

**A STUDY ON PREMIUM COLLECTION AND FINANCIAL  
PERFORMANCE ANALYSIS OF NEPAL INSURANCE COMPANY  
LIMITED**

**A Thesis  
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# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the Study

Insurance has been introduced to safe guard the interest of people from uncertainty. As the growth of human civilization people developed everywhere and made their life more comfort but some sort of losses is also coming together, which are out of their control. The owner aware of this can so manage his affairs that by the end of that life time of the assets, a substitute is made available to insure that the benefits (of value or income) are not lost. However, if the assets get lost earlier, being destroyed or made non-functional, through an accident or other unfortunate event, the owner and those deriving benefits there from, suffer. Insurance is a mechanism that helps to reduce such adverse consequences. The risk only means that there is a possibility of loss or damage. It may or may not happen, there has to be an uncertainty about risk. Insurance is done against the contingency that it may happen. Insurance is related only if there are uncertainties. If there is no uncertainty about the occurrence of an event, it cannot be insured against.

Insurance does not protect the assets. It does not prevent its loss due to the peril. The peril cannot be avoided through insurance. The peril can sometimes be avoided through better safety and damage control management. Insurance only tries to reduce the impact of the risk on the owner of the assets and those who depended on that asset. It compensates, may not be fully, the losses. Only economic or financial losses can be compensated. The love and nurturing lost to the family of a deceased person cannot be compensated.

Insurance is defined as a co-operative device to spread the loss caused by a particular risk over a number of persons who are exposed to it and who agree to ensure themselves against to co-operate each other at the time of the loss. The loss cannot be averted but loss occurring due to a certain risk can be distributed among the agreed persons. Anyone

of them may suffer from loss to a given risk, so the rest of the persons who are agreed will share the loss (Aryal, 2005:5-7).

The insurance has proved as double weapon for socio-economic development of the nation. In one way it provides financial security against the uncertainties to the person industry, commerce and other assets. In the other way insurance business collects the scattered financial resources and injects the bulk amount of money in the productive sector, which helps for the growth of industrialization and commercialization. The proper development of the industrialization and commercialization make the better economic standard of the country. Only efficient management and sound financial position of the company can achieve these sets of goals (Pathak, 2002:17).

Financial analysis is the process of identifying the financial strength and weakness of the concern. It is the process of critically examining in detail accounting information given in the financial statement by evaluating the relationship between component part of financial statement to gain better understanding of the firm's financial position and performance. Thus the financial analysis is the key point of the concern for the financial forecasting and planning.

### **1.1.1 Evaluation of Insurance**

Insurance is said to have commenced with marine insurance covering goods sent on ships, against the risks of piracy and storms. The Lloyds Coffeehouse in London where the traders used to gather and from where the first insurance risks were underwritten still exists and continues to be the center of insurance activity. Life and other insurance developed later. The first life insurance policy is said to have been issued in 1583 in England Motor insurance a fascinating branch of insurance had its beginning in the United Kingdom in the early part of 19th century. The first motor car was introduced in England in 1894. The first motor policy was introduced in 1895 to cover third party

liabilities. By 1899 accidental damage to the “comprehensive” policy along the lines of the policy issues today.

The great fire of London in 1666 caused such huge damage to property and life that attention was called to the problem of adequate fire insurance facilities. Dr Nicholas Barbon responded to this situation by building houses to replace those, which had been destroyed and offering fire insurance to purchasers. In 1667 he established the world’s first fire insurance company known as fire office.

### **1.1.2 Development of Insurance Business in Nepal**

In Nepal the history of modern insurance is not so far before 2007 BS revolution there was no any economic activities. Nepal Bank Limited was the first organization of Nepali economic which established in 1994 B.S. for carrying and custom clearing of its own imported goods it though necessity of a company. So a company was established in 2004 BS with the name of “Mal Chalani and Beema Company”. It was the first insurance Company of Nepal. It was later on converted into Nepal insurance and Transport Company Ltd, in 2016 and “Nepal Insurance Company Ltd.” since 2048 B.S. Basically the company is concentrated on General insurance. At that time it faced competition with some Indian insurance company (Pathak, 2002:21).

Considering the role of insurance business in the expansion of economic activities and alarming outflow of money from the country, the government introduced Rastriya Beema Corporation under the insurance Act 2025. The third insurance of Nepal is National life and General Insurance Co. Ltd in 2043. After the democracy, insurance Company is growing rapidly and till now there are in total 21 insurance Companies in Nepal. Among them 14 are General Insurance, 5 are life Insurance, and 2 are both Life and General Insurance. The Government has organized Beema Samiti in 2025 under the insurance Act. 2025. This board was organized to enforce rules and regulation regarding insurance business in the nation as an authorized body of Government.

## **1.2 Brief Introduction of Nepal Insurance Co. Ltd**

Nepal Insurance Co Ltd is the first insurance Co of Nepal. The company specializes general insurance business. It is mandated by 51% of Nepal Bank Limited and 49% of the public. The head office of the company is located in Kamaladi Kathmandu. Company has six branch offices which are located in Biratnagar, Birgung, Narayangarh, Pokhara, Khasauli, Nepalgunj, and three contact offices in Birtamod, Lahan, Dhangadhi, similarly there are five collection center, in Dharan, Janakpur, Hetauda, Banepa and Bhairahawa. The head office of the company is located in Kathamdn. Here 140 personnel are working under this company as a staff.

### **1.2.1 Historical background of Nepal Insurance Company Limited**

Nepal insurance company limited is the first insurance company of Nepal. It was established by Nepal Bank Limited in 2004 Bs with the name of Nepal Mal Chalani and Beema Company. At that time it had done General insurance and custom clearing of Nepal Bank Ltd, in 2016 BS the name of this company changed into “Nepal Insurance and Transport Company Ltd,” Later in 2048 BS. This company was renamed as Nepal insurance Co. Ltd. Mainly it was established with an objective of undertaking general insurance business. The company performed transportation function in addition to insurance business, but now it has been made a specialized insurance and has actively operative its function through various department. They are as follows:

#### **I. Underwriting Department:**

This department has an arrogant role in insurance business and service. As this department comes closer to the customers just after the Marketing department to offer the service. It has to determine the possible risks expertly be needed for the properties and calculate the premium immediately. Having calculated the premium for insured property, the policy should be issued at the same time. Such instant service can leave the deep impression in the heart of the customer towards company and insurance service.

## **II. Claim Department**

Any insured goods may be damaged in any time. Then the duty of claim department comes to compensate for the damage. Therefore, as soon as the intimation is got of being damaged insured goods, the survey should be appointed in on time to survey the damaged goods and collect relevant documents. Although the sufferer doesn't take interest as regarding claim, the department should take the interest enthusiastically to collect the report of surveyor and should be finished the claim as soon as possible. If necessary, the department has to inspect the claimed properly and on-the spot. Such kind of action not only satisfies the customers but also create the faith on company. Moreover it reduces the fake of surveyor and delusive claim.

## **III. Account Department**

Today's world is the world of give and take. Anyone expect some if one gives some. Therefore the department has to issue the cheque of amount immediately after the decision made from claim department. We have to deposit handsome amount to get the business from financial institute. So the department has to distribute the fund of deposit pragmatically according to business volume of financial institute and need. The system of accounting should be simple and fast on the base of modern principal.

## **IV. Marketing Department**

This department has always to be aware of rivals' marketing policy and strategy. It has to think of rivals' activities every moment what they are doing. The other duty of the department is to study the condition of market and mentality of customer in the changing marketing environment. The department has to train and hold seminar and get-together programs frequently to the concerned staff who are the staff of those institutes giving us regular business in large volume, such as the staff of different banks.

