

CHAPTER-I

INTRODUCTION

1. Background of the study

Insurance is the principle against risk, which ensures financial security for unforeseen and uncertain losses. Insurance distributes the cost of risk over a large group of individuals subject to the same risk in order to reimburse the few who actually suffered from risk. Insurance is 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 insure themselves against the risk. (Mishra, 2001) The process of insurance has been evolved to safeguard the interest of people from uncertainty by providing certain payment at a given contingency.

Insurance is an arrangement by which a company gives customer financial protection against loss or harms such as theft or illness in return for payment premium. The insurer company pays or agrees to pay a particular sum of money if a specific undesirable event occurs. It is also known an art, measure or provision that gives protection against an undesirable event or risk.

Insurance has become a multidimensional business throughout the world. It is regarded as a greatest achievement in the financial world with its objective of providing security of man made progress and developments that are moving ahead. Insurance is giving benefit directly and indirectly or many organs of the society and national economy; individual, society business, industry, transportation etc.

There is no specific proof regarding the origin of insurance. However, the concept of insurance started from twelveth century. The marine insurance is the oldest form of the insurance. The first insurance contract called 'polizza' was made in 1300 A.D. in Italy. The marine policies of the present form were sold in the beginning of fourteenth century. Later on, it spread throughout the European counties (Mishra, 2001). After the marine insurance, fire insurance developed in present form. It had been originated in Germany in the beginning of sixteenth century. The fire insurance

got momentum in England after the great fire in 1666 A.D. when the fire losses were tremendous (Mishra, 2001). Later on, fire insurance spread all over the world. Life insurance is started in England for first time in sixteenth century. The first recorded evidence of Life Insurance in England is of William Gibbons in 1653 A.D. The modern insurance was then created by passing the life insurance act. Up to the beginning of nineteenth century life insurance companies were established in large number all over the world. The miscellaneous insurance took the present shape at the latter part of nineteenth century with the industrial revolution in England. (Mishra, 2001).

In the context of Nepal, there is no long history of insurance. At first Insurance business in Nepal was started by Indian companies. Indian insurance companies are regulated by insurance act, 1938, and Insurance Regulation and Development Authority act 1999. IRDA was constituted by an act of parliament. In fact huge amount of funds were exported to foreign land with the purpose to bring an end this situation and to mobilize internal resource and capital for the economic development of the company. “Rastriya Beema Sansthan(RBS) Pvt. Ltd.” was established in 1st Poush 2024 B.S. Later on this institution turned into “Rastriya Beema Sansthan” under the Rastriya Beema Sansthan act 2025. Before this, there was the monopoly of Indian companies in insurance business. Under the provision of insurance Act 2025, an insurance Board was formed. “Rastriya Beema Sansthan” was granted the authority to run life and non life Insurance business. Insurance business got momentum after the establishment of RBS. (Bhandari, 2003)

After the government adopted liberalization policy since mid 1980s establishment of insurance companies by the private sector and joint investments started. To organize the insurance business, the insurance act 2049(1992) and insurance rules 2049 were enacted in 2049 B.S. (Khadka, 2001). After this, insurance business got momentum after the enactment of insurance act; it has been noticed mushroom growth of insurance companies. In the initial phase, most of the insurance companies were centered in capital city but gradually they expanded their branches to the major cities. At present there are 24 insurance companies operating in Nepal out of which 5 insurance companies are granted authority to run both life and general insurance service and 19 insurance companies are granted authority to run general insurance service.

In general, the study seeks financial analysis of United Insurance Company. The company has started its operation from December 1st 1993 A.D. (Mangsir 16, 2050 B.S.). The authorized capital of the company is Rs. 150 million out of which Rs. 60 million have been subscribed. In near future this company is planning to achieve paid up capital up to Rs. 100 million.

The company is promoted by leading industrial and commercial house of Nepal and has share participation of Nepal Industrial Development Corporation and a large number of general public as well as foreign investors.

United Insurance Company Limited has adequate re- insurance also. It is providing different kind of non life insurance such as:

1. Fire insurance
2. Household Effects Insurance
3. Motor Vehicle Insurance(private/commercial)
4. Marine Cargo Insurance
5. Personal Accident Insurance
6. Cash in Transit and Cash in Safe Insurance
7. Burglary and House Breaking Insurance
8. Fidelity Guarantee Insurance
9. Bankers Indemnity Insurance
10. Contractor's All Risk and Engineering Insurance

Insurance companies have significance position in a financial system. Their performance affects the overall economic activities. It would be needed financial sustainability and sound health of financial position which is the mutual interest of both parties; insurer and insured. In this way the insurance company should be sustainable and be in perfect financial position.

This proposed study focus on financial analysis of Nepalese insurance company by taking a case of United Insurance Company. Insurance companies are playing vital role in risk management and economic development of the nation.

1.2 Statement of the problem.

Insurance companies have significance position in a financial system. Their performance affects the overall economic activities directly and indirectly. Insurance

companies ensure financial security to the people and their property. They attempt to cover risks to a large extent. Though insurance provide financial security to unforeseen and uncertain risk it is not gambling as there is mutual interest of both parties; insurer and insured. Insurance companies collect premium and provide payment at a given contingency or an expiry of insured period. It is noticed premium collection is the major function of insurance companies.

In general this study seeks financial analysis of United Insurance Company and factors affecting the financial health. The financial situation of United Insurance Company largely depends upon how effectively it raises and maintains their premium collection trend expanding their services. Hence the proposed study will be based on finding valid answer to following research problems.

- What is the trend of premium collection and payment of claim and utilization of available resources?
- What is the financial strength and weakness of the United Insurance Company?
- What is the pattern of risk and profitability position of United Insurance Company?

1.3 Objectives of the study

The fundamental objective of the study is to analyze the financial performance of United Insurance Company. The specific objectives are as follows.

- To analyze the trend of premium collection and payment of claim and utilization of available resources.
- To measure the financial strengths and weakness of the United Insurance Company limited.
- To measure the risk and profitability position of united Insurance Company Limited.

1.4 Significance of the study

Insurance sector in Nepal is a continuously growing sector however it is not well developed. High competition and poor monitoring services has played negative roles in financial sustainability of the insurance companies. The financial performance

of Nepalese insurance companies still remains a puzzle. Although various studies has been carried out regarding this financial performance analysis of Nepalese Insurance companies they have not been able to fully explain the factor influencing financial performance. This study aims to provide an insight into determinant of financial analysis of United Insurance Company Limited.

1.5. Research methodology

1.5.1 Research design:

The proposed study is case study. General objective of this research study is to analyze financial performance of UIC. In order to achieve the objective, descriptive and analytical research design has been followed.

1.5.2 Nature and source of data:

This study is based on secondary data. However, necessary primary data and suggestions are also taken from various experts both inside and outside the insurance companies whatever required. The data will be taken from published or unpublished materials such as; booklets, brochures, reconciliation statement and premium statement, financial statement, annual reports and websites of the company.

1.5.3 Data processing and analysis:

To obtain the result, collected data will be processed and analyzed using various financial and statistical tools and techniques as per need.

1.6. Delimitation of the study

As every study has been conducted within certain delimitation the proposed study is not an exception so it has also some delimitation.

-) Among various insurance companies, the study focuses on only one insurance company named United Insurance Company.
-) The study is based on secondary data which is itself a limiting factor.
-) The study covers the periods of the 7 fiscal years i.e. from fiscal year 2059/2060 B.S. to 2065/2066 B.S.

1.7. Organization of the study

This study is organized into five chapters. Chapter one is the introductory chapter. This chapter contains a brief background of the study, statement of problem, study objectives, significance of the study, research methodology, delimitation of the study.

Chapter two is concerned with review of theories and previous researches carried out in the study area. It includes a discussion on the conceptual framework regarding financial performance analysis of insurance companies. Past studies conducted by foreign and Nepalese scholars in the area of financial performance of insurance companies are also presented. It also provides a brief review of legal provisions regarding financial indicators of Nepalese insurance industry.

The third chapter describes the research methodology applied in this study. Research design, nature and sources of data are depicted in this chapter. Various data analysis tools for financial performance of non-life insurance companies are also discussed in this chapter.

Chapter four consist presentation and analysis of data. The information obtained by data processing has been presented using figures and tables along with their interpretations. Major findings of the study are also presented in this chapter.

Chapter five is the final section and consists of summary, conclusions and recommendations.

CHAPTER II

LITERATURE REVIEW

This chapter presents the concepts of insurance, its development and a review of the related studies. It reviews the legal documents related to financial performance for insurance industry in Nepal. This section presents the review of research works by international scholars and unpublished dissertations to clarify the concepts of financial health of insurance industry.

2.1 Conceptual Review

This part is related with the conceptual review of the study. This conceptual review reflects the definitions of the various terms used in the main objective. This part is to develop theoretical foundation of the student on the study area. This part shall include the conceptual review on the area that needs to be based on a review of text books and other reference materials such as journals and magazines.

2.1.1 Meaning of Insurance

The insurance is the principle against risk. The risk means the uncertainty about the economical loss and the uncertainty which is the major characteristics of a man's daily life. The things are always uncertain and any incident may happen in a people's life. The uncertainty of loss is called risk. Insurance perform the task of paying compensations of financial loss under the insurance in return of little fixed amount called premium. Insurance company gives the payment of the amount if loss or damage has taken place.

The insurance business is a multidimensional business. In this age, this business has given the benefit directly or indirectly to many organs of the society for e.g. individual people, society, agriculture, trade, transport, industry etc. In other words, it has become the necessary part of that sector. In these days insurance business has appeared as a contract business. A contract (policy) in which an individual or entity receives financial protection or reimbursement against losses from

an insurance company. The company pools clients' risks to make payments more affordable for the insured.

The contract is an agreement between two or more than two parties, to do or not to do something. In this way, under the modern insurance business, insurance is a contract between two or more parties in which one party agrees in return of a certain amount to compensate another party for the possible incident that may happen in future. The essence of insurance is the transfer of risk from the insured to one or more insurers.

“Insurance is defined as a co-operative form of distributing a certain risk over a group of person who are exposed to it.” (Ghose & Agrawal, 1992)

“Insurance is a way to reducing uncertainty of occurrence of an event.” (Panda, 1992)

“Insurance provides indemnification against loss or liability form specified events and circumstances that may occur or be discovered during a specified period.” (FASB Statement of Financial Accounting Standard No 113, 1992)

2.1.2 Legal Concept

“Insurance may be defined as a consisting one party agrees to pay to the other party or his beneficiary, a certain sum upon a given contingency (the risk) against which is sought.” (Mishra, 1979)

“Insurance is a contract between two parties whereby one party called insurer undertakes, in exchange for a fixed sum called premium to pay the other party called insured a fixed amount of money on the happening of a certain events.” (Mishra, 1998)

Insurance is law and economics which is the form of risk management primarily used to protect against the risk of potential financial loss. Insurance is defined as the equitable transfer of the risk of a potential loss, from one entity to another, in exchange for a premium and duty of care.

Thus from above definition insurance is legal contract between the insurance company (the insurer) and the insured. The legal documents are the policy of insurance.

In the legal document one party is called the insurer and another party is called the insured. The person who protects other against risks is known as insurer, while the

person who is protected against the risk is known as the insured. The document where the term and condition of the contracts are stated is known as insurance policy. The amount for which a policy is taken out is called insured amount. The consideration, which the insured has to pay insurer, is known as the premium.

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

2.1.3 Co-operative concept

“Insurance is indispensable to free economy and a free society because it not only protects the values produced by men and women who work for themselves but fasters in the confidence to produce more.” (Brinbridge, 1952, p.15.)

“Insurance is a co-operative device to spread the loss by particular risk over a number of persons who are exposed to it and who agree to insure themselves against the risk”. (Mishra, 1979, p.5.)

“Insurance may be defined as a device for reducing risk by combining a sufficient number of exposure units to make their individual losses collectively predictable. The predicable loss is then shared proportionately by all units in the combinations”. (Mehr & Cammack, 1972, p.72.)

Thus above definition tells that insurance is a compensation for uncertain happening of any loss which is insured for certain period of time and for specified amount; human life and property are subjects to the risk of loss or damage from the various sources. So insurance is a powerful weapon to manage risk.

2.1.4 Concept of Insurance Regulatory and Development Authority

The Insurance Regulatory and Development Authority (IRDA) is a public authority as defined in the right to information Act, 2005. As such the IRDA is obliged to provide information to member of public in accordance with the provision of the said Act, IRDA has provided for a separate channel for lodging complaints against deficiency of services rendered by insurance companies.

IRDA is an act to provide for the establishment of an authority to protect the interests of holders of insurance policies, to regulate, promote and ensure orderly growth of the insurance industry and for matters connected therewith of incidental there to and further to amend the insurance Act, 1938 the life insurance corporation Act, 1956 and the general insurance Business Act 1972.

There were some sub title and commence in this Act, this act may be called insurance regulatory and development authority which extends to the whole part of India. It shall come into force on such date as the central Government may be notification in the official gazette, a point: provided the different dates may be appointed for different provisions of this Act and any reference in any such provision to the commencement of this Act shall be constructed as a reference to the coming in to force of that provision. With effect from such date as the central Government may, by notification appoint, there shall be established for the purpose of this Act, an authority. The authority shall be body corporate by the name aforesaid having perpetual succession and a common seal with power subject to the provision of this Act to acquire, hold and dispose of property, both movable and immovable and to contract and shall, by the said name, sue or be sued.

(<http://en.wikipedia.org/wiki/Insurance-Regulatory-and-Development-Authority>)

2.1.5 History of Insurance

“The history of insurance goes back to 5000 years with the practice of risk sharing among merchants”. (<<http://en.wikipedia.org/wiki/Insurance>. 14 Aug: 2006).

Marine insurance was introduced as first insurance business in the history of insurance. The Babylonians and Hindus used contracts known as “Bottomary bond” to shift the burden of risk from owners of ships and cargo’s to moneylenders who agreed to cancel the loan if the ship or cargo were lost during a voyage. If the venture was successful, the charge for the bottamory loan was a high one which combined both interest and cost of risk insurance has been called “the head maiden of commerce” for it was with early commercial activities and the great dangers of travel and trade. That such contract appeared.

The Greeks and Romans introduced the origins of health and life insurance in 600 A.D. when they organized guilds called “Benevolent Societies” which cared for the families and pay funeral expenses to members upon death. Guilds in the middle

ages served a similar purpose. The Talmud deals with several aspects of insuring goods. Before insurance was established in the late 17th century, “Friendly Societies” existed in England, in which people donated amount of money to a general sum that could be used for emergencies. (<<http://en.wikipedia.org/wiki/Insurance>. 14 Aug: 2006)

“In the late 1680s, Mr. Edward Lloyd opened a coffee house that become a popular haunt of ship owners, merchants and ships captains, and thereby a reliable source of the latest shipping news. It became the meeting place for parties wishing to insure cargoes and ships, and those willing to underwrite such venture. Today, Lloyd’s of London is leading market for marine and other special types of insurance.” (<<http://en.wikipedia.org/wiki/Insurance>. 14 Aug: 2006)

The “Great Fire of London”, in 1666 A.D. destroyed 13,200 house gave birth to fire insurance. After the disaster Nicholas Barbon opened an office to insure building. In 1680 A.D. he established England’s first fire insurance company named “The fire offices insure brick and frame homes.” (<<http://en.wikipedia.org/wiki/Insurance>. 14 Aug: 2006)

The first Insurance Company in the United States underwrote fire insurance and was formed in Charles town.

“Economic expansion in the 1800s started more life insurance ready for business among which some are the Pennsylvania Company for the insurance olives (1800), the New England mutual life insurance company (1836) and mutual life insurance company of New York (1843). The beginning of scientific auctorial mortality tables appear and life insurance quadrupled in decade following the civil war. (Bickelhaupt, 1983: p.73)

“Life Insurance has undergone significant change since 1900 A.D. Many new companies have compiled for the growing needs of a prosperous economy. Until today 2000 Life Insurance Company is in business” (Mishra, 1979:p.12)

Today, insurance is very systematized, regulated and complex issue. It is regulated by the government and has a wider range of services then before.

‘Nepal Mal Chalani Tatha Beema Company Ltd.’ a captive company of Nepal Bank Ltd. was stared formally on 2004 B.S. Ashwin 8, initiating insurance business in Nepal. Its name was changed to ‘Nepal Insurance and Transportation Co. Ltd.’ in 2016 B.S. and finally in 2048 B.S. it is turned into ‘Nepal Insurance Co. Ltd.’.

Another milestone in Nepalese insurance history was establishment of 'Rastriya Beema Sansthan'.

Up to 1971 A.D., Indian Insurance companies like United India, Hindustan General Insurance, Sterling Insurance, Ruby General Insurance, Oriental Fire Insurance etc. were working in Nepal. After nationalization in India in 1971 A.D., all insurance companies except National Insurance Co. Ltd. and Oriental Insurance Co. Ltd. withdrew their operations from Nepal.

In 1968 A.D. "Rastriya Beema Sansthan Ain" was enacted to regulate the insurance business in Nepal. After the restoration of democracy in 1990 B.S. insurance environment began to change simultaneously along with other factors. Thus to meet the requirements of changing situation, "Rastriya Beema Sansthan Ain" 1968 was repealed by "Beema Ain", 2049 B.S.(Insurance Act 1992). This act suggested forming Beema Samiti (Insurance Board) as an autonomous body to systematize, develop and regulate the insurance business.

In the changed legal, economic and socio-political environment insurance sector started to grow rapidly and in Nepal it started to form in public sector, foreign and joint venture besides government sector. At present there are twenty-four insurance companies in Nepal.

