

CHAPTER I

INTRODUCTION

1.1 Background of the Study

The world is surrounding by risks and uncertainties. No job and activities are free from risk in human life. Being a rational animal every human being wants their life and wealth to be secured and safe due to the modern mechanical complexity. The concept of insurance was developed to minimize the risk and uncertainties. Day by day the insurance companies became powerful as emerging contractual saving institution since people contributed by way of premium to purchase of different kinds of policies to protect against risks of life and properties.

Insurance companies occupy quite an important place in the framework of every economy because it provides certainty to the industry, business and capital for the development of industry, trade and business. Insurance companies are capable of providing industrial finance, government finance or even personal finance. They provide different finance through their own investment policy pattern based upon their own corporate objective and nature of the line of insurance companies.

Contractual saving institution in their role as insurance the financial market are indirect means of mobilization and investing funds in the overall growth of national economy. Insurance companies procure steady inflow of funds in forms of premium from policyholder demanding various insurance policies according to their preferences, priorities and needs. After premium collection, investment of this fund is another major part of insurance company. Investment is a commitment of money and other resources that are expected to generate additional money and resources in the future.

Insurance contributes to society by favorably affecting the apportionment of the factors of production, engaging in loss prevention activities, identifying losses serving as a basis of the credit structure, eliminating worry and proving a channel for investible fund. Robbert I. Mehr and Emerson cammack outline the insurance as "Insurance policies are written by business organization called

'insurer' in order to function properly. These insurers must have large numbers policy holder who are obtained either by directly representative or through agents." He again stated that "Insurance is a technical business involving the skills of statisticians, financial analysts, engineers, physicians, economists, layers, and others. Contracts must have been carefully drafted, underwriting restrictions must be determined, rates must be established equitable by analysis all the factors including public interest.

In the context of Nepali life insurance companies, they provide various insurance policies and charge premium under insured risk and nature. They collect fund through various clients as premium and invest on various sectors. Insurance companies are broadly classified in two categories: life insurance companies and non-life insurance companies. This study is concentrated on premium collection and investment pattern of life insurance companies in Nepal and aims of evaluating and analyzing the premium collection trend and investment sectors and ratio too.

1.1.1 Company Profile

As day to day increasing interest and believe of people towards the life insurance companies, the number is rising up. Now nine life insurance companies are working in Nepali market having different ownership. And due to more attractive business, another eight companies are coming in near future to operate life insurance business in Nepal. The companies currently performing life insurance businesses in Nepal are:

Table no. 1.1 List of Life Insurance Companies

S.N.	Name of the Life Insurance Companies	Registered AT
1.	Rastriya Beema Sansthan, Ramshah path,Ktm	01/09/2025
2.	National Life Insurance company Ltd, Ktm	23/09/2044
3.	Nepal Life Insurance Company Ltd,ktm	04/01/2058
4.	American Life Insurance Company Ltd	18/04/2058
5.	Life Insurance Corporation (Nepal) Ltd,Kamaladi,Ktm	23/04/2058
6.	Asian Life Insurance Company Ltd, New Plaza, Kathmandu, Nepal	05/11/2064
7.	Surya Life Insurance company Ltd	06/12/2064

8.	Gurash Life Insurance company Ltd	18/12/2064
9.	Prime Life Insurance Company Limited, Hattisar, Ktm	22/02/2065

To fulfill the purpose of achieving the result accordance to determine the objective; two life insurance companies are selected randomly as sample in this study. These are Nepal Life Insurance company ltd and Life Insurance Corporation (Nepal)

1.1.2 Historical Background of Sample Company

) Nepal Life Insurance Company Limited

NLIC, established under the Company Act 2053 and Insurance Act 2049 as a public limited company on 2058/01/21 (04/05/2001). NLIC is the foremost life insurance company established by private investors. The promoters of the company are a group of well known businessmen and business houses of Nepal. Within the nine years of operation the Company has set up an excellent business record and has a strong financial position.

The company has an authorized capital of Rs.100 Crore. Issued Capital of Rs 50 Crore and Paid-up Capital of Rs 37.5 Crore. As on poush 2067 the company has insured 3,65,562 under conventional policies worth Rs. 3707 Crore and 83,559 Foreign Expatriate policies worth Rs. 4178 Crore. Out of the total premium collected the company has invested Rs. 635 Crore as per guidelines of Bima Samiti. The company has insured itself with well-know reinsurance company "Hannover Re Life Reinsurance Company", Germany for conventional policies and "SCOR Global Life", France for Term Assurance Foreign Expatriate policies.

Vision and Mission

To endeavor through the noble institution of Life Insurance in making every family economically safe and secure whereby every citizen of Nepal may contribute his might in building a healthy, prosperous, strong & Vibrant Nation.

To cater to financial and Social needs of every segment of society by designing differentiated and innovative insurance instruments. To provide after sales service to customers that can be hailed as the best.

Products

1. Sabadhik jivan
2. Agrim bhuktani jivan
3. Jivan sahara
4. Jivan sarathi
5. Oversis

) Life Insurance Corporation (Nepal) Limited

LIC (Nepal) Ltd. is one of the largest capitalized insurance companies of Nepal. A joint venture between Life Insurance Corporation of India(55%) and Vishal Group of Nepal (25%), the insurance company has public participation to the extent of 20%. Life insurance corporation (Nepal) Ltd. having Registration No: 765-057/58, was incorporated under the Companies Act 2053, on 27.12.2000. It has started Operations since 01.09.2001.

Authorized capital	25 crore
Paid up capital	25 crore
Number of offices	14 branches, 5 sales counter & Corporate offices

Mission and Vision

To be an organization of Social and Economic significance to the Kingdom

Ensure and enhance the quality of life of people through financial security by providing products and services of aspired attributes with competitive returns and by rendering resources for economic development.

Products

1. [Endowment \(Plan no:333\)](#)
2. [Money Back \(Plan no: 334, 335, 336, 337 and 339\)](#)
3. [Child Plans \(Plan no: 340 & 341\)](#)
4. [Jeevan Anand \(Plan no: 342 \)](#)
5. [Griha Laxmi \(Plan no: 343 \)](#)
6. [Bima Kiran \(Plan no: 344 \)](#)
7. [Jeevan Tarang \(Plan no: 345 \)](#)
8. [Jeevan Amulya \(Plan no: 346 \)](#)
9. [Jeevan Aastha \(Plan no: 347 and 348 \)](#)

1.2 Focus of the Study

Life insurance companies are one of such financial institutions, which collect their fund from clients as premium. As significant differences in the nature of insurance there are two types of premium: refundable and non-refundable. For myadi (foreign worker) life insurance there is non-refundable premium. However, other life insurance policies have to refund the premium with bonus. Premium means a certain charged amount, which is paid by the insured to the insurer for bearing risk and uncertainties. There are two types of premium: gross premium and net premium.

Investment is another major parts of all financial institutions. All financial companies invest their excess fund to the desirable sector with profit motive. Investment means outflow of the fund at adjustable return. For investing, investment pattern is the formulation of the investment strategy based upon the organizational and financial character of the particular firm itself. Investment policy will be the preliminary decision of selecting the proper investment sector based upon the single or joint consideration of safety, liquidity, marketability, profitability, and stability or else. Insurance fund for the insurance companies are the excess amount after claims paid and managerial expenses. The Investment fund should be used in such sector that could maximize the return. But insurance company's investment portfolios are regulating by the insurance board of Nepal. Under the rules and regulation (Insurance act 2049), every life insurance company must invest their 75% investable fund declared as compulsory sectors and rest 25% in other sectors.

As the major function of the life insurance company, the success and failure depends upon the premium collection and investment made by the companies. More premium collection means more income and more investment means more return. Therefore this study is concentrate on the premium collection and investment pattern of life insurance industry in Nepal.

1.3 Statement of the Problem

Due to liberalization policy of the government and its quest towards open market regime, several new private insurance companies not only national insurance companies nowadays, more international insurance companies are also opened their branches in our country to transact insurance business.

Nepalese insurance companies are the successful enterprise of Nepal, which are still running without suffering any losses. Most of the companies are earning profit each year. However, it is not significant and satisfactory against volume of their transaction. If we give an overlook in the balance sheet, profit and loss account. The volumes of transaction are increasing rapidly year by year but the growth of net earnings is not in the same ratio. It is because of private waiting under raining and cut-throat competition in the market. All the life insurance companies of Nepal are earning less because of the following reasons:

1. Lack of attractive collection schemes by providing discount and incentive to the policyholder for encourage paying premium in time.
2. Time consuming procedures in accepting, issuing and dispatching policy.
3. The increment in re-insurance premium indicates that insurance companies are unable to increase their risk bearing capacity.
4. Negligence of agents, brokers and development officers for not helping to the company for premium collection despite receiving the insurance commission in huge amount.
5. Practice of only traditional insurance policies and schemes.
6. Negligence in evaluation of investment sector before investing funds.

1.4 Objectives of the Study

Every study has their some objectives. The main aim of this study is to find out the position of selected life insurance companies of Nepal and suggest recommendation based upon it. The specific objectives of this study are spelled out as:

1. To study and analyze the provision made by Insurance Board to Life Insurance Companies in Nepal.
2. To examine and analyze the trends of premium collection and investment of life insurance companies.
3. To identify major threats and problems facing by the life insurance company related to the premium collection and investment aspects.
4. To identify and analysis the growth of Life Insurance Companies in the Nepalese economy.
5. To suggest and recommend based on major finding of the study.

1.5 Significance of the Study

There are twenty five insurance companies existing in Nepal. Among which sixteen are general insurance, eight are life insurance and one underwrites composite business. The experts said that the life insurance company can easily collect more than one thousand million amount without suffering any difficulties that is why foreign life insurance companies has also opened their branches in Nepal. Even insurance companies are focusing only in urban and main city of the country. They are capturing each other's market. They do not try to issue new policy and create potential market. They are satisfied with the existing position and do not get suitable and steady sectors to invest their fund for more return. Now, they are investing their fund in traditional sectors only. So, a new study is required on the topic of premium collection and investment.

1.6 Limitation of the Study

Every study has its own boundary, as the same way this study has also some boundaries which cannot be ignored. These boundaries are called limitation of this study. The study targets at finding the facts and the trend of the premium collection and investment within the Nepalese life insurance industry. The limitations of the study are as follows:

1. The whole study will deal with some selected (sample) insurance company's premium collection and investment pattern.
2. The study will be concentrated with the areas of the premium collection and investment besides this, other area is not touched.
3. The study mainly based in secondary data and some of the primary data collected by questionnaire method.
4. Time and resources constraints can be another factor that limited the scope of the study.
5. The study will concern at latest five year period's data from 2062/63 to 2066/67.

1.7 Organization of the Study

The whole study has been divided into five chapters. First is introduction chapter, which includes general background, statement of the problem, objectives of the study, significant of the problem, limitations of the study and organization of the study.

Second chapter deals with review of available literatures in the field of the study being conducted. This includes review of the theories of the concerned topic, review of books and review of various empirical studies.

Third chapter explains the research methodology employed to conduct the study and tools and techniques used in analysis of the data as well. This chapter includes research design, source of data, population and samples, methods of data analysis and various financial and statistical tools.

Fourth chapter is devoted to the presentation, analysis and interpretation of the study through definite course of research methodology. This chapter also contain major finding of the study.

Fifth and the last chapter is conclusive and suggestive chapter. It includes summary of the study, conclusion of the main finding and recommendation for further improvement.

Besides these, bibliography and appendices are also presented at the end of the thesis. Similarly acknowledgment, table of contents, list of tables, list of diagrams, abbreviations are included in the front of the thesis report.

CHAPTER II

REVIEW OF LITERATURE

Review of literature refers to the reviewing of the past studies in the concerned field. Many researchers have conducted their research in the field of insurance business. Besides this, there are some books, articles, dissertation and other relevant study concerned with life insurance business. Some of relevant studies, their objective findings and conclusions and other literature relating to the topics have been reviewed in this chapter. In other words review of literature helps to find what already has been discovered by previous researchers, their findings, research gaps that this study will try to find and foretells the very worthiness of the study being undertaken. The topic 'Premium Collection and Investment Pattern of Life Insurance Companies in Nepal' in fact is quite a new topic for researcher due to this reason very few reviews are found.

This part of study is divided into following sections:

- ❖ Conceptual Framework
- ❖ Review of Journal and previous studies.

2.1 Conceptual Framework

Insurance guarantees protection against large and uncertain losses in return of small but certain payment. This payment is called premium. Premium is fixed with the past experiences and probability of happening certain event.

W.D. Dinsdale defines insurance as “A means of spreading over the many losses, which would otherwise be borne by the individual. It provides in effect a pool to which the many contributes, out of which the few who suffer losses are compensated” (Dinsdale.1958:3).

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

According to M.K.Ghosh and A.N. Agrawal, “Insurance is a co-operative form of distributing a certain risk over a group of persons exposed to it.”

Fredrick G. Crane said, “Insurance may be defined as a system of combining many loss exposures, with the cost of the losses being shared by all of the participants” (Crane, 1980:8)

M.C. Shukla and T.S. Grewal defined insurance as a contract settled between the parties on is insurance company and another is insured party who, insure his properties as well as lives. They have stated as, it undertakes to indemnify the loss suffered (due to specified cased) by the other party known as the insured in consideration for a sum of money known as premium. Since the amount of the premium is generally small, insurance contract spreads the losses suffered by one person over a large number of persons. Everyone pays a premium, those who suffer a loss are paid a sum of equivalent to loss (loss according to the term of contract) and those who do not suffer loss by the premium paid. The protection against unforeseen event is purchased through a contract of insurance(Shukla and Grewal, 1990:6).

Insurance policy means Formal contract-document issued by an insurance company to an insured. It

- (1) Puts an indemnity cover into effect,
- (2) Serves as a legal evidence of the insurance agreement,
- (3) Sets out the exact terms on which the indemnity cover has been provided, &
- (4) states associated information such as the
 - (a) Specific risks and perils covered,
 - (b) Duration of coverage,
 - (c) Amount of premium,
 - (d) Mode of premium payment, and
 - (e) Deductibles, if any.

insurance policy is in the Corporate, Commercial, & General Law and General, Marine, & Life Insurance subjects (Investor’s world.com).

2.1.1 Historical Background of Insurance

The origin of insurance is lost in antiquity. However, Insurance began as a way of reducing the risk of traders, as early as 2000 BC in China and 1750 BC in Babylon. Life insurance dates only to ancient Rome; "burial clubs" covered the cost of members' funeral expenses and helped survivors monetarily. Modern life insurance started in 17th century England, originally as insurance for traders: merchants, ship owners and underwriters met to discuss deals at Lloyd's Coffee House, predecessor to the famous Lloyd's of London. The development of modern formal insurance can be described in the following phases.

Marine insurance

The marine insurance is the oldest form of insurance. It is the first modern form of insurance in the history of insurance. In 1300 AD, the first insurance contract called Polizza, was made in Italy. Later on the word "Policy" was developed from Polizza. The Lombard of Northern Italy had main role in bringing of the international extension of marine insurance in England. Later, the Jewish Lombard was banished, then, they settled in different countries of Europe. The name of a street, "Lombard Street" of London was called the central point of the marine insurance. The Lloyd's coffee house gave an impetus to develop the marine insurance. The Lloyd institution established in 1771 A.D. is the first Institution to make formal marine insurance which is most popular insurance company till now.

Fire insurance

After 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 AD. The fire losses were tremendous in which 85% of the houses were burnt to ashes and property worth of sterling one hundred million were completely burnt off. With colonial development of England the fire insurance spread all over the world in present form. The Sun fire office established in the year 1710 AD is the most successful insurance in fire record.

Life insurance

The first recorded life insurance being the policy on life of William Gibbons in June 18, 1653 AD. At that time, the life insurance was for only one year and it have to be renewed every year. In nineteenth century, the life insurance took the modern developed phase with the availability of scientific mortality table.

Miscellaneous insurance

Many types of risks rise with the development of human society and industrial development. Miscellaneous insurance developed for this reason. Under the miscellaneous insurance, fidelity guarantee insurance started from 1848 A.D., personal accident insurance from 1880, liability insurance from 1875A.D. public liability insurance from 1877A.D. burglary and house breaking insurance from 1887, motor insurance form 1903A.D. and aviation insurance from 1911A.D. came in practice. Recently other developed insurance are cattle insurance, earthquake insurance, the vocal insurance, model beauty insurance etc.

2.1.2 Types of Insurance

Insurance can be divided from two points of view, first from the business point of view and second from the risk point of view.

2.1.2.1 Business Point of View

The insurance can be classified into three categories from business point of view.

1. Life Insurance

Life insurance policy is taken to make provision for old age when his earning capacity deteriorates or for leaving a certain sum for his dependents when he dies, which may happen before he is able to say and accumulated sufficient amount. The insurer will pay the fixed amount of insurance at the time of death or at the expiry of certain period. Life insurance is not only a protection but it is a sort of investment because a certain sum is returnable to the insured at the death or at the expiry of a period.

2. General Insurance

Insurance, other than life and social insurance are called general insurance. General insurance is done for one year and is renewed every year. General insurance include marine, fire and miscellaneous insurance.

I. Marine Insurance

Marine insurance provide protection against loss of marine perils such as collision with rock or ship, captured by pirate, attacks by enemies, fire etc. The ship and cargo may be lost in such case and a tremendous loss may be caused to the owners. So, marine insurance insures ship, cargo and freight.

II. Fire Insurance

Fire insurance covers risks of fire. Fire insurance policy may be taken on residential houses or on factories and business premises.

III. Miscellaneous Insurance

Miscellaneous insurance business includes the various types of insurance business such as aviation insurance, motor insurance, cash in transit insurance, burglary and house breaking insurance etc.

3. Social Insurance

Social insurance aims to provide the maximum social benefit to the society. It is to provide protection to the weaker section of the Society, who is unable to pay the premium for adequate insurance, Pension plans, disability benefits, unemployment benefits, sickness insurance and industrial insurance are the Various form of social insurance. With the increase of socialist ideas, the social insurance is an obligatory duty of the nation. Government and owner of the factories have to bear the most of the portion of premium.

2.1.2.2 From the Risk Point of View

1. Personal Insurance

The insurance is made to the subject related to the person's life. In this insurance, the risk is associated to death, accidents and disease. The financial protection against death, accident and disease is called personal insurance. Examples of personal insurance are life insurance, personal accident insurance, health insurance etc.

2. Property Insurance

Under the property insurance, properties of person/persons are insured against certain specified risk. The risk may be fire or marine perils, theft of property or goods, damage to property or accident.

3. Liability Insurance

The liability insurance covers the risks of third party, compensation to employee, liability of the automobile owner and reinsurances.

4. Guarantee Insurance

The guarantee insurance covers the loss arising due to dishonesty, disappearance and disloyalty of the employers or second party. The example of guarantee insurance is credit right, fidelity guarantee insurance etc.

2.1.3 Sources of Investment Funds

The sources of investment fund for insurance companies are given below:

Premium:

The main source of funds is the premium collected by the insurers. Excess of this premium over the needed premium for meeting claims and expenses is the source of funds.

Interest:

Interest is also the source of investment fund. It is the excess interest earned over the assumed rate of interest.

Capital:

Capital is the funds obtained from the sale of share capital and debenture. It also contributes as an investment fund.

Saving in expenses:

Saving in expenses loading, bonus loading, mortality saving, accident minimizing are also contributing to the funds of the insurers.

Non-payment of Claim:

In pure endowment or term insurance, the claims may not arise therefore, the premium paid for such benefits are saved. Sometimes in certain cases, the claimants do not come for payment at all. The saved money also form investment fund.

Agent Membership Fee

Every insurance company provides agent membership with certain fee for market development. This membership fee is also a form of investment fund.

2.1.4 The Principles of Investment**Safety**

The primary purposes of investment are not to earn maximum profit but to maintain a complete security. Safety includes safety of principal amount and interest thereon. the securities in which the funds of insurer are to be insured should never at anytime fall in their face values. It means that the principal and interest must not fall below the expected level at any time. Thus, while investing, the principal of safety is very much important.

