
2064/065	1,428,004	139,406,594	1.02
2065/066	12,251,542	158,116,114	7.75
2066/067	11,089,874	158,167,232	7.01
2067/068	19,182,582	239,546,429	8.01
2068/069	29,633,909	287,696,429	10.30
Mean			6.82
S.D			3.10
CV			45.45

Sources: SICL Annual Reports

Figure: 4.12

Interest Earned to Total Investment Ratio



The above table & figure describe a ratio of interest earned on total investment of the company. The ratio is in increasing trend till the year 065/66. However, total interest earned has been dramatically increased to 7.75% in the year 065/66 from 1.02% in the year 064/65. The average interest earned to total investment in this 5 years period is 6.82%.

4.1.4 Total Claim Paid to Total Premium Collection

It is the ratio that measures the total risk involves in total premium collection by the company. This relation reveals the portion of total premium that goes to total claim paid by the company. It is computed here, using following equation:

$$\text{Total Claim Paid to Total Premium Collection} = \frac{\text{Total Claim Paid}}{\text{Total Premium Collection}}$$

Table: 4.13

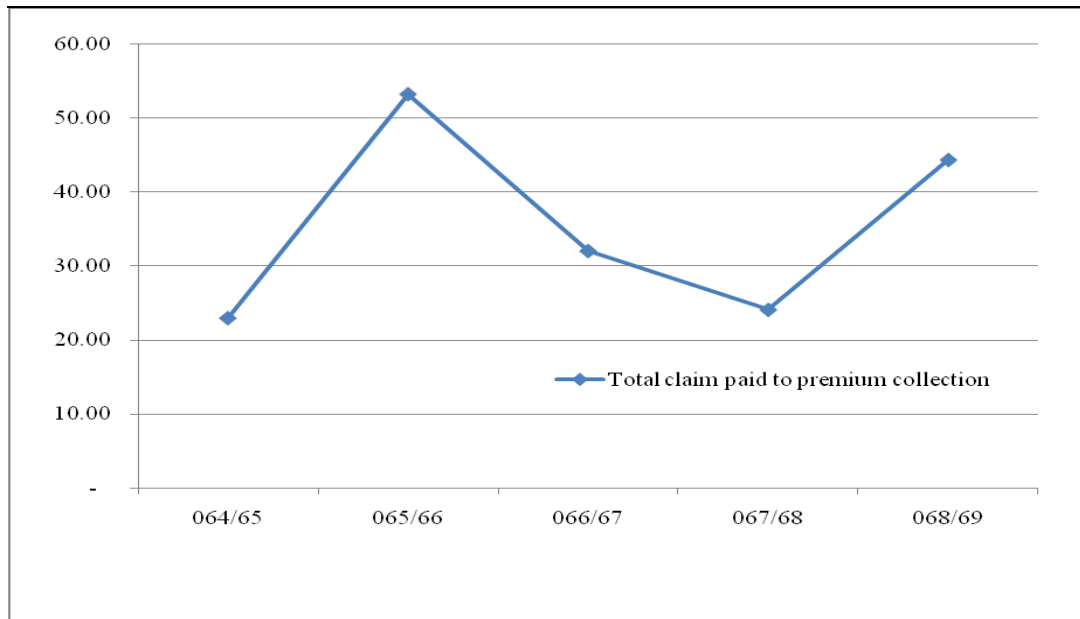
Total Claim Paid to Total Premium Collection

Fiscal Year	Total Claim Paid	Total Premium Collection	Total Claim Paid to Total Premium Collection (%)
2064/065	15,399,902	66,951,713	23
2065/066	42,384,377	79,580,046	56.26
2066/067	32,231,093	100,494,591	32.07
2067/068	47,845,050	198,338,889	24.12
2068/069	86,415,755	194,763,679	44.37
Mean			35.37
S.D			11.76
CV			33.25

Sources: SICL Annual Reports

Figure: 4.13

Total Claim Paid to Total Premium Collection



The above data describes a ratio of total claims paid to total premium collection of SICL. The highest portion of claims paid is 53.26% of total premium collection in the year 065/66 and lowest portion 24.12% in the year 067/68. The average claim paid to total premium collection in this 5 years period is 35.37%.

4.2 Statistical Analysis

Under this chapter various statistical mathematics are studied which are related to decision making for premium collection and investment position. The trend analysis and coefficient of correlation are used for the purpose to find out tendency, relation and distinguish between premium collection investments. For this purpose following measures are analyzed.

4.2.1 Correlation Analysis

In this analysis product moment method has been used to find out the relationship between premium collection and investment. Generally, the correlation analysis is used to describe the degree to which one variable is related to another. Hence, in statistics, it is used in order to depict the covariance between two or more variables. It helps to determine whether: 1) a positive or negative relationship exist; 2) The relationship is significant or insignificant and 3) Establish cause and effect relation if any. The statistical tools, correlation analysis is preferred in this study to identify the relationship between premium and investment, whether the relationship is significant or not for the purpose of decision making under correlation.