2.1.6 Types of Insurance

Insurance Board of Nepal has categorized insurance into following category:-

2.1.6.1 Life Insurance:

The insurance which is made against the risks, related to the man's life is life insurance. Life insurance provides a monetary benefit to a decedent's family or other designated beneficiary and may specifically provide for burial, funeral and other final expenses. Life insurance policies often allow the option of having the proceeds paid to the beneficiary either in a lump sum cash payment or an annuity.

2.1.6.2 Non Life Insurance:

Insurance, other than life and social insurance are called non life or general insurance. The subjects 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 of the property. The examples of non life insurance are Fire

Insurance, Marine Insurance, Crops Insurance, Rain Insurance, Cattle Insurance, Motor Insurance, Theft Insurance, Credit Insurance, Liability Insurance, Vocal Insurance, Glass Insurance, Aviation Insurance, Beauty Insurance, Earth-quake Insurance, Loan Insurance and Personal Accident Insurance, Car and Engineering Insurance etc.

2.1.6.3 Reinsurance:

“It is a transaction between two insurance companies in which one insurance company purchased insurance for another insurance company. Reinsurance is a separate kind of insurance transaction rather than a separate branch of insurance business. The company originally writing the insurance for a consumer is called the primary insurer or ceding company. The insurance company from which the primary insurance purchase insurance is called the re-insurers. The re insurers agrees to indemnity the primary insurer in the event that the primary insurer in the event that the primary insurer most indemnity it’s insured for a covered loss.” (Mark S. Dorfman, 1987)

2.1.6.4 Marine Insurance:

Marine insurance is a contract whereby the insurance undertakes to indemnity the assured in the manner and the extent thereby agreed, against marine losses, the losses incidental to a marine advantage. It includes protection against the perils of navigation and transportation in the sea such as theft, robbery, sinking and collision. It covers the loss or damage of goods at sea.

Marine Insurance typically compensates the owner of merchandise for losses sustained from fire, shipwreck, etc. but excludes losses that can be recovered from carrier.

2.1.6.5 Fire Insurance:

Fire insurance may be defined as a contract whereby the insurer in consideration of the premium paid by the insured, undertakes to indemnity the latter against loss or damage caused to the insured property by fire during a specific period and up to an agreed amount. It can be defined as a contract whereby one party undertakes in exchange for a premium indemnity the other against a loss or damage

caused to specified property by the fire during a particular period to the extent of a definite to included a number of perils, closely allied to fire such as wind storm, explosion, smoke, earthquake and riot etc.

2.1.6.6 Contractor's all Risk and Engineering Insurance:

Contractor's All Risk insurance covers for civil works like buildings and marine works like bridges, dams, sea walls etc. It also covers plant and machinery used for construction as well as temporary structures set up to support the construction as well as temporary structures set up to support the construction. It further covers for natural calamities, third party liability and covers for entire period of construction that may spread over a number of years.

2.1.6.7 Motor Insurance:

The rate of premium is standardized in Nepali because the business is based on prescribed tariff rates and no insurance can grant benefits exceeding that those arranged by the tariff. Vehicles are classified by motor tariff in three categories via, private cars, commercial vehicles and two wheelers.

Comprehensive policy covers own damage, Third party loss, Fire, Theft, Malicious damage, Earthquake, Flood etc. Motor insurance policy may include Riot and strike damage and Terrorism risks. Moreover, Personal accident insurance can also be included in Motor policy.

2.1.6.8 Miscellaneous Insurance:

There are various other policies to cover several kinds of risk in non-life insurance. Some of the important are presented hereunder.

❖ Personal Accident Insurance:

This policy covers financial loss that may arise as a result of accident caused by external violent and visible means causing death or disablement by bodily injury. In the case of comprehensive personal accident insurance it covers temporary and total disablement and medical expenses up to fixed limits. Besides, the policy is extended to cover the risk of trekking, mountaineering, expedition, rafting, commercial flights etc. But this policy does not cover the chartered-flights, unless rescue is covered.

❖ **Cash in Transit and cash in safe insurance:**

This insurance provides an indemnity in respect of loss of money carried by authorized messengers whilst in transit from one place to another, specified in the policy due to for robbery, loss caused by the accident of vehicle and airplane. This insurance is intended for banks, industrial, manufacturing and business concerns that periodically draw large sum of money from banks or other source for payment of salaries and for other day-to-day transactions.

❖ **Burglary & House-Breaking Insurance:**

This insurance is intended to cover contents of premises against loss or damaged by burglary and/or house-breaking. Here the burglary and house-breaking are defined as thief involving entry to or exit from the insured premises by forcible and violent means. It is a general condition of the policy that a watchman or a security guard is available in the premises on a 24 hours basis.

❖ **Fidelity Guarantee Insurance:**

This insurance is intended to provide an indemnity to the employer for financial loss sustained as a result of forgery, embezzlement, larceny of fraudulent conversion of money of the employer committed by salaried employees in the course of performance of their duties. The maximum liability under the policy will be the amount of guarantee.

❖ **Bankers Indemnity Insurance:**

This insurance provides an indemnity to the Banks in respect of the following risks:

- a. Loss of money or security by fire, riot and strike, burglary house-breaking, theft, robbery or holdup.
- b. Loss of money or securities in transit.
- c. Payment of forged or raised cheque, draft and fixed deposit receipts.
- d. Dishonest Acts of employees in respect of money and securities.
- e. Dishonest Acts of employees in respect of hypothecated of pledged goods.

❖ **Others Insurance:**

There are plenty of policies except above as Fidelity guarantee insurance, public liability insurance, Household insurance, Cattle insurance, Crop insurance, labor compensation, Boiler insurance, Credit insurance, Financial loss insurance, Professional indemnity insurance, Travel insurance, Terrorism insurance etc

2.1.7 Legal provision for insurance industry:

As the insurance industries in different Asian economics are in different stages of development, they require different regulatory guidelines. (Renbao Chen and Kie Ann Wong, 2002)

Insurance is a technical subject and law supports it. Insurance legislation and supervision in developing countries are crucial for success of this industry. Insurance Board of Nepal (Beema Samiti) is a regulatory authority of Nepal government that regulates and supervises insurance business in the country. It reviews various legal and other documents relating to the regulation of insurance business in Nepal.

Insurance Act 1992 (Beema Ain 2049)

Insurance Act 1992 made several provisions to develop, systematize, control and regulate the insurance business in Nepal. This act is considered as a major step in the insurance history of Nepal.

It has been made provision to form Insurance Board (Beema samiti) as a supervisory body to systematic, regularize, develop and control the insurance business in the country. Other provisions are provision for the members of the board and their designation, terms and conditions as well as provision for duty, power and responsibility. Provision for registration, cancellation and liabilities of insurers are also mentioned in this act. It has clarified about restriction to grant loan, guarantee and security to directors of insurance companies. About the financial performance, it has made provisions on accounting records keeping and submitting of necessary document to authorized body (Beema Samiti). It has also made provision to create reserve for unexpired risks and outstanding liabilities as well as provision to have the various fiscal document audited. The major provision in this act is the restriction to accept risks before getting premium and compulsions to reinsure the risks beyond the retention limit of 20 insurers, provision for agents, brokers and surveyor's

responsibility and accountability to them and legal treatment to them in case of conducting undesired activities as well as provision for separate funds under Beema Samiti. For necessary future changes, this act has provision of insurance tariff advisory committee.

Insurance Regulation 1992(Beema Niyamabali 2049)

The insurance regulation 1992 is explained under the subsection 2 in section 1 of insurance Act 1992. Other necessary amendments were done in this regulation in 1996.

This regulation has classified insurance in three groups, life insurance, non-life insurance and reinsurance. Registration and renewal of insurance companies, approval of investment sector other than priority sector fixed by the board and fixation of reserve funds of various insurance sectors has also been presented under this regulation. Limitation on management expenditure, restriction to collect premium in accordance with tariff are provisioned in this regulation along with provision of agent commission, provision regarding surveyors and procedures of claim settlement. ([http://www.bsib.org.np/insurance regulation.html](http://www.bsib.org.np/insurance%20regulation.html) 14 Nov: 2006)

Regulatory Mechanism of Insurance Industry in Nepal

Insurance Board of Nepal (Beema samiti) is a regulatory authority board of Nepal government that regulates and supervises insurance business in the country.

In order to systematize, regularize, develop and control the insurance business in the country following functions, duties and powers are conferred on insurance Board (Beema samiti). It provides suggestion to government of Nepal to formulate necessary policy for systematizing, regulating, developing and regulating the insurance business. It also provides guidelines for insurers to invest their fund and prescribe priority sector for such investment. It has authority to register and renew the insurer, insurance agent, surveyors and brokers and also has authority to cancel or cause to cancel such registration. It arbitrates in the disputes, which arise between insurer and insured. It makes decision on the complaints filed by insurers regarding settlement of liability of insurance. It issues necessary directives to the insurer. It formulates necessary requirements for protection of interest of the insured and also

does or causes to do other necessary functions regarding insurance business.
([http://www.bsib.org.np/insurance regulation.html](http://www.bsib.org.np/insurance%20regulation.html). 14 Nov: 2006)

These are the major provision in Insurance Regulation (1992) regarding financial indicator of insurance companies.

Provision for paid up capital:

All the non-life insurance companies are required to grow their paid up capital to Rs.1000 million until 2065 BS.

Provision for reserve:

Section 15 of the regulation states the reserve amount should not be less than fifty percent of the net insurance premium shown in the revenue account of the non-life insurance business.

Provision for reinsurance:

Section 5 of regulation states that the insurer may re-insure the risks that are in excess from the risks assumed by it and the board shall specify other arrangements.

Provision for management expenses:

Section 16 of the regulation state that the insurer may spend up to twenty-five percent in case of marine insurance and up to thirty percent in case of other insurance for management functions out of the total amount of income generated from the premium for the operation of insurance business.

Provision of reserve for claim:

Insurance regulation's section 15 states that provision of reserve for claims should be one hundred fifteen percent of the remaining amount of the payment against claims made by the insured before the expiry of each fiscal year.

Provision of reserve for unexpired risk:

Section 15 of the regulation states that fifty percent of the profit earned until the amount equals the paid-up capital of the insurer operating the non-life insurance

business provided that in case of marine insurance, the amount to be deposited to the reserve fund for at least three years shall not be considered to be profit.

Provision for investment:

Non-life insurance companies should make investment on two basis-compulsory basis and optional basis. Compulsory basis is classified in two classes A and B. Class A represents for bond of Nepal government and bond of Nepal Rastra Bank or other government securities. Fifteen percent or more of total investment should be made in these sectors.

Class B represents for fixed deposit in commercial banks, development banks and citizen investment trust. At least thirty-five percent of total investment should go for fixed deposit of commercial banks and not exceeding twenty percent of total investment for fixed deposit of commercial banks and citizen investment trust. The combination of class A and B should be at least sixty five percent.

Investment on preference share, secured debenture and bond of financial institution should not exceed 10 percent under optional category. Fixed deposit with of financial institution should not exceed 15 percent. General share of housing sector should not exceed 5 percent and share of other public limited companies should not exceed 5 percent of total investment.

2.1.9 Risk and Insurance

Due to the unseen circumstances human being is suffering from huge loss. No one can foresee the future. We know that life is full of risks and uncertainties, which result in fear, nervousness, and horrible outcomes in human life. It stands as a constraint in the socio-economic development. Because of it most of the investors hesitate to initiate their business. These risks may be of losing life and properties.

“Risk management is a general management function that seeks to identify, assess and address the cause and effect in certainly and risk on an organization the purpose of risk management to enable on organization to progress toward its goal and objectives in the most direct, efficient and effective path.” (Smith & Young, 1995 p.27.)

Risk to human being can be categorized a financial risk and non financial risk. The outcome of financial risks can be measured in terms of monetary units whereas

the outcome of non- financial risk cannot be measured in terms of monetary units. Therefore, in this modern age insurance is only one ultimate solution to avoid risk or compensate with loss. Risks may be classified in many ways; however, there are certain distinctions that are particularly important for our purposes. These include the following:

- a. Insurance risk
- b. Market risk
- c. Credit risk
- d. Liquidity risks
- e. Operational risks

a. Insurance risk

It is equivalent of underwriting risk, which is associated with the uncertainty of business written in the future, both new business and the renewals of existing policies. e.g.: incorrect pricing, uncertainties of future claim experience etc.

b. Market Risk

It is the risk that market movements in interest rates, foreign exchange rates or asset prices lead to an adverse movement in asset values which is not matched by corresponding movement in value of liabilities e.g.: adverse asset price movements, adverse interest rate and currency movements etc.

c. Credit Risk

It covers the risk of loss if another party fails to perform its obligations, or fails to perform them in timely manner. Allowance should be made for the financial effects of non-payment of reinsurance and of the non-payment of premium debtors such as intermediaries e.g. Reinsurance failure and impact of claim recoveries, credit deterioration of a company's reinsurer.

d. Liquidity Risk

It is the risk that a firm has insufficient financial resources to meet its obligations as they fall due, or can only secure the resources at excessive cost e.g. Asset liabilities mismatch ability to withstand sharp unexpected fund claim outflows or reductions in premium inflows etc.

e. Operational risk

It is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems, or from external events.

Operational risks include:

- Marketing and distribution risks
- Legal risk
- Outsourcing difficulties
- Management of employees
- Risk management resourcing
- Adequacy of policies and procedures
- Adequacy and timeliness of management information
- Internal audit
- Business continuity and disaster recovery plans others: Reputational risk etc.

2.1.9 Function of Insurance

The function of insurance can be discussed into the following ways:

Risk Bearing:

The main function of insurance is providing certainty of payment at the uncertainty of loss. The financial losses of the individual entity are equitably distributed over the many. In fire insurance, for example, the policy holders pay premiums into a common pool, out of which those who suffer loss are compensated.

❖ Insurance Provides Saving:

The main function of the insurance is to provide security to the public in terms of attractive return to encourage them to insure and yet sufficient to offer a reasonable margin of profit.

❖ Protection:

Insurance means protection against risk of loss. It covers the risk of loss. The insurance company agrees to give the payment of loss to the insured party against an actual loss or damage involved in business.

Insurance Stimulates Business Enterprise: At present day insurance has made possible, and helps to maintain, large scale industrial and commercial organization. A trade or businessman wants to carry on his business free from risks whenever possible. Insurance safeguards capital and at the same time it avoids the necessity on

the part of industrialist and others of freezing capital to guard against various contingencies. Thus, insurance leads to development of business enterprises.

❖ **Promotes Loss Prevention:**

The community would suffer much greater economic impoverishment through material losses if it were not for the loss prevention measures of Insurers. The insurance joins hands with those institutions which are engaged in preventing the loss of the society because the reduction in loss causes lesser payment to the assured and so more saving is possible which will assist in reducing the premium.

❖ **Insurance Provides Capital:**

Insurance provides not only protection but also capital to the society. Usually the premium paid to the company is invested to different field in the form capital to respected party.

❖ **Insurance solves social problem:**

Some of the social problems which base a modern civilized community are taken care of through insurance. At present, we have insurance against industrial injuries, road accident, old age, disability or death etc. thus, insurance act as a good instrument for solving many social problems.

❖ **Use of Reserve Funds:**

Because of the investment policy of insurance, their reserve funds are not static, but are used productively. Thus, results in a reduction of the cost of insurance to the insuring public. (Periasamy, 2007, p.28-29)

2.2 Research Review

Some related articles, review of journals and related dissertation are discussion in this section. There are lots of papers and views related to Insurance activities which are presented in different seminar and functions.

2.2.1 Review of Journals

This Part includes the major related studies which are taken from articles, Journals and books.

Kumar (2005) had stated that, premiums collected from thousands of people in the community, go towards paying claims as and when they arise. Any simple calculation will prove that the premiums alone cannot pay the claims. They are in fact

invested over the long term and it is the returns from these investments that an insurance company uses to pay claims. Hence it is very important that insurance company investment portfolios are geared towards safety of the funds which are really policyholders' funds, liquidity and only thirdly towards returns to fulfill the reasonable expectations of the policyholders. IRDA has the responsibility of ensuring that these portfolios serve these functions in this order of priority in order to fulfill its role as the protector of policyholders' interests. Before looking into the functions and role of IRDA in this regard, it would be appropriate to understand the IRDA Regulations dealing with the investment functions of the insurance companies. IRDA (Investment) Regulation 2000 prescribes a pattern of investments and exposure norms for all insurance companies. Accordingly, Insurers file investment returns with the Authority every quarter, reporting Compliance of various regulations. (http://www.irdaonline.org/irdacontent/journals/irda_dec05.pdf> Dec: 2005)

Kumar (2005), IRDA's regulations on the investment functions of insurers seek to ensure that the funds are safely deposited while providing optimal returns. It regulates, promote and ensure orderly growth of the insurance business. It protects the interest of the policy holders in settlement of claims and terms and conditions of policies. (http://www.irdaonline.org/irdacontent/journals/irda_dec05.pdf> Dec: 2005)

Periasamy (2007) stated that 'Premium' implies that it is the consideration paid by the insured to the insurer for the risk undertaken by the latter. Premium is usually required to be paid in cash and advance payment of the premium is a condition precedent of the creation of a binding contract of insurance.