Profitability

The insurer must earn at least the assured rate of interest. The investment should be made in such securities, which yield the highest return consistent with the principle of safety. The safety and the profitability principles are opposite to each other. The safest security earns little profit and vice-versa. Therefore the investment department has to establish a proper balance between safety and profitability. Safety and profitability principles are fully observed in government securities and bonds.

Liquidity

Liquidity means availability of cash in time of need. It represents convertible Investment into cash without undue loss of capital. Liquidity is necessary for the payments of claims, surrender values, policy loans and regular expenses. For meeting the daily outflows of funds, it is readily essential to keep maximum amount cash or in readily convertible securities because a vast inflow of cash is

observed in form of premium return on insurance and sale of securities. For the established and financially strong insurers, the liquidity is most essential. So funds should be invested according to the requirements of the insurers. i.e. investments are so made that the maturities will occur at intervals adjusted to meet the needs of maturity obligations. The principle of liquidity is against the principle of profitability because the idle cash that will earn nothing and invested cash will have no liquidity. That's why liquidity must be managed carefully with right estimation.

Diversification

Diversification of investment means spreading investment over different channels. According to Insurance Act 2049 BS, insurance companies of Nepal must invest their investment funds of 75% in priority sectors (traditional sectors) and rest 25% in whatever they wished. The diversification provides maximum security with high yield and better liquidity. Do not invest all the funds at one place, in an industry, in a security and for a period of maturity. Investment should spread over the widest possible range to minimize unfavorable consideration and to gain favorable advantage. I.e. Diversification is done to minimize the risk for expected return.

2.1.5 Development of Insurance in Nepal.

The concept of insurance was developed in Nepal in the ancient period. However the cooperative and security activities similar to insurance were being held since the ancient time, the history of modern insurance business was only four decades. The Guthi can be taken as the starting point for the development of insurance. The income from such Guthi was used to build building temple and repairing etc, so the concept of insurance was emerged with the religious view but not a commercial view. The modern insurance business is relatively new in Nepal. Indian insurance companies from the late 1930 initiated the insurance business in Nepal. The Indian insurance companies were enjoying monopoly over the insurance business and had a well developed business network in Nepal. Later in 1948 A.D.(2004 B.S.) the first Nepalese insurance company, 'Nepal Mal Chalani Ra Beema Company Limited' was established by Nepal Bank Limited.(Adhikari,Devendra 2000) This pioneering insurance company has changed its name into Nepal insurance and transport company Limited in 2016 B.S. and Nepal Insurance Company Limited since 2048 B.S. It carried out

only non-life business. There was not any insurance company to carry out life insurance business until 2024 B.S. and the government realized the necessity for the establishment of insurance company to execute life insurance business. As a result His Majesty's Government established Rastriya Beema Sansthan (Private) Ltd. In 2024 B.S. under the company Act. The government enacted Rastriya Beema Sansthan act 2025 and changed Rastriya Beema Sansthan (private) Limited into Rastriya Beema Sansthan under this Act. It has provided life and non life insurance service all over the country.

After the restoration of democracy and the liberal economic policy of government make establishment of more insurance companies. Insurance Board (Beema Samittee) was established in 2025 B.S. under the Insurance Act 2025 to regulate and enforce rules and regulation regarding insurance business in the nation as an authorized body of government. Twenty five insurance companies are in existence. They are as in following table:

Table 2.1
Insurance Companies of Nepal

No.	Name	Regd. Date	Head office	Life/Non-life
1	Nepal Insurance Company Limited.	08/06/2004	Kamaladi Kathmandu	Non-life
2	The Oriental Insurance Company Ltd.	30/05/2024	Kantipath Kathmandu	Non-life
3	Rastriya Beema Sansthan.	01/09/2025	Ramsahpath Kathmandu	Life & Non-life
4	National Insurance Company Ltd.	17/09/2030	Tripureswor Kathmandu	Non-life
5	National Life Insurance Company Ltd.	23/09/2044	Naksal Kathmandu	Life
6	Himalayan General Insurance Company Limited	06/04/2050	Darbarmarg Kathmandu	Non-life
7	United Insurance Company (Nepal) Ltd.	06/07/2050	Darbarmarg Kathmandu	Non-life
8	Premier Insurance Company(Nepal) Ltd.	08/01/2051	Tripureswor Kathmandu	Non-life
9	Everest Insurance Company Ltd.	17/02/2051	Hattisar Kathmandu	Non-life
10	Neco Insurance company ltd	17/02/2053	Hattisar Kathmandu	Non-life
11	Sagarmatha Insurance	12/03/2053	Kamaladi Kathmandu	Non-life
12	Alliance Insurance company ltd	04/04/2053	Darbarmarg Kathmandu	Non-life

13	N.B. Insurance company ltd	10/10/2057	Laldarbar Kathmandu	Non-life
14	Nepal Life Insurance company ltd	04/01/2058	Kamaladi Kathmandu	Life
15	Life Insurance Corporation(Nepal)	23/04/2058	Kamaladi Kathmandu	Life
16	American Life Insurance Co. ltd	18/04/2058	Pulchok Lalitpur	Life
17	Prudential Insurance Company Ltd	20/01/2059	Putalisadak Kathmandu	Non-life
18	Shikhar Insurance Co. Ltd.	12/07/2061	New Baneswor Kathmandu	Non-life
19	Lumbini General Insurance Co. Ltd.	31/03/2062	Thamel Kathmandu	Non-life
20	NLG Insurance Company ltd	23/06/2062	Lajimpat Kathmandu	Non-life
21	Siddhartha Insurance Company ltd	23/12/2062	Tripureswor, Kathmandu	Non-life
22	Asian Life Insurance Company Ltd	05/11/2064	Putalisadak Kathmandu,	Life
23	Surya Life Insurance company ltd	06/12/2064	Naksal Kathmandu,	Life
24	Gurash Life Insurance company ltd	18/12/2064	Lalkolanimarg Kathmandu,	Life
25	Prime Life Insurance company limited,	24/01/2065	Hattisar Kathmandu,	Life

(Source: Gorkhapatra dated 068.06.30)

2.1.6 Importance of Insurance

The role of insurance is great to bring our world in this stage. It has contributed a lot for the development of business and industrial revolution. The insurance principle comes to be more and more used and useful in modern affairs. As such, insurance is the main element which help to minimize risk of loss in business activities, individual activities and in social activities and necessity of insurance may be studies under the following heading:

2.1.6.1 Uses to an Individual

a) Insurance provides security and safety

The insurance provides safety and security against the loss on a particular event. In case of life insurance payment is made when death occurs or the term of insurance is expired. The insurance provides safety and security against the loss

of earning at death or in olden age, against the loss at fire, against the loss at damage, destruction or disappearance of property, goods, furniture and machines etc.

b) Insurance affords peace of mind.

Insurance affords peace of mind .The security banishes fear and uncertainty, fire, wisdom, automobile accident damage and death are almost beyond the control of human agency and in occurrence of any of there event may frustrate or weaken the human mind. By means of insurance, however, much of the uncertainty that centers about the wish for security and its attainment may be eliminated.

c) Insurance protects mortgaged property

When the owner of the mortgaged property is dead, the property is taken over by the lender of money and the family will be deprived of the uses of the property. Insurance is the solution for this problem. Mortgagee also wishes to get the property insured because at the damage or destruction of the property he will lose his right to get the loan repaid.

d) Insurance eliminates dependency.

At the death of the husband or father, the destruction of family need no elaboration Similarly , the destruction of property and goods the family would suffer a lot living standard of the family would be low and suffering may to any extent of begging from the relatives, neighbors or friends. The insurance is here to assist them and provide adequate amount at the time of suffering.

e) Life Insurance encourages saving.

Life insurance encourage saving. Once the person is life insured, he has to pay certain premium for the specified period. Systematic saving is possible because regular premiums are required to be compulsorily paid.

f) Life insurance fulfils the needs of a person

Life Insurance fulfills the needs of a person as family needs, old age needs, re-adjustment needs, old age needs, re-adjustment needs, special needs and the clean-up needs.

2.1.6.2 Uses to Business

a) Uncertainty of business losses is reduced

In a business, with a slight slackness or negligence, the property may be turned into ashes. The accident may be fatal not only to the individual or property but to the third party also. New construction and new establishment are possible only with the help of insurance. Without insurance, uncertainty will be to the maximum level and nobody would like to invest a huge amount in the business or industry. So, insurance play important role in the development of business and its activities.

b) Business-efficiency is increased with insurance

Insurance make the owner free from botheration of losses. This helps them to devote much time to the business. As business man devotes much time to the business, business efficiency is increased.

c) Enhancement of Credit

The business can obtain loan by pledging the policy as collateral for the loan. The insured persons are getting more loans due to certainty of payment at their death. So insurance is very much useful to the business.

d) Business Continuation

The property insurance of the business protects the property of the business. It protects against disasters and the chance of disclosure of the business due to tremendous wasted of loss.

e) Welfare of Employee

The business should be very much useful for the welfare of employees. The employer has to look after the welfare of the employee which can be provision for early death provision for disability and provision for old age. There requirements are easily met by the life insurance, accident and sickness benefit and pension which are generally provided by group insurance.

2.1.6.3 Use to the Society

a) Wealth of the society is protected.

The loss of a particular wealth can be protected with the insurance. Life insurance provides loss of human wealth. The loss of damage of property at fire, accident, etc. can be well indemnified by the property insurance, cattle, crop, profit and machines are also protected against their accidental and economic losses. With the advancement of the society, the wealth or the property of the society attracts more hazardous and so new types of insurance are also invented to protect them against the possible losses. Each and every member will have financial security against old age, death, damage, destruction and disappearance of his wealth including the life wealth. The happiness and prosperity are observed everywhere with the help of insurance.

b) Economic growth of the country

Development of insurance in the country is the sign of economic growth of the country. Insurance provides strong hand and mind for the economic growth of the country. As the protection is given by the insurance, it stimulated more production in agriculture, in industry, the factory premises, machines, boilers and profit insurances provide more confidence to start and operated the industry.

c) Reduction in Inflation

The insurance reduces the inflationary in two ways. First, by extracting money in supply to the amount of premium collected and secondly, by providing sufficient funds for product narrow down the inflationary gap.

2.1.7 Types of Life Insurance

Life insurance may be divided into two basic classes – temporary and permanent or following subclasses – term, universal, whole life and endowment life insurance.

Term Insurance

Term insurance provides life insurance coverage for a specified term of years in exchange for a specified premium. The policy does not accumulate cash value.

Term is generally considered "pure" insurance, where the premium buys protection in the event of death and nothing else.

There are three key factors to be considered in term insurance:

1. Face amount (protection or death benefit),
2. Premium to be paid (cost to the insured), and
3. Length of coverage (term).

Various insurance companies sell term insurance with many different combinations of these three parameters. The face amount can remain constant or decline. The term can be for one or more years. The premium can remain level or increase. Common types of term insurance include Level, Annual Renewable and Mortgage insurance.

Level Term policy has the premium fixed for a period of time longer than a year. These terms are commonly 5, 10, 15, 20, 25, and 30 and even 35 years. Level term is often used for long term planning and asset management because premiums remain consistent year to year and can be budgeted long term. At the end of the term, some policies contain a renewal or conversion option. Guaranteed Renewal, the insurance company guarantees it will issue a policy of equal or lesser amount without regard to the insurability of the insured and with a premium set for the insured's age at that time. Some companies however do not guarantee renewal, and require proof of insurability to mitigate their risk and decline renewing higher risk clients (for instance those that may be terminal). Renewal that requires proof of insurability often includes a conversion options that allows the insured to convert the term program to a permanent one that the insurance company makes available. This can force clients into a more expensive permanent program because of anti selection if they need to continue coverage. Renewal and conversion options can be very important when selecting a program.

Annual renewable term is a one year policy but the insurance company guarantees it will issue a policy of equal or lesser amount without regard to the insurability of the insured and with a premium set for the insured's age at that time.

Another common type of term insurance is mortgage insurance, which is usually a level premium, declining face value policy. The face amount is intended to equal the amount of the mortgage on the policy owner's residence so the mortgage will be paid if the insured dies.

A policy holder insures his life for a specified term. If he dies before that specified term is up (with the exception of suicide see below), his estate or named beneficiary receives a payout. If he does not die before the term is up, he receives nothing. However, in some European countries (notably Serbia), insurance policy is such that the policy holder receives the amount he has insured himself to, or the amount he has paid to the insurance company in the past years. Suicide used to be excluded from ALL insurance policies ^[when?], however, after a number of court judgments against the industry, payouts do occur on death by suicide (presumably except for in the unlikely case that it can be shown that the suicide was just to benefit from the policy). Generally, if an insured person commits suicide within the first two policy years, the insurer will return the premiums paid. However, a death benefit will usually be paid if the suicide occurs after the two year period.

Permanent Life Insurance

Permanent life insurance is life insurance that remains in force (in-line) until the policy matures (pays out), unless the owner fails to pay the premium when due (the policy expires OR policies lapse). The policy cannot be canceled by the insurer for any reason except fraud in the application, and that cancellation must occur within a period of time defined by law (usually two years). Permanent insurance builds a cash value that reduces the amount at risk to the insurance company and thus the insurance expense over time. This means that a policy with a million dollar face value can be relatively expensive to a 70 year old. The owner can access the money in the cash value by withdrawing money, borrowing the cash value, or surrendering the policy and receiving the surrender value.

The four basic types of permanent insurance are whole life, universal life, limited pay and endowment, accidental death.

Whole life coverage

Whole life insurance provides for a level premium, and a cash value table included in the policy guaranteed by the company. The primary advantages of whole life are guaranteed death benefits; guaranteed cash values, fixed and known annual premiums, and mortality and expense charges will not reduce the cash value shown in the policy. The primary disadvantages of whole life are premium inflexibility, and the internal rate of return in the policy may not be competitive with other savings alternatives. Also, the cash values are generally kept by the insurance company at the time of death, the death benefit only to the beneficiaries. Riders are available that can allow one to increase the death benefit by paying additional premium. The death benefit can also be increased through the use of policy dividends. Dividends cannot be guaranteed and may be higher or lower than historical rates over time. Premiums are much higher than term insurance in the short term, but cumulative premiums are roughly equal if policies are kept in force until average life expectancy.

Cash value can be accessed at any time through policy "loans" and are received "income-tax free". Since these loans decrease the death benefit if not paid back, payback is optional. Cash values support the death benefit so only the death benefit is paid out.

Dividends can be utilized in many ways. First, if Paid up additions is elected, dividend cash values will purchase additional death benefit which will increase the death benefit of the policy to the named beneficiary. Another alternative is to opt in for 'reduced premiums' on some policies. This reduces the owed premiums by the unguaranteed dividends amount. A third option allows the owner to take the dividends as they are paid out. (Although some policies provide other/different/less options than these - it depends on the company for some cases)

Universal life coverage

Universal life insurance (UL) is a relatively new insurance product intended to provide permanent insurance coverage with greater flexibility in premium payment and the potential for greater growth of cash values. There are several types of universal life insurance policies which include "interest sensitive" (also

known as "traditional fixed universal life insurance"), variable universal life (VUL), guaranteed death benefit, and equity indexed universal life insurance.

A universal life insurance policy includes a cash value. Premiums increase the cash values, but the cost of insurance (along with any other charges assessed by the insurance company) reduces cash values. However, with the exception of VUL, interest is credited on cash values at a rate specified by the company and may also increase cash values. With VUL, cash values will ebb and flow relative to the performance of the investment subaccounts the policy owner has chosen. The surrender value of the policy is the amount payable to the policy owner after applicable surrender charges, if any.

Universal life insurance addresses the perceived disadvantages of whole life – namely that premiums and death benefit are fixed. With universal life, both the premiums and death benefit are flexible. Except with regards to guaranteed death benefit universal life, this flexibility comes at a price: reduced guarantees.

Depending on how interest is credited, the internal rate of return can be higher because it moves with prevailing interest rates (interest-sensitive) or the financial markets (Equity Indexed Universal Life and Variable Universal Life). Mortality costs and administrative charges are known. And cash value may be considered more easily attainable because the owner can discontinue premiums if the cash value allows it.

Flexible death benefit means the policy owner can choose to decrease the death benefit. The death benefit could also be increased by the policy owner but that would (typically) require that the insured go through new underwriting. Another example of flexible death benefit is the ability to choose option A or option B death benefits - and to be able to change those options during the life of the insured.

Option A is often referred to as a level death benefit. Generally speaking, the death benefit will remain level for the life of the insured and premiums are expected to be lower than policies with an Option B death benefit.

Option B pays the face amount plus the cash value. If cash values grow over time, so would the death benefit which is payable to the insured's beneficiaries. If cash values decline, the death benefit would also decline. Presumably option B death benefit policies require greater premium than option A policies.

Limited-pay

Another type of permanent insurance is Limited-pay life insurance, in which all the premiums are paid over a specified period after which no additional premiums are due to keep the policy in force. Common limited pay periods include 10-year, 20-year, and paid-up at age 65.

Endowments

Endowments are policies in which the cash value built up inside the policy, equals the death benefit (face amount) at a certain age. The age this commences is known as the endowment age. Endowments are considerably more expensive (in terms of annual premiums) than either whole life or universal life because the premium paying period is shortened and the endowment date is earlier. Endowment Insurance is paid out whether the insured lives or dies, after a specific period (e.g. 15 years) or a specific age (e.g. 65).

Accidental Death

Accidental death is a limited life insurance that is designed to cover the insured when they pass away due to an accident. Accidents include anything from an injury, but do not typically cover any deaths resulting from health problems or suicide. Because they only cover accidents, these policies are much less expensive than other life insurances.

It is also very commonly offered as "accidental death and dismemberment insurance", also known as an *AD&D* policy. In an *AD&D* policy, benefits are available not only for accidental death, but also for loss of limbs or bodily functions such as sight and hearing, etc.

Accidental death and *AD&D* policies **very rarely pay** a benefit; either the cause of death is not covered, or the coverage is not maintained after the accident until death occurs. To be aware of what coverage they have, an insured should always review their policy for what it covers and what it excludes. Often, it does not cover an insured who puts themselves at risk in activities such as: parachuting, flying an airplane, professional sports, or involvement in a war (military or not). Also, some insurers will exclude death and injury caused by proximate causes due to (but not limited to) racing on wheels and mountaineering.

Accidental death benefits can also be added to a standard life insurance policy as a rider. If this rider is purchased, the policy will generally pay double the face amount if the insured dies due to an accident. This used to be commonly referred to as double indemnity coverage. In some cases, some companies may even offer a triple indemnity cover.

Stranger Originated Life Insurance

Stranger Originated Life Insurance or STOLI is a life insurance policy that is held or financed by a person who has no relationship to the insured person. Generally, the purpose of life insurance is to provide peace of mind by assuring that financial loss or hardship will be lessened or eliminated in the event of the insured person's death. STOLI has often been used as an investment technique whereby investors will encourage someone (usually an elderly person) to purchase life insurance and name the investors as the beneficiary of the policy. This undermines the primary purpose of life insurance as the investors have no financial loss that would occur if the insured person were to die. In some jurisdictions, there are laws to discourage or prevent STOLI.

2.1.8 Related Life Insurance Products

Riders are modifications to the insurance policy added at the same time the policy is issued. These riders change the basic policy to provide some feature desired by the policy owner. A common rider is accidental death, which used to be commonly referred to as "double indemnity", which pays twice the amount of the policy face value if death results from accidental causes, as if both a full coverage policy and an accidental death policy were in effect on the insured. Another common rider is premium waiver, which waives future premiums if the insured becomes disabled.

Joint life insurance is either a term or permanent policy insuring two or more lives with the proceeds payable on the first death or second death.

Survivorship life: is a whole life policy insuring two lives with the proceeds payable on the second (later) death.

Single premium whole life: is a policy with only one premium which is payable at the time the policy is issued.