### **1.2.2. Objective of Nepal Insurance Company**

The main objecting of Nepal Insurance Company Limited can be highlighted as follows.

1. To provide non life insurance business in the country and abroad.
2. To provide re-insurance business as well as accept reinsurance policy from other insurance company in the country and abroad.
3. To provide the clearing service to dispatch the goods from custom and provide financial support for this service if it need.

### **1.3. Statement of the Problem**

After the established of democracy, Nepal Government has adopted economic liberalization. Many more financial institutions including insurance co. established in the country as a result. Nepal Government tried to develop the financial market with faire competition. As a result many more old companies faced the increasing competition in their existing market. Financial factor is the key element of any firm to its successful running. The present study evaluates a modest attempt to analyze financial performance of Nepal Insurance Co. Ltd. in the current situation. In spite of being a first insurance Co. of Nepal, the total Business Volume of this Co. is very low portion of insurance market of Nepal. The increase of re-insurance premium indicates that NICO has not increased its risk bearing capacity. Major part of total investment is made in the government securities and fixed deposit shows that NICO management seems risk averter and has not paid attention to make effective investment portfolio. According to the statement (points) some questions arise for solving the problems.

- I. How is the financial position of NICO?
- II. How is the resource utilization of NICO?
- III. How is thinking about investment profitable?
- IV. Which insurance business is relatively profitable?
- V. What are the relationships between variables of performance indicator?

VI. What are the factors that affect the performance of NICO?

### **1.4 Objectives of the Study**

The major objective of the study is to evaluate the financial performance of Nepal Insurance Company limited. The specific objectives are highlighting the following aspects of the NICO.

- a. To analyze the financial position and insurance practices of NICO.
- b. To evaluate the performance in terms of liquidity, profitability, turnover & cash flow position of NICO
- c. To identify the future trend of different indicator in relation to the general insurance & to determine the empirical relationship between the variables.

### **1.5 Significance of the Study**

Fifty one percent of Nepal Bank Ltd and forty nine percent of public mandate the NICO. The main function of the NICO is to provide General insurance service to the public. Financial performance is the main indicator of its success in any organizations. By this study we can know how is the NICO financial condition, what is the assets management ratio of NICO and how does the NICO help for the country economic development and how does it bear the risk for the investors. It can be said that there are very few and inadequate literatures available in Nepal relating to this topic. Therefore people who have ideas and people who have interest about some thing creative work new researchers and other concerned would be benefited from this study. It will further open new areas of research.

### **1.6 Limitation of the Study**

Although efforts have been made to make the study more realistic practicable and information for all the people the study will suffer from number of limitation. Some of the limitations are as follows.



- a) The study covers only a ten years period from FY 2055/056 to 2064/065 BS and the conclusion drawn from the study confines only to the study period.
- b) The whole study is based on secondary data collected from the Nepal insurance company and Beema Samiti.
- c) Limited time is another Limitation. To fulfill the partial requirement of MBS programme under T.U. students are supposed to submit the thesis within a given time framework.
- d) Limited money /funds are another limitation to make the thesis practicable and realistic.

## **1.7 Organization of the Study**

The whole study has been organized into five chapters in the following order.

Chapter 1	Introduction
Chapter 2	Review of Literature
Chapter 3	Research Methodology
Chapter 4	Data presentation and Analysis
Chapter 5	Summary Conclusion and Recommendation

In the first chapter Background of study, Insurance Development, Insurance Development in Nepal, Brief introduction of Nepal Insurance Company, Historical Background of Nepal Insurance Company Ltd, Statement of the Problems, objective of the study, significant and limitation of the study.

In second chapter review of the study and review of related studies i. e books, articles, journals, unpublished thesis and theories advanced in this context and the inferences drawn so far.

The third chapter includes the research design. Population and sample source of data procedure of data collection and financial & statistical method. This chapter applied in order to achieve the objectives the study.

Fourth chapter deals with systematic presentation and analysis of data where various financial & statistical tools and techniques are used to analysis and interpret the data. This chapter will be key chapter for the present study and findings from the analysis are mentioned.

Finally, in the fifth chapter whole study is summarized. Recommendations based on findings are made for made further improvement of financial performance of NIC. In recommendation statement suggestion & problem solving suggestion are included and based findings summary & conclusion are drawn. Bibliography and other appendixes used in statistical results have been attached at the end of the study.

## **CHAPTER TWO**

### **REVIEW OF LITERATURE**

The previous chapter has highlighted on the introduction developments & problems of the insurance and this chapter provides the bases and inputs for this study. Review of literature reflects the previous articles, books and journals, which is related with the insurance. It is the main guideline of the study. It is easy to understand through the literature review. In this study insurance book, journals & publication of Beema Samiti and related thesis are used as literature review.

#### **2.1 Conceptual Framework**

##### **2.1.1 Concept of Insurance**

Insurance is related with risk. Risk is the main source of loss and insurance is the mechanism of covering such losses. Risk adverse people are interested to cover such loss through certain mechanism. The easiest way of handling risk is insurance. Insurance is an instrument to spread the losses caused by a particular risk over a number of people or distribution of risk among various people who are interested to accept risk for certain return.

The worldwide definition given by different intellectuals are highlighted below.

Mishra M N has defined insurance as functional and contractual terms. In his functional definition insurance is defined as a co-operative device to spread the loss caused by a particular risk over a number of persons who are exposed to it and who agree to ensure themselves against that risk. In conceptual definition insurance has been defined to be that in which a sum of money as a premium is paid in consideration of the insurer's incurring the risk of paying a large sum upon a given contingency (Mishra, 996: 3).

Panda G.S. has defined insurance is a way to reducing uncertainty of occurrence of an event (Panda, 1992 : 5).

According to J.L. Atheim, Insurance is created by an insurer, which is a professional risk bearer, assumes the financial aspect of risk transferred to it by insured. As a device for handling the financial aspect of risk, insurance is feasible because insurance are able to combine the risks of individuals into a group and pay losses with funds collected from its members ( Atheim, 1981 : 8).

Dinsdale & Murdie has defined insurance is a device for the handling of some of the risks or chances of loss to which man is subject. Risks can be classified in various ways. For example, there are business risks and personal risks. Business risks include possible loss of goods by fire or theft or loss by reason of period of bad trade. Every individual faces risks, so that like the trader his goods may be destroyed while his dependants may suffer loss of income through his death. Another classification is into dynamic or speculative risks, which are uninsurable and static or pure risks, which are insurable because they are susceptible to the principles on which insurance is based (Dinsdale & Murdie, 1971: 1)

### **2.1.2 Concept of Financial Performance**

Financial performance analysis is the key tool for financial decision. All the enterprises are directly influenced by the financial policies in their growth and development. Rational evaluation of the financial performance of the enterprise is essential to set sound financial policies.

Computing key ratios can assess the performance of a firm and analyzing (a) how is the firm performing relative to the industry? (b) How is the firm performing relative to the leading firms in their industry? (c) How does the current year performance compare to the previous years? (d) What are the variables driving the key ratio? (e) What are the linkages among the ratios? It is hard to analyze a ratio in isolation (f) What do the ratios reveal about the future prospects of the firm for various stakeholders such as Shareholders, bondholders, employees, customers etc? Merely presenting a series of graphs and figures will be a futile exercise. We need to put the information in a proper

context by clearly identifying the purpose of our analysis and identifying the key data driving our analysis.