Vaidyanathan (2007) had focused on his articles about Insurance Regulatory and Development Authority (IRDA). There has to be a time frame for each type of service in claims and a time table of service is to be laid down for strict enforcement. Policies often specify time-limits within which, claims have to be intimated to the Insurers. Similarly, policies should also impose and undertake service timeframes. Within 24 hours of reporting of a loss, a surveyor has to be appointed; within the next 24 hours, the surveyor should visit the premises of loss; within the next three days, the surveyor/ insurer has to list the requirements of documents; within the next seven

working days, all responses should be Provided by the insured; and so on and so forth. These apart, there should be Stringent penal provisions on the insurer/intermediary if such time limits are not adhered to. The customer need not however be penalized for delays on his part, as he is penalized automatically by his own delay. Once a list of Documents required is given to the claimants, any addition to the list later should not be allowed unless arising out of the response provided by the claimants. It would even be better if a list of claim documents required for various types of claims under the policy is mentioned in the policy itself. (<http://www.irdaonline.org/irdacontent/journals/irda_jan07.pdf> Jan: 2007)

Periasamy (2007), IRDA Act, 1997 seeks to open up the insurance sector for private companies with a foreign equity of 26 percent. It is also aimed at ending the monopoly of the Life Insurance Corporation and General Insurance Corporation in the insurance sector of the country.

Chakraborty and Anita (2009),The IRDA prescribes a set of factors, called required solvency margin factors based on mathematical reserves and sum at risk in respect of each line of business. This will lead to the solvency level expected from the particular life insurer. The expected solvency is then compared with the available solvency margin achieved by calculating the difference between the assets and liabilities thus computed. The ratio of available solvency margin to the required solvency margin should be at least 150% at all times. (<http://www.irdaonline.org/irdacontent/journals/irda_July09.pdf> Jul: 2009)

Murthy J. and Madhukar Kanaglata (2010),Within the provisions of suggested legislation, Government of India can either think of enhancing the powers of IRDA or establishing fraud prevention authority to work on the following lines. The members of the authority can be selected from insurance industry, police, bar council, automobile associations, medical council and chambers of commerce. To undertake programmers to spread awareness among public about the impact and consequences of fraud To review paid claims to check if there were any lapses in coordination for data maintenance and data sharing and direct appropriate measures to owners of data bases. To monitor insurance related activities of service providers and suggest

improved methods of claim processing for insurers .To conduct onsite examination on the role Of service providers in fraud and recommend action within the ambit of Legislation. Fraud prevention is a crucial issue in the agenda of 'Claim Management' and it is possible only when all the parties involved in the process chain place national interest above their business or personal interests.(http://www.irdaonline.org/irdacontent/journals/irda_Aug10.pdf> Aug: 2010)

2.2.2 Review of Related Desertions

There are various thesis works in different area and subject. Among them, some of the relevant studied completed by former research and are as follows.

Poudel (1999) has completed a research report on Insurance companies in Nepal. This study has focus on overall insurance business in Nepal. The objective of this study was to present the state of insurance business in Nepal, regulatory system governing the insurance sector of Nepal, liability structure and Investment portfolio of insurance companies and major policy issues of insurance sector in Nepal. The major finding of this study is insurance business is in infantile state in Nepal. In terms of the ownership of total assets and fund mobilized, the place of insurance companies in financial sector is insignificant. Similarly the level of preparation of Insurance as indicated by the ration of total insurance as indicated by the ratio of total insurance premium to GDP is absolutely low as compared to other countries. Its development in terms of the growth in insurance premium is satisfactory. The growth in the number of insurance companies has intensified the level of competition. The competition posed by the entry of new companies has intensified the level of competition. The competition posed by the entry of new companies has been successfully withstood by foreign companies. Whereas, RBS has lost a major share in favour of others domestic companies. The insurance board has been formed to develop and regulate the insurance sector. The insurance board is so powerful that it can issue/reject or cancel the license, set tariff for insurance services, set minimum limits of compulsory reserves, fix priority sector for investing, insurance fund and exercises judiciary power to imprison one up to two years. Insurance fund supplies the major block of resources to the insurance companies. At present the proportion of owners equity looks high (RBS excluded) but given the present regulation it will erode as the

volume of insurance business increases. This study also shows that the Nepalese Insurance companies have been unable to diversify their investment in optional sector. This type of investment portfolio is safe but not very attractive from yield point of view.

Shrestha (2002) had conducted a thesis work on a study on Premium collection and investment position of National Life and General Insurance Company limited. The data was taken from 1994/95 A.D. to 2000/01 A.D. The main objective of this study was to study the trend of premium collection and investment pattern of National life and General insurance company limited. This study used descriptive and analytical data and used different kinds of financial and statistical tools like ratio analysis and trend analysis. The major finding of this study was premium collection index of National Life and General Insurance Company is in increasing trend. Growth rate of Premium collection is less than the growth rate of GDP. This study shows that liquidity position of NLGI is not in sound position. NLGI undertake the conservative investment approach. Current ratio of NLGI is in decreasing trend.

Gautam (2003) has completed thesis work on a study on Premium collection and investment position of Nepal Insurance Company limited and Premier insurance company limited. The major objective of the study was to compare the NIC and PIC Premium collection and investment position. Other objectives were to examine the trend and position of investment and Premium collection and to analyze the current situation of NIC and PIC. This study used different kinds of financial and statistical tools like ratio analysis, trend analysis, coefficient or correlation, standard deviation, etc. The major finding of this study was Premium collection of NIC is higher than PIC but both insurance companies have increasing trend. Marine insurance is in stable condition of both insurance companies. In the investment sector of government bond of NIC had 40% and PIC had 20.14%. Investment of bank fixed deposit of NIC range from 45.77% to 30%. The average of 38.5% of total investment of bank fixed deposit and the investment of bank fixed deposit of PIC range from 156.17% to 36.23% and average is 95.39%. Position of total fixed deposit. General Premium collection of NIC was in increasing trend. The highest ratio was 29% and lowest was 3.21% and PIC has fluctuating from 38 to 22%.

Total premium collection of NIC was decreasing trend. The highest return was 20.5% whereas the lowest return was 8.4%. The average of 15.2% of the total premium collection went too earned.

Sharma (2005) had carries out a thesis work on financial performance analysis of Nepalese Insurance Company. The objective of study was to examine the trend and pattern of earning collection investment and expenditures? This study covers the overall 7 years period of the time from 1997A.D. to 2003 A.D. This study used different kind of financial tools like current ratio, profitability ratio, return on assets, return on equity, operating ratio, etc. The major finding of this study was current ratio is greater than the Standard ratio. By analysis of CV and SD it is found that the new profit is highly fluctuating and also decreasing. Return on capital Prevailed highly fluctuated that indicated by higher value of CV and SD. Return on equity shows that the average returns of insurance companies. Return on assets is not comparatively satisfactory even it has lower fluctuate. Total debt to net worth ratio is not also favourable.

Timilsina (2005) had carried out thesis work on financial performance analysis of Nepal Insurance Company limited. The main objectives of this study were to analyse the financial position and insurance practices of NIC. This study used the data during 2050/51 to 2059/60 B.S. He has used financial as well as statistical tools such as Liquidity ratios, profitability ratios, Activity ratios as well as time series analysis. The major finding of this study was liquidity position of NIC is good. Current ratio is always higher that the standard ratio which is 2:1. Fixed assets turnover ratio was also in increasing trend. The operating profit ratio was satisfactory during the study period. The net profit to total income ratio is decreasing continuously from base year to last year over the study period except in FY056/57. EPS and DPS are not in same level over its study period. EPS is decreasing and DPS is highly fluctuating. The claim to net premium ratio is in increasing trend. The net premium and RI Premium of NIC shows the increasing trend in this study”.

Joshi (2005) has carried out thesis work on An Appraisal of Financial performance aspects of United Insurance Company limited and General Insurance Company limited. She has compared both insurance companies in terms of performance of five years. The objective of the study was to highlight various aspects relating to financial performance to identify the financial strengths and weakness of the concerned insurance companies and to compare the UIC and GIC premium collection and investment positions. She has chosen financial and statistical tools like ratio analysis, Time series analysis, etc. The major findings of the study were the average current ratio of both companies was more than two. Both companies did not use long-term debt to finance its assets during the study period. GIC is more risky than UIC in terms of debt to equity ratio. Creditors of both companies are in safer side because investment to total assets is made from 50% of less proportion of debt financing during the study period. Both insurance companies are not able to maintain the satisfactory level of the current assets more effectively in order to generate net premium but in comparison GIC has better position. GIC has a better net profit growth trend than that of UIC. Net premium earning of GIC is in better position than that of UIC. Earned premium trend analysis shows the better premium trend analysis shows the better premium trend of GIC and UIC”.

Neupane (2005) had carried out thesis on title "An appraisal of financial aspects of United Insurance Company limited and Nepal insurance company limited”. He had taken data from 1997A.D to 2001 A.D. The main objective of this study was to compare the financial position of these insurance companies, trend of insurance premium collection, utilization of available resource and find out the financial strengths and weaknesses of these companies. This study used the financial tools and statistical tools such as Time series analysis, Liquidity ratios, Current ratio, Debt equity ratio, Long term solvency ratio, Turnover ratio, profitability ratio. The major findings of this study were current ratios of both companies are more than 2 times. So both companies are able to maintain a satisfactory level of current ratio but in comparison to NIC, UIC is better. Premium earning trend of NIC is better than that of UIC. Trend analysis shows that EPS of NIC is increasing but it is decreasing in case of UIC. The operating profit margins of these companies were satisfactory but in comparison NIC has better and effective management in controlling and regulating

operating expenses than that of UIC. Both companies premium collection trend is increasing and net profit margin also in increasing trend. Price earning ratios of both companies are in increasing trend and shows favourable position.

Rijal (2006) had conducted a thesis work on Diagnosis Health of Financial Analysis of Himalayan General Insurance Company Limited in the framework of IRDA. The major objective of study was to analyze the trend in gross premium, share holders, fund growth rate and expenses of management in HGI, measure the pattern in risk and premium retention, commission, technical reserves and reinsured in HGI, and examines the profitability pattern of HGI. He had taken data during 1993/94 A.D. to 2004/05 A.D. This study used financial tools and different kind of ratios provided by IRDA such as Gross Premium Growth rate, Gross Premium to shareholders fund ratio, Growth rate of shareholders fund, Net retention ratio, Net Commission ratio, expenses of management to Gross premium ratio, combined ratio, technical reserve to net premium ratio, etc. The major finding of this study was Gross Premium of insurance industry is in growing trend. HGI is following the same trend but still the growth rate of HGI is lower than insurance industry. Shareholders fund is in growing trend. Premium retention capacity of HGI is very low. Commission is generally expense for insurance company but in various types of HGI's business, it has been found as income due to reinsurance operation. On this basis we can conclude that HGI is working as an agent for reinsurance companies. Nevertheless in motor insurance HGI is working as an insurance company. The management expense to gross premium is in decreasing trend. Combined ratio is in the decreasing trend with fluctuation that shows the fluctuating trend of claims. It is difficult to predict the claims. Technical reserve ratio is higher in HGI. HGI is gaining income for both underwriting and investment activities. Return on Net worth reveals growing trend that shows the strength of equity holders is increasing and they are able to gain profit compared to their own investment.

Poudel (2008) has conducted a thesis work on "Financial Performance of Everest Insurance Company in the Framework of IRDA." The major objective of study was to analyze the pattern of shareholder's fund growth rate, gross premium, risk retention and management expenses of EIC, measure the pattern of risk and

premium retention, commission, technical reserve and reinsurance of EIC and *ass* the trend of profit, investment and net worth over the year. She had taken data from 2000/01 to 2006/07 A.D. This study used financial tools and different kind of ratios provided by IRDA such as Gross Premium Growth rate, Gross Premium to shareholders fund ratio, Growth rate of shareholders fund, Net retention ratio, Net Commission ratio, Expenses of Management to Gross Premium ratio, combined ratio, Technical Reserve to Net Premium ration, etc. The major finding of the study was shareholders fund growth ratio is fluctuating trend all over the study period. Premium retention capacity is increasing but fluctuating all of the period. Gross premium ratio also growing trend but engineering and aviation insurance policy is in fluctuating trend. The expenses of management to gross premium ratio are in fluctuating trend over the study period it means that EIC has control the expenses. Combined ratio is in very fluctuating trend due to the claim paid, technical reserve to net premium ration shows the reserve amount set aside for future unexpired events. In the study period it shows reserve for outstanding claims are higher than reserve for unexpired risk. Operating profit ratio is in growing trend in first three year then it is fluctuating trend. Net earnings ratio is in growing trend in recent year which shows that company has gained profit. Reinsurance ration is average ration of the study period of this EIC.

2.3 Research Gap

As we know that research means to carry out the real problem on the particular field on particular topic. In reference on the other dissertations most of them were research only on the overall performance of the insurance companies, comparative study on the performance of the insurance companies and premium collections. Concerning this matter few researcher has done the dissertation in financial performance of United Insurance Company Ltd. Therefore it is selected the topic “Financial Performance of United Insurance Company.”

CHAPTER III

RESEARCH METHODOLOGY

This chapter explains methods and techniques used for performance analysis of United Insurance Company. It deals with the research design, justification for the selection of study unit, nature and source of data, data collection techniques, data analysis tools and procedure of analysis of data.

3.1 Research Design

This study is a case study. General objective of this research study is to analyze the performance of UIC. In order to achieve the objectives, descriptive and analytical research design has been followed. The analytical research design is used to access and analyze the financial indicator of UIC. The descriptive design has used to explore and find out the existing condition and necessary suggestion in solving the basis problem encountered by the company.

3.2 Nature and Source of Data

The research work is mainly based on secondary data which covers the only one insurance company so this study is a case study. The necessary data such as balance sheet, profit and loss account and other statement of accounts as well as the annual reports of United Insurance Company are obtained from company's head office. Other related information is collected from the publication and website of company. However, necessary suggestions are also taken from formal and informal talks with the senior staff of UIC which were helpful for the solution of related problems.

3.3 Data Collection Techniques

The main sources of data of this thesis are secondary sources. The data regarding financial indicators of the study period are collected directly from audited annual reports of UIC. The researcher has constantly concerned office for data and

information. Formal and informal talks with senior staff of UIC helped to gather the information of existing financial pattern and future improvements. Other related information is collected from the website of “Beema Samiti”, Nepal Stock Exchange and concerned company. Other information and literature reviews are collected from Central Library of TU and Western Regional Library Pokhara.

3.4 Processing of Data

The researcher has arranged the data and other statistics provided by UIC and other different sources. Then collected data has been entered into computer and presented systematically in the format of table and diagram. Thereafter the researcher has added required statement, ratios, percentage, indices in appropriate space with the help of Microsoft Word and Excel computer program.

3.5 Data Analysis Tools

Insurance Board is the supreme body authorized by the government to manage, regulate and control the insurance business within the country. So it has provided some ratio to determine the financial performance of insurance companies. The ratios are used to determine the financial performance of United Insurance Company. Along with this graphical presentation are also used to present the data to understand the study easily.

3.6.1 Financial Tools

The study is based in secondary data. The available data are collected by concerned company in the form of table, indexes etc. and collected from the annual records of company, head office, website of company, website of “Beema Samiti”. The data are used by tools like financial ratios, statistical tool and graphical tools. Financial ratio analysis is used to calculate premium collection ratio, total claim paid ratio, current ratio, liquidity ratio, debt ratio, profitability ratios, net profit ratio, return of assets ratio, return on equity ratio, fixed assets turnover ratio and return of total asset, statistical tools is used to calculate standard deviation and coefficient of variations and graphical tools is used to present the data to make clear and easy to understand.

Ratio is defined as the indicated quotient of two mathematical expressions. The relationship between two or more variable analysis of the firm's ratios generally is the first step in financial analysis. The ratios are designed to show relationship between statements account with in the firm and between the firms. (Ghimire, 2062). A ratio helps to make qualitative judgement about the company's financial position and performance. The systematic use of ratio interprets the financial statement so that the strength and weakness of the firm as well as past performance and present financial condition will be analyzed. Following ratios are used in this study:

Total premium collection ratio:

Total premium collection is the numerical relationship between total premium collection for the current year and the total premium collection for the previous year. It measures the growth rate of total premium of insurance company. Growth is good for financial soundness for the company. It is determined by following formula.

$$\text{Total Premium Collection Ratio} = \frac{\text{Total premium collection for the current year}}{\text{Total premium collection for the previous year}}$$

Total Claim paid to premium collection ratio:

Total claim paid ratio is the numerical relationship between total premium collections to total claim paid. It measures the profitability or loss of the insurance company. It is determined by following formula.

$$\text{Total Claim Paid to Premium Collection ratio} = \frac{\text{Total claim paid for the year}}{\text{Total premium collection for the year}}$$

Total utilization of available resources:

To find out the utilization of available resource of the insurance company. It can be invest on Government saving bond, Investment on bank and financial institution deposit and different company shares etc. It can be measured by following formula.

Utilization of available resources on Govt Saving Bonds to total investment:

$$\text{Utilization of Available Resources on Government Bond} = \frac{\text{Investment on Govt saving bonds}}{\text{Total Investment}}$$

Utilizations of available resources on bank and financial institution deposit.

$$\text{Utilization of available resources on bank and financial institution} = \frac{\text{Total Deposit on Bank and Financial Institutions}}{\text{Total Investment}}$$

Utilizations of available resources on different kind of other financial or trading company shares

$$\text{Utilization of available resources on different kinds of other financial trading company shares} = \frac{\text{Investment on share}}{\text{Total Investment}}$$

Current ratio:

The ratio is calculated by dividing current assets by current liabilities. It indicates the extent to which current liabilities are converted by asset expected to the convert to cash in the near future.