Modified whole life: is a whole life policy that charges smaller premiums for a specified period of time after which the premiums increase for the remainder of the policy.

Group life insurance: is term insurance covering a group of people, usually employees of a company or members of a union or association. Individual proof of insurability is not normally a consideration in the underwriting. Rather, the underwriter considers the size and turnover of the group, and the financial strength of the group. Contract provisions will attempt to exclude the possibility of adverse selection. Group life insurance often has a provision that a member exiting the group has the right to buy individual insurance coverage.

Senior and preneed products: Insurance companies have in recent years developed products to offer to niche markets, most notably targeting the **senior** market to address needs of an aging population. Many companies offer policies tailored to the needs of senior applicants. These are often low to moderate face value whole life insurance policies, to allow a senior citizen purchasing insurance at an older issue age an opportunity to buy affordable insurance. This may also be marketed as **final expense insurance**, and an agent or company may suggest (but not require) that the policy proceeds could be used for end-of-life expenses.

Prenend (or prepaid) insurance policies: are whole life policies that, although available at any age, are usually offered to older applicants as well. This type of insurance is designed specifically to cover funeral expenses when the insured person dies. In many cases, the applicant signs a prefunded funeral arrangement with a funeral home at the time the policy is applied for. The death proceeds are then guaranteed to be directed first to the funeral services provider for payment of services rendered. Most contracts dictate that any excess proceeds will go either to the insured's estate or a designated beneficiary.

2.1.9 Legislation Relating to Insurance in Nepal

Law is necessary in every field. Law makes the things controlled. Every business is directed and controlled by the legislation and regulation. The insurance toll is governed by the Insurance Act 2049 B.S. (1992 A.D.) with Second amendment: 2058.10.10 B.S. It is expedient to establish an Insurance Board to systematize, regularize, develop and regulate the Insurance Business. At present 25 insurance companies are running. The Insurance companies should also follow their own memorandum, article of association and memorandum of understanding. They should obey the policy, instruction and the circulars issued by the Insurance Board from time to time.

The main features of the insurance Act and Rules of Nepal are as follows.

1. Constitution of the Board:

Insurance Board is an organized supervisory body of government to regulate insurance business in the country. It is formed under the insurance Act 2049 B.S. (1992A.D.). The Insurance Act 2049(1992), section 3, mention in details about the members of the Board. The Insurance Board is constituted to systematize, regularize, develop and regulate the Insurance Business. The Board shall consist of the following Members:

- | | |
|--|----------|
| a) A person nominated or designated
By the Nepal Government: | Chairman |
| b) Representative, Ministry of Law,
Justice and Parliamentary Affairs: | Member |
| c) Representative, Ministry of Finance: | Member |
| d) A person nominated by the Nepal Government
From among the persons having the special
Knowledge in the Insurance Business: | Member |
| e) A person nominated by the Nepal
Government from among the Insured: | Member |

The employee designated by the Board shall function as it secretary. The Board may, if it so seems appropriate, invites any local or foreign expert to attend its meetings in the capacity of an observer. The nominated members of the Board shall have a term of four years. They may be re-nominated for not more than

two terms after the expiry of their term. The head office of the board shall be located in the Kathmandu Valley.

2. Insurance Board is an autonomous body

- a) The Board shall be an autonomous and corporate body having perpetual succession.
- b) The Board shall have a separate seal for its business.
- c) The Board may deal as a person to acquire, possess, dispose or otherwise manage the movable and immovable property.
- d) The Board may sue as a person by its own name and the Board also may be sued in its name.

3. Specific function, Duties and Power of the Insurance Board

The Functions, Duties and Powers of the Board shall be as follows:

- a) To provide necessary suggestions to the Nepal Government to frame the Policy Regarding to systematize, regularize, develop and regulate the Insurance Business.
- b) To frame a policy for the investment of the amount received from the insurance and to prescribe the priority sectors.
- c) To register and renew the Insurer, Insurance Agent, Surveyor or Broker and to cancel or cause to cancel such registration.
- d) To arbitrate in the dispute which arises between the Insurer and the Insured?
- e) To make decision on the complaints filed by the Insured against the Insurer regarding to the settlement of liability of the Insurance.
- f) To issue necessary directives to the Insurer from time to time regarding to the Insurance Business.
- g) To formulate necessary basis for the protection of interests of the Insured,
- h) To do other necessary functions regarding to the Insurance business.

4. Registration of the Insurer:

(1) No Person shall operate or cause to operate the Insurance Business without obtaining a certificate pursuant to this Act.

(2) Any national or foreign corporate body desirous to operate Insurance business shall submit an application to the office of the Board in the prescribed

form along with the following documents and prescribed fees for the registration of its name as an Insurer :

- a) Memorandum and articles of association of the corporate body,
- b) Insurance Business to be operated and its policies and terms and conditions,
- c) If life Insurance Business to be operated, documents displaying calculations of the premiums to be received in operating such business and liability,
- d) The documents regarding the methods of utilizing the amounts to be received from the Insurance, and
- e) Other necessary documents as prescribed by the Board.

(3) The Board shall make necessary investigation upon the application received pursuant to sub-section (2) and shall make an inquiry with the applicant, if necessary, and shall register the name of such applicant in the prescribed registerbook by mentioning the types of the Insurance Business to be operated by the applicant and shall provide the registration certificate of Insurer to the applicant in the form as prescribed.

5. Renewal of Registration of the Insurer:

- (1) The Insurer shall have to submit an application to the office of the Board in the prescribed form along with the prescribed fees up to the last day of Chaitra of each year for the renewal of the certificate of registration.
- (2) Upon the receipt of the application pursuant to sub-section (1), the Board shall have to renew the *certificate of registration.
- (3) In case any Insurer submits an application to the Board within thirty days from the date of expiry of the time-limit pursuant to sub-section (1), mentioning the reason for its failure to submit an application for the renewal of the certificate of registration within the aforesaid time-limit, the Board may, if it considers the reasons to be appropriate, renew the certificate of registration of such Insurer.

6. Registration of an Insurer may be canceled:

- 1) The Board may cancel the registration of an Insurer by providing a written notice with effect from the date prescribed in the same notice in the following circumstances:

- a) If the Insurance Business is not started within six months from the date of Obtaining the certificate,
 - b) If it is felt that the liability of the Insurer exceeds its assets within the Kingdom of Nepal,
 - c) If the Insurer could not fulfill the liability pursuant to the decision within Three months from the date of final decision of the court in the case filed under the Insurance Policy issued within the Kingdom of Nepal,
 - d) If the head office of the Insurance Business of any foreign Insurer is situated out side Nepal and in case it is felt that Nepalese Insurer has not obtained equal facilities there which are enjoyed by the foreign Insurer pursuant to the prevailing law of such country,
 - e) If the Insurer does not open its office inside Nepal,
 - f) If the Insurer does not perform the functions to be performed or has performed any functions which is not to be performed pursuant to this Act or the Rules made under this Act.
- 2) Before canceling the registration of an Insurer pursuant to sub-section (1), the Board shall provide a reasonable time-limit to submit clarification to the concerned Insurer, stating the reasons for canceling its registration.
 - 3) If the concerned Insurer does not submit its clarification within the time period mentioned in sub-section (2) or in case the clarification submitted by it is found not to be satisfactory, the Board shall cancel the registration of such Insurer pursuant to sub-section (1), and shall publish a notice in two major newspapers to be published in the Kingdom of Nepal for the information public in general.
 - 4) Mere cancellation of the registration of an Insurer pursuant to this Section shall not make any effect to the rights and liabilities of the concerned Insurer regarding to any action taken or functions performed before the cancellation.

7. Accounts and Records of the Insurer:

- 1) The Insurer shall maintain its accounts and records according to Rules.
- 2) The situation of actual activity of the Insurer and every item of income and expenditure of the Insurer along with the detail particulars of its assets and liabilities shall be comprehensively mentioned on the accounts and records maintained pursuant to sub-section (1).

8. Separate Accounts to be maintained:

- 1) If any Insurer operates any business along with the Insurance business, such Insurer shall maintain a separate accounts and records of its Insurance Business.
- 2) The Insurer who deals with more than one Insurance Business shall maintain separate accounts and records for each category of Insurance Business.

9. Insurance Fund:

- 1) An Insurer shall maintain separate fund for each category of Insurance Business and the amount to be received from each Insurance Business shall be deposited in the concerned fund.
- 2) The fund maintained for one category of Insurance Business shall not be utilized to bear the liabilities relating to other category of Insurance Business.

10. Compulsory Reserve Fund:

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

11. The Balance-sheet to be submitted:

- 1) The Insurer shall publish the balance-sheet and profit and loss account of all transactions regarding the Insurance Business of each year within six months of the expiry of the fiscal year and shall submit a copy to the Board.
- 2) If any Insurer submits an application to the Board for the extension of the time limit pursuant to sub-section (1), for submitting the balance-sheet and profit and loss account, stating the reasonable ground for its inability to do so within the time limit, the Board may extend the time-limit up to one month.

12. Account of Income to be submitted:

- 1) The Insurer shall prepare separate accounts of its income generated from the Insurance Business inside the Kingdom of Nepal in the form as specified by the Board and submit them to the Board within six months after the expiry of the fiscal year.
- 2) If any Insurer submits an application to the Board for the extension of the time-limit pursuant to sub-section (1), for submitting the account of income

stating the reasonable ground for its inability to do so within the time-limit, the Board may extend the time-limit up to one month.

13. Insurance Premium to be Paid Before Holding the Risk:

No Insurer shall hold the insurance risk of any category of Insurance Business until it receives the premium of the Insurance to be obtained by it. It shall be deemed that the Insurer has undertaken the Insurance Business only after receiving the Insurance premium by it for holding the risk. Provided that, if any practical difficulty arises due to any reason for paying the amount in a lump sum, this Section shall not be deemed to be prohibited to issue an Insurance Policy on the guarantee of a bank or the Nepal Government relating to the payment of the outstanding amount within a specified period.

14. Re-insurance to be made:

The Insurer shall have the risk exceeding the limit of the risk to be held by it reinsured in manner specified by the Board.

15. Payment to be made to designee:

- 1) If any Life Insurance Policy Holder dies before the expiry of the term of his policy, the amount mentioned in such Insurance Policy shall be paid to the person designated by him therein. If he has not designated any person or if the designee has already died, payment shall be made to any of his surviving related dependents as follows in the following order:
 - (a) Husband or wife,
 - (b) Unmarried sons and daughters, in equal shares,
 - (c) Parents,
 - (d) Married sons, in equal shares,
 - (e) Sons and daughters of the deceased son, in equal shares,
 - (f) Widowed wife of the son,
 - (g) Unmarried brothers, in equal shares,
 - (h) Unmarried sisters, in equal shares,
 - (i) Grand father and grandmother on the father's side.
- 2) If the person designated pursuant to sub-section (1) dies or if the Insurance Policy holder wants to replace him, he shall write to the concerned Insurer for designating another person. The Insurer also shall have to alter the

designated person according to the request of the Insurance Policy Holder and shall provide the written notice thereof to the concerned Insurance Policy Holder.

16. Annual Report:

- 1) The Board shall submit the annual report of the work done by it to the Nepal Government, Ministry of Finance.
- 2) The Board shall publish a summary of the report submitted pursuant to sub-section (1) in the local newspaper also.

2.1.10 Some Terms most used in Insurance Business

Actuary

A person who calculates the probability of accidents, such as fire, flood or loss of property, and informs insurance companies how much they should charge their customers

Assessor

The assessor stated that the fire damage was not as severe as the hotel's owner had claimed.

Assure (PROTECT)

To promise to pay a sum of money to a person or their family if they become ill, get injured, or die, in return for small regular payments

Assurance

A type of insurance against events which will certainly happen, such as death, not ones which may happen, such as illness, fire or having your property stolen

Banc assurance

A business activity in which banks sell services and products usually sold by insurance companies

Claim

A written request asking an organization to pay you a sum of money which you believe they owe you.

Claim damages

To make an official request for money after an accident, from the person who caused your injuries.

Comprehensive insurance

Insurance which financially protects any other vehicles and people that are involved in a car accident with you, in addition to yourself

Cover (PROTECT)

To protect someone against loss, damage, accident or having something stolen, by having insurance.

Cover

Financial protection so that you get money if something bad happens.

Cover note

A document which is used temporarily as proof that someone is insured until the final official document is available

Endowment policy

An agreement where you pay money regularly so that you will receive a large agreed sum of money at an agreed later date or when you die

Green card (CAR)

A document which insures your car against accidents (= protects you financially if you have a car accident) when travelling in other countries

Guarantee

If you guarantee someone's debt, you formally promise to accept the responsibility for that debt if the person fails to pay it.

Health insurance

when you make regular payments to an insurance company in exchange for that company paying most or all of your medical expenses.

Indemnity, noun

Protection against possible damage or loss, especially a promise of payment, or the money paid if there is such damage or loss.

Indemnify, verb

To protect someone or something against possible damage or loss by paying an indemnity to cover the costs:

Insure, verb

To protect yourself against risk by regularly paying a special company that will provide a fixed amount of money if you are killed or injured or if your home or possessions are damaged, destroyed or stolen.

Insurance

An agreement in which you pay a company money and they pay your costs if you have an accident, injury, etc.

Insured

The person, group of people or organization who is insured in a particular agreement

Insurer

A person or company that provides insurance

Loss adjuster

A person who works for an insurance company and decides how much money should be paid out in each case of something having been damaged or lost.

Mature (FINANCE) verb

If an insurance agreement or an investment matures, it becomes ready to be paid.

No-claims bonus(ALSO no-claims discount)

An amount subtracted from the money paid to an insurance company, especially for motor vehicles, because no claims have been made for a particular period.

Non-contributory

Describes a financial plan or agreement for an employee which is completely paid for by their employer.

Policy (DOCUMENT)

A document showing an agreement you have made with an insurance company:

You should check your policy to see if you're covered for flood damage.

Premium (PAYMENT)

An amount of money paid to obtain insurance.

Protect verb

To provide someone with insurance against injury, damages, etc.

Term insurance

A type of insurance which lasts for a limited time period.

Third-party insurance

Insurance that will pay money to a person or group damaged in some way by the person or group who have this insurance.

Underwrite

If a bank or other organization underwrites an activity, it gives it financial support and takes responsibility for paying any costs if it fails.

Underwrite

If a company underwrites an insurance policy, someone's property, etc., they have an agreement to pay out money in cases of damage or loss.

2.2 Review of Journal and Previous Studies

2.2.1 Review of Journal

Market Features Prominently In AEGON's Asia Strategy

AEGON, one of the world's largest life insurance companies, views Asia as an important region in terms of market opportunity and growth. Its presence in Asia dates back to the 1940s when Transamerica Occidental Life Insurance - an AEGON subsidiary - first began providing insurance to affluent in Hong Kong. The Netherlands-headquartered company is focusing on the key markets of Taiwan, China, India and Japan to develop and grow full-fledged life insurance operations, while also targeting high-end customers in Hong Kong and Singapore. China is a particularly exciting market. What the country's rapid emergence as an economic powerhouse is well documented, its citizens increasingly realize that responsibility for their long-term welfare rests with them, rather than the State. While this simply brings China in line with the global trend, it creates attractive opportunities for insurance companies. In May 2003, AEGON launched a life insurance joint venture with China National Offshore Oil Corp. (CNOOC), with headquarters in Shanghai. This is proving to be a strong partnership as it provides the venture. AEGON-CNOOC, with a well-recognised local name, access to capital and the scope to attract high-quality local management is one of the biggest challenges of operating in China, according to the company. The insurance market to the mainland is rapidly expanding beyond the cities. AEGON-CNOOC's multi-channel distribution Network puts the company in a good position to capture this growing market, via agency networks, bank branches, brokers and telemarketing. Indeed, China is a key component of AEGON's overall strategy. It will expand to the Chinese capital with the opening of a branch in Beijing in April 2005, representing an important step in the company's national expansion plan in the country. Currently, AEGON-CNOOC sells more than 2,000 policies a month and has ambitious targets for growth. However, it is not prepared to simply buy market share. Mr. Alex Wynaendts, member of AEGON's Executive Board, said: "We in China for the long term, and we're committed to growing profitably."

Source: Asia Insurance Review, Jan. 2011.

2.2.2 Review of Related Thesis

The history of insurance is not long in our country Nepal. At present 25 insurance companies are operating in Nepal. Many researchers have conducted a number of researches on insurance. The gist of some reviewed studies is presented below.

Sailendra Shrestha, (2002) had a study on Premium collection and investment position of Nepal Life and General Insurance Co. Ltd.

Shrestha's major finding and recommendation

1. The company should be secured by issuing more life insurance policy, as it is long-term contract.
2. The company's share in life insurance industry should be increased.
3. The company should introduce new policies like: household policy, umbrella policy, health insurance policy, medical insurance policy, overseas policy etc in order to increase its general premium collection.
4. The company should prohibit proxy agents.
5. The company should diversify its life investment in sectors like, finance company's fixed deposits, corporate securities, hydropower projects, real states and housing etc.
6. Claims should be paid in time as it strengthens the trust of the company.

Tara Baadhur Thapa, (2002) had a study on Insurance Industry in Nepal: "A Comparative study on Premium Collection and Investment Pattern"

Thapa's major findings

1. Terrorism and Recession are the main problems of insurance business in Nepal.
2. There is delay in claim paying pattern.
3. Insurance business should extend its business and services in remote areas too.
4. Insurers are trying to form reinsurance agency in Nepal which will be beneficial for them and national economy also grow up.

Thapa's Recommendation

1. The entire insurer should follow the sound investment policy and improve its management.
2. The entire insurer should improve their premium collection and investment system.
3. Insurance premium fund should be invested in different sectors in order to inhere the life standard of people thereby increase the insurance premium.
4. Insurance companies are suggested to expand insurance activities in rural area by the establishment of branches or by the appointment of agents according to its potentiality.
5. The insurance companies should introduce new policies and attractive strategy so as to make ease for the development of insurance business.

Shree Prasad Gelal, (2006) had a study on “A Comparative Financial Analysis of Nepal Insurance co. Ltd and Nepal Life and General Insurance Co. Ltd.”

Gelal’s major findings

1. Both companies have satisfactory gross profit margin.
2. Net profit margin of Nepal Insurance Co. Ltd followed constant trend than Nepal Life and General Insurance co. Ltd.
3. The premium collections of both companies are in increasing trend.
4. Liquidity positions of both companies are satisfactory

Gelal’s recommendations

1. Companies should invest in different sectors other than HMG bond in order to enhance the life standard of people thereby increases the insurance premium.
2. Emphasis should be given for advertisement and publicity and to expand insurance activity in rural area by the establishment of branches or by appointment of agents according to its potentiality.

Rabindra Neupane(2010) had study on “Premium Collection and Investment Pattern of Insurance Companies”

Neupane’s major findings

-) Among the insurance policy, the ratio of premium collection is higher in fire insurance and motor insurance and lower in marine and engineering policy.
-) Claim paid ratio is increasing according, but the percentage increase is very low in respect to increase in premium collection.
-) Return on investment is not satisfied, as the maximum return is only 18.73% and minimum is 0.29%. The average of return on investment of insurance of five years is about 9.60%. Interest earned on investment is also lower that is only 6.23% in average.
-) Investment on premium shows that more than 50% of premium amount is investment in different sector. The percentage is up to 111% due to investment from other source like capital and share.

Neupane's Recommendation

-) Insurance companies should maintain their claim paid ratio as for size of the transaction because the claim paid ratio directly affected to the income generate.
-) Insurance companies are suggested to expand insurance activities in rural area by the establishment of branches or by the appointment of agents according to its potentiality.
-) The insurance companies should introduce new policies and attractive strategy to make ease for the development of insurance business.
-) Nepalese insurance business should be social responsibility oriented rather than premium oriented in order to develop this business at present situation.