Both internal management and external groups perform financial analysis. Firms could perform such an analysis in order to evaluate their overall current performance identify problem/opportunity areas, develop budgets and implement strategies for the future. External groups (such as investors, regulator lenders) also perform financial analysis in deciding whether to invest in a particular firm whether to extend credit etc.

### **2.1.3 Types of Insurance**

Insurance business is broadly classified into two groups. Life insurance deals with all insurance covering human lives. Non life of general insurance deals with insurance covering non human objects like animals, agriculture crops, goods, factories, cars etc. In recent times there are several types of insurance schemes have come into existence.

#### **2.1.3.1 Life Insurance**

Life insurance is a kind of saving. It is refundable in maturity period or pay compensation to concern people before maturity period when the accident is occurred. In other word life insurance provides protection for two major contingencies. A human life is an income-generating asset. This asset also can be lost through unexpectedly early death or made non-functional through sickness and disabilities caused by accidents. Accidents may or may not happen. Death will happen, but the timing is uncertain. If it happens, much earlier when alternate arrangement is not in place. Insurance contributes to help those depended on the time. On the other hand human earns stop on his retirement S/he may have made arrangement for his needs after this retirement. Life insurance makes a provision for his retirement and helps take care of these needs.

#### **2.1.3.2 Non Life Insurance**

Non life insurance is nonrefundable policy. It protect insurable articles against certain risks with in it maturity period of the policy. It can be insure for one-year period, then renewable yearly. There are several types of general insurance in the market but mainly are as under.

#### **2.1.3.2.1 Marine Insurance**

The mechanism of covering the risks against the losses of consign goods from related risk is known as marine insurance. Trade and industry get some steadiness and stability, despite the vagaries of natural and other calamities, because of insurance arrangements. Otherwise, there would have been major failures in business. If a cargo ship sinks, the effects of the loss spreads for beyond the owners of the cargo and ship those dependent on the cargo for the uninterrupted run of their business are also in trouble.

#### **2.1.3.2.2 Fire Insurance**

Fire is responsible for causing considerable losses, which are relevant statistics of the carious countries for the world. Fire insurance policy may be taken on residential houses or on factories and business premises. The standard fire policy is the starting point in all fire insurance coverage. Under this policy, if any property lost by fire, the insured amount would pay as indemnity. The property should be in its full market value. The claim under the fire insurance policy is determined on the basis of present value of the property.

#### **2.1.3.2.3 Motor Insurance**

Motor insurance covers the loss or damage of vehicle due to the accident. It has two types comprehensive policy cover all risk like accident, third party liability, theft and other but third party policy covers only the third party liability.

#### **2.1.3.3.4 Miscellaneous Insurance**

Miscellaneous insurance cover the various types of insurance business. Some of them are as follows.

##### **2.1.3.2.4.1 Personal Accident Insurance**

Personal Accident Insurance refers to the insurance against the accident of the individual. This compensates the insured people who are handicapped and unable to accomplish any physical tasks. The compensation amount will be as prescribed by the insurance report. In case of partial disability of the insured person the compensation will be given under the laws described in insurance report of medical treatment.

##### **2.1.3.2.4.2 Cash in Transit Insurance**

Cash in Transit Insurance relates to the possible risks like robbery, vehicle or aeroplane accident. Likewise it involves the risks in transferring money from one bank to another.

##### **2.1.3.2.4.3 Burglary & House Breaking Insurance**

This insurance refers to the robbery and burglary of cash, personal assets, machines or equipment by the robbers from the locked or secret places. But it is expected to have security guards in the office to claim for such insurance.

##### **2.1.3.2.4.4 Fidelity Guarantee Insurance**

It is such type of insurance in which compensation is given for the loss of cash or property due to carelessness of the accountant or other personal employed in the same field.

#### **2.1.3.2.4.5 Public Liability Insurance**

It refers to the insurance against legal liability caused by the carelessness of some individuals or organizations to the public.

#### **2.1.3.2.4.6 Medical Aid Scheme**

It refers to the insurance scheme in which there is compensation against medical treatment expenses of the person who is sicker caught in accident.

#### **2.1.3.2.4.7 Contractors All Risks Insurance**

It refers to the insurance, which is provided to the potential losses of the contractors even after the completion of the constructive works in buildings, bridge, dams or canals in the certain period of time.

#### **2.1.3.2.4.8 Engineering Insurance**

It implies to the insurance against physical loss to the machinery or other equipment in the factories or industries.

#### **2.1.3.2.4.9 Students Safety Insurance Scheme**

It means the insurance given to the students of school or collage who are injured or killed in accidents. But the compensation depends in the limitation recorded in insurance policy.

#### **2.1.3.2.4.10 Household Insurance**

It refers to the insurance policy against the thunderbolt, earthquake, storms, flood, landslide or hooliganism in personal house.



#### **2.1.3.2.4.11 Overseas Mediclaim and Travel Insurance**

It is related to the security against the unexpected risks. It aims to provide security against personal accidents, treatment expenses, hospital admission, losses of baggage, passport, personal liabilities etc.

### **2.2 Review of Books**

“The essence of the insurance scheme is that, it is a social device, that it involve the accumulation of funds, that it involves a group of risks, and that each person or firm who becomes a members of the group transfers his risk to the whole group”(Atheam, 1981: 12).

Mehr, Robert I. outlined about the insurance through his books as Insurance is a useful device for solving complex social problems compulsory victim of industrial accidents is handled by compulsory. Workers’ compensation insurance and indemnifying innocent automobile accident victims is handled to some extent by financial responsibility laws with most people comply by furnishing evidence of ownership of automobile liability insurance. Some insurance is used to help, solve the financial problems of unemployment, old age, disability, death and medical care for the aged (Mehr. Robert, 1986:4).

Insurance, in its pure insurance function (ignoring for the moment its effort at prevention) may be likened to the spring of vehicle. It absorbs the shock and distributes it over all risks insured in the same class. It permits a free functioning of credit and industry generally but does not eliminate loss. The retarding effects of loss are still present. The retarding effect of risk remove, but the cost and retarding effects of loss are still present. The burden of loss is still on society (Mowhray and Ralph, 1995: 10).

In its most basic form, the insurance mechanism is simply a process where in a group agree to share the losses that may occur to various members of the groups in advance and

the fund so created, augments by interests, and is used for the purpose of paying losses and expenses, further, the conditions surrounding the transfer of risks from individuals to the group are carefully set forth in great detail in a formal contractual agreement. The organization that brings the group together and manages its affairs is called an insurer, and it is typically a stock or mutual corporation (Greene mark and Serbein, 1978 :16).

### **2.3 Review of Article and Journals**

Bhattarai, Ramesh Raj explained that insurance is the major part of economic development of a country. Sound external economic environment is a must for the development of the insurance sector. Insurance in Nepal is still a native business its market is not matured. A weak regulation mechanism calls for important. Insurance regulation and supervision were fundamental requirements for the sound development of insurance activities and those insurance activities, properly supervised, played an outstanding role in the process of the economic growth of every country. Supervision helps to check an outflow of foreign exchange, which could result from excessive resource to foreign insurance and re-insurance facilities. A sound National Insurance and re-insurance market being an essential characteristic of economic growth. The average insurance depth (premium income as a percentage of the GDP) of the developed countries is about 4% to 6%. In Nepal, the insurance depth is only 1.40%. The figures reveal a wide gap between the development of Nepalese insurance markets and the demand and need for cover (Bhattarai, 2004:15).