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

Fixed Assets Turnover Ratio:

The fixed assets turnover ratio measures how effectively the firm uses its plant equipment to help generate sales. This ratio is calculated by dividing sales by net fixed assets.

$$\text{Fixed Assets Turnover Ratio} = \frac{\text{Sales}}{\text{Fixed Assets}}$$

Net profit margin on sales:

This ratio is the overall measure of the insurance company's ability to turn each rupee premium into net profit. A firm with a high net profit margin would be an advantageous position to survive. This ratio is measured net income per rupees of sales. It can be calculated by dividing net income by sales.

$$\text{Net Profit Margin on sales} = \frac{\text{Net Profit}}{\text{Sales}}$$

Return on total assets (ROA):

Return on total assets ratio is the indicator of the earning capacity of the insurance companies. The ratio reflects the overall efficiency of assets used in the insurance company's. The ratio of net income to total assets measured the return on total assets after interest and taxes. The ROA is calculated by dividing net income by total assets.

$$\text{ROA} = \frac{\text{Net Income}}{\text{Total Assets}}$$

Return on Equity (ROE):

The ratio of net income to common equity measures the return on common equity of the rate of return on stockholder investment. The ROE is calculated by dividing net income available to common stock holders by common equity.

$$\text{ROE} = \frac{\text{Net Income}}{\text{Equity}}$$

Debt Assets Turn Over Ratio:

The ratio of debt assets turnover ratio measures the strength or weakness of the company assets. It can be measure the total liabilities divided by total assets.

$$\text{Debt Assets Turnover Ratio} = \frac{\text{Total Liability}}{\text{Total Assets}}$$

Combined Ratio:

Combined ratio is the numerical relationship between claims paid plus gross premium. The major expenses of company are claims paid and expenses when it is compared with gross premium it measures the profitability of insurance operations. It measures expenses and claims relative to premium. It does not take account of income from investment. If the combined ratio is less than 100% an insurance company is making profit from operation. Combined ratio is obtained by following model.

$$\text{Combined Ratio} = \frac{\text{Expenses of management} + \text{Claims paid}}{\text{Gross Premium}}$$

Expenses of Management of Gross Premium Ratio:

Expenses of management to gross premium ratio indicate the relationship between expenses of management and gross premium. It measures the expenses relative to premium. The lesser the ratio the better is the performance. As gross premium grows management expenses grows automatically so the management expenses should be in limit as prescribed by regulations. The ratio is obtained by following model.

$$\text{Expenses of Management of Gross Premium Ratio} = \frac{\text{Expenses of Management}}{\text{Gross Premium}}$$

Total Assets Turn Over Ratio:

The ratio of total assets turnover ratio measures of ability of the company to use its assets to generate sales. A hung amount of money is invested in various types of assets to generate sales revenue (insurance premium). Therefore insurance companies should manage their assets efficiency to maximize net premium. The relationship between the total assets and net premium is called total assets turnover ratio. The lower the total assets turnover ratio is more sluggish the sales. This may indicate the problem of the assets categories composing total assets.

$$\text{Total Assets Turnover Ratio} = \frac{\text{Sales}}{\text{Total Assets}}$$

3.6.2 Statistical Tools

It can measure the risk of the company. The following tools are measure the risk of assets. Mean(X): Mean is the defined as average sum of the total value divided by total number of the year.

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

Standard Deviation:

Standard deviation is most common Statistical indicator of the risk, it measure the dispersion around the expected value. Take the square root of the variance of the rates of return is called standard deviation of the rates of return. The symbol is

pronounced "Sigma". It is a measure of total risk. The small standard deviation shows the lower risk of the stock and vice versa.

The standard deviation and variance are equally acceptable and conceptually equivalent quantitative measure of an asset's total risk.

$$\sigma = \sqrt{\frac{\sum x^2 - \frac{(\sum x)^2}{N}}{N}}$$

Coefficient of Variation (C.V.):

CV is measure of dispersion that is useful in comparing the risk of assets with expected return. The coefficient of variation shows the risk per unit of return, and it provides a more meaningful basis for comparison when the expected returns on two alternatives are not the same. Higher the coefficient of variation, higher is the risk.

$$CV = \frac{\sigma}{x} \times 100$$

3.6.3 Graphic Presentation:

A graphical portrayal of data set which gives a birds-eye view of the entire data is particularly useful for summarizing large data sets. It makes financial indicators more understandable. Column diagrams and trend line are used on total premium collection and total premium paid. Bar diagram is used for utilization of total available resource, return of assets, and return on equity combined ratio. Line diagrams are used in net profit ratio, current ratio; fixed assets turnover ratio, Debt Assets ratio, and Expenses on Management on Gross premium Ratio and Total Assets Turnover Ratio.

3.7 Limitation of the Methodology

The methodology has a number of limitations. The disclosed financial information by UIC is not in a uniform way. It is valid only to financial aspects of United Insurance Co. Ltd and not valid for other sectors like legal section, marketing etc of the company.

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

In this chapter, different financial ratios are used to analyse the collected data. Detailed descriptions of the ratios are presented in Research Methodology. Graphical Presentations are used to make the data more clear to understand the financial performance of UIC. Major finding of the study are also include in this chapter.

4.1 Data presentation and Analysis

In this Section, Financial rations as calculated by using their concerned models are presented and interpreted. Graphical Presentations are also made to make the rations patterns more understandable.

4.1.1 Total premium Collection Ratio:

As stated in Research Methodology Total premium collection is the numerical relationship between total premium collection for the current year and the total premium collection for the previous year. It measures the growth rate of total premium of insurance company. Growth is good for financial soundness for the company

Table 4.1.1: Total Premium Collection of United Insurance Company

Amount in Rs.

Fiscal Year	Fire	Growth %	Marine	Growth %	Motor	Growth %	Car & Engg	Growth %	Misc	Growth %
2059/60	666633	0	1866697	0	15978270	0	1212989	0	3756720	0
2060/61	1134382	170.17	2040785	109.33	30814059	192.85	42154	3.48	1348463	35.89
2061/62	2290899	201.95	2462697	120.67	22095898	71.71	156736	371.82	2267989	168.19
2062/63	2559316	111.72	2789269	113.26	37213082	168.42	228950	146.07	4865044	214.51
2063/64	2613241	102.11	2821292	101.15	47487628	127.61	364056	159.01	3605398	74.11
2064/65	3174386	121.47	3499709	124.05	50203127	105.72	408449	112.19	5450768	151.18
2065/66	4092792	128.93	3789260	108.27	74899328	149.19	647011	158.41	3042361	55.82

Source: Annual Report of UIC.

Table 4.1.1 shows the overall premium collection growth in increasing trend for UIC Company. The ratio more than 100% indicates that UIC are growing in terms of total premium collection. There are more fluctuation in CAR and Engineering and Miscellaneous insurance of UIC. The fire insurance, marine insurance, motor insurance and car and engineering premium collection is increasing all over the study period except motor insurance and car and engineering insurance premium which is decreasing in 2060/061 B.S. and 2061/2062 B.S. Miscellaneous insurance is highly fluctuation and it is decreasing in the fiscal year 2060/61, 2063/2064 and 2065/2066 B.S. Miscellaneous insurance includes accident insurance, cash in transit insurance, Fidelity Guarantee Insurance, Burglary and House Breaking insurance, Bakers Indemnity Insurance.

The growth ratio of UIC is in growing trend and implies the sound financial performance of UIL

Figure 4.1.1 Total Premium Collection Ratios

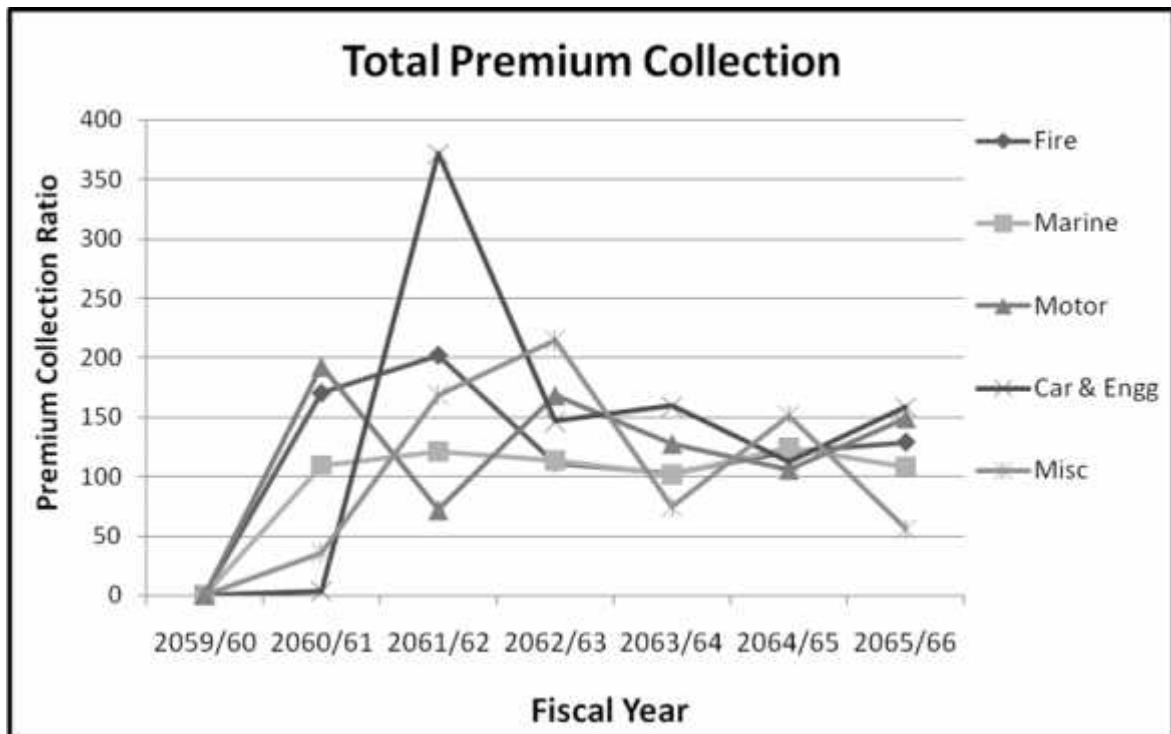


Figure 4.1.1 shows that, Car and engineering premium collection is highest in 2060/061 B.S which is 371.82 %.

4.1.2 Total Claim Paid to premium Collection Ratio:

Total claim paid ratio is the numerical relationship between total premium collections to total claim paid. It measures the profitability of the insurance company. It shows that relationship between total premium collection and total claim paid. Increase in total claim paid indicates that less profit of this company.

Table 4.1.2: Total Payment of Claim**Amount in Rs**

Fiscal Year	Fire	Growth %	Marine	Growth%	Motor	Growth%	Car & Engg	Growth%	Misc	Growth%
2059/60	471169	70.68	86078	4.61	9460239	59.20	20010	1.65	77318	2.05
2060/61	137924	12.15	68231	3.34	10998135	35.69	85970	203.94	93567	6.94
2061/62	326284	14.24	248926	10.11	12412749	56.18	322685	205.87	719327	31.72
2062/63	169128	6.61	381525	13.68	16467302	44.25	41255	18.01	1672435	34.37
2063/64	105191	4.02	746403	26.46	20604892	43.39	76541	21.02	2750180	76.28
2064/65	3228368	101.70	675162	19.29	24484982	48.77	95567	23.39	2696266	49.46
2065/66	450222	11.00	955199	25.21	26249978	35.04	540560	83.54	3152276	103.61

Source: Annual Report of UIC

Table no 4.1.2 shows the total claim paid of the united insurance company. There is no fluctuation in this ratio. The claim paid of fire insurance is stable except in fiscal year 2065/66 B.S. which is 101.76%. In car and engineering insurance's claim paid is more fluctuating in fiscal year 2060/61 B.S. and 2061/2062 B.S. which is 203.9% and 205.8 % respectively. It shows that fire insurance and car & engineering insurance is more risky for this company. In Miscellaneous insurance it is more increasing in 2065/2066 B.S which is 103.6%. Miscellaneous insurance includes accident insurance, Cash in Transit Insurance, Fidelity Guarantee Insurance, Burglary and House Breaking insurance, Bakers Indemnity Insurance.

Overall, Claim paid to premium collection ratio implies the strong financial position and more profitability of the UIC.

Figure 4.1.2 Total Payment of Claim

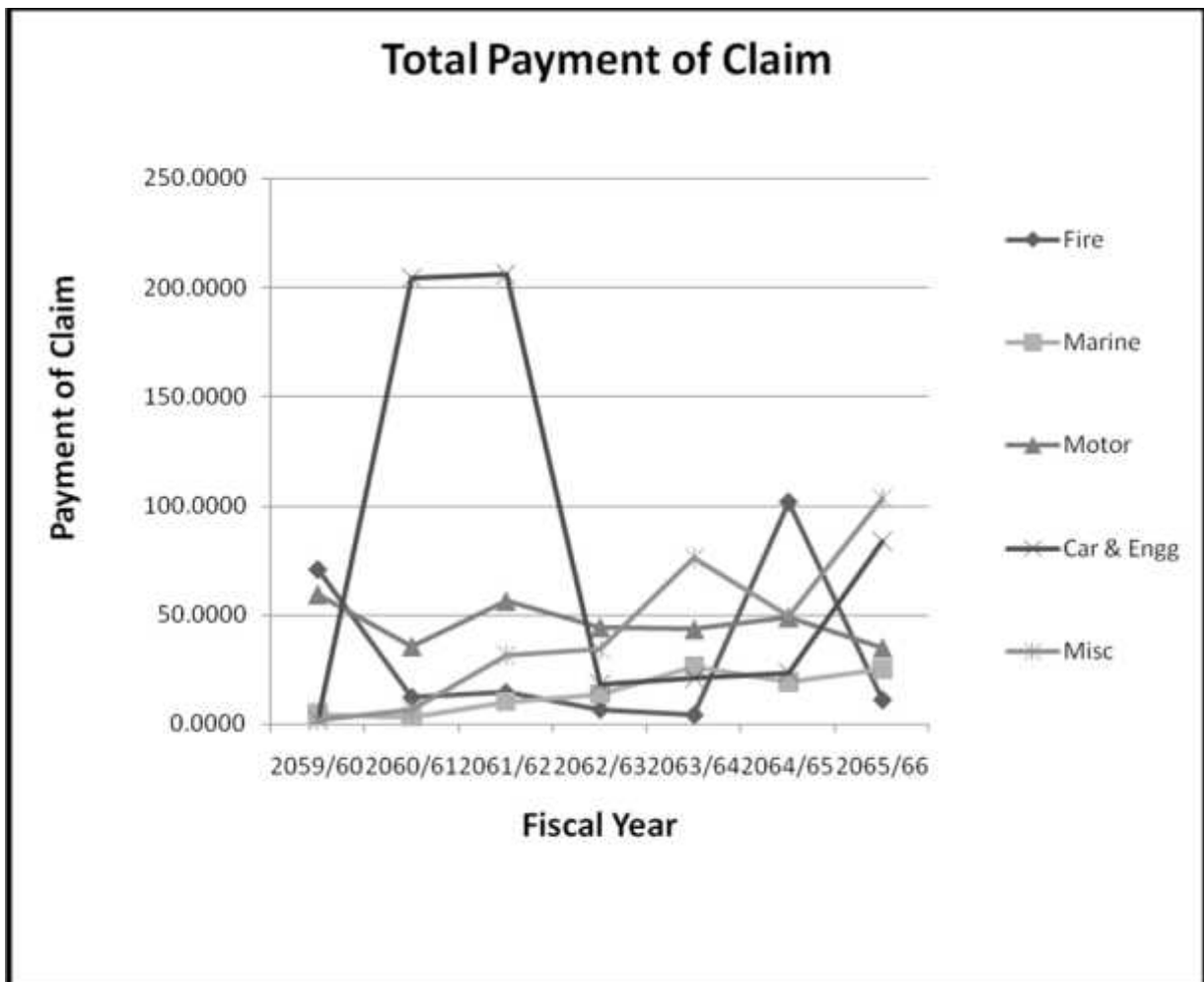


Figure 4.1.2 shows that total payment of claim of Car and Engineering insurance is high, which is 203.94% in 2060/61 B.S and 205.87 % in 2061/062 B.S.

4.1.3 Total Utilization of available resources:

The utilization of available resource of UIC is invested on Govt. saving bond, deposited on bank and financial institution and invested in different company shares. If available resources is invested at more earning sector it can increase the profit of the company.

Table: 4.1.3 Total Utilization of Available Resources:

Amount in Rs.

Fiscal Year	National Saving bond	Investment %	Deposit on Bank & Financial Inst	Investment %	Inv. on Diff company Share	Investment %	Total Investment
2059/60	1104000	1.27	78048538	89.89	7671428	8.84	86823966
2060/61	10717064	9.64	92727492	83.45	7671428	6.91	111115984
2061/62	13988500	10.98	100805180	79.16	12541428	9.86	127335108
2062/63	5500000	3.53	13742362	88.12	13029824	8.35	155972186
2063/64	16682849	9.66	138411489	80.17	17541429	10.17	172635767
2064/65	15275000	6.28	151647530	62.40	76080991	31.32	243003521
2065/66	15275000	5.78	174343899	65.93	74791594	28.29	264410493

Source: Annual Report of UIC

Table no 4.1.3 shows that investment of available resources is in increasing trend. Investment in national saving bond and investment in different company share is variable during the study period. The investment in National saving bond and investment in different company is highest in 2061/062 B.S in 2064/065 B.S. Deposit on banks and financial institutions does not fluctuate like other two investment.