2.3 Research Gap

None of the previous researcher has specialized on Life insurance business. Now Life insurance business has been increasing day by day with attractive and competitive market. Before three year there were only five life insurance companies but till now there are nine insurance company performing life insurance businesses. It is totally based on Life insurance business of Nepal. In this research more emphasis has been given on relationship between investment made and premium collection of life insurance business. Previous researches are based on non life insurance business.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Research Design

Research design is the plan, strategy of investigation conceived so as to obtain answer of research question and to control variance. In another word research design is a plan, structure and strategy of the investigation so as to obtain and answer to research questions. Both descriptive and analytical research design are used in this research study. The main objective of research design in this study is to make analysis in premium collection and investment of life insurance companies in Nepal and provide valuable recommendation. Both descriptive and analytical research design are used in this research study.

1.2 Population and Sample of the Study

The term 'population' for research means all the member of any well defined class of people, event or object. It means that the entire group of people, events or things of interest that a researcher wished to investigate. A representative part of population selected from it with the objection of investigation its propertied is called sample. For purpose of study, the random sampling technique had been used to analysis about Life insurance companies. At present 25 insurance companies are operating the insurance business in Nepal but this study covers only Life insurance companies. There are nine life insurance companies of the study but only two companies namely, Nepal Life Insurance Company Limited and Life Insurance Corporation (Nepal) Limited, were randomly selected as sample of the total population, to fulfill the objective of research. The samples are selected because the larger and older company among population. The sample represented 22.22% of the total populated life insurance companies.

Sample Life Insurance Company

1. Nepal Life Insurance Company Limited
2. Life Insurance Corporation (Nepal) Limited

3.3 Nature and Sources of Data

This study is based on primary as well as secondary source of data. The data relating to premium collection and investment pattern of life insurance companies have been collected from different insurance companies and beema samitee, Nepal stock exchange, government agencies and bodies, Published and unpublished books, journals, newspaper, annual reports, thesis articles etc have been used as the source of the secondary data. For the reference material, the researcher visited Nepal Commerce Campus, Shanker Dev Campus, Central Department of Management T.U. and Insurance Board (Beema Samittee).

3.4 Data Processing

Data obtained from the various sources cannot be directly used in their original form. Further, they need to be verified and simplified for the purpose of analysis. The data supplied by NLIC, LIC(Nepal), Beema Samittee and other authorities have been reorganized and refined in the form of tables and then necessary items out of many have been picked up for analysis and interpretation.

3.5 Tools and Techniques of Analysis

Further arising the objectives following tools and techniques to be used in this study. This was an applicant in analysis phase.

3.5.1 Financial Analysis Tools

Financial tools are those which are used for the analysis and interpretation of financial data. These tools can be used to get the precise knowledge of a business which in turn is fruitful in exploring the strengths and weakness of the financial policies and strategies. There are various tools in financial sector but for the purpose of this study and in accordance to the studies objectives ratio analysis was performed in this study. Ratio analysis certainly showed the position of premium collection investment, return and their contribution on overall performance.

3.5.1.1 Ratio Analysis

For Proper financial analysis of data, ratio analysis is the best tool. It is a very simple analyzing tool under which ratios are taken to express the relation

between two or more data. Simply relation between two figures is known as ratio. Under ratio analysis following ratio related to premium collection and investment position are analyzed.

- First Life Premium collection to total life premium collection: $\frac{\text{First life Premium collection}}{\text{Total life premium collection}}$.
- Renewal Life Premium Collection to total life premium collection: $\frac{\text{Renewal life Premium collection}}{\text{Total life premium collection}}$.
- Investment on Bank Fixed Deposit to total Life Investment: $\frac{\text{Investment on Bank Fixed Deposits}}{\text{Total Life Investment}}$.
- Investment on Policy loans to Total life Investment: $\frac{\text{Investment on Policy loans}}{\text{Total life investment}}$.
- Total Investment to Total Premium Collection: $\frac{\text{Investment}}{\text{Total Premium Collection}}$.
- Return on Investment: $\frac{\text{Net Income}}{\text{Total Investment}}$.
- Claim Paid to Total Premium Collection: $\frac{\text{Claim Paid}}{\text{Total Premium Collection}}$.
- Interest Earned to Total Premium collection: $\frac{\text{Interest}}{\text{Total Premium Collection}}$.

3.5.2 Statistical Tools

Statistical tools are used for attaining accuracy on analysis and study. Various statistical mathematics are studied which are related to decision making for premium collection and investment pattern under statistical analysis, mean, standard deviation, coefficient correlation, trend analysis, histogram, bar diagram, pie chart and coefficient of variation are performed.

- Mean:** - One of the most important objectives of statistical analysis is to get one single value that describes the characteristics of the entire mass of unwieldy data call mean. According to Leabo, "The average is sometimes described as a number which is typical of the whole group (Gupta S.P, Sultan & Chand Publication). From the above definition that an average

is a single value that represents a group of values; out of various types of mean we have chosen simple arithmetic mean only.

ii) Standard Deviation: - Standard deviation measures the absolute dispersion of a distribution i.e. the greater the amount of dispersion the greater the standard deviation, for the greater will be the magnitude of the deviation of the values from their mean. As small standard deviation means high degree of uniformity of the observation as well as homogeneity of series, a large standard deviation means the just opposite. Standard deviation is also known as root means square deviation for the reason that is the square root of the square deviations from the arithmetic mean.

iii) Coefficient of Variation:- Coefficient of Variation (CV) is used in such problems where we want to compare the variability of two or more than two series, such series (or group) for which the coefficient of variation is greater is said to be more variable or conversely, less consistent, less uniform, less stable. On the other hand, the series for which coefficient of variation is less is said to be less variable or more consistent more uniform, more stable. Coefficient of variation is obtained as follows:

$$cv X \frac{\text{standard deviation}}{\text{mean}}$$

iv) Time Series Analysis: - A time series consists of statistical data which are collected recorded or observed over successive increments. The analysis of time series is more important in all sectors due to following reasons; it helps in planning future operations, it helps in evaluating current accomplishment, it facilitates comparison.

v) Correlation Coefficient: - Correlation analysis attempts to determine the degree of relationship between variables, the analysis of correlation between two statistical variables requires relationship of some sort which associates the observations in pairs, one of each pair being a value of each of the two variables. In general the pairing relationship may be of almost any nature, such as observations at the time of place of over a period of

time or different places. Correlation coefficient denoted by symbols 'r' the value of 'r' always lies between +1 and -1 when +1 it means there is perfect positive correlation between variables when $r = 0$ it means there is no relationship, when $r = -1$ there is perfect negative correlation between variables. The formulas of calculating coefficient of correlation are as follows;

Coefficient of Correlation:

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

$$\text{Multiple Correlation Coefficient (R}_{1.23}\text{)} = \frac{r_{12}^2 + r_{13}^2 - 2r_{12}r_{13}r_{23}}{1 - r_{23}^2}$$

Coefficient of Multiple Determinations: $(R_{1.23})^2$

vi) Probable Error (PE): - With the help of probable error, it is possible to determine the reliable value of coefficient. Probable error is calculated by:

$$PE = 0.6745 \left| \frac{1 - r^2}{\sqrt{N}} \right|$$

Where, r = Coefficient of Correlation
 N = No. of observation

vi) T-Test: -

T-Test is generally used to find out the relationship between the two variables. In order to test whether two independent samples have been drawn from two normal populations having the same means, the population variables being equal, T-Test for difference of mean is used.

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

This chapter deals with the analysis and interpretation of the data collected from various sources and research methodology. In the course of analysis, data gathered from the various sources have been presented in tabular form. Then various tables prepared for the analysis purpose have been shown in the appendix. Data has been analyzed by using financial and statistical tools. It has been focused on the analysis of premium collection and investment position of Nepal Life Insurance Company Limited and Life Insurance Corporation (Nepal) Limited. Basically secondary data are used for the purpose of the study and analysis.

Evaluation of Premium Collection and Composition

Premium is the main source of income for all the insurance companies. The collected premium is invested in different sectors. Investment is done according to the rules and regulation of Insurance Board. Since higher premium tends the higher volume of transaction leading to high income through investment, all the insurer tries to collect higher premium. In this chapter, quantitative analysis is done relating to the premium collection and its composition. The trend analysis, histogram, bar diagram, pie chart, mean, standard deviation and coefficient of variation are used for the purpose of the evaluation of the premium collection condition and composition of all the respective matter on premium collection, various ratio analysis are computed which will give the actual proportion to the particular insurance company sum. The analysis chapter is separated in two parts as financial analysis and statistical analysis.

4.1 Financial Analysis

This analysis is deal with various financial ratios, which are related to premium collection and investment. Financial ratios are studied to evaluate and analyze the performance of Nepal Life insurance company limited and life insurance corporation (Nepal) limited. Ratios are calculated as follows.

4.1.1 Premium Collection of Life Insurance Business:

Premium is the main source of income for all the insurance companies. In another word Premium is the life fuel of the insurance companies. Total premium collected by the life insurance industry can be showed in following table.

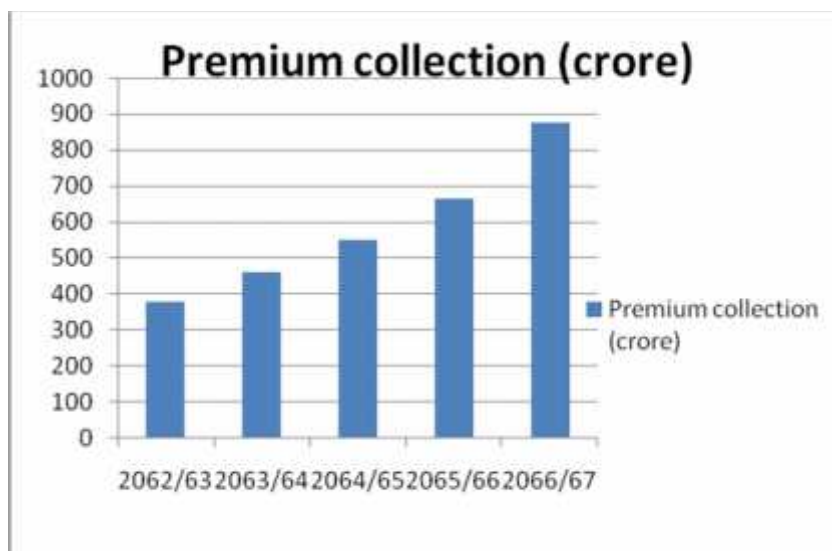
Table 4.1
Premium Collection of Life Insurance Business

FY	Premium Collection (crore)	Increase Percentage
2062/63	335.55	23.15
2063/64	412.35	22.89
2064/65	483.87	17.34
2065/66	650.00	34.40
2066/67	876.60	34.90
Average	551.67	26.54
S.D.	192.85	6.94
C.V.	34.96	26.15

Source: Insurance board

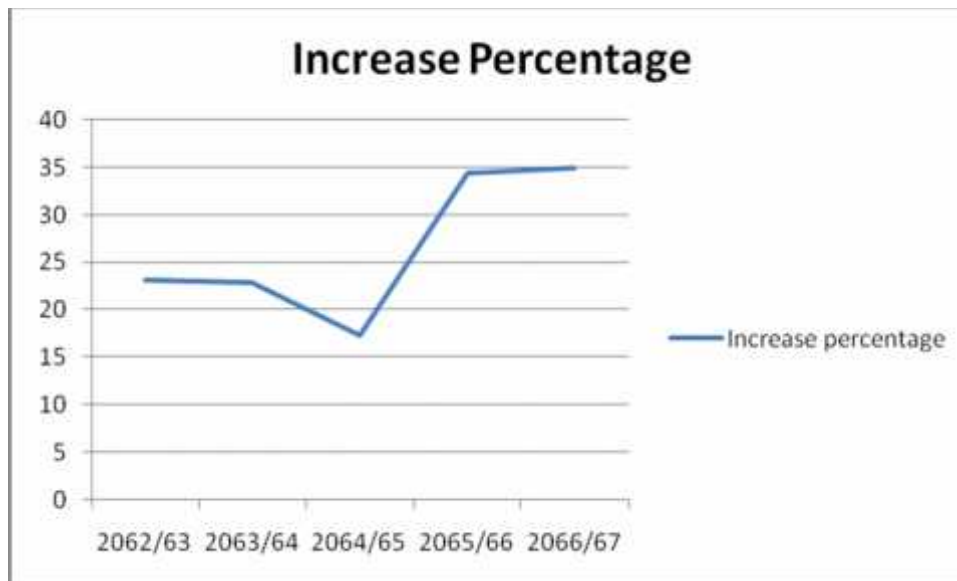
Above tabulated value can showed in following chart.

Chart 4.1
Premium Collection of Life Insurance Business



Source: insurance board

Chart 4.2
Premium Collection Increase Rate of Life Insurance Business



From above Table 4.1, Chart 4.1 and Chart 4.2 reveal that the life insurance industry's total premium collection and premium increase ratio in various fiscal years. Total premium amount is in upward sloping to right. The increasing rate of premium collection is also upward sloping except in year 2064/65. Industry is able to maintain 26.54% increase rate on above calculation. Again the calculated CV is 26.15% which revealed that the life insurance industry is suffering from high risk to grow business and the ratios are not consistency.

4.1.2 Number of Life Insurance Policies in Nepal

This is another major factor of life insurance industry to grow maintains market. It can be showed in following table.

Table 4.2
Number of Life Insurance Policies in Nepal

FY	No. of Policies'000'	Increase Percent
2062/63	330	8
2063/64	350	6.1
2064/65	390	11.5
2065/66	470	20.6
2066/67	585	24.5
average	425	14.14
S.D.	93.27	7.18
CV	21.95%	50.78%

Above tabulated value can showed in following chart.

Chart 4.3

Number of Life Insurance Policies in Nepal

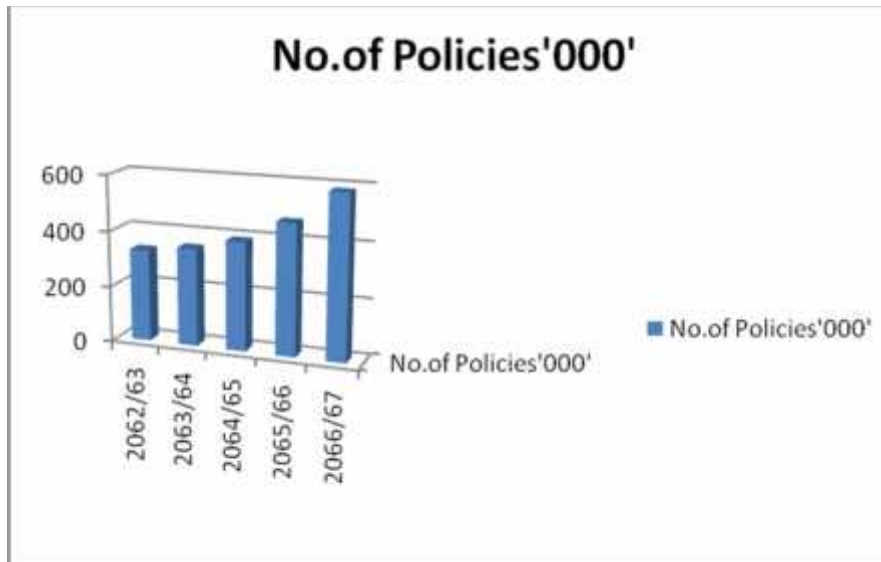
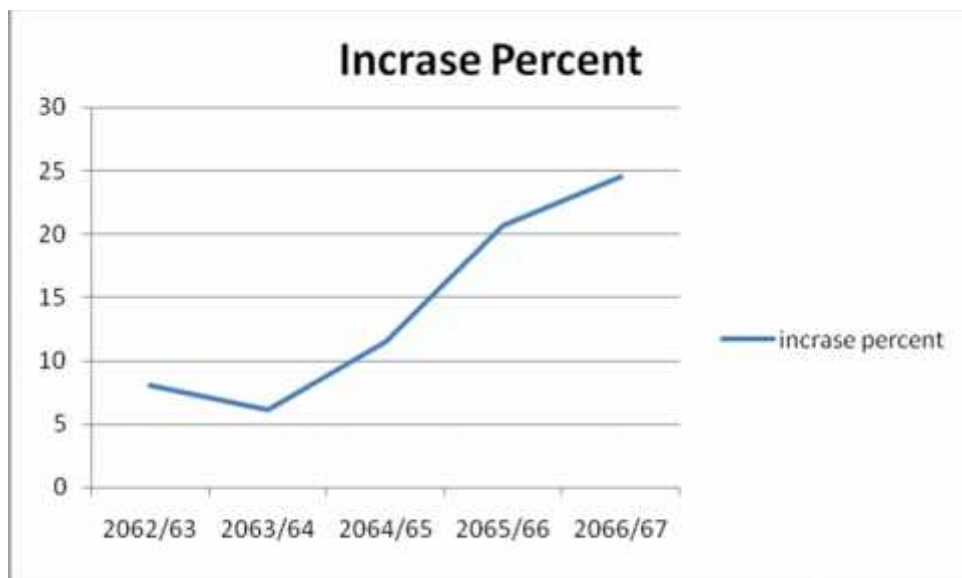


Chart 4.4

Increase Rate of Life Insurance Policies in Nepal



Source: Insurance Board

Above table and chart showed the regular increment of policies except in FY 2063/64. From last four years number of Life Insurance Company is also increased. Even numbers of policies are increasing at increasing rate. On average 425 thousand policies are increasing per year.

4.1.3: Total Amount of Life Premium Collection by NLIC

The total amount of life premium collected by NLIC covers the large portion of total premium collection of life insurance industry. The total amounts of life premium collected by the company in different years are shown below.

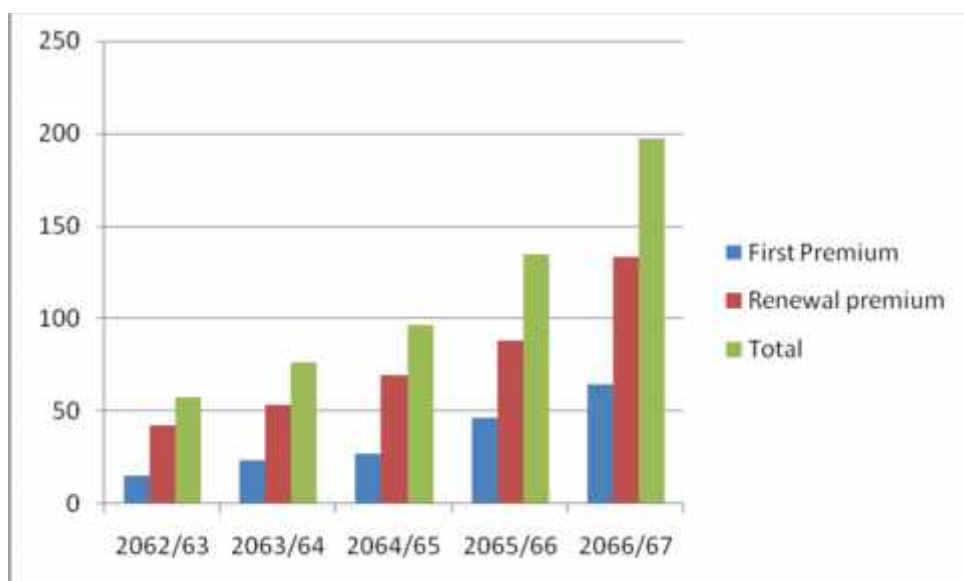
Table 4.3
Total Amount of Life Premium Collection by NLIC

FY	First Premium	Renewal Premium	Total
2062/63	15.38	42.3	57.68
<i>Percent</i>	<i>26.66</i>	<i>73.34</i>	<i>100%</i>
2063/64	23.39	53.18	76.57
<i>Percent</i>	<i>30.55</i>	<i>69.45</i>	<i>100%</i>
2064/65	27.05	69.24	96.29
<i>Percent</i>	<i>28.09</i>	<i>71.91</i>	<i>100%</i>
2065/66	46.87	87.94	134.81
<i>Percent</i>	<i>34.77</i>	<i>65.23</i>	<i>100%</i>
2066/67	64.33	133.12	197.45
<i>Percent</i>	<i>32.58</i>	<i>67.42</i>	<i>100%</i>

Source: insurance board

Above tabulated value can showed in following chart.