The government properties including corporation is insured to Government Company is priority basic, it is difficult to pursue in such corporation and government offices, so the environment, is not very positive. Only lip service from government, the economic growth of the country is very slow. People can not afford to pay insurance premium. The sense for insurance unawareness and unconscious mass is very high. Thus insurance business is very-very challenging. One has to create the market. Tremendous market potentiality and opportunity is felt due to the unexplored market. Only the clue is to

known and click on the right product and place with reasonable price to the right person. After the formation of Nepal Insurance Association, The companies can plead their problems jointly to the government and should to forward for the interest and benefit of insurance. This platform should be taken as an opportunity (Shrestha, 2054:5-7).

Development officer play dual role in insurance business. In insurance business a development officer plays the role of representative of customer when he speak the voice of customer, at the same moment he is the representative of insurance company since he has to explain the ideas of insurance to customers. Whatever the role development officer play, the main thing of them is to win the heart of customer and make them aware and, create the faith towards insurance. To fulfill this purpose all the staff of company should accomplish to customers, otherwise the faith earned by the company may loss. Thus, the management should ascertain the problems faced by development officers and should eradicate them duly, if it really wanted to promote the insurance business (Shrestha, 2054:10-14).

## **2.4 Review of Thesis**

**Shree Prashad Gelal** (2000) conducted his Master's thesis on "*A Comparative Financial Analysis of Nepal Insurance Company and National Life and General Insurance Company Limited*" This study is descriptive and analytical too. His research work was based on primary and secondary data and analyzed the financial position, liquidity position, profitability position and other. His research objectives are as follows:

- a) To evaluate the liquidity position of both insurance companies.
- b) To evaluate the General Insurance Company and Nepal Insurance Company for the year.
- c) To review the recent financial position of both insurance company.
- d) To examine and interpret the financial position and make suggestion to remove obstacle in making decision regarding financial management.

Mr. Gelal used five years data from 2050/51 to 2055/56 to analyses the study. Mr. Gelal used mainly financial tools like ratio analysis, cash flow analysis to come in decision. After detailed study Mr. Gelal found following conclusion.

- Premium collection of both life and non life insurance shows growing trend of this business in the recent year of the study period.
- The net profit percentage of NIC found better than NLGI but the liquidity position of both companies are found better.
- Current assets turnover ratio of NLGI followed decreasing trend, which is the indication that the efficiency of utilizing current asset deteriorated over the period due to negligence of management. The average turnover on current assets of NIC was 24 paisa where as NLGI's return was 15 paisa.
- Changes in insurance premium collection of NIC ranged about 18.04% to 36.64% where as the same of NLGI ranged about 17.10% to 61.97% high fluctuation is found in NLGI and NIC.
- Insurance premium fund should be invested in different sector other than NG bond in other to enhance the life standard of people, thereby increasing the insurance premium.
- Training to agents is must essential before their (agents) appointment in order to attract the people.
- NIC is advice to minimize the risk level by reducing debt participation and increasing equity proportion even though it is risk oriented institution.

**Arjun Raj Pathak** (2002) conducted his thesis on “*Evaluation of Financial Performance of Nepal Insurance Company and Himalayan General Insurance Co. Ltd*” The primary objective of this study is too analyzed and to evaluate the financial performance of HGIC and NIC. His research objectives are as follows:

- a) To review the existing situation of sample insurance companies.
- b) To analyze financial performance of both insurance companies.

c) To provided recommendation on the basis of findings.

Mehr, Robert I. outlined about the insurance through his books as Insurance is a useful device for solving complex social problems compulsory victim of industrial accidents is handled by compulsory. Workers' compensation insurance and indemnifying innocent automobile accident victims is handled to some extent by financial responsibility laws with most people comply by furnishing evidence of ownership of automobile liability insurance. Some insurance is used to help, solve the financial problems of unemployment, old age, disability, death and medical care for the aged (Mehr. Robert, 1986:4).

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market is not matured. A weak regulation mechanism calls for important. Insurance regulation and supervision were fundamental requirements for the sound development of insurance activities and those insurance activities, properly supervised, played an outstanding role in the process of the economic growth of every country. Supervision helps to check an outflow of foreign exchange, which could result from excessive resource to foreign insurance and re-insurance facilities. A sound National Insurance and re-insurance market being an essential characteristic of economic growth. The average insurance depth (premium income as a percentage of the GDP) of the developed countries is about 4% to 6%. In Nepal, the insurance depth is only 1.40%. The figures reveal a wide gap between the development of Nepalese insurance markets and the demand and need for cover (Bhattarai, 2004:15).

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

Mr. Aryal used all secondary data to analyze the financial performance. He used the data of 10 years since fiscal year 2046/47 to 2055/56. Mr. Aryal used different

financial tools like ratio analysis, cash flow analysis, statistical tools like standard deviation, coefficient of variation, time series analysis, coefficient of correlation etc. His major findings are as follows:

- The company's outstanding premium in the 10 years period jumped from Rs. 2.38 million in 2046/47 to Rs 30.10 million in 2055/56.
- The re-insurance premium is in increasing trend except in FY 2047/48. The average outstanding re-insurance premium in FY 2046/47 is Rs. 11.49 million and Rs. 37.98 million in FY 2055/56.
- The total claim to net premium ratio come to the highest 38.65% in FY 2055/56 and to the lowest -10.16% in FY 2046/47, taking the deviation from average ratio of 10 years during the study period, i.e. 11.85%.
- The investment and income from investment have been increasing year by year. The NIC has not practiced risk diversified investment principle but adopted traditional investment portfolio.
- The raised funds are invested in different area i.e. NG securities, fixed deposit, other investment, purchase of fixed assets and repayment of loan.
- The company should improve the outstanding premium collection.
- Claim should be paid in time and the company should extend its business area.
- The company should make the effective investment policy and the business portfolio should diversify.
- The company should establish research and development department.

**Narendra Dev Adhikari** (2005) conducted his Master's thesis on "*A Study on Investment Policies and Practices.*" His thesis work is basically concerned to find what are the main policies used to invest the collecting premium of insurance industries. His research objectives are as follows:

- a) To examine the trend and pattern of investment toward different portfolio.
- b) To evaluate the investment return.

- c) To analysis the insurance perception or views regarding the investment policy, current regularity provision and the investment performance.

His research work was based on primary and secondary sources of data. The time period was six years from 2053/54 to 2058/59. In this study Mr. Adhikari has pointed out various findings and recommends action. Mr. Adhikari uses different financial and statistical tools like ratio analysis, cash flow, co-relation, standard deviation etc. His findings and recommendation are as follows:

- Major portion of investment was incepted within the head ‘Government Securities’ and ‘Bank Fixed Deposit’ of both life and non life insurance industry.
- The portfolio falling within the compulsory sector had more uniform return rate. However, in average the return from the ‘Government Securities’ was highest and the return from the policy loan was lowest.
- Net investment income of the life assuor and the industry was around three fourth  $3/4^{\text{th}}$  of the net premium collection and net investment income of the non life insurer with the industry was around fifth  $2/5^{\text{th}}$  of the net premium collection.
- The insurer should enforce the diversification among the investment portfolio.
- The life assures should concentrate on the diverse portfolio holding as compare with the non life insurance.
- While investing within the particular sector, me insurer needs to consider the mutual inter link, age of transaction too.

**Shailendra Shrestha** (2007) conducted his Master’s thesis on “*A Study on Premium Collection and Investment Position of National Life and General Insurance Company Limited*” The study covered 7 years period since 1999/00 to 2005/06. The main objective of his research is to find the position of National Life and General Insurance co. Ltd in the insurance industries of Nepal.