4.2.1.1 Correlation between Premium Collection and Investment of SICL

Table: 4.14

Correlation between Premium Collection and Investment of SICL

Coefficient of Correlation	Relationship	r^2	6 x P. E.	Probable error P. E. (r)	Sig./ Insig.
0.6075	high degree of positive	0.361	1.148	0.1903	Insignificant

Source: - Appendix VII

From the above computation, we can draw the conclusion that there is a high degree of positive co-relation between the premium collection by SICL and its investment. Again, the co-efficient of determinants (r^2) is the measure of the degree of linear association or correlation between two variables one of which is the dependent variable and the other is independent. In case of SICL, the co-efficient of determinants is 0.361, which means that the variation in the independent variable (Premium collection) explains 36.1% of the dependent variable (investment). (See Appendix VII)

Generally, probable error is used to measure the insignificance of the relationship between two variables. In case of this study, the significance relationship between premium collection and investment is measured by calculating the probable error of correlation of co-efficient. Since the co-efficient of correlation (r) is higher than the 6 P. E. (r), therefore we conclude that the relationship between the two variables is insignificant.

4.2.1.2 Correlation between Premium Collection and Claim Paid by SICL

Table: 4.15

Correlation between Premium Collection and Claim Paid by SICL

Coefficient of Correlation	Relationship	r^2	6 x P. E.	Probable error P. E. (r)	Sig./ Insig.
(0.450)	Low degree of negative	0.210	1.428	0.2381	significant

Source:- Appendix VIII

From the above computation, we can draw the conclusion that there is low degree of positive co-relation between the premium collection by SICL and claim paid. It says that more premium collection means more claims paid.

Again, the co-efficient of determinants (r^2) is the measure of the degree of linear association or correlation between two variables one of which is the dependent variable and other is independent. In case of SICL, the co-efficient of determinants is 0.45, which means that the variation in independent variable (Premium collection) explains 45% of the dependent variable (claim paid) (see Appendix VIII).

Generally probable error is used to measure the significance of the relation between two variables. In case of this study the significance relationship between premium collection and claim paid is measured by calculating probable error of correlation of co-efficient. Since the co-efficient of correlation (r) is higher than the 6 P. E. (r), therefore we conclude that the relation between the two variables is insignificant.

4.2.1.3 Correlation between Interest Earned and Investment of SICL

Table: 4.16

Correlation between Interest Earned and Investment of SICL

Coefficient of Correlation	Relationship	r^2	6 x P. E.	Probable error P. E. (r)	Sig./ Insig.
0.6792	High degree of positive	0.4613	0.975	0.1625	Insignificant

Source:- Appendix IX

From the above computation, we can draw the conclusion the there is high degree of positive co-relation between the interest earned by SICL and its investment.

Again, the co-efficient of determinants (r^2) is the measure of the degree of liner association or correlation between two variables one of which is the dependent variable and other is independent. In case of SICL, the co-efficient of determinants is 0.679, which means that the variation is independent variable (investment) explains 67.9% of the dependent variable (interest) (see Appendix IX).

Generally probable error is used to measure the significant of the relation between two variables. In case of this study the significance relationship between interest and investment is measured by calculating probable error of correlation of co-efficient. Since the co-efficient of correlation (r) is lower than the 6 P. E. (r), therefore we conclude that the no relation between the two variables is insignificant.

4.2.1.4 Standard Deviation and Coefficient of Variance Analysis

The corresponding relative measure of dispersion is known as the co-efficient of variation. It is used in such problems where the study needs to compare the variability of two or more then the series. The higher co-efficient of variation of series refers more variable or less consistency or loss uniformity and vice versa.

In this study, the coefficient of variation is calculating the measure the variability on premium of various insurance