Figure 4.1.3 Total Utilization of Available Resources

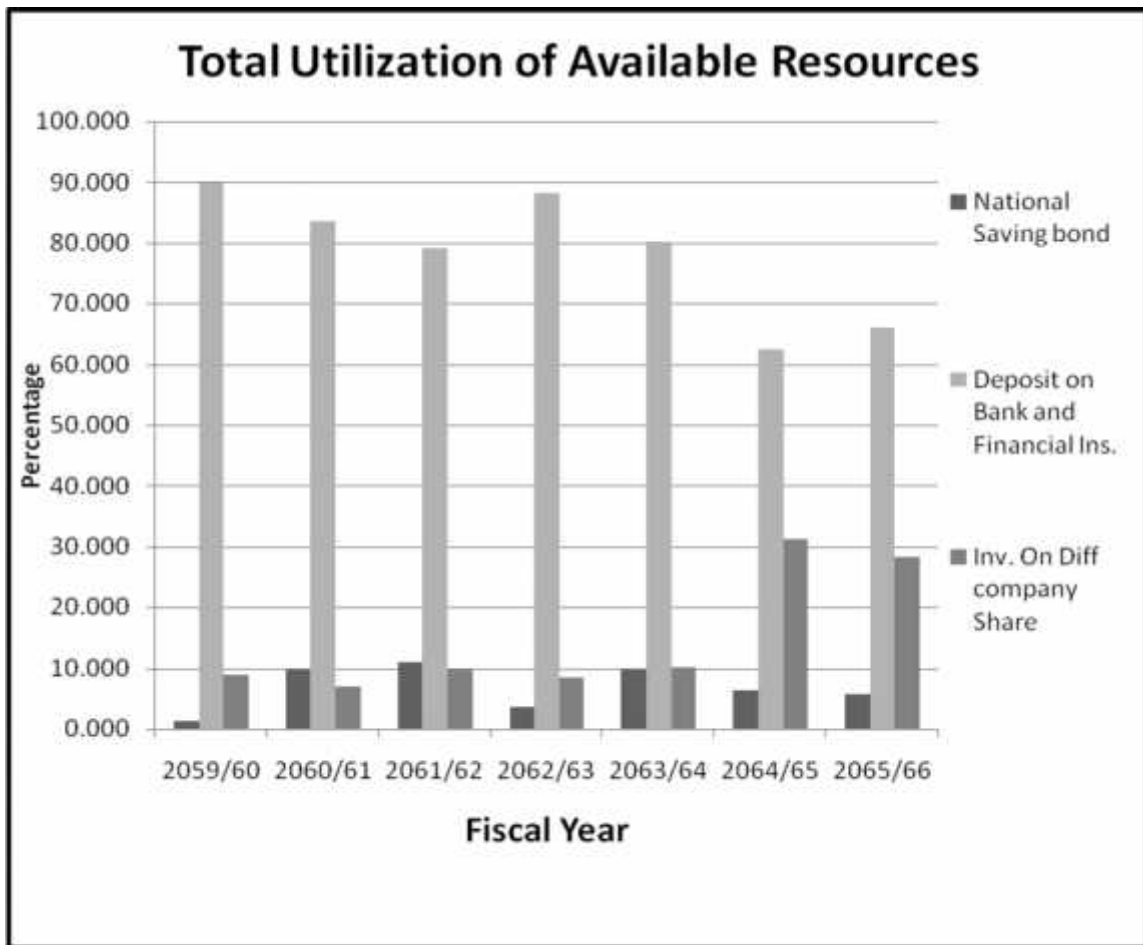


Figure 4.1.3 shows that deposit of bank and financial institution is more all over the study period. Overall, investment trend is in increasing trend. It means that company earn more interest and profit and has sound liquidity position as well.

4.1.4 Current Ratio:

It is relationship between current asset and current Liabilities. It indicates the extent to which current liabilities are covered by asset expected to be converted to cash in the near future.

Table 4.1.4: Current Ratio

Amount in Rs

Fiscal Year	Current Assets	Current Liabilities	Current Ratio (%)	Insurance Industry Average Ratio (%)
059/060	35696597	18412300	1.94	NA
060/061	31628948	31825785	0.99	NA
061/062	31672323	53934771	0.59	1.01
062/063	26803652	39870513	0.67	1.06
063/064	103931907	163504904	0.64	1.17
064/065	199565816	207002976	0.96	1.06
065/066	168646548	207002976	0.81	0.88
Average mean			0.94	1.04

Source: Annual Report of UIC

Table no 4.1.4 shows the current ratio of United Insurance Company and Insurance Industry Average. The highest ratio is supposed to be the greater ability to meet its short terms obligations. The ratio will be regarded as a crude measure of liquidity; however it does not take into account the liquidity of the individual components of the current assets. The above table shows that current ratio of UIC is variable and decreasing. When compared the current ratio of insurance industry average is higher than the UIC. The high current ratio of study period of United Insurance Company is 1.94% in 2059/060 B.S. and Insurance Industry average is 1.17% in 2063/064 B.S. The average current ratio of UIC is 0.94% and Insurance Industry Average is 1.04%. It means the liquidity position of other Insurance Industry Average is better than UIC.

The increasing trend of Current ratio all over the study period can be observed in figure 4.1.4.

Figure 4.1.4 Current Ratio

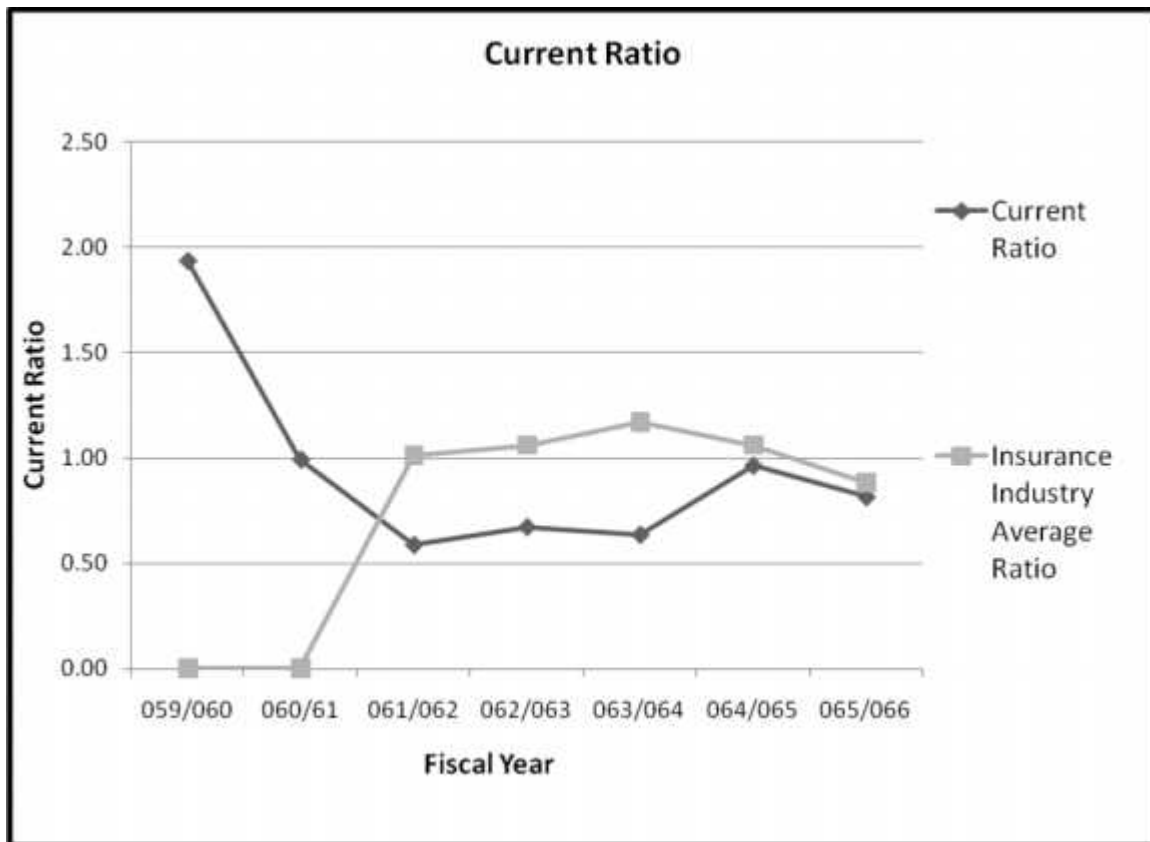


Figure 4.1.4 show that current ratio of UIC is fluctuating all over the study period and current ratio of Insurance Industry Average is in increasing trend so it means that other Insurance Industry has safer liquidity position than UIC.

4.1.5 Fixed Assets Turnover Ratio:

The fixed assets turnover ratio measures how effectively the insurance company uses its plant equipment to help generate premium earned. It shows that relationship between the fixed assets to net premium earned.

Table 4.1.5 Fixed Assets Turnover Ratio

Amount in Rs.

Fiscal Year	Fixed Assets	Total sales (Net premium)	Fixed Assets Turn Over Ratio	Insurance Industry Average Ratio
059/060	94186633	23481309	0.25	NA
060/61	121124965	35379843	0.29	NA
061/062	152814293	29227421	0.19	1.17
062/063	167239810	47655661	0.28	1.33
063/064	182187545	56891615	0.31	1.61
064/065	174475597	62736439	0.36	1.37
065/066	257846709	86470752	0.34	1.33
Average Mean			0.29	1.36

Source: Annual Report of UIC

Table no 4.1.5 shows that fixed assets turnover ratio of UIC is in increasing trend from the beginning of study period except the fiscal year 2061/062 B.S. but the Insurance Industry Average fixed assets turnover ratio is also in increasing trend from the study period 2061/062 B.S to 2063/064 B.S but it decreases in fiscal year 2064/065 and 2065/066 B.S. The average fixed assets turnover ratio of UIC is 0.29 and fixed assets turnover ratio of Insurance Industry Average ratio is 1.36. This means that on an average Rs. 0.29 (UIC), Rs.1.36 (Insurance Industry) revenue is generated by the company through the investment of one rupee in fixed assets. The highest fixed assets turnover ratio of UIC is 0.36 in fiscal year 2064/065 B.S and Insurance Industry Average Ratio is 1.61 in fiscal year 2063/064 B.S.

Figure 4.1.5 Fixed Assets Turnover Ratio

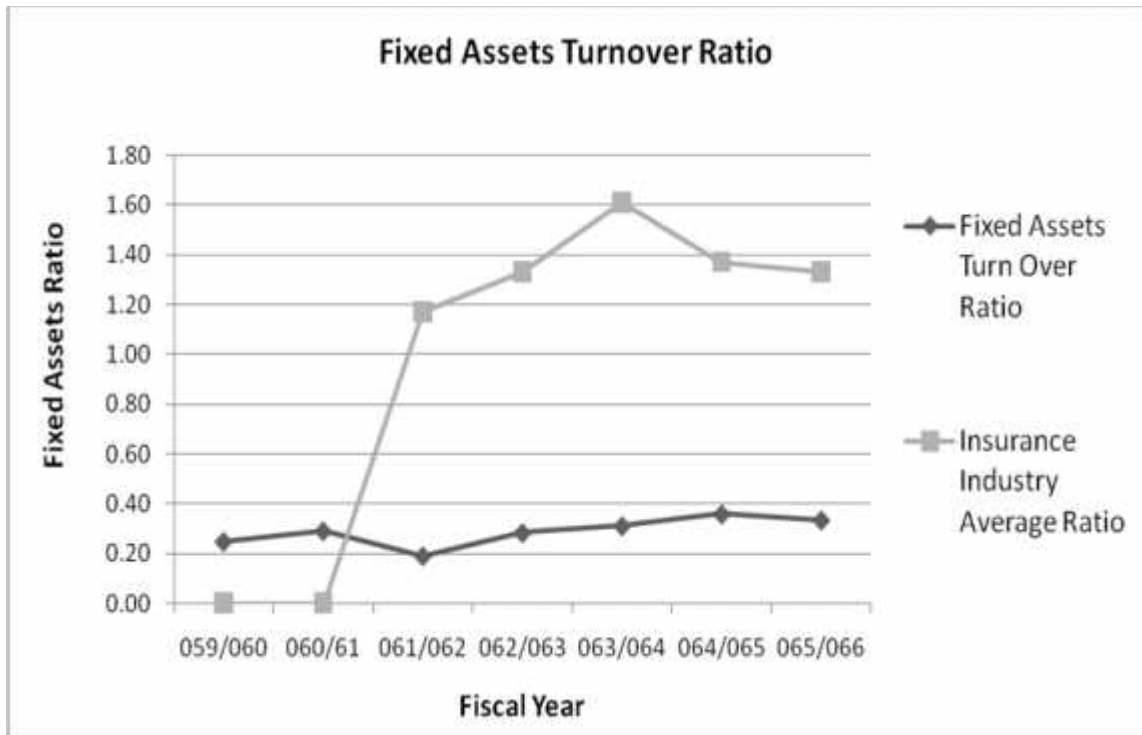


Figure 4.1.5 show that overall the fixed assets turnover ratio of Insurance Industry is higher than the United Insurance Company. This shows that the UIC is not using its fixed assets effectively to increase its revenue.

4.1.6 Net Profit margin on Revenue:

This ratio is the overall measure of the insurance company's ability to turn each rupee premium into net profit. A firm with a high net profit margin would be in an advantageous position to Survive.

Table 4.1.6 Net Profit Margin on Sales

Amount in Rs.

Fiscal Year	Net Profit	Total sales (Net premium)	Net Profit Margin on Sales (%)	Insurance Industry Average Ratio (%)
059/060	3384836	23481309	14.42	NA
060/61	7008808	35379843	19.81	NA
061/062	9547442	29227421	32.67	17.00
062/063	8675489	47655661	18.20	17.00
063/064	5826607	56891615	10.24	20.00
064/065	6364707	62736439	10.15	5.00
065/066	1630942	86470752	1.89	21.00
Average Mean			15.34	16

Source: Annual Report of UIC

Net profit margin on sales of UIC is in increasing trend from the study period of fiscal year 2059/060 B.S to 2061/062 and it is decreasing from 063/065 upto 2065/066 B.S. But the Insurance Industry Average Ratio's net profit margin is fluctuating year by year. The average net profit margin of UIC is 15.34% and Insurance Industry is 16 %. It means the net profit of the Insurance Industry Average ratio is higher than UIC. Higher net profit implies that strong financial position and more profitability of Insurance Industry Average. The fluctuation net profit margin ratio of UIC is the clear indication of decreased efficiency and profitability position.

Figure 4.1.6 Net Profit Margins on Sales Ratio

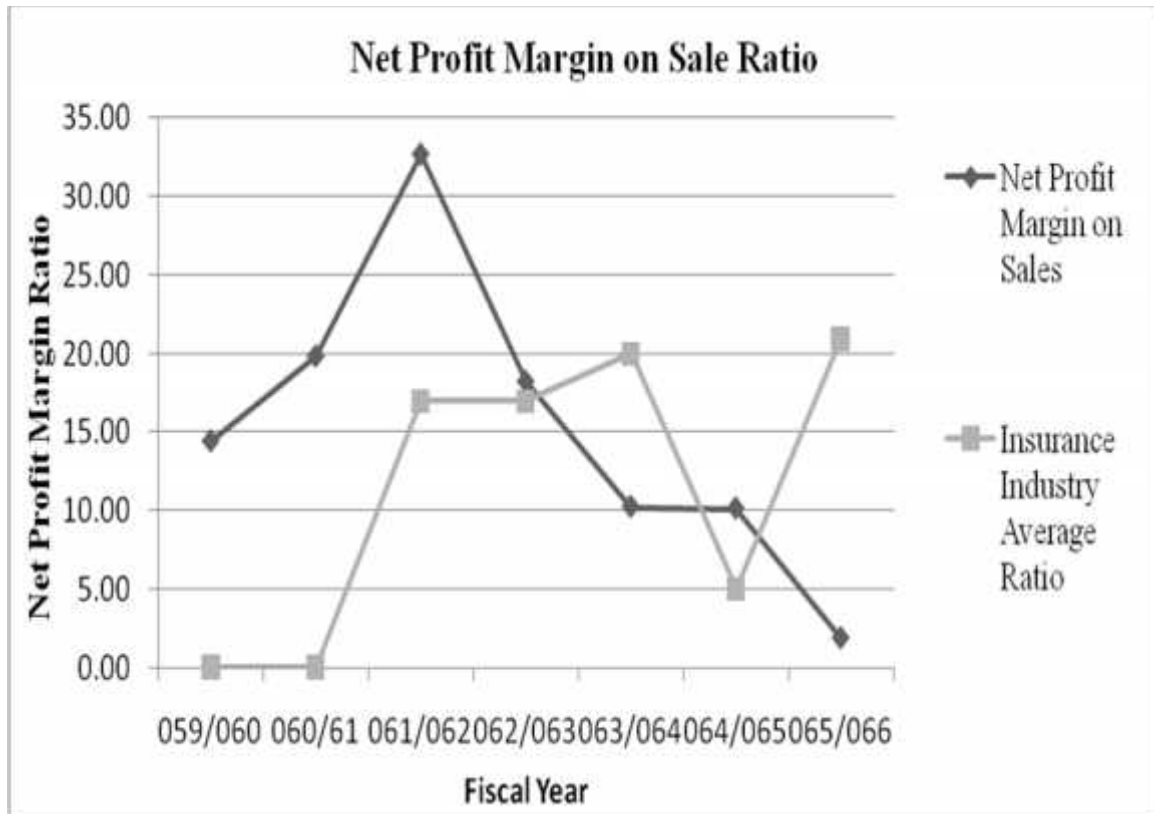


Figure 4.1.6 shows that Net profit of the UIC is increasing upto year 062/063 B.S. and decreasing after that year and Net Profit of the Insurance Industry Average ratio also fluctuation trend.

4.1.7 Return on Total Assets (ROA):

Return on total assets ratio is the indicator of the earning capacity of the insurance companies. The ratio reflects the overall efficiency of assets used in the insurance companies.

Table 4.1.7 Return on Total Assets

Amount in Rs.