The research objectives are as follows:

- a) To study trend of premium collection and investment pattern of NLGIC.
- b) To compare the trend of premium collection and investment of NLGIC with whole industry throughout various years.
- c) To find out the position NLGIC in the insurance industry of Nepal.
- d) To provide suggestion based on the finding of the analysis to the management of NLGIC.

Mr. Shrestha uses both primary and secondary data to analysis his study. He uses different financial and statistical tools like ratio analysis, trend analysis, co-efficient of correlation, mean, standard deviation and 'T' test etc. based on the analysis Mr. Shrestha finds many conclusions. His main findings are as follows:

- Premium collection on first life premium to total premium collection is rising and falling trend this ratio is highest in FY 1996/97 and lowest was in 1999/00. There was inconsistency in first premium collection.
- Fire premium collection to total general premium collection ratio was varied from 23% to 34% and it indicates that fluctuation rate was not so diversified.
- Marine premium collection to total general premium ratio varied from 1% to 4%, which indicated that the ratios were in approximately in stable order.
- Miscellaneous premium to total general premium collection had slightly fluctuated but in increasing order.
- Life premium collection to total premium collection was in increasing trend. The least contribution was 23.06% in 1994/95 and highest contribution was 51.3% in 2000/01.
- Investment on different sectors were also fluctuating trend and major portion of life investment went to bank fixed deposit it contributed 88.23% in highest and 69.71% in lowest.
- The company should collect more first life insurance premium and issue new policy.

- The company should diversify its life investment and increase investment in policy loans.
- The company should establish research and development department and increase the efficiency of employees.

## **2.5 Research Gap**

The review of above relevant literature has contributed to enhance the fundamental understanding and knowledge, which is required to make study meaningful and purposive. There has been lots of article published related to financial performance of insurance companies. There are various researches conducted on financial performance and financial statement of insurance companies, impact and implementation of Beema Samiti guideline in insurance companies. Most of the thesis studies are of comparative type. Comparing of the firms from same industry can make the sense. But at the same, the individual firm may have its own strategy for business. In such a case, comparative study may mislead the researcher. So, this is the exclusive study of Nepal Insurance Company. However the Beema Samiti directives are also taken into consideration, while analyzing the data. Most of the studies missed to see the growth trend of some major element. In this study the trend value of net premium, total claim, and gross premium have computed and analyzed. This shows the annual growth in the respective element. While reviewing other studies on financial performance analysis related to single company, the researcher found that the ratios are not properly analyzed. What actually the ratio indicates is not clear. So, this study has tried to analyze the different ratios in order to make fruitful analysis on the financial performance of the Nepal Insurance Company. So, this study will be fruitful to those interested person, parties, scholars, professor, students, businessman and government for academically as well as policy perspective. Hope this study will help to others in future in the related field.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

The main objectives of the study are to examine the major components of the financial statement as well as to evaluate financial performance of NICO. To achieve these objectives the study requires an appropriate research methodology. The study has mainly two aspects, they are analytical and descriptive. The objective of this study is to analyze various financial indicators and to find out various issues to recommend necessary suggestion for the strengthening of financial weakness of NICO. The following research methodology includes research design, source of data, data collection procedure, analysis of data and tools of analysis of data.

#### **3.1 Research Design**

The main objective of the study is to analyze the financial performance of NICO. The Research design is the major part of research work. The present study consists both analytical and descriptive research designs. On the basis of financial statement and other available data attempt will be made to investigate the level of financial performance of NICO with the help of analytical tools and followed by some suggestions and recommendations.

#### **3.2 Population and Sample**

There are all together twenty one insurance companies running in both life and non life insurance field in Nepal. Thus the population of the study is twenty one but in this study only the Nepal Insurance Company Limited has taken as sample and all the analysis is related with this sample.

#### **3.3 Method of Data Collection**

This study is mainly based in secondary data, company balance sheet, profit and loss account and income statement of Nepal Insurance Company Limited from fiscal year

055/056 to 064/065. Relevant information, data from different sources, previous studies and thesis made in the field, publications of various concerns and libraries etc. Similarly various information are collected from the periodicals, journals and other published and unpublished related documents and reports from the various sources that is office of insurance company.

### **3.4 Method of Data Analysis**

Reviewed the data collection from different side and divided into related grouped in various tables and charts. Interpretations and explanations will be made wherever necessary with the help of ratio analysis cash flow statement, comparative financial statement and trend analysis.

In this thesis it is used of two important tools the first important tools is financial tools, which includes ratio analysis and cash flow statement analysis. The second important tool is statistical tools which includes standard deviation, coefficient of variation, correlation and regression analysis. They are discussed in this study below.

#### **3.4.1 Financial Analysis**

An arithmetical relationship between two figures is known as ratio. It is computed by dividing one item of relationship with the other. Ratio simply means one number expressed in items of another. In order to make rational decision of financial variability of the company, the ratio analysis is adopted. Various groups involved in a firm are concerned to different purpose. Ratio analysis is techniques of analysis and interpretation of financial statement from different angles. So as to fulfill the interest of various groups involved in a firm such as creditors, investors, government etc. By the systemic use of ratio the financial strength and weaknesses of a firm as well as historical and current financial position of concerned company can be determined. The following ratios are going to analyze under the financial performance analysis of NICO.

### **3.4.1.1 Liquidity Ratios**

The ability of a firm to meet its obligation in the short term is known as liquidity. It reflects the short-term financial strength of the business. Under the liquidity ratio current ratio is taken into consideration for this study.

#### **1. Current Ratio**

It is the relationship of current assets and current liabilities. Current assets are those assets, which can be converted into cash within a short period of time, normally not exceeding one year. Current liabilities are those obligations which are payable within a short period. In this study current assets means cash and bank balance, outstanding premium dues from insurer, prepaid expenses, sundry debtors, Investment in Nepal Government, securities and others (except share of other company) are taken into consideration. Under the current assets and sundry creditors, outstanding claims, dues to reinsure, provision for doubtful debt, provision for taxation, provision for dividend, other provision and miscellaneous current liabilities of NICO.

Higher the current ratio, better is the liquidity position. For many types of business 2:1 is considered to be an adequate ratio.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

### **3.5.1.2 Activity ratio or Turnover or Efficiency ratios**

The relationship between sales and assets are indicated by turnover ratio. These ratios reflect how efficiently the company is managing its resource. Thus, these ratios measure the degree of effectiveness in use of resource or funds by a firm. In this study sales indicate the net premium earned by the company. Higher the turnover ratio, the better profitability and use of capital or resource will be or shows the more effectiveness with

which a concern user its resource at its disposal. The following turnover ratios are used to analyze the financial performance of NICO.

### **I. Total Assets Turnover Ratio**

Total assets turnover ratio shows the proportion of net premium to total assets of NICO. It is calculated as following.

$$\text{Total assets turnover ratio} = \frac{\text{Net premium}}{\text{Total assets}}$$

In this study total assets indicates those assets which has shown in assets side of balance sheet of NICO and net premium indicates after deducting the premium paid to reinsurer from total premium.(i.e. premium income + premium receive from reinsurer)

### **II Fixed assets turnover ratio**

It indicates the proportion of net premium to fixed assets. The ratio analyzes the efficiency of capital employed in fixed assets and generates net premium. Fixed assets turnover ratio can be calculated as following.

$$\text{Fixed Assets Turnover Ratio} = \frac{\text{Net premium}}{\text{Fixed assets}}$$

### **III. Current Assets Turnover Ratio**

Current assets turnover ratio indicates the proportion of net premium to current assets. It is analyzed to measure how efficiently the capital employed in current assets has been utilized to generate net premium. Current assets turnover ratio is calculated as following.

$$\text{Current Assets Turnover Ratio} = \frac{\text{Net premium}}{\text{Current assets}}$$

In this study all the current assets excluding the investment in Nepal Government, securities and fixed deposit are taken.