Chart 4.5
Total Amount of Life Premium Collection by NLIC



From the table 4.3 and Chart 4.5, One can easily conclude that First life premium, Renewal life premium and Total amount of premium of NLIC are regularly. At latest period the company is able to maintain about 40 % annual growth rate with about 20% of whole life insurance industry.

4.1.4 Total Amount of Life Premium Collection by LIC (N)

The total amount of life premium collected by LIC also covers the large portion of total premium collection of life insurance industry. The total amounts of life premium collected by the company in different years are shown below.

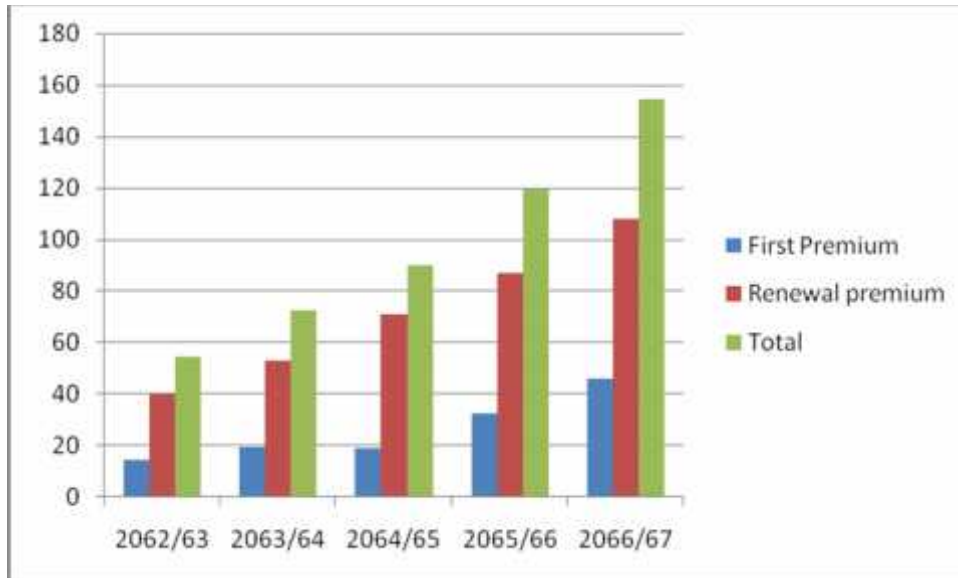
Table 4.4
Total Amount of Life Premium Collection by LIC (N)

FY	First Premium	Renewal Premium	Total
2062/63	14.53	39.76	54.29
<i>Percent</i>	<i>26.76</i>	<i>73.24</i>	<i>100</i>
2063/64	19.36	53.07	72.43
<i>Percent</i>	<i>26.73</i>	<i>73.27</i>	<i>100</i>
2064/65	19.23	70.84	90.07
<i>Percent</i>	<i>21.35</i>	<i>78.65</i>	<i>100</i>
2065/66	32.74	86.85	119.59
<i>Percent</i>	<i>27.38</i>	<i>72.62</i>	<i>100</i>
2066/67	46.19	108.12	154.31
<i>Percent</i>	<i>29.93</i>	<i>70.07</i>	<i>100</i>

Source: website of LIC

Above tabulated value of Total amount of Life Insurance Premium by LIC can showed in following bar diagram.

Chart 4.6
Total Amount of Life Premium Collection by LIC (N)



From the above Table 4.4 and Chart 4.6 revealed that increment of first premium, renewal premium and total life premium of LIC is also increasing regularly. It covers about 18 percent of life insurance business with about 30 percent increment rate.

4.1.5 First Life Premium Collection To Total Life Premium Collection:

Life insurance premium is the premium paid to the insurance company for insuring his life and contract to pay that amount for certain period. The insurer get amount back with bonus in expiry of the time or his beneficiary will get contract amount in expiry his life. First premium of life insurance hold significant important role in total life premium collection. It is first amount that the policy holder should pay to the company at the time of beginning. The ratio, premium collection on first life premium to total life premium collection is used to measure the contribution of premium collection on first life Premium to total life premium. It is computed using following equation.

First Life Premium to total life premium collection:

$$\text{First life Premium collection} / \text{Total life premium collection.}$$

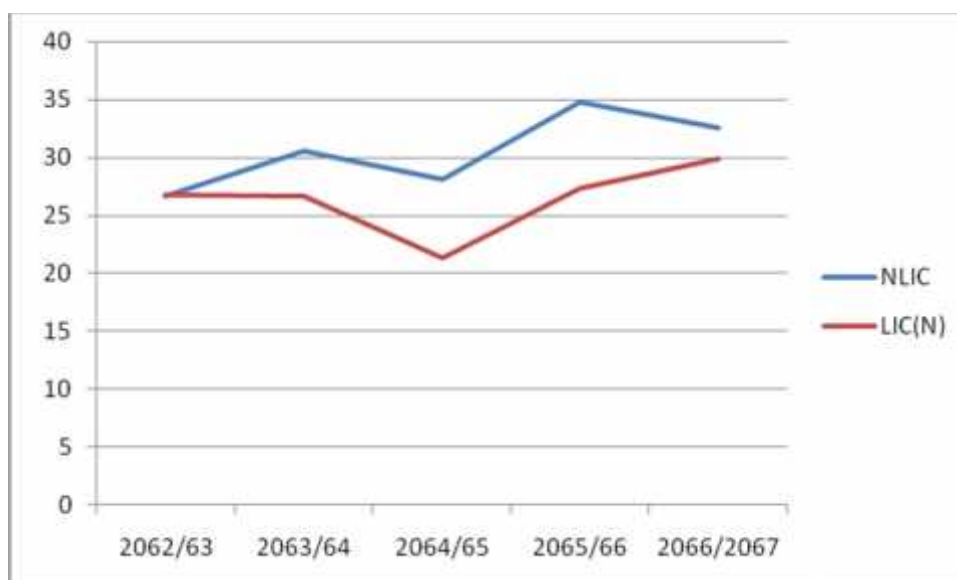
Table 4.5
First Life Premium To Total Life Premium Collection

Year	2062/63	2063/64	2064/65	2065/66	2066/2067	Mean	S.D.	C.V.
NLIC	26.66	30.55	28.09	34.77	32.58	30.53	2.94	9.63
LIC(N)	26.76	26.73	21.35	27.38	29.93	26.43	2.80	10.59

Source: - Annual Report of NLIC & LIC 062/63 to 066/67

Above tabulated value can showed in following chart.

Chart 4.7
First Life Premium To Total Life Premium Collection



Source: - Annual Report of NLIC & LIC 062/063 to 066/67

Above Table 4.5 and Chart 4.7 reveal that the company's ratio on first life premium to total life premium collection ratio are in fluctuate trend. The highest ratio NLIC and LIC are in the fiscal year 2065/66 and 2066/67 respectively. the decrement ratio of NLIC & LIC are in the fiscal year 064/65. Even NLIC & LIC companies are able to maintain 30.53% & 26.43% Of average weight of First life premium. The CV is 9.63% & 10.59%. It shows that the ratios were little consistent and stable.

4.1.6 Renewal Life Premium To Total Life Premium Collection

Life premium collection of person is continuous till the last date of policy period otherwise death of a policyholder and breaking of contract by any of party. Renewal premium is regular amount that the policy holder should pay to the company till the expiry of time or his death. Renewal life premium held the majority of life premium collection. The ratio, premium collection on Renewal life premium to total life premium collection is used to measure the contribution of premium collection on Renewal life Premium to total life premium. It is computed using following equation.

Renewal life premium collection to total life premium collection:

$$= \text{Renewal life premium Collection} / \text{Total life premium collection.}$$

Table 4.6

Renewal Premium Collection To Total Life Premium Collection

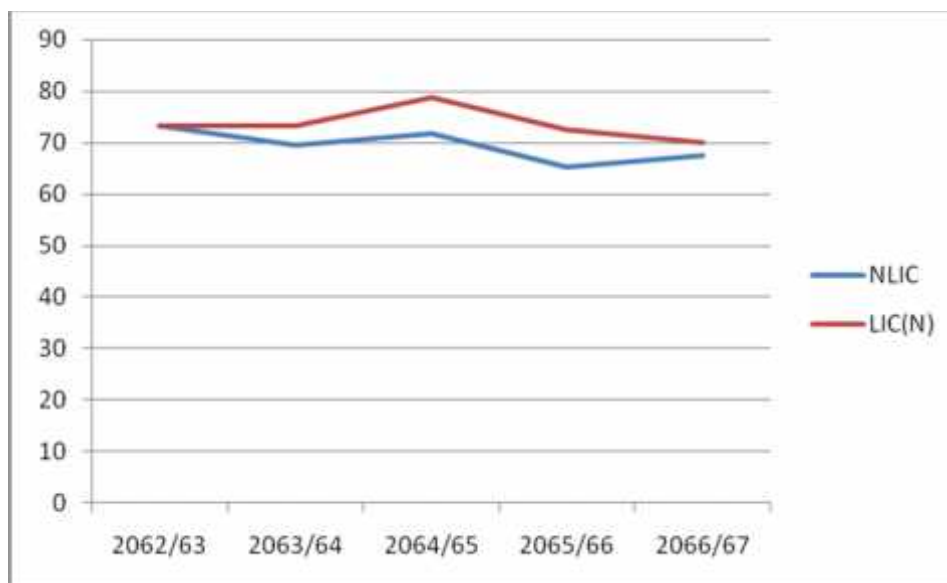
Year	2062/63	2063/64	2064/65	2065/66	2066/67	Mean	S.D.	C.V.
NLIC	73.34	69.45	71.91	65.23	67.42	69.47	2.94	4.23
LIC(N)	73.24	73.27	78.65	72.62	70.07	73.57	2.80	3.81

Source: - Annual Report of NLIC & LIC(N) 062/063 to 066/67

Above tabulated value can showed in following chart.

Chart 4.8

Renewal Life Premium To Total Life Premium Collection



Source: Annual Report of NLIC & LIC 062/63 to 066/67

The Table 4.6 & Chart 4.8 showed the ratio between renewal life premium and total life premium. The ratio varied between 65.23 to 78.65%. Highest ratio of NLIC was in FY 062/63 and the least was in the FY 065/66. Again The calculated C.V. of NLIC & LIC were 4.23 & 3.81% respectively showed the satisfactory result and reveal that the company were suffering negligible risk.

4.1.7 Investment Made by Life Insurance Business:

The life insurance fund is invested in different sectors for profit motive. Life Premium is collected through the life insurance policies. This premium is returnable along with bonus to the policy holder. So the life fund should be invested in areas having higher return and thus the company able to give more bonuses to their customer. The life insurer preferred govt. saving bonds, bank fixed deposits and policy bonds, and bank fixed deposits and policy loans to invest their life fund. A figure of life insurance investment during some year can be shown as below.

Table 4.7
Investment Made by Life Insurance Business

In Crore		
FY	Investment amount	Increase %
2062/63	1520.11	28.82
2063/64	1839.76	21.03
2064/65	2131.89	15.88
2065/66	2651.62	24.38
2066/67	3646.71	37.53
Average	2358.02	25.53
S.D.	744.14	7.34
C.V.	31.56	28.75

Source: Insurance Board

Above tabulated value can be presented with following charts

Chart 4.9
Investment Made by Life Insurance Business

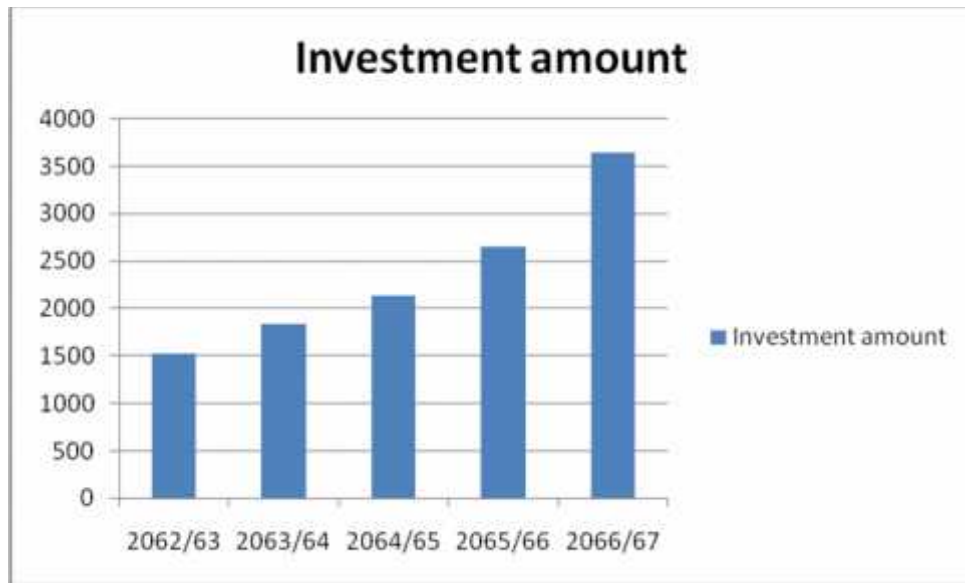
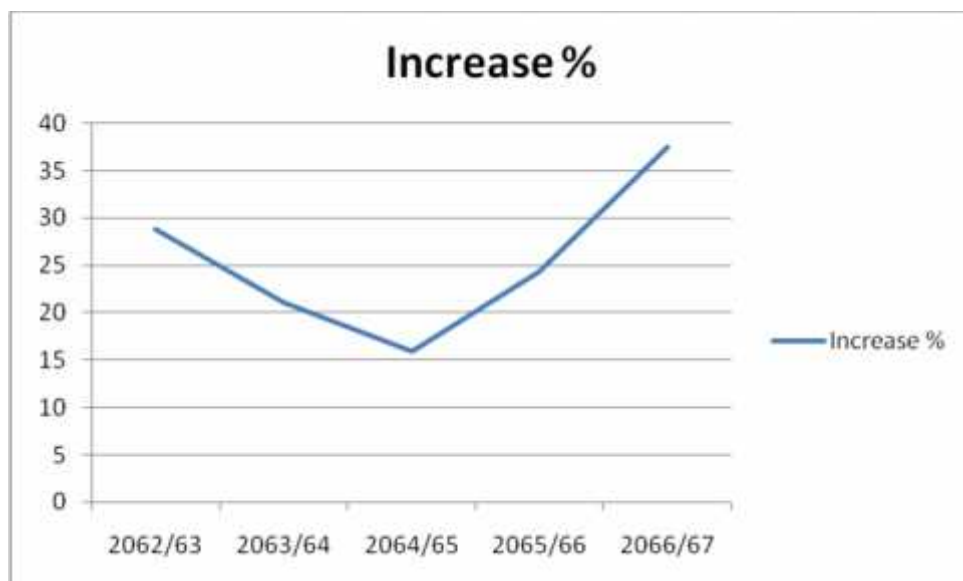


Chart 4.10
Growth Rate of Investment Made by Life Insurance Business



From the above Table 4.7, Chart 4.9 and Chart 4.10 it was clear that the investment made by the life insurance business is increasing regularly. There is many unfavorable condition in nation. Life insurance business is successful to increase investment fund. Even rate of increment is not constant. It is decreasing firstly but since FY 2064/65 it is increasing. i.e. the curve of increase rate is upward to the right. In data it is able to make average investment fund of Rs

2358.02 crore with 31.56% of CV. the average rate of increment is 25.53% with 28.75 of CV which shows that increment rate of life insurance investment are less consistent.

4.1.8 The Investment Made by Nepal Life Insurance Company

The share of Nepal Life Insurance Company limited among life insurance business is huge. It also increases investment amount with increase in premium as industry. Latest data for investment of NLIC can be shown as below.

Table 4.8
Investment Made by NLIC

In Crore		
FY	Investment amount	Increase %
2062/63	158.48	45
2063/64	227.06	43.27
2064/65	273.6	20.5
2065/66	359.72	31.48
2066/67	588.90	63.71
Average	321.55	40.79
S.D.	148.83	14.47
C.V.	46.29	35.47

Source: www.bsib.gov.np

Chart 4.11
Investment Made by NLIC

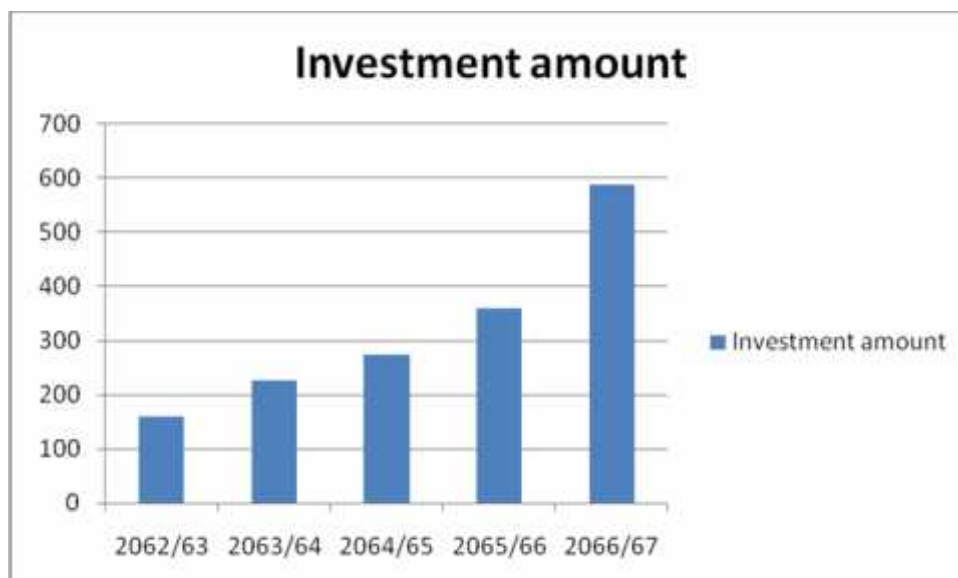
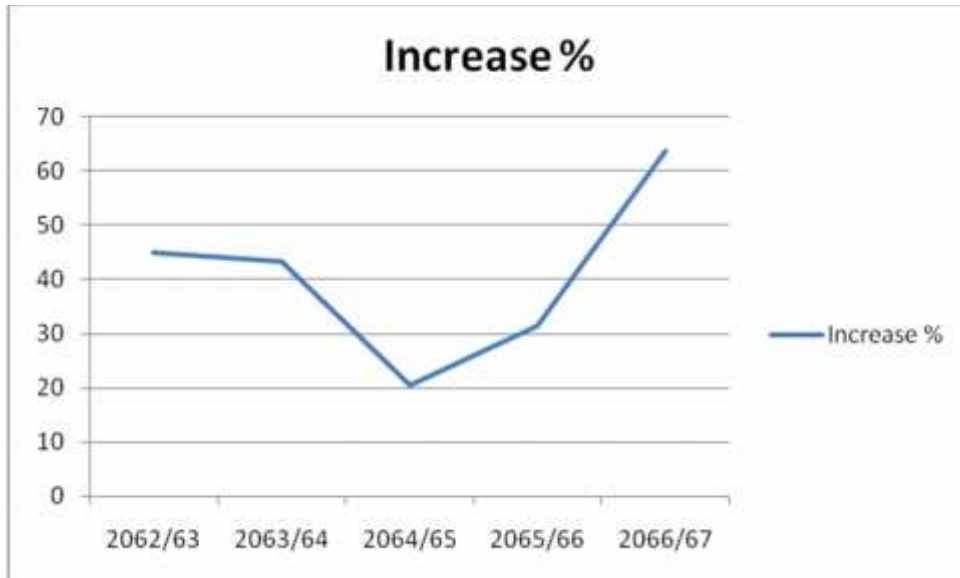


Chart 4.12
Increase in Investment Made by NLIC



From the Table 4.8, Chart 4.11 and Chart 4.12 it was clear that the investment made by the Nepal life insurance company ltd is also increasing regularly as industry. The rate of increment in investment fund is decreasing in early period but since FY 2064/65 it is increasing. In data it is able to make average investment fund of rs 321.55 crore with 46.29% of CV. the average rate of increment is 40.79% with 35.47 of CV, which shows that increment rate of NLIC investment are less consistent.