Fiscal Year	Net Income	Total Assets	ROA (%)	Insurance Industry Average Ratio (%)
059/060	9403077	129883230	7.24	NA
060/061	14086611	152753913	9.22	NA
061/062	17967712	184486616	9.74	7.00
062/063	20422785	194043462	10.52	7.00
063/064	17945194	286119452	6.27	7.00
064/065	22574136	374041413	6.04	6.00
065/066	22574965	426493257	5.29	10.00
Average Mean			7.76	7.4

Source: Annual Report of UIC

ROA of United insurance company is in increasing trend in the fiscal year 2059/2060 B.S. to 2062/063 B.S. and then after it's is decreasing throughout the study period up to year 2065/066 B.S. The ROA of Insurance Industry Average ratio is constant at 7% from the study period of fiscal year 2061/062 B.S. to 2063/064 B.S. then it increases in fiscal year 2065/066 B.S. The average of ROA of United Insurance Company is 7.76% and Insurance Industry Average ratio is 7.4%. This shows that ROA of UIC is greater than ROA of Insurance Industry Average ratio. It means that overall efficiency of assets used by UIC is in better position and in better earning capacity. It also implies that UIC is able to collect the high premium amount, generate the high income and minimize the expenses like management expense and operating expenses.

The Fluctuating trend of Return on Assets Ratio all over the study period can be observed in figure 4.1.7

Figure 4.1.7 Returns on Assets

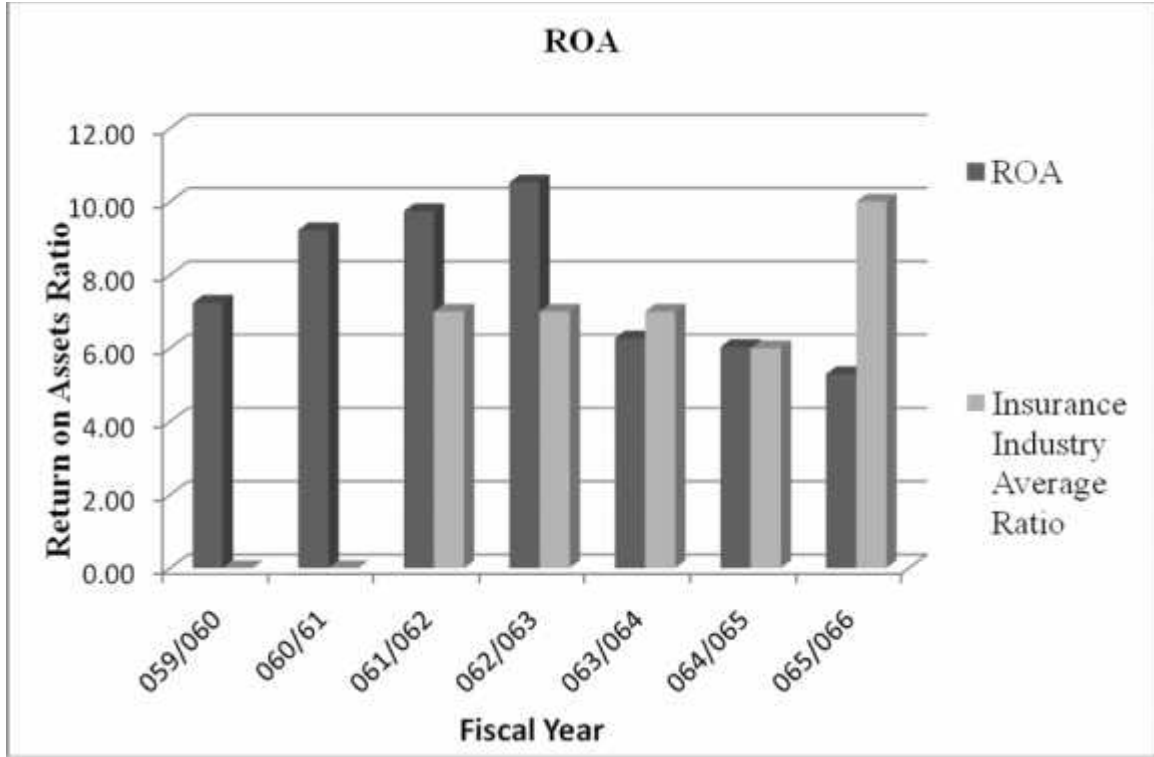


Figure 4.1.7 shows that ROA of UIC and Insurance Industry Average is in fluctuating trend year by year except in the fiscal year 2065/066 B.S.

4.1.8 Debt Assets Ratio:

The ratio of debt assets turnover ratio measures the strength or weakness of the company assets. If debt assets ratio is less it is good for the company.

Table 4.1.8 Debt Assets Ratio

Amount in Rs.

Fiscal Year	Total Assets	Total Liability	Debt. Asset Turn Over Ratio	Insurance Industry Average Ratio
059/060	129883230	73261730	0.56	NA
060/61	152753913	96132413	0.63	NA
061/062	184486616	121838634	0.66	0.65
062/063	194043462	124284652	0.64	0.67
063/064	286119452	245117677	0.86	0.72
064/065	374041413	303331942	0.81	0.67
065/066	426493257	283229346	0.66	0.63
Average Mean			0.69	0.67

Source: Annual Report of UIC

Table no 4.1.8 shows that debt assets ratio of United Insurance Company is in increasing trend year by year. It decreases slightly in fiscal year 2065/066 B.S. The lowest ratio is 0.56 at 2059/060 B.S. and highest is 0.86 at 2063/064 B.S. The average ratio of UIC is 0.69 and Insurance Industry Average debt assets ratio is 0.67. It means that UIC have majority of assets financed from debt and it is highly leverage debt.

The increasing trend of Debt Assets Ratio all over the study period can be observed in figure 4.1.8

Figure 4.1.8 Debt Assets Ratio

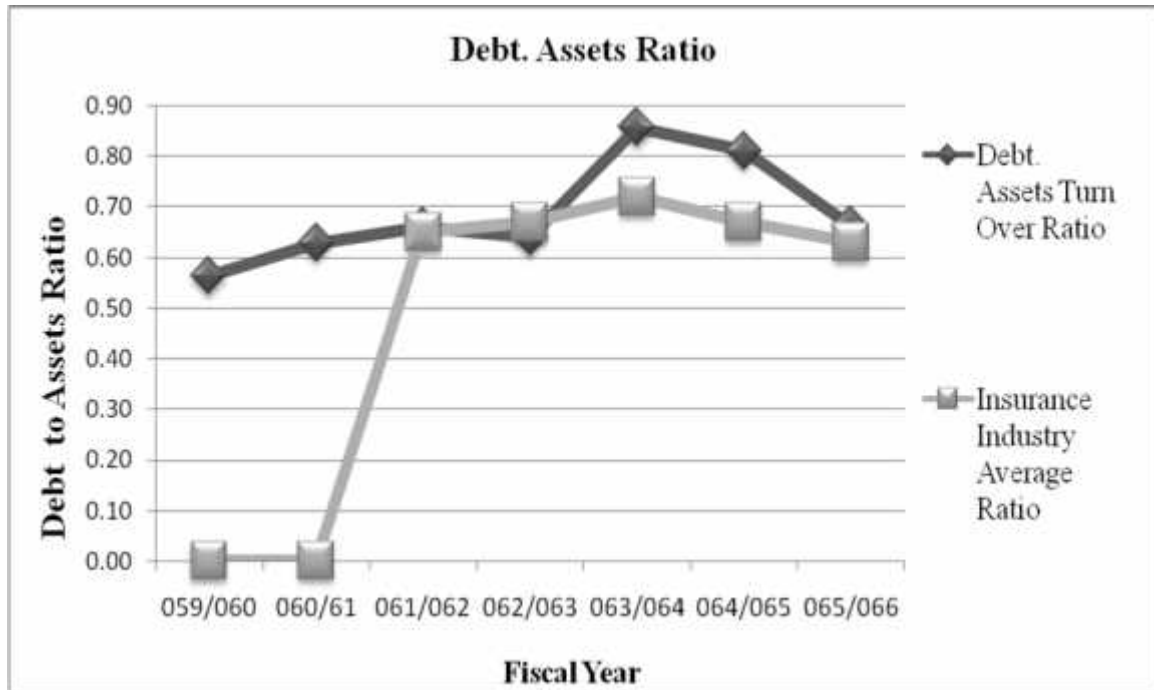


Figure 4.1.8 shows that Debt Assets Ratio of UIC is increasing year by year. It means that debt ratio of UIC is higher than Insurance Industry Average ratio.

4.1.9 Return on Equity (ROE):

The ratio of net income to common equity measures the return on common equity of the rate of return on stockholder investment. High ROE is fruitful to the shareholders and other investor is also easily attracted towards the company.

Table 4.1.9 Return on Equity

Amount in Rs.

Fiscal Year	Net Income	Shareholder's Equity	ROE (%)	Insurance Industry Average Ratio (%)
059/060	9403077	56621500	16.61	NA
060/061	14086611	56621500	24.88	NA
061/062	17967712	56623500	31.73	30.00
062/063	20422785	60000000	34.04	26.00
063/064	17945194	60000000	29.91	26.00
064/065	22574136	72000000	31.35	17.00
065/066	22574965	72000000	31.35	41.00
Average Mean			28.55	28

Source: Annual Report of UIC

Table no 4.1.9 shows that ROE is in increasing trend year by year except in fiscal year 2063/064 B.S. The highest ROE is at 2062/063 B.S. which is 34.04%. The average ratio of the UIC is 28.55 % and Insurance Industry Average is 28%. It means that ROE of Insurance Industry Average is lower than UIC so UIC has better performance than other Insurance Industry. If profit increases then ROE also increases, higher ROE indicate that shareholder will get high return from the company.

The Increasing trend of Return on Equity ratio all over the study period can be observed in figure 4.1.9

Figure 4.1.9 Returns on Equity

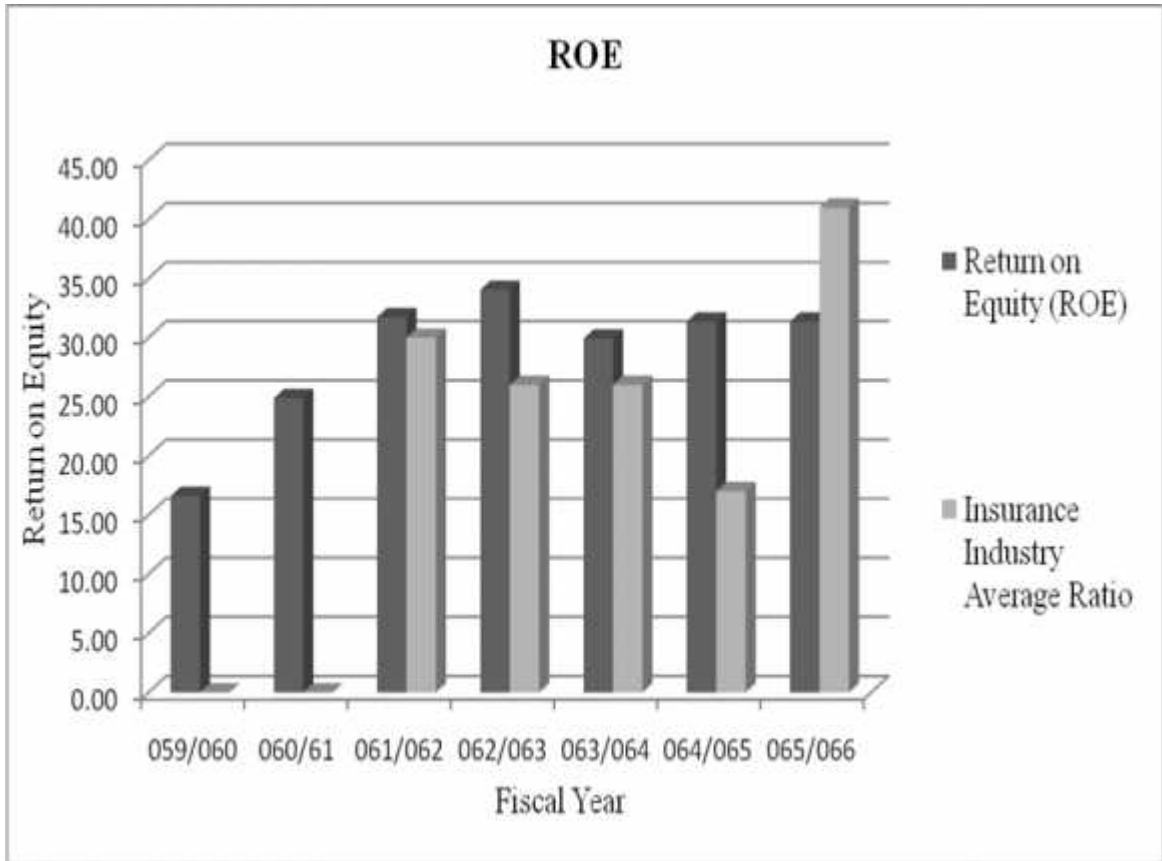


Figure 4.1.9 shows that ROE of UIC is in increasing trend, so it tells that it is good for the investor or shareholders of UIC than shareholders of other Insurance Industry.

4.1.10 Combined Ratio:

The major expenses of company are claims paid and expenses when it is compared with gross premium. It measures the profitability of insurance operations. It measures expenses and claims relative to premium. It does not take account of income from investment. If the combined ratio is less than 100% it indicates that an insurance company is making profit from its operation.

Table 4.1.10 Combined Ratios

Amount in Rs.

Fiscal Year	Management of Expenses	Total Claim Paid	Gross Premium Collection	Combined Ratio (%)	Insurance Industry Average Ratio (%)
059/060	16448545	10114814	114378963	23.22	NA
060/061	16546938	11383827	126180067	22.14	NA
061/062	17568644	14029971	143242932	22.06	63.00
062/063	19404580	18731645	181041548	21.06	54.00
063/064	21098187	24283207	207168193	21.91	55.00
064/065	28293722	31180347	189152601	31.44	39.00
065/066	37745452	31348237	199903791	34.56	50.00
Average Mean				25.20	52.2

Source: Annual Report of UIC

Table no 4.1.10 shows that combined ratio of UIC is in fluctuation trend. This ratio is high at 2065/066 B.S which is 34.56%. as in this year gross premium collection is low. Similarly combined ratio is low at fiscal year 2062/063 B.S which is 21.06%. The average combined ratio of UIC is 25.20 % and total Insurance Industry Average is 52.2%, so the UIC has more profitability from the insurance operation and less management expenses and less claimed paid than other Insurance Industry. It implies that performance of the UIC is better than other Insurance Industry Average.

The combined ratio also observed over the study period from the figure also.

Figure 4.1.10 Combined Ratios

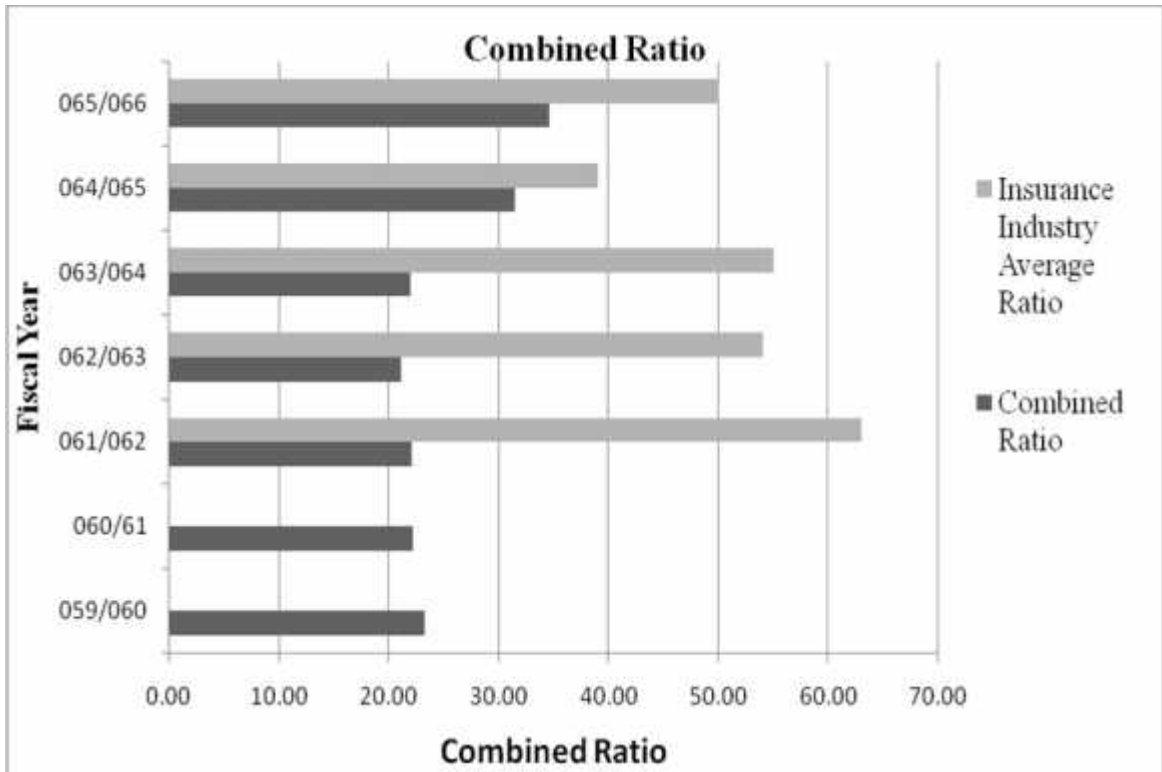


Figure 4.1.10 shows that combined ratio of UIC is in uniform trend and Combined Ratio of Insurance Industry Average is fluctuating trend. It means that UIC is able to manage minimum expenses of management fee and collect the high amount of gross premium than the other Insurance Industry.