### 3.4.1.3. Profitability Ratios

$$\text{II. Net Profit Margin} = \frac{\text{Net Profit after Tax}}{\text{Total Revenue}}$$

[Net profit after tax = gross operating profit – tax]

[Total revenue = gross total income]

$$\text{III. Operating Expenses Ratio} = \frac{\text{Operating Expenses}}{\text{Total Revenue}}$$

[Total operating expenses = claim paid + estimated liability in respect of intimated claims + management expenses + reserve for unexpired risk + service charge + agency commission + depreciation + loss in insurance business + staff bonus]

$$\text{IV. Return on Assets} = \frac{\text{Net Profit after Tax}}{\text{Total Assets}}$$

$$\text{V. Return on Net Worth} = \frac{\text{Net Profit after Tax}}{\text{Net Worth}}$$

[Net worth = paid up capital + total reserve fund + reserve for unexpired risk + provision for dividend + provision for bonus share + profit and loss account shown in balance sheet]

$$\text{VI. Book value per share} = \frac{\text{Net Worth}}{\text{No. of Existing Share}}$$

$$\text{VII. Earning Per Share} = \frac{\text{Net Profit}}{\text{No. of Existing Share}}$$

$$\text{VIII . Dividend per Share} = \frac{\text{Amt. Provided to Equity Shareholder}}{\text{No. of Existing Equity Shares}}$$

$$\text{IX. Dividend Pay out Ratio} = \frac{\text{Dividend per Share}}{\text{Earning Per Share}}$$

$$\text{X. Price Earning Ratio} = \frac{\text{Market Value Per Share}}{\text{Earning Per Share}}$$

#### **3.4.1.4. Other Financial Analysis**

Insurance business is neither manufacturing nor trading rather it is a special service type of business. The special ratios have not been included in above. So such uncovered indicators are analyzed with the help of following ratios to make the study more meaningful. They are as following.

$$\text{I. Mgmt Expenses to Gross Premium Ratio} = \frac{\text{Mgmt. Expenses}}{\text{Gross Premium}}$$

[Gross Premium = Premium income + Premium receive from reinsure]

$$\text{II. Agency Com. to Gross Premium Ratio} = \frac{\text{Agency Commission}}{\text{Gross Premium}}$$

$$\text{III. Net Premium Ratio} = \frac{\text{Net Premium}}{\text{Gross Premium}}$$

$$\text{IV. Reinsurance Premium Ratio} = \frac{\text{Reinsurance Premium}}{\text{Gross Premium}}$$

$$\text{V. Inv. In N.G. Securities Ratio} = \frac{\text{Inv. In N.G. Securities}}{\text{Total Investment}}$$

$$\text{VI. Investment in Fixed Deposit Ratio} = \frac{\text{Inv. In Fixed Deposit}}{\text{Total Investment}}$$



### **3.4.1.5 Cash flow Analysis**

The cash flow statement is a statement, which shows the mobilization of cash, and it is a report of financial operation of NICO. It shows how financial resources have been financed and how the financial resources have been used during a year.

### **3.4.2 Statistical Tools**

The financial performance analysis of NICO is analyzed with the help of statistical tools. Statistical analysis means to find the relationship between variables and prediction of future possibility through defined tools. The statistical tools used in this study are as following.

#### **3.4.2.1 Standard Deviation**

The standard deviation is commonly used to measure of risk. It shows the deviation of actual mean with average mean. The standard deviation measures the absolute variability or dispersion, greater the standard deviation or vice versa. The standard deviation is found from the following formula.

$$\text{Standard Deviation } (\dagger) = \sqrt{\frac{\Sigma(x - \bar{x})^2}{N}}$$

Where,

(†) = Standard deviation

X = Variables

$\bar{x}$  = mean value

N = Number of years

#### **3.4.2.2 Coefficient of Variation**

The corresponding relative measure of dispersion is known as the coefficient of variation. It is used in such problems, where the study needs to compare the variability of

two or more than the series. The higher co efficient of variations of series refers more variable or less consistency or less uniformed and the series for which co efficient of variation is less, is said to be less variable or more consistent and more uniform variable, it is calculated by the following formula.

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

Where,

X = (mean of Series)

CV = Coefficient of variation

(†) = Standard deviation

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

### 3.4.2.3 Coefficient of Correlation

Coefficient of correlation is used for measuring the magnitude of linear relationship between two variables. The value of coefficient of correlation always lies between + 1 and -1, +1 shows the perfect positive correlation between the variable and -1 means perfect negative correlation between the variable and when coefficient of correlation [r] = 0 that means there is no relationship between variables.

It is found as (r)

$$r = \frac{n\sum xy - \sum x \cdot \sum y}{\sqrt{n\sum x^2 - (\sum x)^2} \sqrt{n\sum y^2 - (\sum y)^2}}$$

Where,

r = Correlation coefficient

n= Number of years

$\sum x$  = Sum of X series

$\sum y$  = Sum of Y series

$\sum xy$  = Sum of X and Y series

$x^2$  = Sum of Square of Series X

$y^2$  = Sum of Square of series Y

x & y = Financial Variable of NICO

In this study coefficient of correlation between net premiums and claim occurrence & net premium and net profit are calculated.

### 3.4.2.4 Time Series Analysis

A time series is a sequence of observation of a variable made at regular points or interval of time and arranged in chronological order. The time series analysis will also help to forecast the numerical value of any variable for future based on past data. There are many methods of time series, among them only list square method of time series analysis is used to the study purpose. Least square method is used to fit a straight-line trend to

forecast the trend value of future. The straight line trend is represented by the equation  
 $Y_C = a + b x$

Where,

$Y_C$  = Trend Value of Y variable

Y = Financial Variable of NICO

b = Slope of trend line

X = Time i.e. Independent Variable

a = y intercept or computed trend figure of y variable.

When X = 0

The following two simultaneous equation to be solved to find out the value of a and b then to estimate trend equation.

If  $\sum X = 0$

$$\text{Then } a = \frac{\sum y}{n} \quad b = \frac{\sum xy}{\sum x^2}$$

In this study trend analysis of Gross premium, Net premium. Total claim occurred and net profits are calculated.

### **3.4.2.5 Graphic Presentation**

Presenting the information through the graphs makes vary easy to understand. The various variables used in this study are presented in the different types of graphs and diagrams.

### **3.4.2.6 Definition of Difficult Terms**

#### Nepal Market Pool

After some years Nepal has suffered from terrorism problem. Most of the insured properties are destroyed by terrorist. In this case only the insurance companies can not covered those huge losses so all of the insurance companies of Nepal and Nepal

Government jointly established a fund and managed, all the premium of that risk is also transferred to this fund by the insurance companies and risk of that cases is also beard by this fund. So that fund is known as Nepal Market Pool.

### Retention Limit

Insurance companies can not beard all the risk own self. So it takes limited risk by own self and rest of the risk is reinsurance with other insurance companies. That limit is known as retention limit.