4.1.9: The Life Premium Investment made by Life Insurance Corporation

Life Insurance Corporation limited also holds large percent of investment among life insurance business. It also increases investment amount with increment of premium as industry. Latest data for investment of LIC can be shown as below:

Table 4.9
Investment made by LIC

FY	Investment amount	Increase %
2062/63	135.49	60
2063/64	213.44	57.53
2064/65	268.92	25.99
2065/66	357.28	32.86
2066/67	549.73	53.87
Average	304.97	46.05
S.D.	142.16	13.88
C.V.	46.61	30.14

Insurance Board

Above tabulated value can be presented with following charts

Chart 4.13
Investment Made by LIC (N)

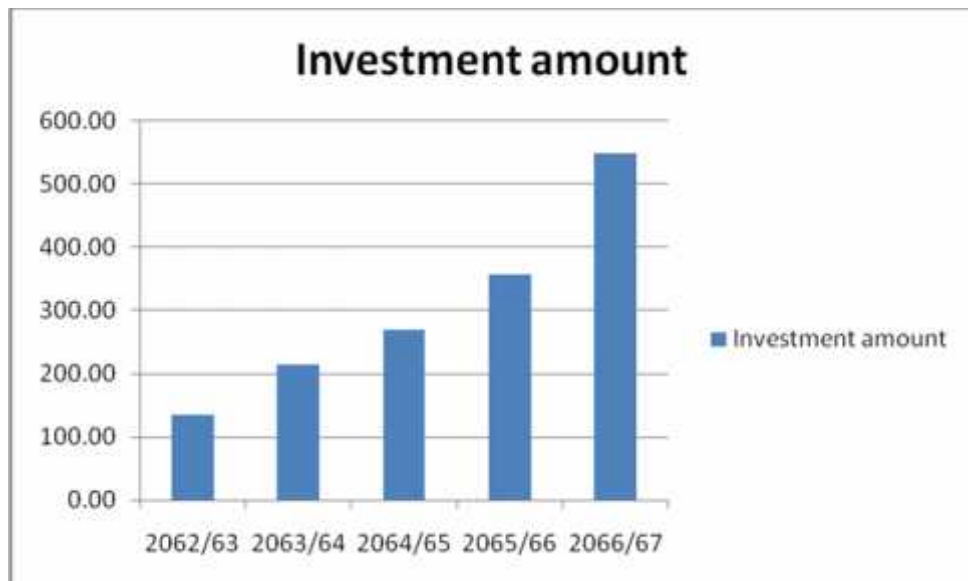
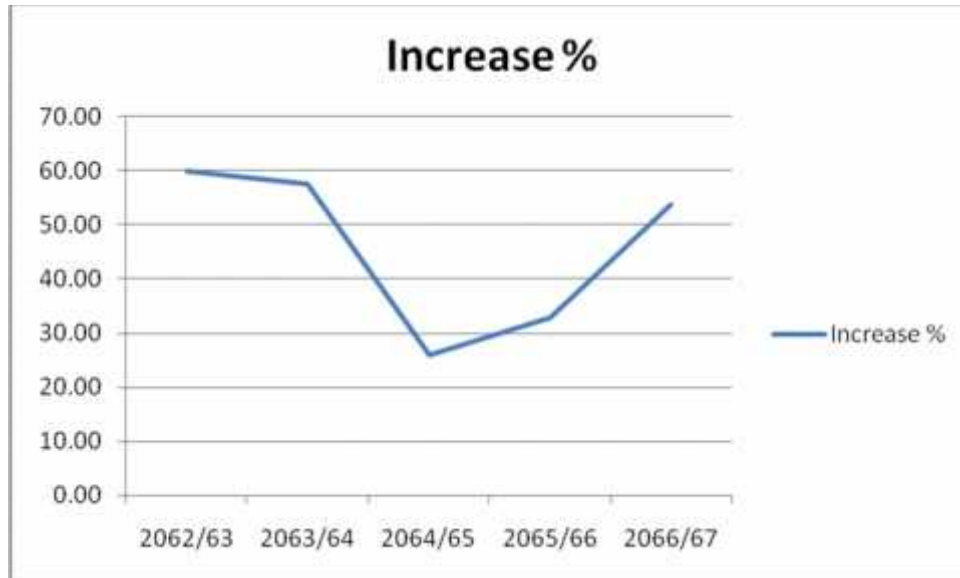


Chart 4.14
Increase Rate of Investment by LIC (N)



From the Table 4.9, Chart 4.13 and Chart 4.14 it was clear that the investment made by the Life Insurance Corporation Nepal Ltd is also increasing regularly as industry. The rate of increment in investment fund is decreasing in early period but since FY 2064/65 it is increasing. In data it is able to make average investment fund of Rs 304.97 crore with 46.61% of CV. the average rate of increment is 46.05% with 30.14 of CV, which shows that increment rate of NLIC investment are less consistent.

4.2 Statistical Analysis

Under this chapter various statistical calculation was studied which were related to decision making for premium collection and investment pattern. The trend analysis, coefficient of correlation and 't' Test were used for the purpose to find out tendency, relation and distinguish between premium collection and investment. For this purpose following measures were analyzed.

4.2.1 Correlation Analysis

Correlation Analysis is the statistical tool that we can use to describe the degree to which one variable is linearly related to other variables. Hence, in statistics, it is used in order to depict the co-variation between two or more variables. It helps to determine whether

- a) A positive or a negative relationship exists.
- b) The relationship is significant or insignificant and
- c) Establishes causes and effect relationship if any.

The statistical tools, correlation analysis is preferred in this study to identify the relationship between premium and investment, whether the relationship is significant or not. For the purpose of decision making under correlation, decision maker based on following interpretation terms.

- a. When $r = +1$, there is perfect positive correlation.
- b. When, $r = -1$, there is perfect negative correlation.
- c. When $r = 0$, there is no correlation.
- d. When 'r' lies in between 0.7 to 0.999, (-0.7 to -0.999), there is a high degree of positive, (or negative) correlation.
- e. When 'r' lies 0.5 to 0.6999 there is a moderate degree of correlation.
- f. When 'r' is less than 0.5 there is low degree of correlation.

4.2.1.1 Correlation between Premium Collection and Investment of Life Insurance Industries

The above ratio depicts the relation between the premium collection Life insurance business and its investment. The above correlation between premium and investment of Life insurance business revealed the solution of the question: was there any relation between the premium collection and its investment? In other word, was more premium collection means more investment by it? If there is relationship between these two variables, what relationship existed, positive or negative relationship?

Table 4.10

Correlation of Premium Collection and Investment of Life Insurance Industries

Coefficient of Correlation	Relationship	R²	Probable Error	6*P.E.(r)	Significant or Insignificant
0.9982	High degree of positive relationship	0.9964	0.001086	0.0065	Highly significant

Decision:

From the above computation and Table 4.2.1, we can draw the conclusion that there is high degree of positive co-relation between the premium collection Life insurance business and its investment. That reveals more premium collection means more investment. Again, the coefficient of determination (R^2) is the measure of the degree of linear association or correlation between two variables, one of, which is the dependent variable and other is independent. In case of Life Insurance Business, the coefficient of determination is 0.9964, which means that the variation in independent variable (premium collection) explains 99.64 variations in dependent variable (investment). Probable error is used to measure the significance of the relation between two variables. In case of this study the significance relationship between premium collection and investment is measured by calculating probable error of correlation coefficient. Since the coefficient of correlation (r) is greater than the 6 P.E. (r), therefore we conclude that the relation between the two variables is significant.

4.2.2 T- test

Test of Hypothesis

Testing of hypothesis is one of the most important aspects of the theory of decision making. It consists of decision rules required for drawing probabilistic inference about the population parameter. A quantitative statement about the population parameter is called Hypothesis. In another word, Test of hypothesis is a process of testing of significance regarding the parameter of the population on the basis of sample drawn from the population. In testing hypothesis, we examine, on the basis of statistics. Computed from the sample drawn, whether the sample drawn belongs to the parent population with certain specified characteristics or not. In this topic, an effort had been made to test the significance regarding the premium collection and investment between two insurance companies. The data of Nepal Life Insurance company limited And Life Insurance Corporation(Nepal) Limited are used to test the hypothesis. Generally, following steps are followed for the test of hypothesis.

-) Setting the null hypothesis.
-) Setting the Alternative hypothesis.
-) Computing the test statistic.

-) Fixing the level of significance.
-) Finding Critical region.
-) Deciding two tailed or one tailed test.
-) Making Decision.

4.2.2.1 T-test for Premium Collection

-) Null Hypothesis :
 $\mu_1 = \mu_2$ i.e. there is no significant difference between premium collected by NLIC and LIC.
-) Alternative Hypothesis:
 $\mu_1 \neq \mu_2$ there is significant difference between total premium collected by NLIC and LIC
 Where $X_1 = \text{NLIC}$ and $X_2 = \text{LIC}$

Table 4.11
Premium Collection by NLIC and LIC
In Crore

FY	NLIC(X_1)	LIC(X_2)
2062/63	57.68	54.29
2063/64	76.57	72.43
2064/65	96.29	90.07
2065/66	134.81	119.58
2066/67	197.45	154.31
Total	562.80	490.68

Computation of Test Statistics ‘t’

Total of Test Statistics

Total of NLIC(X_1) = 626

Total of LIC (X_2) = 832

Number of Years (n) = 5

Variance (S^2) = 592.25

T – Test Value = 0.4736

Degree of freedom = $n_1+n_2-2=5+5-2=8$

Level of significance = 5%

The tabulated value of t for 8 d. f. at 5 % level of significance for two tailed test is 2.306.

Decision

Since calculated t is less than the tabulated t, it is not significant and H₀ is accepted which means that there is not significant difference between total premium collected by NLIC and LIC.

4.2.2.2 T-test for Investment

) Null Hypothesis :

$\mu_1 = \mu_2$ i.e. there is no significant difference between Investment made by NLIC and LIC.

) Alternative Hypothesis:

$\mu_1 \neq \mu_2$ there is significant difference between Investment made by NLIC and LIC

Where X₁ = NLIC and X₂ = LIC

Table 4.12
Investment Made by NLIC and LIC (N)
In Crore

FY	NLIC(X₁)	LIC(X₂)
2062/63	158.48	135.49
2063/64	227.06	213.44
2064/65	273.60	268.92
2065/66	359.72	357.28
2066/67	588.90	549.73
Total	1607.76	1524.86

Computation of Test Statistics ‘t’

Total of Test Statistics

Total of NLIC (X₁) = 1607.76

Total of LIC (X₂) = 1524.86

Number of Years (n) = 5

Variance (S²) = 26474.62

T – Test Value = 0.1611

Degree of freedom = n₁+n₂-2=5+5-2=8

Level of significance = 5%

The tabulated value of t for 8 d. f. at 5 % level of significance for two tailed test is 2.306.

Decision

Since calculated t is less than the tabulated t , it is not significant and H_0 is accepted which means that there is not significant difference between total investment made by NLIC and LIC

4.3 Presentation, Analysis and Interpretation of Primary Data

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

This chapter concentrates on using the aforementioned methodology to meet the objectives of the study and set forth a logical and qualitative framework to recommended probable solution to the problems that is in herein within investment and premium collection aspect of the life insurance industry. For this proposes, some the collected questionnaire answers are analyzed and studied. The questioner was distributed to the management and the respective insurers. The respondents were regarded as the representative of the entire management for the purpose of analysis and classification of the primary data, a simple ranking method is used where ever felt appropriate. While ranking, rank 1st was assumed as top most prioritized and the last number imparted for the query was assumed as last prioritized. Where the ranking was not possible or necessary, a simple objective (yes / no) question was used. For classification of the views, percentage method was used, considering the total number of respondent as 100%. Further, such classification was supported with the graphical and tabular presentation, wherever necessary.

A sample of questionnaires is attached in the Annex – IX. The number of respondents for the queries has differed due to the differentiation regarding the formation of the insurers. So, the number of respondents for each query is shown in sample questionnaire separately. Altogether, views of 60 respondents including staff, experts and concerned persons of sample insurance companies, insurance board, and Rastrya Beema Sasthan are taken in preformatted questionnaire sheets.

The focus of study is on premium collection and investment and the problems faced by life insurance companies, so questionnaires are prepared for fulfilling the objectives.

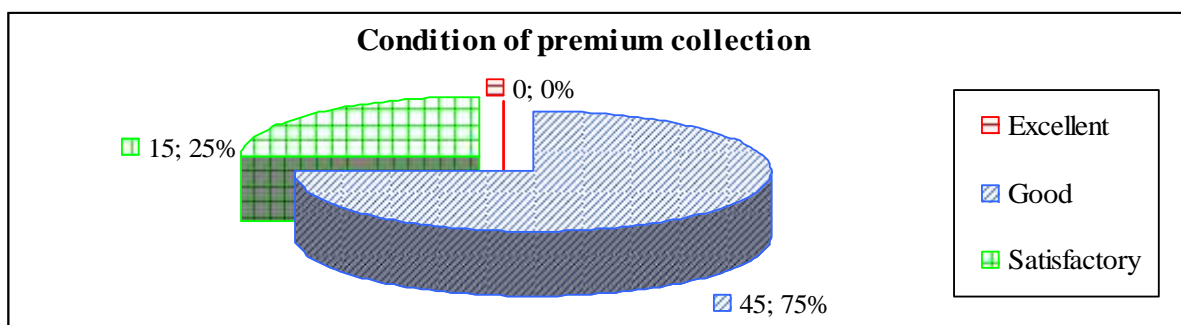
Evaluation of Viewer Regarding the Premium Collection Aspect

To evaluate the insurer views relating to the premium collection aspect of the insurance companies, a set of questioners was used, which contents number of questions relating to premium and its collection system. The questioners are concerned with present premium collection system, premium rate, premium collection ratio etc. In this aspect, the queries and the views of respondents regarding those queries are presented as such.

4.3.1 Condition of the Premium Collection at Present Situation

This query was intended to find out the condition of premium collection of Nepalese insurers. Nowadays, there is high competition in every field of business, so insurance is not far from this. Therefore, because of high competitive market, every insurance company have to labour more. The competition has directly affected the premium collection. The following chart shows the number of person and percentage in the favour of options given in the opinion survey.

Chart No.4.15
Premium Collection Condition of life Insurance Companies

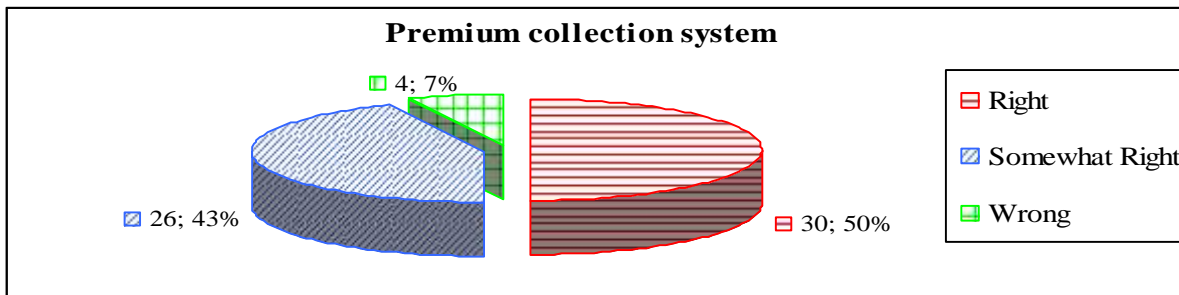


According to the viewers, around 75% of the companies are in good situation in collecting premium where about 25% are in satisfactory situation. No one company is in excellent situation in collecting premium.

4.3.2 Premium collection system of insurance company

The system of collecting premium is differing to each other according to their objective and policy. However, they cannot run off from the act. This query was intended to find out the condition of premium collection system Nepalese insurer. This question is theoretical aspect. There are so many factors, which the question was attended. The following chart shows the number of person and percentage in the favour of options given in the opinion survey.

Chart No. 4.16
Premium Collection System of Insurance Companies

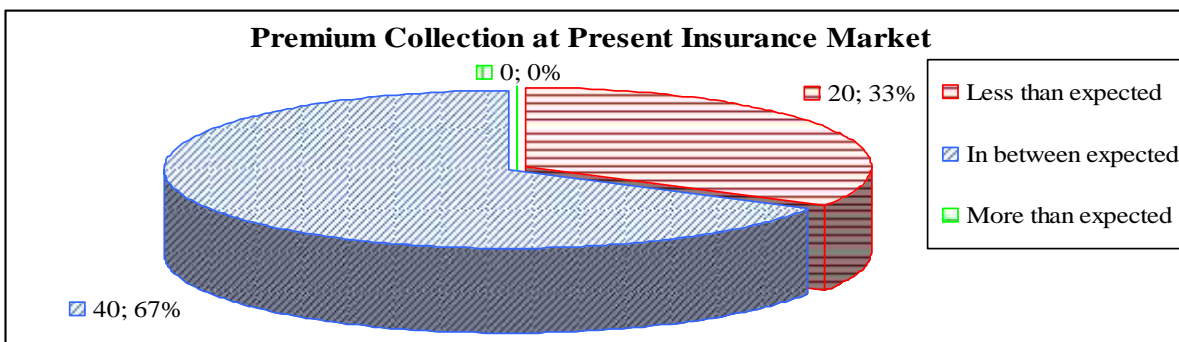


Among the entire viewers, 50% are in the favour of first option ‘Right, around 43% are in the favour of ‘Somewhat Right’ and about 7% are in the favour of ‘Wrong’. From this view, it can be concluded the premium collection system of insurance companies is not in good stead, it should be made corrective so that companies can collect more premium through best system and method.

4.3.3 How is the collection Premium at present insurance market ?

This query was intended to find out the collection trend and present collection ratio of premium at Nepalese insurer from market. This opinion gives us the position of premium collection of Nepalese life insurance company and whether they are able to meet their target or not. The following chart shows the number of person and percentage in the favour of options given in the opinion survey.

Chart No. 4.17
Premium Collection at Present Market



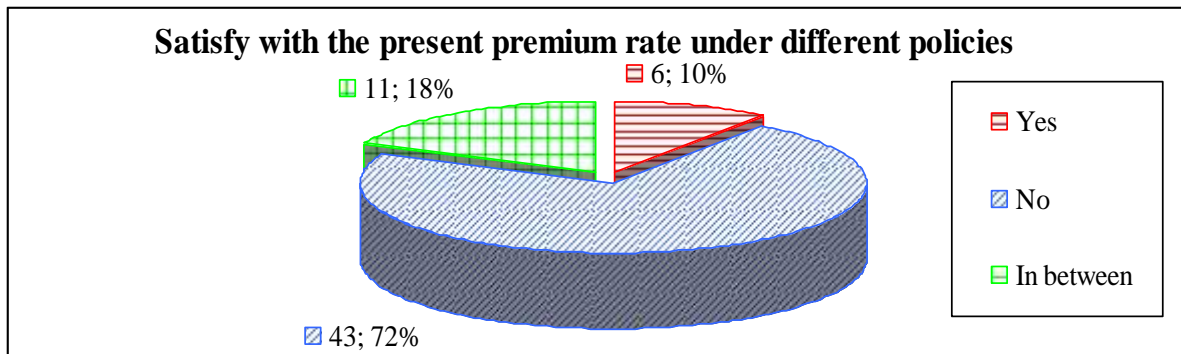
Among the viewers, around 67% of the viewers have found that they are able to collect the target premium in between expected, that is they are just to meet the target. Other 33% found that their target of collection of premium is less than expected. No one is in the view of premium collection more than expected.