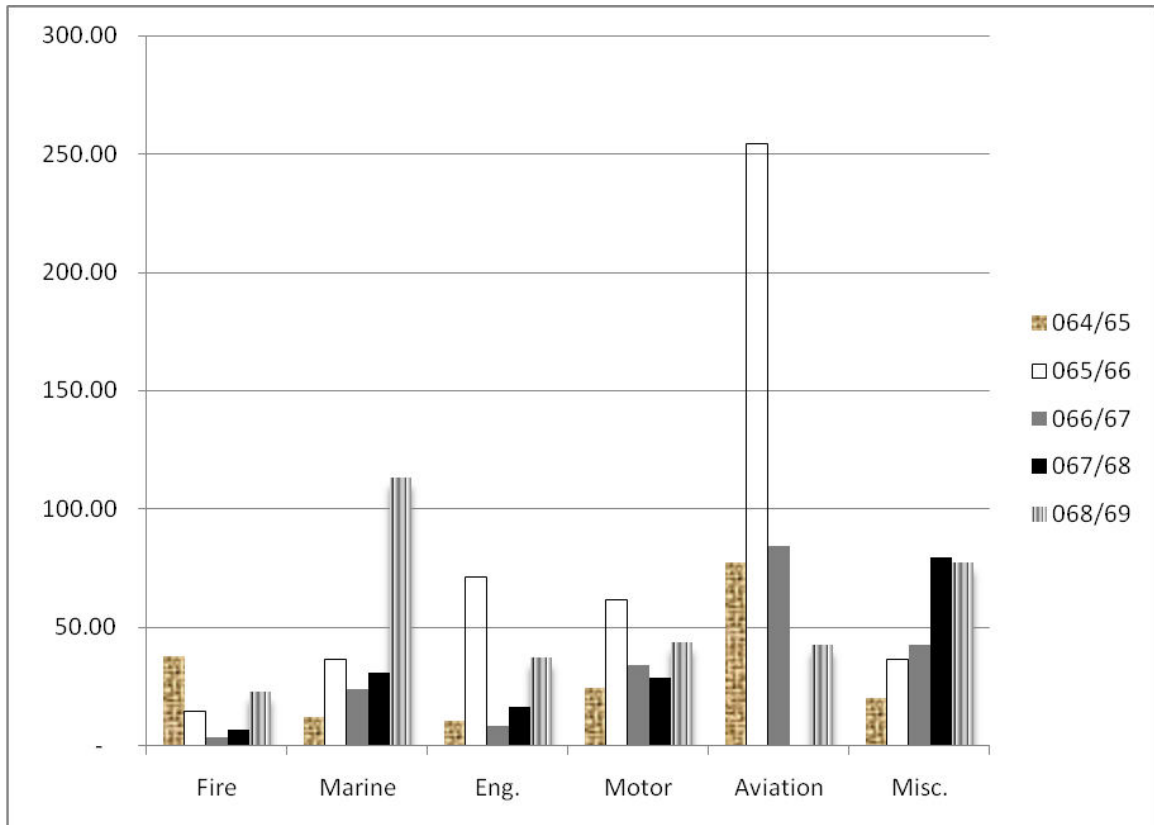
Table: 4.17

Claim Paid to Premium Collection (%)

Insurance	Fiscal Year					Mean	S.D.	C.V.
	2064/065	2065/066	2066/067	2067/068	2068/069			
Fire	37.97	14.34	2.98	6.42	22.78	16.90	12.56	74.33
Marine	12.07	36.64	23.70	30.88	113.22	43.30	35.91	82.92
Eng.	10.23	71.34	8.24	16.27	37.18	28.65	23.68	82.66
Motor	24.25	61.64	33.71	28.39	43.52	38.30	13.33	34.81
Aviation	77.39	254.69	84.24	0.22	42.36	91.78	86.75	94.52
Misc.	20.28	36.35	45.25	79.19	77.58	51.13	23.39	45.75

Figure: 4.14

Claim Paid to Premium Collection (%)



The above table and chart depict the relationship between claim paid and premium collection of different products. According to the standard deviation and C. V., aviation insurance seems more risky than other business of SICL. Fire, motor and misc business are less risky. From point of view of ratio, the highest portion of fire claim to total fire premium is 37.97% in the year 064/65 and then after decrease till 066/67. According to the figure it seems the most profitable business in this company. Aviation policy not compare with other policy due to high portion paid to re insurer and just little portion holds by SICL.

4.3 Future Predictions

The future predictions of Premium collection and Investment are done using the Time Series Analysis for the next two fiscal years i.e. from FY 2067/68 to FY 2068/69.

4.3.1 Time Series Analysis to predict the Premium Collection of SICL

The predicted values of Premium collection of SICL using Time Series Analysis for the next two years (from FY 2069/70 to FY 2070/71) are presented in the table 4.18.

Table: 4.18

Predicted Values of Premium Collection of SICL

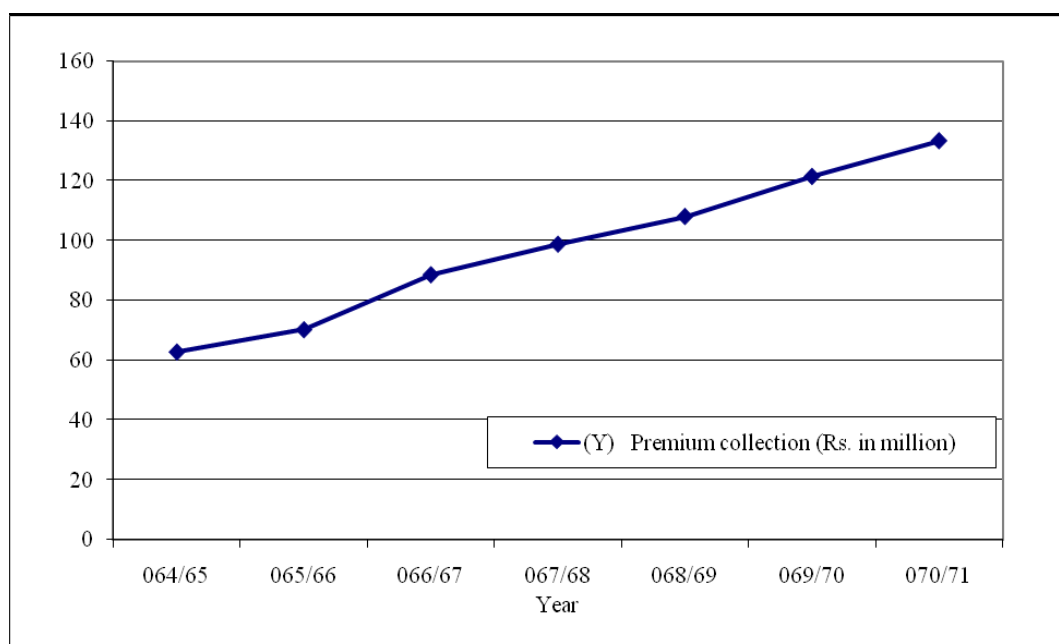
(Rs. In million)

Fiscal Year	Premium Collection
2064/65	62.80
2065/66	70.24
2066/67	88.64
2067/68	98.87
2068/69	108.14
2069/70	121.53
2070/71	133.46

Source:- Appendix X

Figure: 4.15

Predicted Values of Premium Collection of SICL



The premium collection of SICL is in increasing trend till the F/Y 068/69. According to the prediction the premium collection will increase in the F/Y 069/70. The predicted value of premium collection for the F/Y 069/70 is 121.53 million which is greater than that of F/Y 068/69 where the premium collection is 108.14 million. In F/Y 070/71, the premium collection will reach to 133.46 million according to the prediction which is more than that of F/Y 068/69.