### Surveyor

Those people who get the license of surveyor from the Beema Samiti are known as surveyor. In insurance companies it must have the provision of to appoint the surveyor when claim occurred. Because surveyor is an independent person so it believes that claim report will be feared.

## **CHAPTER FOUR**

### **DATA PRESENTATION AND ANALYSIS**

#### **4.1 Introduction**

The previous chapters have already highlighted about the problems, objectives, importance & different conceptual framework of insurance companies. This chapter is the main heart of this study, that describes and analysis the financial performance of NICO as the plan and procedure as stated methodology in previous chapter.

#### **4.2 Financial Analysis**

The study is going to analyze and interpret the financial performance of NICO through the various ratios, which are relating to the special variables of NICO according to its business nature.

##### **4.2.1 Liquidity Ratio**

Liquidity ratio reflects the short-term obligation of the firm. Under the liquidity ratio current ratio is taken into consideration for the study.

###### **4.2.1.1 Current Ratio**

The current ratio is the current assets to current liabilities. It shows, either the company is capable of paying back all its current liabilities or not. It measures the short –term solvency i.e. its ability to meet short-term obligation measures creditors versus current assets.

It is calculated as:

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

**Table 4.1**  
**Current Ratio and Its Mean, S.D. & C.V. of NICO**

(Rs. in million)

Years	Current Assets	Current Liabilities	Ratio
055/056	165.71	52.4	3.16
056/057	157.75	63.24	2.49
057/058	161.16	57.83	2.79
058/059	192.02	84.03	2.29
059/060	235.92	119.48	1.97
060/061	256.99	114.03	2.25
061/062	289.71	122.42	2.37
062/063	400.88	182.58	2.20
063/064	488.12	226.9	2.15
064/065	550.7	308.25	1.79
Total	2898.96	1331.16	23.46
Mean	289.90	133.12	2.35
SD	142.46	83.04	0.47
CV	49.14	62.38	6.38

Source: Financial Reports of the Company

On the above table the current assets refers that assets which is generally converted into cash with in one year of NICO. And current liabilities refer reserve for on expired risk, provision for dividend and other provision and liabilities which mature with in a year. The table shows that the current assets of the company are increasing year to year except in F.Y 056/057. The base year current asset is Rs. 165.71 million and reached to Rs. 550.7 million in F.Y. 064/065. Current liabilities also increase continuously from F.Y. 055/056 to F.Y. 064/065 except in F.Y. 057/058 and 060/061. The liabilities of NICO reached from Rs. 52.40 million to Rs. 308.25 within 10 year's period. The current ratio of NICO is always higher than standard ratio 2:1 except in F.Y. 059/060 and 064/065. It showed that the company is able to meet its short-term obligation. In this 10 year study period the higher current ratio is 3.16 times in F.Y. 055/056 and the lower current ratio is 1.79 times in F.Y. 064/065. The average ratio is 2.35 times. The current ratio of this 10 years period is slightly decreasing year by year even though that is more than standard ratio. It indicates that the NICO management controls some liquidity position and avoids

unnecessary current assets. The standard deviation of current ratio is 0.47 and coefficient of variation is 6.38. It indicates that the current asset in relation to the current liabilities is in slightly fluctuating trend. The average CR indicates that NICO has more liquid assets to pay the short-term obligation but the more liquidity has inverse effect of profitability.

## 4.2.2 Turnover Ratio

Turnover ratios test the efficiency of utilized assets and find out whether the assets are fully utilized or not.

### 4.2.2.1 Total Assets Turnover Ratio

The total assets turnover ratio tests the efficiency of total assets. It shows the relationship between total assets and net premium of NICO. Higher ratio indicates the higher utilization or efficiency of total assets and vice versa. It is calculated as:

$$\text{Total Assets Turnover Ratio} = \frac{\text{Net Premium}}{\text{Total Assets}}$$

The total assets turnover ratio of NICO from FY 055/056 to F.Y. 064/065 is shown below

**Table 4.2**  
**Total Assets Turnover Ratio and Its Mean, S.D. & C.V. of NICO**  
(Rs. in million)

Years	Total Assets	Net premium	Ratio
055/056	172.98	28.63	0.17
056/057	209	28.36	0.14
057/058	214.26	30.04	0.14
058/059	245.08	38.63	0.16
059/060	293.64	62.33	0.21
060/061	313.3	68.04	0.22
061/062	344.56	83.8	0.24
062/063	454.23	57.21	0.13
063/064	503.65	66.56	0.13
064/065	617.2	78.6	0.13
Total	3367.9	542.2	1.66
Mean	336.79	54.22	0.17
SD	145.04	21.18	0.03
CV	43.07	39.07	0.45

Source: Financial Reports of the Company



The above table showed that the total assets of NICO are increasing regularly in this 10 years period and net premium is also increasing from F.Y. 061/062 but decrease in F.Y. 062/063. It is because the total premium of riot and strike and terrorism are transferred to the "Nepal Market pool" in F.Y. 062/063. But the increasing trend of total assets is faster than net premium so the assets turnover ratio is fluctuated. The minimum ratio is 0.13 in year 062/63 to 064/65 and the maximum ratio is 0.24 in F.Y. 061/062. The average ratio is 0.17. That means the company's rupee 1 investment in total assets is gained Rs 0.17 as net premium. The standard deviation of total assets turnover ratio is 0.03 and coefficient of variation is 0.45. It indicates that the total assets in relation to the net premium are slightly fluctuating trend. By the analysis the total assets turnover ratio is not satisfactory due to the lower turnover ratio.

#### 4.2.2.2 Fixed Assets Turnover

The relationship between fixed assets and net premium is known as fixed assets turnover ratio. The fixed assets turnover ratio of NICO from F.Y. 055/056 to F.Y. 064/065 is shown below:

**Table 4.3**  
**Fixed Assets Turnover Ratio and Its Mean, S.D. & C.V. of NICO**  
(Rs. in million)

Years	Fixed Assets	Net premium	Ratio (times)
055/056	172.98	28.63	0.17
056/057	209	28.36	0.14
057/058	214.26	30.04	0.14
058/059	245.08	38.63	0.16
059/060	293.64	62.33	0.21
060/061	313.3	68.04	0.22
061/062	344.56	83.8	0.24
062/063	454.23	57.21	0.13
063/064	503.65	66.56	0.13
064/065	617.2	78.6	0.13
Total	3367.9	542.2	1.66
Mean	336.79	54.22	0.17
SD	145.04	21.18	0.03
CV	43.07	39.07	0.45

Source: Financial Reports of the Company

The table shows that the total fixed assets of NICO is increasing continuously in first five years and reached Rs. 7.28 million and then started declining regularly in last five years and reached to Rs 11.01 million. It indicates the insufficient of fixed assets in comparison with total assets of NICO.

The fixed assets turnover ratio is high due to low in fixed assets. But the ratio is highly fluctuated. The average ratio is 4.96 times. The higher ratio is 7.29 times in F.Y. 064/065 and the lower ratio is 2.29 times in F.Y. 057/058. The recent 4 years ratio is higher than average ratio it indicates the better utilization of NICO fixed assets in these years. Generally any insurance company has not needed large fixed assets to run the business. So the fixed assets turnover ratio indicates the satisfactory results with a 4.96 times average ratio. The standard deviation of Fixed Assets Turnover ratio is 1.95 and coefficient of variation is 39.31. The standard deviation indicates the fixed assets in relation to the net premium are highly fluctuating trend.