4.3.4 Insurance company’s satisfaction with the rate of Premium

In order to find out the views of insurer regarding the premium rate on different heads or policy, this question is included in the query. As insurance board

directly regulate and fixed the rate of premium under different policies, this query is forwarded to know the opinion about whether they are satisfied or not. The following chart shows the number of person and percentage in the favour of options given in the opinion survey.

Chart No.4.18
Premium Rate at Different Policies

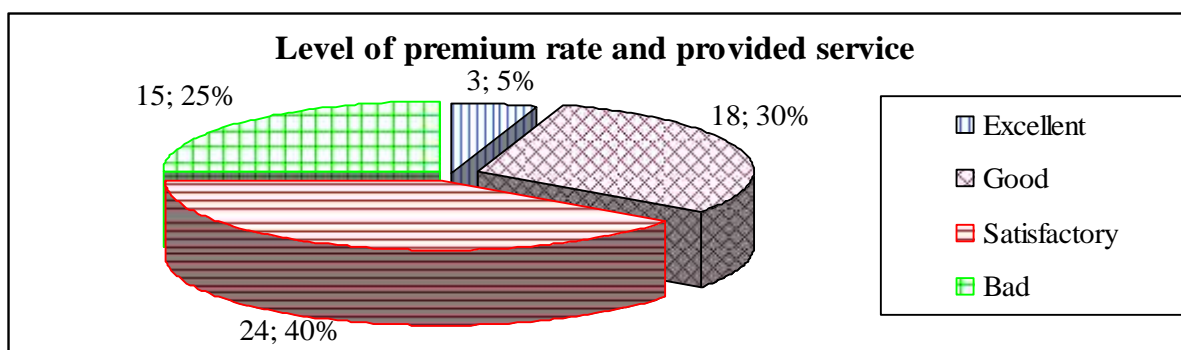


From the above chart, it is clear that more than 72% of the viewers are not satisfied with the present rate of premium. Only 10% in the favour of present rate and 18% of the persons think that they are in between. So, with the above data collected, we can conclude that most of insurer want change in premium rate which should be fixed by formulating a committee including them.

4.3.5 Clients satisfaction with Premium rate and provided service

Premium is the amount that the customer has to pay for being insured. The rate of premium varies between the same nature of company not exceeding and below the range fixed by the insurance act. In order to find out whether customer or clients are satisfaction with premium rate and service provided by insurance companies this query is included. This type of question is verbally asked to the persons coming for service to the concerned companies. The following chart shows the number of person and percentage in the favour of options given in the opinion survey.

Chart No.4.19
Level of Premium Rate and Provided Services



The above chart and table shows that only 5% of the customers are fully satisfy with premium rate and provided service by the insurance companies. About 18% of the viewers have good experience of service provided by the companies and the premium rate while more than 40% have satisfactory level. More than 25% people are badly responses by the insurance companies and are not satisfy with the present rate of premium and trend of collecting premium.

Evaluation of Insurer Views Regarding the Investment Pattern Aspect

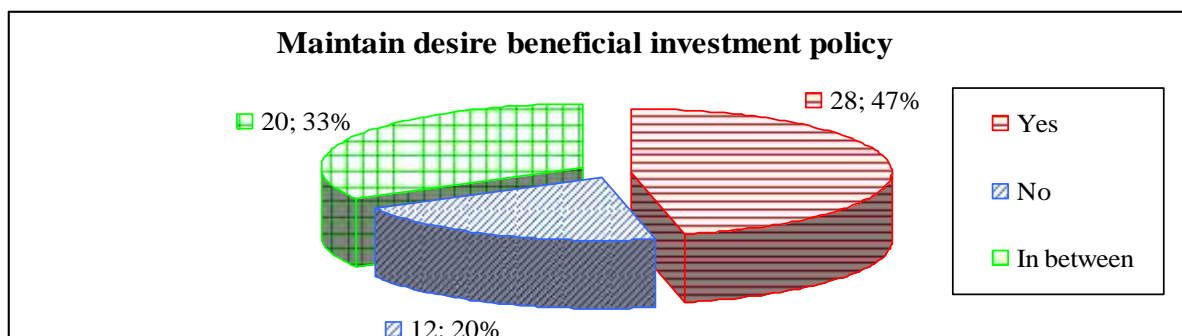
4.3.6 Is Concerned with investment management and portfolio ?

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

4.3.7 To Maintain desired / maximum beneficial investment policy

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

Chart No.4.20
Following Beneficial Investment Policy

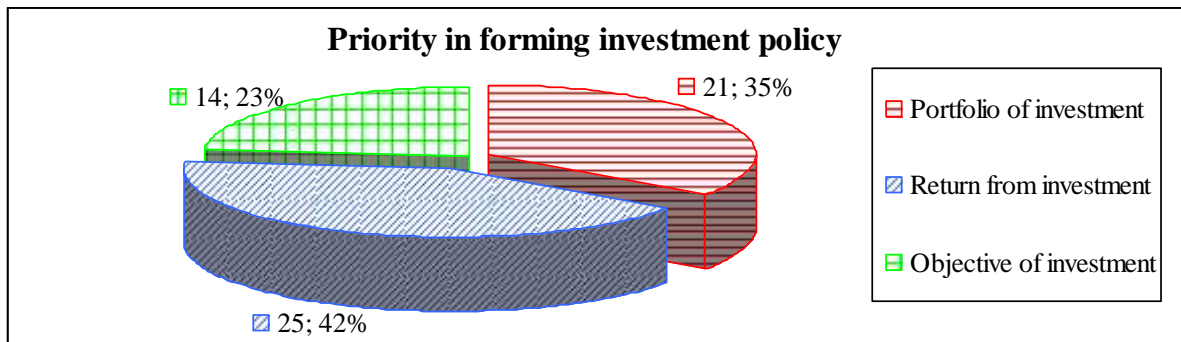


From the chart above, we can say 47% of the viewers think that insurance companies are success to maintain the desired beneficial investment policy as they have planned to implement. About 33% are in between and 20% of the viewers are in against regarding to maintain desire beneficial investment policy.

4.3.8 Priority in formulating investment policy

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

Chart No.4.21
Priority in Forming Investment Policy

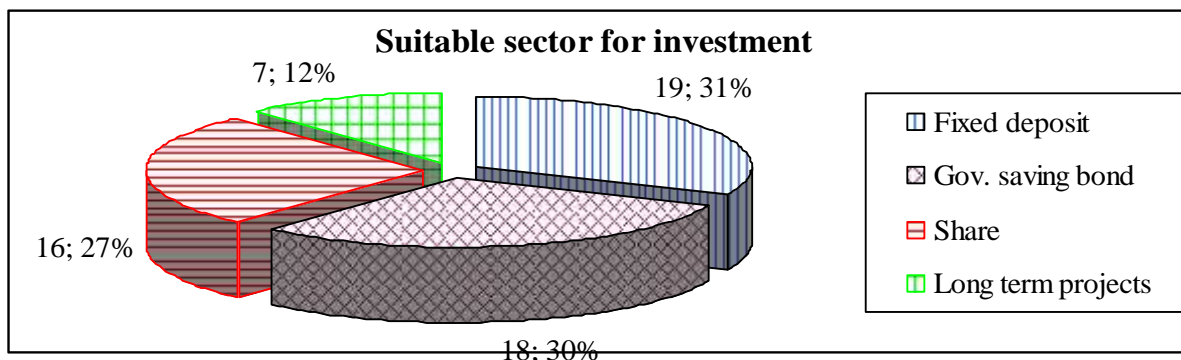


Above chart shows that about 35% of the viewer are in the favour of giving priority in portfolio while forming investment policy. About 42% think that they should focus on return from investment and 23% are in the opinion of objectives. Therefore, viewers are totally diversified in the case of giving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

4.3.9 Suitable sector for investment

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

Chart No.4.22
Suitable sector for investment

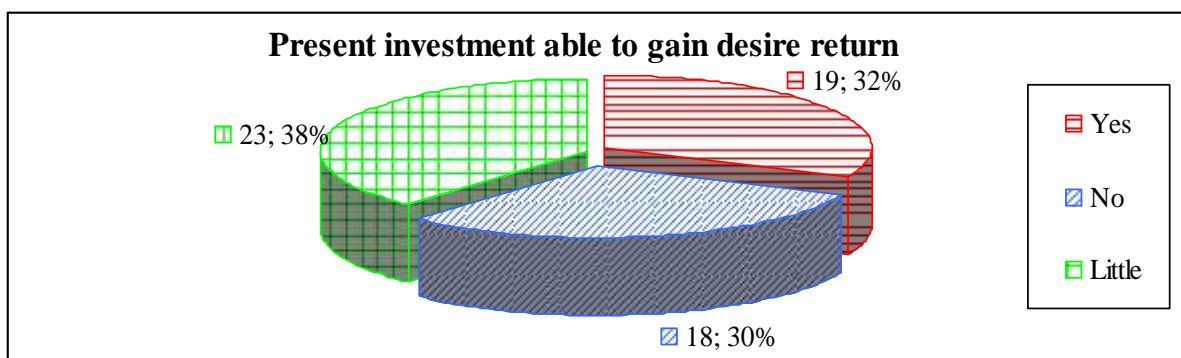


The above chart shows that the investment sector is different for different insurance companies. About 31% of the viewers are interested to invest the collected premium and fund in fixed deposit while 30% wants to invest in government saving bond, 27% in share of different companies and 12% in long-term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

4.3.10 Able to get desired return from investment

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

Chart No 4.23
Gaining Desired Level of Return from Investment

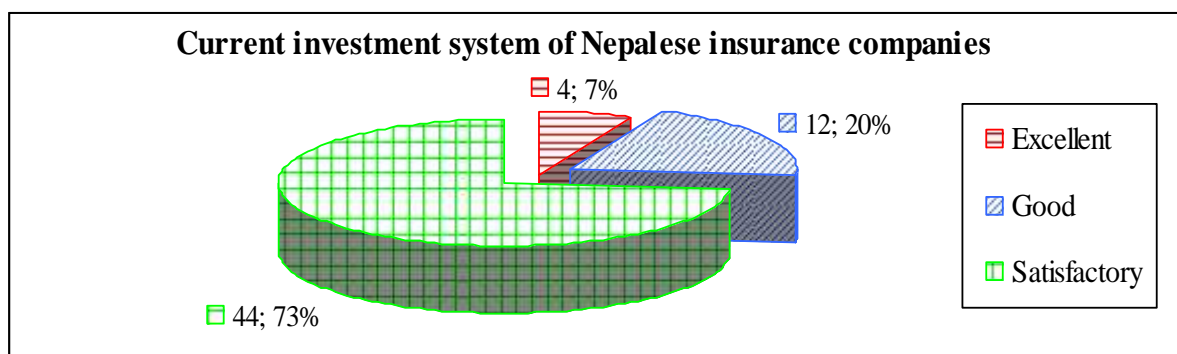


Among the observed query around only 32% of the viewer, think that they are getting the desired level of return from present return. Besides these about 30% of viewer are in against and suggest improving the investment policy or sector as they have seen that the return from the investment in present context is not sufficient. About 38% of the viewers give opinion that only little return is gaining from present investment so need to improve this situation.

4.3.11 Current investment situation of Nepalese insurance companies

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

Chart No 4.24
Current Investment System of life Insurance Companies



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

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

4.3.12 Role of insurance business for economic growth of country

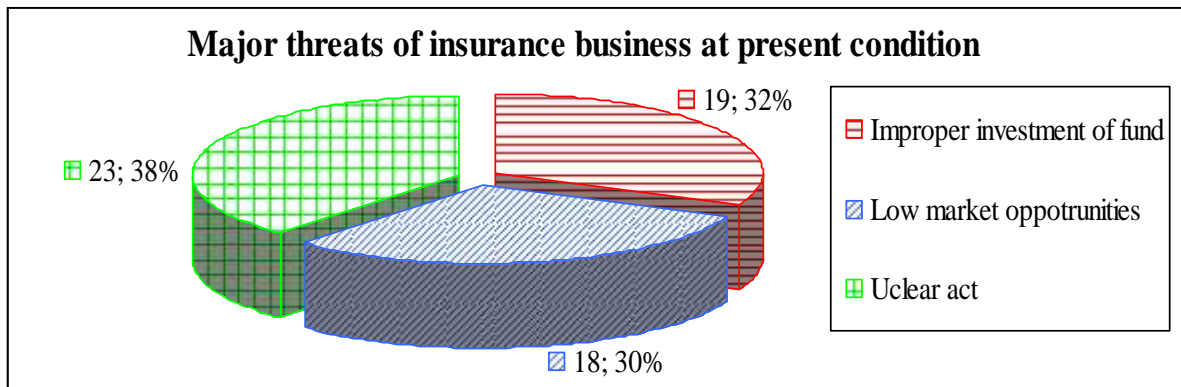
In order to find out the contribution of insurance companies in Nepalese economy, this query is included. As every business or financial institution helps to develop the economy situation of the country, insurance companies are not separate from it. Insurance companies have great role in developing economic condition as it provides investment fund and large number of employment opportunities.

All the viewers have the same opinions regarding the role of insurance company in economic growth of country i.e. significant role. No body has said of insignificant and minor role. Therefore, we can conclude that insurance companies have great deal of role in economic growth of the country.

4.3.13 Major Threats of Insurance Business at Present Condition

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

Chart No 4.25
Major Threats of Life Insurance Companies

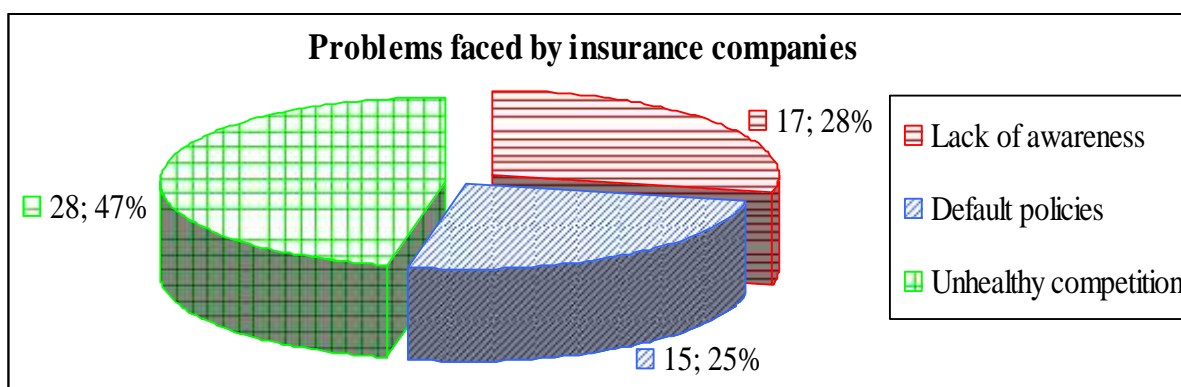


The above chart and figure show that 32% of the viewer accept improper investment of fund as major threats while 30% take low market opportunities as threats and highest percentage of 38 think unclear act published by government regarding insurance business is major threats. So, different viewers accept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

4.3.14 Problems facing by Insurance Companies

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

Chart No 4.26
Problems Facing by Insurance Companies



Among the viewers, 28% accept lack of awareness as major problems by insurance companies while 25% think the main problem is default policies of government and companies too. Rest 47% of the viewer consider unhealthy competition is the main problems, which the insurance companies are facing

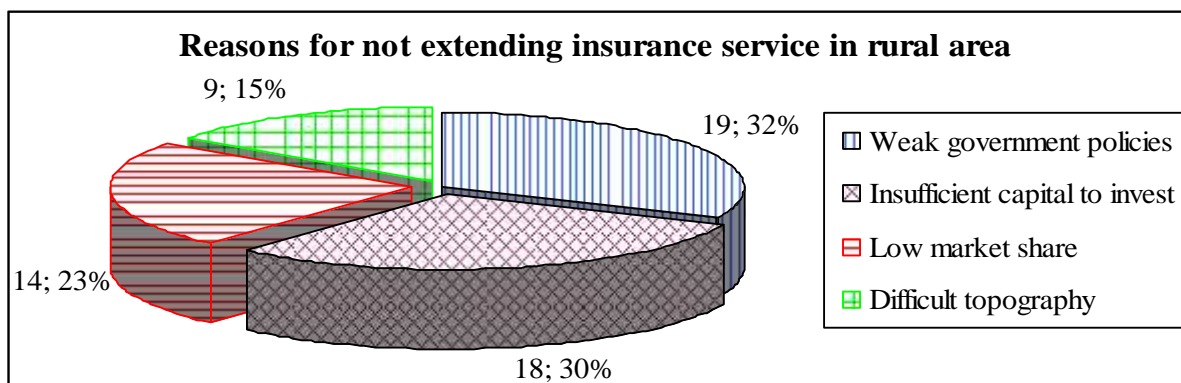
now. As the numbers of companies are increasing day by day, companies are practicing unhealthy competition for their existence and growth.

4.3.15 Reasons for not Focusing Rural Area by Insurance Companies

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

Chart No 4.27

Forces not to extend Insurance Service in Rural Area

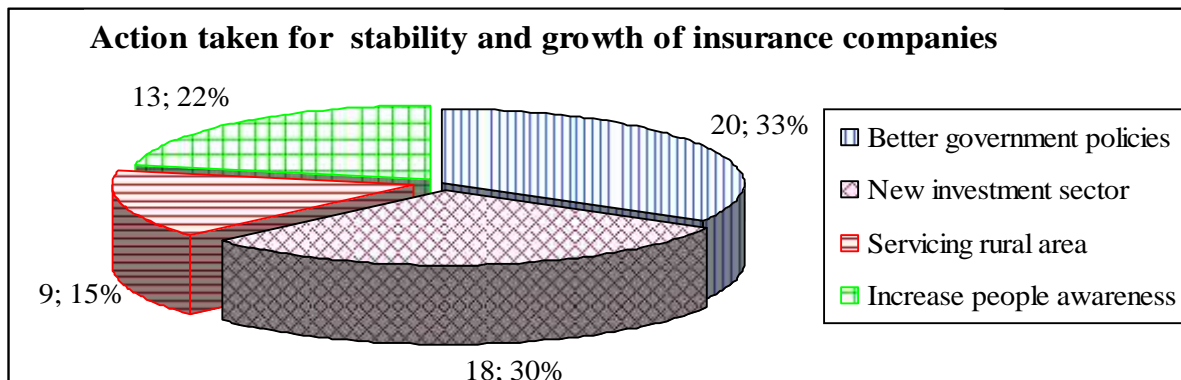


From the chart presented above, we can say that neglecting services in the rural area is not of only one reason. All the reasons presented above play role for it. According to it, 32% of the viewer think that it due to weak government policies, 30% think that of insufficient capital to invest, 23% suppose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

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

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

Chart No.4.28
Improvement for Stability and Growth of Insurance



The above figure and chart tells us that we should take necessary step for the growth and stability of insurance companies. About 32% of the viewers suggest for the better government policies, 30% of viewer think to invest the fund in new area, 15% of people suggest extending the insurance service to rural area also and 22% of viewer suggest improving on people awareness about insurance need and importance.

4.4 Finding of the Study

This chapter concentrated on drawing the conclusion of all analysis and providing suggestive package of premium collection and investment aspect of Nepalese Life insurance industry with the help of secondary and primary data. Insurance Business is one of the most important aspects of the economy. Insurance business plays the great role in the national financial system. The growing numbers of insurance companies are competing with each other to attract policyholders with different types of insurance policies. In this regard Nepal Life Insurance Company Limited and Life Insurance Corporation (Nepal) Limited played vital role for socio-economic development within the nation either by transferring risks of by collecting scattered resources. In this study two life insurance companies are taken just for sample which represented whole life insurance business of Nepal. On the basis of study some findings and recommendation are identified. The position of premium collection and investment of Life Insurance Companies in Nepal has been already analyzed by using various financial and statistical tools. Based on the analysis some of the major findings are as follows.