4.3.2 Time Series Analysis to predict the Investment Position of SICL

The predicted values of Investment position of SICL using time series analysis for the next two fiscal years (from FY 2069/70 to FY 2070/71) are tabulated as (table 4.18):

Table: 4.19

Predicted Values of Investment Position of SICL

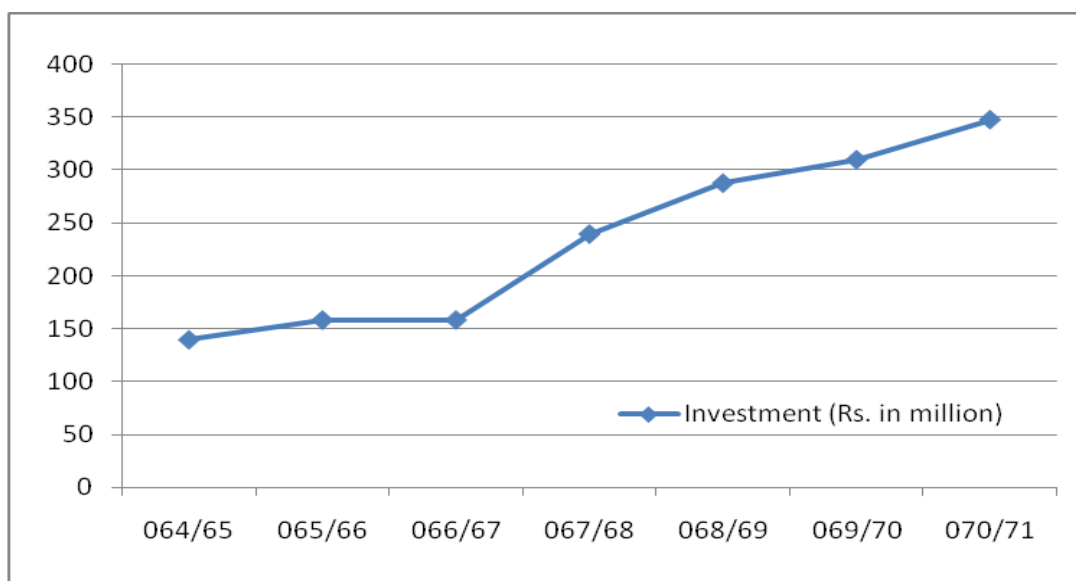
(Rs in million)

Fiscal Year	Investment Position
2064/65	139.41
2065/66	158.12
2066/67	158.17
2067/68	239.55
2068/69	287.70
2069/70	309.99
2070/71	347.79

Source:- Appendix XI

Figure: 4.16

Predicted Values of Investment Position of SICL



The investment position of SICL is in increasing trend. As stated in table and figure, the predicted value of investment will increase to 309.99 million in the F/Y 069/70 as compared to the fiscal year 068/69 which is Rs. 287.70 million. The investment position will reach to 347.79 million according to the prediction which is high than 309.99 Million that of F/Y 069/70.

4.4 Major Findings of the Study

Based on the data provided by the concerned company, the above analysis has been made and based upon these the main findings of the study can be drawn.

- Calculated ratio of fire premium to total premium collection in each year following the increasing trend. Company is able to maintain 6.11% average ratios. The highest ratio is 7.48% in the year 066/67 and lowest is 4.65% in the year 068/69. The collection of fire premium is in increasing trend till 066/67 and then after decreasing till 068/69. Its claim paid ratio is small portion to total claim. So it seems most profitable business of the company.
- One of a portion of premium collection in this company is Marine insurance premium. The highest premium collection of Marine insurance premium of SICL is 6.65 % in the year 064/65 and lowest contribution is 0.72% in the year 068/69. It is in decreasing trend till F/Y 068/69. Its average claims paid to total claim is 2.01% and S.D. is 1.12. It shows that the marine insurance is less risky than fire insurance.
- One of a major portion of premium collection in this company is Motor insurance premium. The contribution of Motor premium collection is dramatically increasing trend. Its contribution is 66.76% in the year 064/65 and then dramatically increased to 88.42% in the year 068/69. The average motor premium collection to total premium collection in this 5 years period is 75.64%.
- The above analysis shows the highest portion of total claims is adopted by motor claims of this company. Its average claim paid within these 5

years is 79.03% of total claim paid and standard deviation and C. V. are 6.32 and 10.60% respectively. It seems motor insurance too risky and bad sector in this company.