4.1.11 Expenses of Management to Gross Premium Ratio

Expenses of management to gross premium ratio measure the expenses relative to gross premium. The lesser the ratio the better is the result. As gross premium grows, management expenses grow automatically.

Table 4.1.11 Expenses of Management to Gross Premium Ratio

Amount in Rs

Fiscal Year	Management of Expenses	Gross Premium Collection	Expenses of Mgmt. Gross Premium Ratio (%)	Insurance Industry Average Ratio (%)
059/060	16448545	114378963	14.38	NA
060/61	16546938	126180067	13.11	NA
061/062	17568644	143242932	12.26	14.71
062/063	19404580	181041548	10.72	12.23
063/064	21098187	207168193	10.18	11.60
064/065	28293722	189152601	14.96	12.39
065/066	37745452	199903791	18.88	13.39
Average Mean			13.50	12.86

Source: Annual Report of UIC

Table 4.1.11 shows that expenses of management to gross premium ratio is in decreasing trend but at last two year of 064/065 B.S. and 065/066 B.S it is slightly increasing. The average ratio of UIC is 13.5 % and Insurance Industry Average is 12.86% so it is slightly high than Insurance Industry Average. This ratio is remained in between 10% to 18 % all over study period. So higher the ratio implies that higher the management expenses, lower the premium collection and less the profit of the company.

The decreasing trend of expense of management to gross premium ratio all over the study period can be observed in figure 4.1.11

Figure 4.1.11 Expenses of Management Gross Premium Ratio

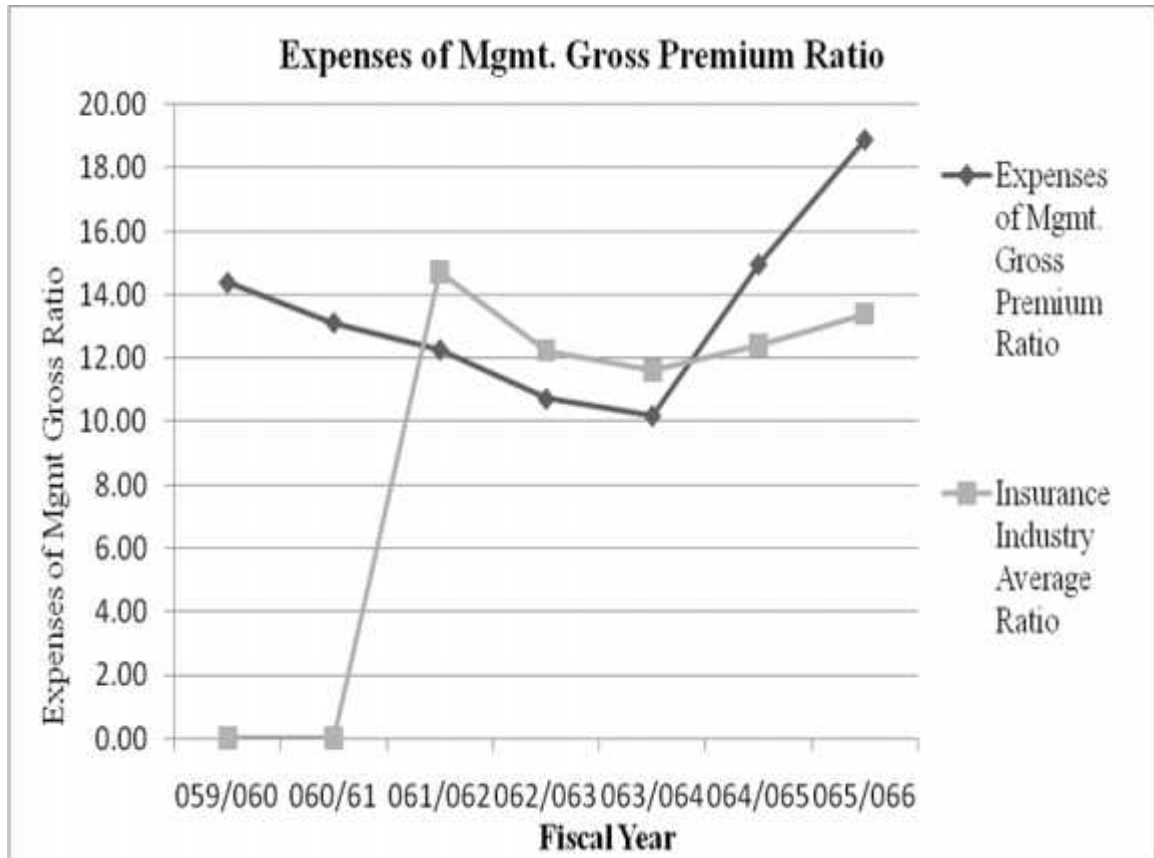


Figure 4.1.11 shows that fluctuating trend of expense of management gross premium ratio of UIC. It means that good performance of Insurance Industry Average than UIC.

4.1.12 Total Assets Turn Over Ratio:

The ratio of total assets turnover ratio measures of ability of the company to use its assets to generate sales. The relationship between the total assets and net premium is called total assets turnover ratio. The lower the total assets turnover ratio it is more sluggish to the sales. This may indicate the problem of the assets categories composing total assets.

Table 4.1.12 Total Assets Turnover Ratio

Amount in Rs.

Fiscal Year	Total Assets	Total Sales (Net premium)	TATR (%)	Insurance Industry Average Ratio (%)
059/060	129883230	23481309	0.18	NA
060/061	152753913	35379843	0.23	NA
061/062	184486616	29227421	0.16	0.51
062/063	194043462	47655661	0.25	0.63
063/064	286119452	56891615	0.20	0.64
064/065	374041413	62736439	0.17	0.67
065/066	426493257	86470752	0.20	0.57
Average Mean			0.20	0.60

Source: Annual Report of UIC

Table no 4.1.12 show that TATR is in fluctuating trend year by year. The highest TATR ratio of UIC is 0.25% at the fiscal year 2062/063 B.S. and lowest ratio is 0.16% at the fiscal year 2061/062 B.S. The average TATR ratio of UIC is 0.20% and Insurance Industry Average is 0.60%. This implies that the average TATR of UIC is Rs 0.20 which means every one rupee is required to generate the net premium of Rs 0.20, so the UIC is unable to maintain a satisfactory level of total assets turnover ratio. TATR of Insurance Industry Average is better than UIC.

The fluctuating trend of total assets turnover ratio all over the study period can be observed in figure 4.1.12

Figure 4.1.12 Total Assets Turnover Ratio

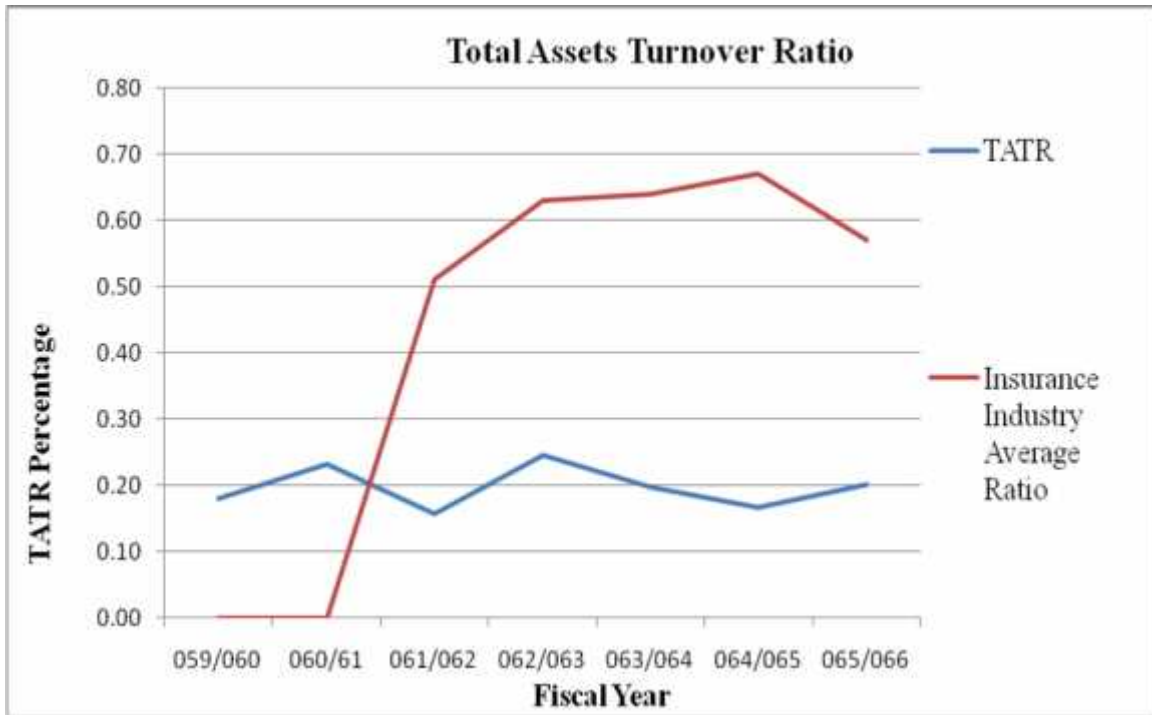


Figure 4.1.12 shows that higher fluctuating TATR between UIC and Insurance Industry Average.

4.1.13 Comparative study on Net Profit and Net Sales

The financial performance of United Insurance Company can be evaluated and analyzed with the help of statistical tools. Statistical analysis means to find the relationship between variables and predication of future possibility through defined tools. The statistical tools applied in this study are Mean, Standard Deviation, Co-efficient of Variation. It can measure the risk of the company. This analysis is to show the relationship between two variables so we can take the average ratio of Net profit and Sales (Insurance premium) of the UIC from the study period. Now the mean, standard deviation and co-efficient of deviation is presented in the table which is calculated from the average ratio of Net Sales (premium earned) and Net Profit of the UIC.

Table 4.1.13 Ratio of Net Profit and Net Sales (Premium Earned)

Amount in %

Fiscal Year	United Insurance Company	Insurance Industry Average Ratio
059/060	14.42	NA
060/61	19.81	NA
061/062	32.67	16.6
062/063	18.20	17.2
063/064	10.24	19.7
064/065	10.15	5.3
065/066	1.89	21.2
Mean	15.24	16.00
S.D.	8.92	6.99
C.V.	58.53	44.62

Table 4.1.13 Comparative of Net Profit and Net Sales (Premium Earned)

Amount in %

Particulars	United Insurance Company (%)	Insurance Industry Average Ratio (%)
Mean	15.24	16.00
Standard deviation	8.92	6.99
Co-efficient of variation	58.53	44.62

This table 4.1.13 shows the total mean, standard deviation and co-efficient of variation of UIC and Insurance Industry Average. UIC has higher mean, standard deviation and co-efficient of variation than insurance industry average. It means that higher the standard deviation higher risk. Co-efficient of variation shows the risk per unit of return, it provides a more meaningful basis for comparison of two alternatives. So higher the CV shows that higher risk .It implies that UIC have more risk than other Insurance Industry Average.

4.2 Major Finding of the Study

On the basis of facts, figures, obtained data the study observes the following findings:

- 4.2.1** Overall premium collection growth of UIC is in increasing trend. There are more fluctuation in CAR and Engineering and Miscellaneous insurance of UIC. Miscellaneous insurance is highly fluctuation and it is decreasing in the fiscal year 2060/61, 2063/2064 and 2065/2066 B.S. The growth ratio of UIC is in increasing trend. Miscellaneous insurance includes accident insurance, cash in transit insurance, Fidelity Guarantee Insurance, Burglary and House Breaking insurance, Bakers Indemnity Insurance.
- 4.2.2** In the case of fire insurance, marine insurance, motor insurance the total claim paid does not fluctuate all over the study period except for fire insurance which increases in 2064/2065 at 101.7 %. In car and engineering insurance's claim paid in fiscal year 2060/61 B.S. and 2061/2062 B.S. is 203.9% and 205.8 % respectively.
- 4.2.3** Investment in national saving bond and in different company's share fluctuates throughout the study period. The highest investment ratio in National saving bond is 10.98% in fiscal year 2061/062 B.S and in different company share is 31.3% in fiscal year 2064/065 B.S. Deposit in bank and financial institution is stable unlike other investment. Overall, investment trend is in increasing trend.
- 4.2.4** The current ratio of UIC is decreasing year by year. When it is compared with Insurance Industry Average, current ratio of UIC is on the lower side. The current ratio of United Insurance Company is 1.94% in 2059/060 B.S. and Insurance Industry Average is 1.17% in 2063/064 B.S. The average current ratio of UIC is 0.94% and Insurance Industry Average is 1.04%

- 4.2.5** The ratio of fixed assets turnover of UIC and the Insurance Industry Average is fluctuating. The average fixed assets turnover ratio of UIC is 0.29 and average fixed assets turnover ratio of Insurance Industry is 1.36. This means that on an average Rs. 0.29 (UIC) and Rs.1.36 (Insurance Industry Average) revenue is generated by the company through the investment of one rupee in fixed assets. The highest fixed assets turnover ratio of UIC is 0.36 in year 2064/065 B.S and Insurance Industry Average is 1.61 in year 2063/064 B.S.
- 4.2.6** Net profit margin on sales of UIC is in increasing trend from fiscal year 2059/060 B.S to 2061/062 and it is decreasing year by year up to the year 2065/066 B.S. But the Insurance Industry's Net profit margin is fluctuating every year. The average net profit margin of UIC is 15.34% and Insurance Industry is 16%.
- 4.2.7** ROA of United insurance company is increasing trend at fiscal year 2059/2060 B.S. to 2062/063 B.S. and then after it decreases up to the year 2065/066. The ROA of Insurance Industry is constant at 7% from the fiscal year 2061/062 B.S. to 2063/064 B.S. then it increases in fiscal year 2065/066 B.S. The average of ROA of United Insurance Company is 7.76% and Insurance Industry Average is 7.4%. This shows that ROA of UIC is greater than ROA of Insurance Industry.
- 4.2.8** The debt assets ratio of United Insurance Company is in increasing trend year by year. Only in the fiscal year 2065/066 B.S. it slightly decreases. The ratio is lowest at 2059/060 B.S. which is 0.56 and highest is at 2063/064 B.S which is 0.86. The average ratio of UIC is 0.69 and Insurance Industry ratio is 0.67.
- 4.2.9** ROE is in increasing trend year by year except in the fiscal year 2063/064 B.S. The highest ROE is in 2062/063 which is 34.04. The average ratio of the UIC is 28.55% and Insurance Industry Average is 28%. It means UIC has higher ROE.
- 4.2.10** The combined ratio is slightly fluctuating during the study period. This ratio is 34.56% in the study period 2065/066 B.S. and 21.06 in the study period 2062/063

B.S. The average ratio of UIC is 25.2 % and the Insurance Industry Average is 52%.

4.2.11 The expense of management to gross premium ratio is in decreasing trend but in the last two years of study period it slightly increases. The average ratio of UIC is 13.5 % and the Insurance Industry Average is 12.86%. The ratio of UIC is on the higher side as compared to the Insurance Industry. The ratio remained in between 10% to 15 % over all study period.

4.2.12 TATR is in fluctuating trend year by year. The TATR ratio of UIC is 0.25 in 2062/063 B.S. and 0.16 in 2061/062 B.S. The average TATR ratio of UIC is 0.20 and Insurance Industry Average is 0.60.

4.2.13 UIC have higher mean, standard deviation and co-efficient of variation than insurance industry. It means that higher the standard deviation higher risk. Co-efficient of variation shows the risk per unit of return it is provides a more meaningful basis for comparison of two alternatives. So higher the CV shows that higher risk .It implies that UIC have more risk than others Insurance Companies of the Industry.

CHAPTER V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

Insurance is the principle against risk, which ensures financial security for unforeseen and uncertain losses. Insurance distributes the cost of risk over a large group of individuals subject to the same risk in order to reimburse the few who actually suffer from risk. Insurances are co-operative instrument of spreading the loss caused by a particular risk over a number of persons who are exposed to it and who agree to insure themselves against the risk. The process of insurance has been evolved to safeguard the interest of people from uncertainty by providing certain payment at a given contingency.

Insurance is an arrangement by which a company gives customer financial protection against loss or harms such as theft or illness in return for payment premium. The sum of money than an insurer company pays or agrees to pay it a specific undesirable event occurs. Insurance means of protection it is also known an art, measure or provision that gives protection against an undesirable event or risk.

In Nepal, there is a tremendous scope to develop the insurance market, so the potential of Nepal's insurance market is large. It has majority of middle class population and industrialization process is going on. So the researcher has conducted a thesis on the topic of 'Financial Performance of United Insurance Company Limited", which is academic requirement of master of business studies. The fundamental objectives of the study is to analyze the trend of premium collection, payment of claim and utilization of available resources' measure the financial strengths and weakness and measure the pattern of risk and profitability position of united insurance company limited.

In the changed legal, economic and socio-political setting insurance sector started to grow rapidly. Insurance companies in Nepal started to be formed public sector, foreign and joint venture besides government sector. There are twenty-one insurance companies operating in Nepal today.

Various academic materials were reviewed in order to build up the conceptual foundation and to find out the clear destination of the research work. Historical development of insurance, meaning and functions of insurance companies, types of insurance, benefits of insurance, value of insurance, concept of financial performance of insurance companies, concept of re-insurance, concept of risk retention and legal provision for insurance industry, insurance act 1992, insurance regulation 1992 and various legal documents of insurance were reviewed as conceptual review. On the other hand, review of IRDA journals, review of international journals and review of master's dissertations were included in research review section of the report.