-) The Life insurance industry's total premium collection amount and premium increase ratio both are increasing in various fiscal years. Total

premium amount is in upward sloping to right. The increasing rate of premium collection is also upward sloping except in year 2064/65. Industry is able to maintain 26.54% increase rate. Again the calculated CV is 26.15% which revealed that the life insurance industry is suffering from high risk to grow business and the ratios are not consistency.

- J The company's ratio on first life premium to total life premium collection ratio are in fluctuate trend. The highest ratio NLIC and LIC are in the fiscal year 2065/66 and 2066/67 respectively. The decrement ratios of NLIC & LIC are in the fiscal year 064/65. Even NLIC & LIC companies are able to maintain 30.53% & 26.43% of average weight of First life premium. The CV is 9.63% & 10.59%. It shows that the ratios were little consistent and stable.
- J The ratio between renewal life premium and total life premium is also in fluctuate trend. The ratio varied between 65.23 to 78.65%. Highest ratio of NLIC was in FY 062/63 and the least was in the FY 065/66. Again the calculated C.V. of NLIC & LIC was 4.23 & 3.81% respectively showed the satisfactory result and reveal that the company was suffering negligible risk.
- J Premium collections of Life insurance business have increased day by day. It was Rs. 335.55 crore for the year 2062/63 whereas it was Rs.876.60 crore for the year 2066/67.
- J The increment of first premium, renewal premium and total life premium of LIC is also increasing regularly. It covers about 18 percent of life insurance business with about 30 percent increment rate.
- J The first life premium, Renewal life premium and Total amount of premium of NLIC are regularly. At latest period the company is able to maintain about 40 % annual growth rate with about 20% of whole life insurance industry.
- J The numbers of policies are increasing regularly except in FY 2063/64. From last four years number of Life Insurance Company is also increased. Even numbers of policies are increasing at increasing rate. On average 425 thousand policies are increasing per year.
- J Liquidity positions of both (NLIC & LIC) companies are satisfactory.

- J The investment made by the life insurance business is increasing regularly. There is much unfavorable condition in nation. Life insurance business is successful to increase investment fund. Even rate of increment is not constant. It is decreasing firstly but since FY 2064/65 it is increasing. i.e. the curve of increase rate is upward to the right. In data it is able to make average investment fund of Rs 2358.02 crore with 31.56% of CV. the average rate of increment is 25.53% with 28.75 of CV which shows that increment rate of life insurance investment are less consistent.
- J The investment made by the Nepal life insurance company ltd is also increasing regularly as industry. The rate of increment in investment fund is decreasing in early period but since FY 2064/65 it is increasing. In data it is able to make average investment fund of Rs 321.55 crore with 46.29% of CV. the average rate of increment is 40.79% with 35.47 of CV, which shows that increment rate of NLIC investment are less consistent.
- J The investment made by the Life Insurance Corporation Nepal ltd is also increasing regularly as industry. The rate of increment in investment fund is decreasing in early period but since FY 2064/65 it is increasing. In data it is able to make average investment fund of Rs 304.97 crore with 46.61% of CV. the average rate of increment is 46.05% with 30.14 of CV, which shows that increment rate of NLIC investment are less consistent.
- J In case of Life Insurance Industry, the coefficient of determination is 0.9964, which means that the variation in independent variable (premium collection) explains 99.64 variations in dependent variable (investment). The coefficient of correlation (r) is greater than the 6 P.E. (r), hence the relation between premium collection and Investment is significant.
- J There is not significant difference between total premium collected by NLIC and LIC.
- J There is not significant difference between total investment made by NLIC and LIC.
- J Various problems are existing for the development and growth of insurance companies in which main are limited scope for business,

great competition among existed companies, and lack of awareness, educational level and one-sided economic condition.

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

- J In the case of premium collection condition of Nepalese life insurance, there are variations of view. 75% of the insurers are side of good, 25% are in side of satisfactory and none is in side of excellent. But, 50% of the viewers are satisfied with the premium collection system and rest 43% and 7% are in side of somewhat right and wrong system.
- J However, almost, of the insurer can collect the premium under their target. Only 33% of the insurer cannot collect under target and 67% are able to collect in between target. However, more than 72% of the insurance are not agree with the premium rate that is issued by Beema Samittee (Government of Nepal).
- J Regarding customer's satisfaction of service and premium rate, different result has come out. About 5% have excellent service while 30% are in good side, 40% are in satisfactory side and 25% are satisfied with present premium rate and services.
- J The premium collection rate of Nepalese insurance industry has been fluctuating trend under all respective policy in each year and differentiation in investment amount with respective investment sector (optional and compulsory).But almost of the insured chargeable rate of premium is based on Beema Samittee's regulation. However, as for life insurance, premium is calculates personal character sticks of insured person under based on Beema Samittee' regulation and policy.
- J Almost of the companies followed the investment policy at investing a fund but some insurer give less importance on investment policy and they invest their fund only accordance to government rules and regulation and management desire. Although the entire insurer concerns with investment management and they heartily accepted if too.
- J All the insurer or insurance industry prefers the portfolio to investment a fund and they accept its essence in investment. However only 47% of insurer utilizes and maintain the maximum beneficial investment policy among the insurer. Among the investment sectors 31%of the insurer addressed their importance in fixed deposit, 30% are in side of government saving bond and rest favored to make combination of

investment sectors. Their views show the higher preference to bank fixed deposits of insurer.

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

CHAPTER V

SUMMARY, CONCLUSION & RECOMMENDATION

5.1 Summary

The concept of insurance was developed to minimize the risk and uncertainties. Day by day the insurance companies became powerful as emerging contractual saving institution since people contributed by way of premium to purchase of different kinds of policies to protect against risks of life and properties. Nepal is a developing country. It is moving towards revolution and trying to initiate the modern technology in every field. For the entire development of the country, the government recognized the liberal economic policy and open competitive view. Thus after 1990's, financial intermediaries have been grown rapidly. Financial intermediaries consist of commercial banks, mutual bond and saving, finance company, insurance company etc. Among financial institutions and intermediaries, insurance company is also the major one. The development of the country is possible only when competitive insurance services reach every corners of the country. Insurance companies occupy quite an important place in the frame – work of every economy because it provides certainty to industry, business and capital for the development of the country. Industry in modern time is associated with every aspect of human activities.

Nepal Life Insurance Company, NLIC was established to cater the financial and social needs of every segment of society by designing differentiated and innovative insurance instruments. NLIC, established under the Company Act 2053 and Insurance Act 2049 as a public limited company on 2058/01/21 (04/05/2001). NLIC is the foremost life insurance company established by private investors. The promoters of the company are a group of well known businessmen and business houses of Nepal. Within the nine years of operation the Company has set up an excellent business record and has a strong financial position.

Life Insurance Corporation was established to Ensure and enhance the quality of life of people through financial security by providing products and services of aspired attributes with competitive returns and by rendering resources for economic development. LIC (Nepal) Ltd. is one of the largest capitalized insurance companies of Nepal. A joint venture between Life Insurance Corporation of India (55%) and Vishal Group of Nepal (25%), the insurance company has public participation to the extent of 20%. Life Insurance Corporation (Nepal) Ltd. having Registration No: 765-057/58, was incorporated

under the Companies Act 2053, on 27.12.2000. It has started Operations since 01.09.2001.

There are nine life insurance companies. Life Insurance business is very important for modern age. It gives financial security to individual and business enterprises. It is due to financial security given by insurance companies that make possible for world to come in this stage. Insurance is very important in the developing countries like Nepal. The average income per family is very low. Most of the families depend in a single person income. If the earner becomes ill, the family finds nothing to survive on. Life insurance may be good solution in such circumstance. Still, we can say that insurance is not getting enough popularity among people. The numbers of insurance policies undertaken are almost negligible. A deep, study is needed to find out why insurance business has been unable to attract enough public attention. Even though, 97% of life insurance markets remain untouched by life insurance companies. The experts said that the life insurance companies could easily collect more than one thousand million without suffering any difficulties. Risk is the basis of insurance. It is meaningless to think life without risk. Risk is existed in every place and time. Only way to get protection from risk is insurance. Premium collection and investment are the vital activities of insurance companies. Success and failure of any insurance company depend upon these activities. As the topic of the study, "Premium Collection and investment pattern of Life Insurance Companies in Nepal" deals with the problems regarding these important tasks of the company. The study is significant to the management of the Life insurance companies to take the right decision regarding the premium collection and investment. It also helps to the management of the other type's insurance companies. Shareholders, investors, customers, competitors, personnel and other stakeholders can get necessary information.

5.2 Conclusion

This study was undertaken to find out the premium collection and investment pattern of Life Insurance Companies in Nepal. Nepal Life Insurance Company limited and Life Insurance Company (Nepal) limited are taken the sample which leads the whole life insurance business of Nepal. The Life Insurance industry's premium collection is in increasing trend but rate of increasing premium year to year is in fluctuating position. Regarding the life insurance business, total premium collection was only of approximately 335.55 crore in starting fiscal year i.e. 062/63 whereas it has been increased to 876.60 crore in last year of the study period i.e. 066/67. The industry is able to maintain Rs 551.67 crore average premiums per year with 26.54% of average increase rate.

There are nine life insurers in the country. They are competing with full power. NLIC and LIC Covers the large portion of life insurance business. NLIC and LIC should also apply different strategy to compete in this market. More than 70% of total premium covers by renewal premium of both companies as industry. The average ratio of first life premium to total life premium of NLIC & LIC are 30.53 and 26.43 respectively.

The total investment of industry was only of approximately 1520.11 crore in starting fiscal year i.e. 062/63 whereas it has been increased to 3646.71 crore in last year of the study period i.e. 066/67. The industry is able to maintain Rs 2358.02 crore of average investment per year with 25.53% of average increase rate. NLIC and LIC both companies have maintained satisfactory portion of its investment. The average investment of NLIC is 321.55 crore with 40.79% of annual growth rate, where average investment of LIC is 304.97 crore with 46.5% annual growth rate.

With the test of correlation coefficient researcher found that there is high degree positive relationship between premium collection and investment of life insurance business, which means premium collection and investment are fluctuating accordingly. The variation in premium collection explains 99.64% variations in investment. Again T-Test shows that there is not significant difference between total premium collected by NLIC and LIC as well as investment made by NLIC and LIC.

5.3 Recommendation

All the study is analyzed reviewing the secondary data from annual reports, articles, web sites and reports from Beema Samitti. Financial and Statistical tools are applied to reveal the problems. The recommendation is provided on the basis of findings from the analysis. On the basis of major findings some useful recommendation that would be implemented a guideline to life insurance companies for future adoption.

-) First premium of life insurance hold significant important role in total life premium collection. It is regular amount that the policy holder should pay to the company till the expiry of time or his death. So if the company success to collect more life premium collection, it automatically increases the total life premium collection in the following years. So, the companies should focus on it and make strategy to collect more first life premium collection.

-) There are nine life insurance companies. Among them Rastriya Beema Sansthan, NLIC & LIC are major company. The analysis shows that the industry is not able to maintain constant growth rate on premium collection. So the industry should make strategy to collect more premiums.
-) The opportunity for life insurance market of Nepal is very large. There is not perfect competition between life insurance companies in Nepal. So, all companies are doing their business independently. Even they are functioning traditionally. So NLIC and LIC should issue new policies. It can help increasing premium collection at increasing rate.
-) Every insurance company should invest 75 % of its investible fund towards compulsory sectors set by Insurance Board of Nepal; rest 25 % can be diversified. So, after maintaining this rule NLIC and LIC can diversify its fund in others sectors like finance company fixed deposits, corporate securities, hydro power projects, real estate and housing etc.
-) There is big problem that most of people are unknown with the benefit of life insurance. So life insurance companies should go every corners of the nation to teach about the benefit of life insurance.
-) The least portion of total life investment goes to policy loans. It is also one kind of secured loan because original life policy is pledge to get policy loan and the loan is given only limit of 90 percent of surrender value. Company earns about 11 % interest rate which is more than investing in other sectors.
-) Settlement of claims should be made in time. Delay in the settlement of claims may affect the business potentiality. Further, attention has to be adequately provided towards the faithfulness of the insured in connection with the claims arising due to the specified events.
-) The every company should increase the efficiency of employees. Various programs should be held to develop the skills of the employees so that it finally results in the overall development of the industry.
-) The every company as well as beema samitee should establish separate research and development department. This department looks the present and potential business opportunities in the market.
-) There should appoint more agents to increase its business. The insurance business is more competitive than the past years.

-) It is highly recommended that there should appoint more capable agents and announce new schemes to increase the efficiency of the agents.
-) The industry is suggested to expand insurance activities in rural areas by the establishment of branches or by the appointment of agents according to its potentiality.
-) The life insurance companies should be secured by issuing more life insurance policy, as it is long-term contract.
-) The life insurance companies should introduce new policies like: umbrella policy, health insurance policy, medical insurance policy, different part of body insurance policy, sound policy, vocal policy etc in order to increase its life premium collection.
-) The industry should prohibit proxy agents.
-) Claims should be paid in time as it strengthens the trust of the company.
-) Emphasis should be given for advertisement and publicity and to expand insurance activity in rural area by the establishment of branches or by appointment of agents according to its potentiality.
-) Insurance companies are suggested to expand insurance activities in rural area by the establishment of branches or by the appointment of agents according to its potentiality.
-) Nepalese insurance business should be social responsibility oriented rather than premium oriented in order to develop this business at present situation.

BIBLIOGRAPHY

Books:

Ackerman, S.B., (1951), *Insurance – A Practical Guide*, New York The Ronald Press Co...

Bhattarai R.N.; Thapa Kiran; Basnet Dinesh(2008), *Investment*, Asmita Books Publicers & Distributers, Kathmandu

Bickeinaupt, David L., (1983), *General Insurance*, Illinois Irwin Homewood.

Commission on Money and Credit, (1963), *Life Insurance Companies as Financial Institutions*, Prentice Hall Inc., Englewood cliffs, N.J.

Dangol, Ratna Man, (2004), *Financial Management*, Kathmandu Taleju Prakashna, Bhotahiti.

Dowrie, G.W. and Fuller, R.D., (1950), *Principle of Insurance*, New York John Wiley and Sons Inc.

Joshi, P.R., (2003), *Research Methodology, 3rd edition*, Kathmandu Buddha Academic Enterprises Pvt. Ltd.

Kothari, C.R, (1994), "*Research Methodology, Methods and Techniques*", New Delhi Vikash Publication House Pvt. Ltd.

Magee, John H., (1985), *Life Insurance*, Richaed D Irwin. Inc. Home wood Illinois.

Mahat, R.S., (1981), *Capital Markets, Financial Flows and Industrial Finance in Nepal*, Lalitpur Sajha Prakasan.

Maher, R. I. and Emerson, Cammack., (1974), *Principle of Insurance*, America Richard D. Irwin, Inc.

Mehr, Robert. I., (1986), *Fundamentals of Insurance*, Illinois Irwin, Homewood.

Mishra, M.N, (1997), *Insurance Principle and Practice*, India S Chand & Sons Company ltd.

Pant, G.D. and Chaudhary A.K., (1997), "*Statistics and Quantitative Techniques*" 2nd edition, Kathmandu Nepal Sahitya Prakashan Kendra.

Rose, Peter S. (1997), *Money and Capital Markets: Financial Institution and Instrumental in a Global Marketplace*, Irwin, Chicago, 8th edition.

Sharma, P.K. and Chaudhary, A.K., (2000), "*Stastical Methods*," Kathmandu Khanal Books Prakasha.

Sharp, W.F. Alexander, G.J. and Bailey, (2000), *J.V Investment, 5th ed*, New Delhi Prentice Hall of India Pvt. Ltd.

Shim, J.K. and Siegel, J.G., (1989), "*Encyclopedic Dictionary of Account and Finance*", New Jersey Prentice Hall.

Thapa Kian, *Financial Institution and Market*, Asmita Books Publishers and Distributors, Kathmandu

Welshman, M. T. and Melcher, R. W., (1980), *Finanace; St. Paul An Introduction to Financial Markets and Institution*, South West Publishing Co.

Williams, Smith and Young, (1995), *Risk Management and Insurance*, Singapore Mc Grew-Hill.

Wolf, Howard K. & Pant, P.R, (2000), "*Social Science Research & Thesis Writing*" second edition", Kathmandu Buddha Academic Enterprises Pvt. Ltd.

Unpublished Thesis:

Gelal, Shree Prasad, (2006), "*A comparative financial analysis of Nepal Insurance Company and National Life and General Insurance Company Limited*", An unpublished Master Degree Thesis (S.D.C.), T.U., Kathmandu.

Neupane, Rabindra(2010), "*Premium Collection and Investment Pattern of Insurance Companies*" An Unpublished Master degree Thesis,(S.D.C),T.U. Kathmandu.

Pathak, Arjun Raj, (2002), "*Evaluation of Financial Performance of Nepal Insurance Company and Himalayan General Insurance Co. Ltd*", An unpublished Master Degree Thesis (S.D.C.), T.U., Kathmandu.

Shrestha, Shaillendra, (2002), "*A study on premium collection and investment position of National Life and General Insurance Company Limited*", An unpublished Master Degree Thesis (S.D.C.), T.U., Kathmandu.

Tapol, Manishman(2008), "*A Cash Flow Management of Nepal Life Insurance Company*, An Unpublished Master Degree Thesis(S.D.C.), Kathmandu.

Thapa, Tara Bahadur, (2002), *Insurance industry in Nepal; "A comparative study on premium collection and investment pattern"*, An unpublished Master Degree Thesis (S.D.C.), T.U., Kathmandu.

Website:

<http://www.bsib.org.np>

<http://www.investor'sworld.com>

<http://www.ird.gov.np>

<http://www.mof.org.np>

<http://www.nepalstock.com>

<http://www.nrb.org.np>

Annex I

Questionnaires for Research

This questionnaire is prepared only for assist the research conducted for the partial fulfillment of requirement of the Master of Business Studies (MBS) Degree. The collected views will be used for the purpose of the study and will not misuse anywhere. Therefore the views and opinions will be kept confidential and will not be published anywhere.

Further, I would like to request you to fill up the questionnaire and conferring your view with full co-operation and radiant participation. Your co-operation counts a lot for the success of the study. To attain your views and opinions, please put the tick mark on the 'Box' and write your ideas, opinions, judgment and conclusion as for questionnaire.

Again, requesting and thanking you.

Name of Insurance Company:
Name of Representing Personnel:
Designation:

Schedules of Questionnaires:

1. What condition is of the premium collection (of insurer) at present situation?
 Excellent Good Satisfactory
2. How is the premium collection system of yours insurance company?
 Right Somewhat Right Wrong
3. How is the collection from premium, at present insurance market?
 Less than expected In between expected More than expected
4. Are you / your firms satisfied with the various rate of premium under different insurance policy?
 Yes No In between
5. How well are you/ your firm concern with investment management and portfolio?

Significant Concerned Somewhat Concerned Not Concerned

6. Do you feel that you/ your firm are able to maintain the desired / maximum beneficial investment policy?

Yes No In between

7. While forming the investment policy, what will be you / your firm's preferences among these?

Portfolios of investment Return from investment Objective of investment

8. Which sectors are suitable for the purpose of invest to the insurer?

Fixed Deposit Gov. Saving Bond Share in Market
 Any Others

9. Is the present investment able to gain desired return?

Yes No Little

10. How is the current investment system of Nepalese insurance companies?

Excellent Good Satisfactory
 Any Others

11. Is the insurance company has any role in the growth of economic condition of country?

Significant Insignificant Minor

12. What may be the major threats of insurance business at present condition?

Improper investment of fund Low market opportunities Unclear act

13. What are the problems, do you think, insurances companies are facing now?

Lack of professional manpower Default policies Unhealthy competition

14. What is the level of services and solutions provided by Nepalese insurance companies?

Excellent Good Satisfactory Bad

15. Most insurance companies not focus in the rural area due to

Weak government policies Insufficient capital to invest Low market share

16. What should do for the stability and growth of insurances companies in Nepal?

Formulate better government policies

Explore new investment area

Extend in rural area

Increase people awareness

Bharat Tiwari

Researcher (MBS Student)