- Engineering insurance premium holds smallest portion in this company. The highest premium collection of this company is 1.51% in the year 067/68 and lowest is 0.64% in the year 065/66. The average engineering premium collection to total premium collection in this 5 years period is 1.15%.
- Aviation policy not compare with other policy due to high portion paid to re insurer and just little portion holds by SICL. Example: 99% risk and premium coinsurance with re-insurer and remaining only 1% risk or premium holds by company.
- The analysis shows that engineering claims is a smaller portion to total claim paid. But, comparing the collection of premium and claim paid, we can't say it is a less risky business.
- Miscellaneous premium holds medium portion in this company. The highest premium collection of this company is 19.12% in the year 065/66 and lowest contribution is 4.08% in the year 068/69. Firstly it is increasing trend in the year 065/66 and then decreasing trend upto 2068/69. The average misc. premium collection to total premium collection in this 5 years period is 11.77%.
- Since the portion of premium of Misc. insurance is medium, the claim paid to this sector is also medium to total claims paid. The claim paid of misc. insurance to total claim paid is decreasing trends. The average claim paid within these five years is 12.97% and Standard deviation and C.V. are 3.39 and 26.13%.The analysis shows that this sector is profitable sector of this company.
- There is fluctuation in investment in government saving bonds to total investment. According to the table the high portion of investment on

govt. saving bond to total investment of SICL is 16.36% in the year 068/69 and least is 12.90% in the year 065/66 and average portion is 14.78%.

- SICL had invested its major portion of investment in bank fixed deposit. Investment on Bank fixed deposits on total investment of SICL is in increasing trend. Its highest contribution is 65.35% in the year 066/67 and the lowest is 50.69% in the year 068/69. According to the analysis its contribution is sharp up till 068/69.
- The second major sector of investment of this company is Fixed Deposit at Dev. Bank/ Financial Institute. According to the above table the highest portion of investment in this sector is 27.29% in the year 064/65 and least is 13.04% in the year 066/67. The graph shows decreasing trend of investment portion in this sector (i.e. fixed deposit at dev. bank/ financial institute).
- There is stable trend in investment on other investment portion to total investment. Its highest contribution is 7.37% in the year 065/66 and the least is 3.37% in the year 064/65. It shows stable trend of investment in this sector.
- The analysis shows motor insurance seems more risky than other business of SICL and fire and Misc. business are less risky. According to the figure it seems fire insurance is the most profitable business in this company from claims point of view
- The investment on total premium calculation ratio of SICL is decreasing trend up to the year 067/68 and then dramatically increased in the year 068/69. The highest ratio is 208.22% in the year 064/65 and lowest is 120.78% in the year 067/68 and average is 166.56%
- The ratio of interest earned on total investment of the company is dramatically increased in the year 065/66 to 7.75% from 1.02% in the

year 064/65. The average interest earned to total investment in this 5 years period is 6.82%.

- When values are predicted for the next two years of premium collection and investment, the premium collection is found to be increasing whereas the investment is found to be increasing throughout the last and coming two fiscal years.

CHAPTER – V

SUMMARY, CONCLUSIONS & RECOMMENDATIONS

The brief introduction of this study has been already presented in the first chapter. In the second chapter, the available literature about the premium collection and investment position has been reviewed. Research methodology has explained in the third chapter. And the available data have been presented and analyzed in the fourth chapter.

This is a last chapter of this study. In this concluding chapter, an attempt has been made first to make present summary of the study, then conclusion of the analysis and some recommendations, which are useful to take corrective actions from the side of concerned company.

5.1 Summary

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 modern society and 21st centuries Business age it plays vital role through risk bearing and providing certainty. Therefore insurance is an assets of world's economy.

Among the 25 insurance companies, this present study has been taken to evaluate the premium collection and investment position of SICL. The study analyzed the annual report of five years starting from 063/64 to 067/68 has been taken into consideration for the purpose of the study.

In the context of Nepal, insurance business is one of the business, which has not any loss and it suffered at profit from establishment data to till know. But the trend of premium collection investment and profit earned are fluctuated. Insurance premium is the life blood of Insurance Company. Therefore, to

succeed the insurance companies should be able to increase premium earning. In other words insurance companies may flourish only with the significant increase in premium earning. The analysis of premium is very crucial to give meaningful inference on financial performance of insurance companies. It is needed to restudy and reanalyzed as per present condition and situation. The insurance act 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 over all macro economy and money capital condition.

Insurance business plays the great role in the national financial system. The growing numbers of insurance companies are competing with each other to attract policyholders with different types of insurance policies. In this regard Shikhar Insurance Company played vital role for Socio-economic development within the nation either by transferring risks or by collecting scattered resources. In this study an attempt is made to provide independent views of the premium collection and investment position of SICL. On the basis of study some findings and recommendations are identified, which are useful to improve the future of SICL on the premium and investment sector.

To conclude this study, the whole study has been divided into five chapters of different aspects. The summary of each chapter can be presented in the following paragraphs.

'Introduction ' provides the brief introduction of this study. The historical background of insurance industry in Nepal shows the contribution for the development of industrial sector in Nepal. The establishment of SICL is example of that evidence. So, this study tries to evaluate premium collection and investment position of insurance company. The main objective of the study is to high light the premium collection and investment position of prudential insurance company.

The literatures related to the capital structure have been reviewed in the second chapter. In this chapter, the theoretical review and empirical review i.e. review of related studies has been presented separately. From the theoretical review section, we may take advantages of conceptual foundation of premium collection and investment position of insurance company in Nepalese contest. Similarly, by reviewing some previous studies, many inputs can be taken for this study and other researchers can also take advantages from this section..

Third chapter explains about the Methodology of this study. Mostly the secondary data are used in this study. This study covers the five years data of SICL. Descriptive and analytical research design has been used in this study. Financial as well as statistical tools are used. This includes ratio analysis, correlation analysis probable error and trend analysis.