The research covers seven years period starting from 2059/060 to 2065/066 B.S. of United Insurance Company Limited. Company Data are taken from annual reports, company websites, direct visit to the company etc. The study was descriptive and analytical research design has been followed. The analytical research design is used to access and analyze the financial indicator of UIL. The required data and information were collected from secondary sources. In addition to this, primary data are also used in the research work that was collected by using unstructured interview with concerned personnel.

Financial tools were used to find out the trend of premium collection, total payment of claim and utilization of available recourses, Current Ratio, Fixed assets turnover ratio, Net profit on margin on sales, Debt assets ratio. Return on assets, Return on Equity, combined ratio, expenses of management ratio, total assets turnover ratio of United Insurance Company Limited. Similarly graphically presentations and statistically tools are applied to show the pattern of different indicators of financial performance.

5.2 Conclusions

Following conclusions are drawn based on the study.

- 5.2.1** Total premium collection growth is in increasing trend. The premium collection of miscellaneous insurance is highly fluctuating and it is decreasing year by year. Miscellaneous insurance includes accident insurance, cash in transit insurance, Fidelity Guarantee Insurance, Burglary and House Breaking insurance, Bakers Indemnity Insurance.
- 5.2.2** The total claim paid all over the study period is in increasing trend of UIC. But In car and engineering insurance's claim paid is more variable in fiscal year 2060/61 B.S. and 2061/2062 B.S.
- 5.2.3** UIC has strengthened the investment and it is increasing trend year by year. Bank and financial institutional deposit increases year by year and there is no variation like in other investment. It shows that liquidity position of UIC is better.
- 5.2.4** Current ratio of UIC is variable and is in decreasing trend. When compared to Insurance Industry Average's current ratio is higher of UIC. So it means that liquidity position of other Insurance Industry is better than that of UIC.
- 5.2.5** Fixed assets turnover ratio is in increasing trend. It is compared to Insurance Industry's fixed assets turnover ratio is higher than UIC limited, it means that UIC is not using its fixed assets effectively to increase its revenue.
- 5.2.6** Net profit margin on sales ratio of UIC is in fluctuating trend. Insurance Industry's Net profit margin is higher than that of UIC. It implies that higher the profit, better performance, strong financial position and positive to survive for long run and more profitability of Insurance Industry Average. The fluctuation net profit margin ratio of UIC is the clear indication of decreased efficiency and profitability position.

- 5.2.7** Return on Assets turnover of UIC is higher than that of Insurance Industry Average. UIC have better earning capacity and efficiency use the total fixed assets.
- 5.2.8** Debt Assets turnover ratio is increasing trend of UIC. It is lower in UIC when compared with the Insurance Industry Average. It implies that the performance of the UIC is not so good and majority of assets are financed from debt and it is highly leveraged.
- 5.2.9** Return on Equity is increasing year by year and shareholder's fund is directly relates with profit. Profit is distribution to shareholders of UIC is in increasing trend. When compared to Insurance Industry Average's ROE, UIC has the higher one. Therefore, the shareholders fund is in growing trend of UIC.
- 5.2.10** Combined ratio of UIC slightly increased year by year but compared to Insurance Industry Average is huge variance. UIC have lower combined ratio it means that lower the management expenses, lower claim paid and collect the higher gross premium.
- 5.2.11** The management expense to gross premium is in decreasing trend. But, the ratio is better than that of the Insurance Industry Average. It means that gross premium grows management expenses grow automatically in case of UIC. UIC is concentrated with expenses control. It is better to get profit situation.
- 5.2.12** Total Assets Turnover Ratio of UIC is lower than Insurance Industry Average. UIC is not able to use its assets properly to generate the revenue (Insurance premium).
- 5.2.13** UIC have higher the standard deviation and co-efficient of variation than Insurance Industry Average. So higher the standard deviation and Co-efficient of

variation higher the risk and lower the profit of the company. It implies that UIC have more risky and low profit than Insurance Industry Average.

5.3 Recommendations

5.3.1 Total Premium collection of Miscellaneous insurance is less than other type of insurance policies so the company should increase its gross premium.

5.3.2 Higher claim paid of CAR and Engineering and Miscellaneous insurance is more risky insurance policies of UIC so it should discourage to buy new policy of this type of insurance policy.

5.3.3 The liquidity position of UIC is less than Insurance Industry Average so it should increase the existing current ratio. There should be trade between liquidity and profitability.

5.3.4 Fixed assets turnover ratio is lower than average insurance company so it should effectively use the fixed assets and increases the total premium of the company.

5.3.5 Net profit of the company should be increased, it is less than average insurance company. If net profit increases, company will run smoothly for long term and its financial position will be strong and will be more profitability.

5.3.6 Return of Assets is higher than Insurance Industry Average so it is good for the company. Hence it should enhance the exiting current assets utilization properly.

5.3.7 Debt assets ratio of UIC is higher than Insurance Industry Average so UIC should manage liabilities in proper way without bankruptcy effect.

5.3.8 Return on equity should be increased to maximise shareholders wealth and confidence and to develop the risk-bearing capacity of UIC.

- 5.3.9** Combined ratio of UIC is less than Insurance Industry Average. It means lower the claim paid; lower the management expenses and higher collection of the premium. Lower the ratio is good performance and profitability of insurance. This is recommended to follow in the future also.
- 5.3.10** Expenses of Management gross premium of UIC is higher than the Insurance Industry Average; it should be controlled. UIC should try to reduce the management expenses by adopting new overhead policy.
- 5.3.11** Total assets turnover ratio of UIC is lower than Insurance Industry Average. So UIC should properly utilize the total assets to help increase the total premium earned.
- 5.3.12** Standard deviation and co-efficient of variation of UIC is higher than Insurance Industry Average; it means it is in higher risky position, lower profitability and weak financial position. UIC should increase net profit, collect the high premium, reduce the total expenses, total liabilities, use the fixed assets in highly efficient way and invest the idle fund not only in fixed deposits of financial institution.

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Appendix I
United Insurance Company Limited

Amount in Rs

Source: Annual Report of UIC

Fiscal Year	059/060	060/061	061/062	062/063	063/064	064/065	065/066
Net Income	9403077	14086611	17967712	20422785	17945194	22574136	22574965
Net profit	3384836	7008808	9547442	8675489	5826607	6364707	1630942
Shareholder's equity	56621500	56621500	56623500	60000000	60000000	72000000	72000000
Current assets	35696597	31628948	31672323	26803652	103931907	199565816	168646548
Current liabilities	18412300	31825785	53934771	39870513	163504904	207002976	207002976
Fixed assets	94186633	121124965	152814293	167239810	182187545	174475597	257846709
Total assets	129883230	152753913	184486616	194043462	286119452	374041413	426493257
Total sales(Net premium)	23481309	35379843	29227421	47655661	56891615	62736439	86470752
Total claimed paid	10114814	11383827	14029971	18731645	24283207	31180347	31348237
Management of Expenses	16448545	16546938	17568644	19404580	21098187	28293722	37745452
Gross Premium Collection	114378963	126180067	143242932	181041548	207168193	189152601	199903791
Total liability	73261730	96132413	121838634	124284652	245117677	303331942	283229346

Appendix II
Ratio Analysis of United Insurance Company

Figure in %

Fiscal Year	059/060	060/061	061/062	062/063	063/064	064/065	065/066	Average Ratios
Current Ratio	1.94	0.99	0.59	0.67	0.64	0.96	0.81	0.94
Fixed Asset Turn Over Ratio	0.25	0.29	0.19	0.28	0.31	0.36	0.34	0.29
Debt Assets Ratio	0.56	0.63	0.66	0.64	0.86	0.81	0.66	0.69
Net Profit Margin on sales	0.14	0.20	0.33	0.18	0.10	0.10	0.02	0.15
ROA	0.07	0.09	0.10	0.11	0.06	0.06	0.05	0.08
ROE	0.17	0.25	0.32	0.34	0.30	0.31	0.31	0.29
TATR	0.18	0.23	0.16	0.25	0.20	0.17	0.20	0.20
Combined Ratio	0.23	0.22	0.22	0.21	0.22	0.31	0.35	0.25
Expenses of Mgmt. of Gross Premium	14.38	13.11	12.26	10.72	10.18	14.96	18.88	13.50

Appendix III
Himalayan General Insurance Company

Amount in Rs.

Fiscal Year	061/062	062/063	063/064	064/065	065/066
Net Income	15527000	16539000	11275000	12078000	32075000
Net profit	11011000	11970000	7538000	6685000	24420000
Shareholder's equity	30000000	30000000	30000000	63000000	100800000
Current assets	74318000	50358000	93579000	85775000	133536000
Current liabilities	146221000	83462000	93895000	134664000	196274000
Fixed assets	153387000	126430000	99882000	149873000	214705000
Total assets	227705000	176788000	193461000	235648000	348241000
Total sales(Net premium)	45205000	55948000	69547000	91371000	124364000
Total claimed paid	21482000	23406000	30193000	47136000	53177000
Management of Expenses	19584000	20542000	23624000	27813000	34402000
Gross Premium Collection	202679000	227363000	218112000	329196000	384004000
Total liability	176221000	146788000	162461000	173798000	251056000

Source: Annual Report of HGIC

Appendix IV
Ratio Analysis of Himalayan Insurance Company

Figure in %

Fiscal Year	061/062	062/063	063/064	064/065	065/066	Average Ratios
Current Ratio	0.51	0.60	1.00	0.64	0.68	0.69
Fixed Asset Turn Over Ratio	0.29	0.44	0.70	0.61	0.58	0.52
Debt Assets Ratio	0.77	0.83	0.84	0.74	0.72	0.78
Net Profit Margin on sales	0.24	0.21	0.11	0.07	0.20	0.17
ROA	0.07	0.09	0.06	0.05	0.09	0.07
ROE	0.52	0.55	0.38	0.19	0.32	0.39
TATR	0.20	0.32	0.36	0.39	0.36	0.32
Combined Ratio	0.20	0.19	0.25	0.23	0.23	0.22
Expenses of Mgmt. of Gross Premium	9.66	9.03	10.83	8.45	8.96	9.39

Appendix V
Nepal Insurance Company Limited

Amount in Rs

Source: Annual Report of NIC

Fiscal Year	061/062	062/063	063/064	064/065	065/066
Net Income	30484512	12523767	26865938	27738864	74438140
Net profit	17364032	25082232	63694991	6867920	47512559
Shareholder's equity	102676400	102682400	102682400	102682400	102682400
Current assets	270146283	312780278	287604446	290031438	273989837
Current liabilities	206154996	237360950	254026711	214119825	346343207
Fixed assets	205351338	203016771	224221053	299961718	354172082
Total assets	475497621	515797049	511825499	589993156	628161919
Total sales(Net premium)	206212322	216075711	296756584	224213968	211938183
Total claimed paid	86295218	95039542	114294851	70130680	50775312
Management of Expenses	31207103	35141762	43192576	63527254	72846712
Gross Premium Collection	256627213	290051972	413143351	361370027	345654765
Total liability	369444359	409712705	475715789	561606440	554863131

Appendix VI
Ratio Analysis of Nepal Insurance Company

Figure in %

Fiscal Year	061/062	062/063	063/064	064/065	065/066	Average Ratios
Current Ratio	1.31	1.32	1.13	1.35	0.79	1.18
Fixed Asset Turn Over Ratio	1.00	1.06	1.32	0.75	0.60	0.95
Debt Assets Ratio	0.78	0.79	0.93	0.95	0.88	0.87
Net Profit Margin on sales	0.08	0.12	0.21	0.03	0.22	0.13
ROA	0.06	0.02	0.05	0.05	0.12	0.06
ROE	0.30	0.12	0.26	0.27	0.72	0.34
TATR	0.43	0.42	0.58	0.38	0.34	0.43
Combined Ratio	0.46	0.45	0.38	0.37	0.36	0.40
Expenses of Mgmt. of Gross Premium	12.16	12.12	10.45	17.58	21.07	14.68

Appendix VII
Everest Insurance Company Limited

Amount in Rs.

Fiscal Year	061/062	062/063	063/064	064/065	065/066
Net Income	26280000	29238000	37137200	44172000	57370000
Net profit	10121000	12542000	22089000	6499000	36608000
Shareholder's equity	121473000	132436000	153829000	159840000	182547000
Current assets	245894000	281682000	330199000	384139000	540265000
Current liabilities	203985000	224567000	239215000	322917000	464731000
Fixed assets	50476000	58954000	62845000	98616000	107013000
Total assets	296370000	340636000	393044000	482755000	647278000
Total sales(Net premium)	59876000	66954000	82671000	116461000	170336000
Total claimed paid	126499000	154423000	218619000	154622000	373070000
Management of Expenses	28236000	29156000	33575000	37806000	44188000
Gross Premium Collection	126543000	187543000	248686000	338965000	449834000
Total liability	115429000	131532900	153829633	159840562	182547183

Source: Annual Report of EIC

Appendix VIII
Ratio Analysis of Everest Insurance Company

Figure in %

Fiscal Year	061/062	062/063	063/064	064/065	065/066	Average Ratios
Current Ratio	1.21	1.25	1.38	1.19	1.16	1.24
Fixed Asset Turn Over Ratio	1.19	1.14	1.32	1.18	1.59	1.28
Debt Assets Ratio	0.39	0.39	0.39	0.33	0.28	0.36
Net Profit Margin on sales	0.17	0.19	0.27	0.06	0.21	0.18
ROA	0.09	0.09	0.09	0.09	0.09	0.09
ROE	0.08	0.09	0.14	0.04	0.20	0.11
TATR	0.20	0.20	0.21	0.24	0.26	0.22
Combined Ratio	1.22	0.98	1.01	0.57	0.93	0.94
Expenses of Mgmt. of Gross Premium	22.31	15.55	13.50	11.15	9.82	14.47

Appendix IX
Average Ratios of Three Insurance Companies such as HGIC, NIC and EIC.
Amount in Rs

Source: Annual Report and websites of Insurance Company

Fiscal Year	061/062	062/063	063/064	064/065	065/066	Total Average Ratio
Current Ratio	1.01	1.06	1.17	1.06	0.88	1.03
Fixed Asset Turn Over Ratio	0.83	0.88	1.11	0.85	0.92	0.92
Debt Assets Ratio	0.65	0.67	0.72	0.67	0.63	0.67
Net Profit Margin on sales	0.17	0.17	0.20	0.05	0.21	0.16
ROA	0.07	0.07	0.07	0.06	0.10	0.07
ROE	0.30	0.26	0.26	0.17	0.41	0.28
TATR	0.28	0.31	0.38	0.34	0.32	0.33
Combined Ratio	0.63	0.54	0.55	0.39	0.50	0.52
Expenses of Mgmt. of Gross Premium	14.71	12.23	11.60	12.39	13.29	12.84

Appendix X
Calculation of Mean, S.D and C.V. of Net profit and Net sales.

Ratio of UIC (Sample Calculation)

Fiscal Year	Net Sales	Net Profit	Ratio %
059/060	23481309	3384836	14.42
060/61	35379843	7008808	19.81
061/062	29227421	9547442	32.67
062/063	47655661	8675489	18.20
063/064	56891615	5826607	10.24
064/065	62736439	6364707	10.15
065/066	86470752	1630942	1.89

Fiscal Year	Ratio % \bar{x}	$x - \bar{x}$	$(x - \bar{x})^2$
059/060	14.41	-0.83	0.70
060/61	19.18	3.94	15.49
061/062	32.66	17.42	303.31
062/063	18.2	2.96	8.74
063/064	10.24	-5.00	25.04
064/065	10.14	-5.10	26.05
065/066	1.88	-13.36	178.60
N=7	15.24		557.93

We have.

$$\text{Mean } (\bar{x}) = \frac{\sum x}{N} = 15.24$$

$$\text{Standard Deviation } (\dagger) = \sqrt{\frac{\sum (x - \bar{x})^2}{N}} = \sqrt{\frac{557.93}{7}} = 8.92$$

$$\text{Coefficient of Variation (C.V.)} = \frac{\dagger}{\bar{x}} \times 100 = \frac{8.92}{15.24} \times 100 = 58.53$$

Similarly, the Mean, S.D and C.V. of others ratios of four Insurance company have been calculated.

Appendix VI

Net Premium and Net Profit Ratio %

Amount in Rs.

Insurance Company	UIC			HGIC			NIC			EIC				
Fiscal Year	Net Premium	Net Profit	Ratio %	Net Premium	Net Profit	Ratio %	Net Premium	Net Profit	Ratio %	Net Premium	Net Profit			
059/060	23481309	3384836	14.42	NA	NA	NA	NA	NA	NA	NA	NA	NA		
060/061	35379843	7008808	19.81	NA	NA	NA	NA	NA	NA	NA	NA	NA		
061/062	29227421	9547442	32.67	45205000	11011000	24.36	206212322	17364032	8.42	59876000	10121000	16.90		
062/063	47655661	8675489	18.20	55948000	11970000	21.39	216075711	25082232	11.61	66954000	12542000	18.73		
063/064	56891615	5826607	10.24	69547000	7538000	10.84	296756584	63694991	21.46	82671000	22089000	26.72		
064/065	62736439	6364707	10.15	91371000	6685000	7.32	224213968	6867920	3.06	116461000	6499000	5.58		
065/066	86470752	1630942	1.89	124364000	24420000	19.64	211938183	47512559	22.42	170336000	36608000	21.49		
Mean			15.24	Mean			16.71	Mean			13.39	Mean		17.88
Standard Deviation (S.D.)			8.92	Standard Deviation (S.D.)			6.50	Standard Deviation (S.D.)			7.49	Standard Deviation (S.D.)		6.98
coefficient of Variation(C.V)			58.53	Coefficient of Variation(C.V)			38.89	Coefficient of Variation(C.V)			55.90	Coefficient of Variation(C.V)		39.08

Source: Annual Reports and Websites of Insurance Companies