Data are presented and analyzed in the fourth chapter. Data analysis tools mentioned in the third chapter is used to analyze the data in this chapter. Various ratios that are related to the premium collection and investment position, correlation analysis between two variables, trend analysis etc. have been used to evaluate the premium collection and investment position.

5.2 Conclusions

Based on the data provided by the concerned company, the above analysis has been made. And based on the main findings of the study as revealed in the analysis, the following conclusions can be drawn.

- Fire insurance premium is able to maintain 16.90% average ratios. Its claim paid ratio is small portion to total claim. So it is most profitable business of the company.
- One of the major portions of premium collection of this company i.e, marine insurance holds the average premium of 43.30% and average

claim paid of 11.51% which shows that marine insurance is riskier than Fire insurance.

- The contribution of motor premium collection is highly fluctuating trend. There is dramatically decrement and gradual increment in motor insurance premium which is most risky.
- Engineering insurance premium holds smallest portion in this company having fluctuating trend in premium collection ratio and claim paid ratio which seems to be risky business.
- Miscellaneous premium also holds smaller portion in this company. The premium collection and claim paid ratio to this sector is smaller. On the basis of findings of the study it can be concluded that this sector is profitable sector of this company.
- According to the analysis of investment position of this company in different sector of investment, the investment position seems good but not satisfactory. There is fluctuating trend of investment in this company in different sectors. This sector seems to be less risky sector.
- The ratio of interest earned on total investment of the company is gradually increased till the last year which is a good sign for the company.
- While analyzing the annual trends of premium collection and investment, it can be expected that the situation will improve as the increasing pattern of premium collection is a witness of the prediction.

5.3 Recommendations

Based upon the above-mentioned issued and constraints some recommendations have been made. These guidelines would help in taking prompt decision in relation to premium collection and investment.

- Fire insurance premium is in fluctuating trend and it is the most important part of insurance business, its average premium collection seems good but not satisfactory. So, the company should give more

attention in fire business to collect the premium. Fire claim paid is also in fluctuating trend. This is good for the company due to the decreasing trend of claim paid ratio.

- Marine Insurance premium collection holds the highest portion premium in total premium which is good signal for the company. But the claim ratio is in fluctuating trend. So, the company should be selective in marine insurance to maintain claim ratio and profitability.
- Motor insurance is the good source of raising insurance premium, but it seems most risky business of the company. The highest portion of the total claims was adopted by the motor claim. So, the company should take good strategies for taking vehicle business.
- Engineering and Miscellaneous insurance premium hold fewer portions in total premium collection. Both have premium collection ratio in fluctuating trend and claim paid ratio also in fluctuating trend. Even though these business are profitable so, the company should give more emphasis in such type of business for company growth.
- According to the analysis of investment position of this company in different sector of investment it seems good but not satisfactory .For this; the company should select more returnable and less risky sector of investment.
- For excellent investment decision as well as new product, company should make independent research and development department. R&D department will help, to meet future goals of the company as well as the betterment of the company.
- Insurance premium should be invested in different sector other than government saving bond in order to enhance the life standard of people, thereby increasing the insurance premium.
- The entire insurance should follow the investment policy and should maintain and make uniformity on premium collection under all insurance policies and should try to reduce in claim paid amount.

- The entire insurer should try to increase customer service by providing different facilities and to withdraw unnecessary process on insurance and followed scientific insurance system.
- The company is suggested to expand its insurance activities in rural area by establishment of branches or by appointment of agents according to its potentiality.
- 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 macro economic and money and capital market condition.

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Appendix –I

Shikhar Insurance Co. Ltd.

Premium Collection (In Nrs.)

Year	Fire	Marine	Engineering	Motor	Misc.	Total
2064/65	14,162,729.00	15,420,422.00	5,250,175.00	24,356,632.00	3,610,470.00	62,800,428.00
2065/66	18,194,591.00	22,961,587.00	3,367,965.00	17,907,577.00	7,812,029.00	70,243,749.00
2066/67	22,012,807.00	35,431,614.00	3,659,069.00	18,975,750.00	8,563,582.00	88,642,822.00
2067/68	23,085,454.00	39,265,921.00	5,608,397.00	22,369,467.00	8,546,508.00	98,875,747.00
2068/69	29,247,382.00	33,636,756.00	2,935,902.00	23,655,983.00	18,673,452.00	108,149,475.00
						359,887,424.00

Premium Collection to Total Premium Ratio

year	Fire	Marine	Engineering	Motor	Misc.	Total
2064/65	22.55196254	24.55464475	8.360094297	38.78418153	5.749116869	100
2065/66	25.90207849	32.68844179	4.794682869	25.49348128	11.12131558	100
2066/67	24.83315231	39.97121617	4.127879638	21.40697867	9.66077321	100
2067/68	23.34794396	39.71238872	5.672166502	22.62381593	8.643684887	100
2068/69	27.04348033	31.10209828	2.714670598	21.87341455	17.26633624	100
Total	115.14	168.03	25.68	130.18	52.44	500
Mean	24.74	33.61	5.13	26.04	10.49	100
S.D.	1.03	5.77	1.88	6.53	3.81	
C. V.	4.16	17.17	36.62	25.08	36.32	

Appendix- II

Shikhar Insurance Co. Ltd.					
Investment					
Fiscal Year	Govt./NRB Bond	Fixed Deposit at Commercial Bank	Fixed Deposit at Dev. Bank/Financial Institute	Other Investment	Total Investment
2064/65	18,075,000.00	65,000,000.00	32,700,000.00	4,040,530.00	119,815,530.00
2065/66	18,075,000.00	90,000,000.00	21,761,250.00	10,325,202.00	140,161,452.00
2066/67	18,075,000.00	81,000,000.00	16,161,250.00	8,711,429.00	123,947,679.00
2067/68	18,075,000.00	71,000,000.00	23,000,000.00	8,711,429.00	120,786,429.00
2068/69	18,075,000.00	56,000,000.00	23,000,000.00	13,391,429.00	110,466,429.00

Appendix-III

Investment Proportion					
Fiscal Year	Govt./NRB Bond	Fixed Deposit at Commercial Bank	Fixed Deposit at Dev. Bank/Financial Institute	Other Investment	Total
2064/65	15.09	54.25	27.29	3.37	100.00
2065/66	12.90	64.21	15.53	7.37	100.00
2066/67	14.58	65.35	13.04	7.03	100.00
2067/68	14.96	58.78	19.04	7.21	100.00
2068/69	16.36	50.69	20.82	12.12	100.00

Appendix-IV

Shikhar Insurance Co. Ltd.			
Claims Paid			
Fiscal Year	Total Claim Paid	Total Premium Collection	Proportion
2064/65	11,903,535.00	62,800,428.00	18.95
2065/66	17,685,734.00	70,243,749.00	25.18
2066/67	6,245,769.00	88,642,822.00	7.05
2067/68	10,784,138.00	98,875,747.00	10.91
2068/69	10,900,731.00	108,149,475.00	10.08

Fiscal Year	Fire	Marine	Eng.	Motor	Misc.	Total Claim
2064/65	521,644.00	956,375.00	1,238.00	10,266,205.00	158,073.00	11,903,535.00
2065/66	1,439,036.00	4,146,085.00	710,217.00	10,669,361.00	721,035.00	17,685,734.00
2066/67	111,323.00	133,157.00	95,149.00	4,715,493.00	1,190,647.00	6,245,769.00
2067/68	(141,774.00)	1,702,803.00	367,549.00	8,176,874.00	678,686.00	10,784,138.00
2068/69	555,076.00	892,199.00	159,563.00	6,071,268.00	3,222,625.00	10,900,731.00

Appendix-V

Claims Paid to Total Claims paid

Fiscal Year	Fire	Marine	Eng.	Motor	Misc.	Total
2064/65	4.38	8.03	0.01	86.25	1.33	100
2065/66	8.14	23.44	4.02	60.33	4.08	100
2066/67	1.78	2.13	1.52	75.50	19.06	100
2067/68	-1.31	15.79	3.41	75.82	6.29	100
2068/69	5.09	8.18	1.46	55.70	29.56	100
Mean	3.62	11.51	2.08	70.72	12.06	
S. D.	3.18	7.37	1.45	11.17	10.65	
C.V.	87.84	64.03	69.71	15.79	88.30	

Claim Paid to Premium Collection Ratio (%)

year	Fire	Marine	Eng.	Motor	Misc.
2064/65	3.68	6.20	0.02	42.15	4.38
2065/66	7.91	18.06	21.09	59.58	9.23
2066/67	0.51	0.38	2.60	24.85	13.90
2067/68	(0.61)	4.34	6.55	36.55	7.94
2068/69	1.90	2.65	5.43	25.66	17.26
	13.39	31.63	35.69	188.79	52.71
Mean	2.68	6.33	7.14	37.76	10.54

Appendix-VIII

Correlation between Premium Collection and Claim Paid

X = Total Claim Paid

Y = Total Premium Collection

N = No. of years

F/Y	X (Rs. in Million)	Y (Rs. In Million)	x =(X - \bar{X})	y= (Y- \bar{Y})	x ²	y ²	xy
2064/65	11.90	62.80	0.4	-22.94	0.16	526.24	-9.176
2065/66	17.69	70.24	6.19	-15.5	38.32	240.25	-95.945
2066/67	6.25	88.64	-5.25	2.9	27.56	8.41	-15.225
2067/68	10.78	98.88	-0.72	13.14	0.52	172.66	-9.4608
2068/69	10.90	108.15	-0.6	22.41	0.36	502.21	-13.446
N= 5	57.52	428.71			66.92	1449.77	(143.2528)

$$\bar{X} = 11.50 \quad \bar{Y} = 85.74$$

$$\text{Correlation (r)} = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}} = \frac{(143.2528)}{\sqrt{66.92} \sqrt{1449.77}} = \frac{(143.2528)}{8.1804 \times 38.0758} = -0.459$$

$$\text{PE (r)} = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.6745 \times \frac{1-(-0.459)^2}{\sqrt{5}} = 0.6745 \times \frac{1-0.3691}{2.236} = 0.2381$$

$$6 \times \text{P.E. (r)} = 1.4286$$

$$\begin{aligned} \text{Co efficient of determinants (r}^2\text{)} &= (-0.459)^2 \\ &= 0.2106 \end{aligned}$$

Appendix-IX

Correlation between Interest Earned and Investment

X = Interest Earned

Y = Total Investment

N = No. of years

F/Y	X (in million)	Y(in million)	x=(X- \bar{X})	y=(Y- \bar{Y})	x ²	y ²	xy
2064/65	8.75	119.82	-0.9	-3.22	0.81	10.37	2.898
2065/66	10.41	140.16	0.76	17.12	0.58	293.09	13.0112
2066/67	9.71	123.95	0.06	0.91	0.0036	0.83	0.0546
2067/68	9.95	120.79	0.3	-2.25	0.09	5.06	-0.675
2068/69	9.42	110.47	-0.23	-12.57	0.05	158.01	2.8911
N= 5	48.24	615.19			1.533	467.36	18.1799

$$\bar{X} = 9.65 \quad \bar{Y} = 123.04$$

$$\text{Correlation (r)} = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}} = \frac{18.1799}{\sqrt{1.533} \sqrt{467.36}} = \frac{18.1799}{1.2381 \times 21.6185} = 0.6792$$

$$\text{PE (r)} = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.6745 \times \frac{1-(0.6792)^2}{\sqrt{5}} = 0.6745 \times \frac{1-0.4613}{2.236} = 0.1625$$

$$6 \times \text{P.E. (r)} = 0.975$$

$$\text{Co efficient of determinants (r}^2\text{)} = (0.6792)^2 = 0.4613$$

Appendix-X

Computation of Predicted Values of Premium Collection using Time Series Analysis

Fiscal Year (t)	(Y) Premium collection (Rs. in million)	X=t- 2066	XY	X ²
2064/65	62.80	-2	-125.6	4
2065/66	70.24	-1	-70.24	1
2066/67	88.64	0	0	0
2067/68	98.87	1	98.87	1
2068/69	108.14	2	216.28	4
N = 5	∑Y= 428.69	∑X=0	∑X Y=119.31	∑X ² =10

Source: SICL Annual Reports

Here,

$$Y_c = a + bX \dots\dots\dots (i)$$

Since,

$$\sum X = 0, \quad a = \frac{\sum Y}{N} = 428.69/5 = 85.74$$

$$b = \frac{\sum XY}{\sum X^2} = 119.31/10 = 11.93$$

Putting the values of a and b in equation (i),

$$\hat{Y}_c = 85.74 + 11.93 x$$

For the FY 2068/69, X = 3;

$$\therefore \hat{Y}_{2069/70} = 85.74 + 11.93 (3) = \text{Rs. } 121.53 \text{ million}$$

For the FY 2069/70, X = 4;

$$\therefore \hat{Y}_{2070/71} = 85.74 + 11.93 (4) = \text{Rs. } 133.46 \text{ million}$$

Appendix - XI

Computation of Predicted Values of Investment Using Time Series Analysis

Fiscal Year (t)	(Y) Investment (Rs. in million)	X=t-2066	XY	X ²
2064/65	139.41	-2	-278.82	4
2065/66	158.12	-1	-158.12	1
2066/67	158.17	0	0	0
2067/68	239.55	1	239.55	1
2068/69	287.70	2	575.40	4
N = 5	∑Y = 982.95	∑X = 0	∑XY = 378.01	∑X ² = 10

Source: SICL Annual Reports

Here,

$$Y_c = a + bX \dots\dots\dots (i)$$

Since,

$$\sum X = 0, \quad a = \frac{\sum Y}{N} = 982.95/5 = 196.59$$

$$b = \frac{\sum XY}{\sum X^2} = 378.01/10 = 37.80$$

Putting the values of a and b in equation (i),

$$\hat{Y}_c = 196.59 + 37.80 x$$

For the FY 2068/69, X = 3;

$$\therefore \hat{Y}_{2068/69} = 196.59 + 37.80 (3) = \text{Rs. } 309.99 \text{ million}$$

For the FY 2069/70, X = 4;

$$\therefore \hat{Y}_{2069/70} = 196.59 + 37.80 (4) = \text{Rs. } 347.79 \text{ million}$$

Appendix XII

COMPANY PROFILE

Shikhar Insurance Company Limited is one of the strong and reputed insurers in non-life insurance market of Nepal. It was incorporated under the company Act on 28 March, 2004. With the approval of Insurance Board, it commenced operation on 11 November, 2004. The Company is located at SHIKHAR BIZ CENTER, Thapathali, Kathmandu, an exquisitely built modern office complex located in the heart of city, formed with an authorized capital of Rs.200 million and issued and paid up capital 125 million. The company can claim to have a strong financial base, the first essential ingredient for success in the business of insurance. The strength, reputation and the influence of the founding groups and their business associates together with the professional management, the company has employed give an assurance of stability and quality service to its clients. This company envisions to be a strong and reputed insurer in the non life insurance market of Nepal catering to the insurance needs of the customers and providing them the best possible financial protection in the in the event of unexpected misfortunes. The head office of Shikhar Insurance Co. Ltd. (SICL) is in Thapathali, Kathmandu.

In a short span of a decade of operation, the company has already got the following achievements under its belt:

- Opened branches in Newroad, Ekantakuna, Satdobato, Biratnagar, Birgunj Pokhara, Nepalgunj, Butwal, Hetauda, Narayagarh and Birtamod.
- Open bancassurance desk in Kumari Bank, Sunrise Bank and Global Bank.
- Established reputation as one of the fastest claim settlers in the market.
- Computerized its operation substantially that includes 100% of the customer interface.

- Awarded with ISO 9001 2000 International Standard Certification from United Registrar Systems Ltd., UK accredited to United Kingdom Accreditation Service, British Government. This Certification is the ultimate quality management system standard globally recognized as the icon of excellence.