#### **4.2.2.3 Current Assets Turnover Ratio**

The current assets turnover ratio is analyzed to measure how efficiently the capital employed in current assets has been utilized to generate net premium. The relationship between current assets and net premium is known as current assets turnover ratio. The higher ratio indicates the favorable condition. The current assets of NICO are considered for the current turnover ratio is less than actual current assets of NICO. The investment in fixed deposits and other investments do not help to generate the net premium of company. So the current asset used in this ratio is all current assets less investment in Nepal government securities, fixed deposit and other investments. The table shows the 10 years data from FY 055/056 to F.Y. 064/065 of NICO.

**Table 4.4****Current Assets Turnover Ratio and Its Mean, S.D. & C.V. of NICO**

(Rs. in million)

Years	Current Assets	Net premium	Ratio
055/056	172.98	28.63	0.17
056/057	209	28.36	0.14
057/058	214.26	30.04	0.14
058/059	245.08	38.63	0.16
059/060	293.64	62.33	0.21
060/061	313.3	68.04	0.22
061/062	344.56	83.8	0.24
062/063	454.23	57.21	0.13
063/064	503.65	66.56	0.13
064/065	617.2	78.6	0.13
Total	3367.9	542.2	1.66
Mean	336.79	54.22	0.17
SD	145.04	21.18	0.03
CV	43.07	39.07	0.45

Source: Financial Reports of the Company

The table indicates the current assets turnover ratio. According to the current asset of NICO was decreased in first 3 years and increased in rest of the years. But it is increasing continuously from recent five years. The current assets in F.Y. 062/063 are increased than previous years. So the ratio after F.Y. 062/063 is very poor. It is the lowest ratio of 10 years study period which is 0.14 times. The highest ratio of this study period is 0.29 times in F.Y. 061/062 and the average ratio is 0.20 times. The standard deviation and coefficient of variation is 0.06 and 0.2826 respectively. This showed the very scatter ness between current assets and net premium. So the company should try to maintain constant current assets turnover ratio.

### 4.2.3 Profitability Ratio

Profit is the main element for organization to survive and grow to the long run. Company should earn profit to survive and grow for a long period. Profitability ratio indicates the degree of success in achieving desired profit level. This ratio indicates how efficiently the

company manages its fund to earn profit. Profitability ratio provides ideas to the lenders and investors so that they can decide whether to invest or not in a business. The ratio must be sound if the insurance company is enjoying long range of financial health. The owners invest their fund in the expectation of reasonable return. The operating efficiency of a firm and its utility to ensure adequate return to its shareholders depend ultimately on the profit earned by it. Some writers define profitability ratio as "Profit is the engine that drives the business enterprises" - Lord Keynes Profitability is the result of a large number of policies and decisions" – Weston and Brigham. Many ratios are determined under this heading, which are as follows:

#### 4.2.3.1 Gross Operating Profit Margin

Gross operating profit margin (EBIT) tests the efficiency of management. The relationship of Gross total income with total operating expenses and gross operating profit is known as Gross operating profit ratio.

**Table 4.5**  
**Gross Operating Profit Margin and Its Mean, S.D. & C.V. of NICO**  
(Rs. in million)

Years	Gross total income	Gross operating profit	Ratio
055/056	172.98	28.63	0.17
056/057	209	28.36	0.14
057/058	214.26	30.04	0.14
058/059	245.08	38.63	0.16
059/060	293.64	62.33	0.21
060/061	313.3	68.04	0.22
061/062	344.56	83.8	0.24
062/063	454.23	57.21	0.13
063/064	503.65	66.56	0.13
064/065	617.2	78.6	0.13
Total	3367.9	542.2	1.66
Mean	336.79	54.22	0.17
SD	145.04	21.18	0.03
CV	43.07	39.07	0.45

Source: Financial Reports of the Company

From above table it is clear that the gross total income is increased year by year from base to F.Y. 061/062 but F.Y. 062/063 the gross total income is decreased due to transfer the premium of Riot and strike and terrorism into Nepal Market Pool. The total operating expenses also increase in the same ratio of gross total income and decrease in last year. But the gross operating profit is fluctuated. The minimum gross operation profit is Rs. 28.78 million in F.Y. 062/063 and maximum is Rs 38.89 million in F.Y. 059/060. But the ratio of gross operating margin is decreasing continuously year by year from 48.0% to 15.0% in this 10 years study period. It indicates the gross operating profit margin of recent 5 years is below than average operating profit i.e. 28.0% so the result of operating profit margin in this last 5 years is unfavorable. It shows the inefficiency of management to maintain the operating expenses as the level of income. The standard deviation and coefficient of variation is 12.0% and 44.51% respectively. It indicates that the gross operating profit margin is decreasing at 44.51%.

#### 4.2.3.2 Net Profit Margin

The relationship between gross total income to net profit is known as net profit margin. Net profit is the actual income of the company, which can be share among its shareholders. So it is very important for the company.

**Table 4.6**  
**Net Profit Margin and Its Mean, S.D. & C.V. of NICO**  
(Rs. in million)

Years	Gross total income	Net profit	Ratio
055/056	172.98	28.63	0.17
056/057	209	28.36	0.14
057/058	214.26	30.04	0.14
058/059	245.08	38.63	0.16
059/060	293.64	62.33	0.21
060/061	313.3	68.04	0.22
061/062	344.56	83.8	0.24
062/063	454.23	57.21	0.13
063/064	503.65	66.56	0.13
064/065	617.2	78.6	0.13
Total	3367.9	542.2	1.66
Mean	336.79	54.22	0.17
SD	145.04	21.18	0.03

CV	43.07	39.07	0.45
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Source: Financial Reports of the Company

From above table the net profit of NICO fluctuated year to year. The higher net profit is Rs 37.74 million in F.Y. 059/060 and the lowest net profit is Rs 20.67 million in F.Y. 062/063. On the above table the net profit margin is decreasing year to year except in F.Y. 059/060. The highest ratio is 38.0% in F.Y. 055/056 and the lowest is 11.0% in F.Y. 062/063 to 064/065 and the average ratio is 22.0%. There is inverse relationship between gross total income and net profit. The gross total income is increasing trend but the net profit is decreasing trend so the net profit margin also decreases regularly. The recent 3 years net profit margin is constant.

The standard deviation and coefficient of variation is 11.0% and 49.07% respectively. It means the scatter ness of net profit margin is 49.07% every year.

#### **4.2.3.3 Return on Assets (ROA)**

This ratio measures the profitability with respect to the total assets. It indicates the efficient of the company in utilizing its overall resources. This ratio measures how far the management has utilized all the assets of a firm in profit generating activities. Higher ratio indicates higher efficiency in the utilization of total assets and vice-versa. This ratio is calculated by dividing the net profit by total assets.

$$\text{Return on Total Assets} = \frac{\text{Net Profit}}{\text{Total Assets}}$$

Return on assets measure the relationship between investment in total assets and return from this as net profit. The higher ratio indicates the favorable condition and vice versa. The 10 years period ROA is shown below.

**Table 4.7**

**Return on Total Assets Ratio and Its Mean, S.D. & C.V. of NICO**

(Rs. in million)

Years	Total Assets	Net profit	Ratio
055/056	172.98	28.63	0.17
056/057	209	28.36	0.14
057/058	214.26	30.04	0.14
058/059	245.08	38.63	0.16
059/060	293.64	62.33	0.21
060/061	313.3	68.04	0.22
061/062	344.56	83.8	0.24
062/063	454.23	57.21	0.13
063/064	503.65	66.56	0.13
064/065	617.2	78.6	0.13
Total	3367.9	542.2	1.66
Mean	336.79	54.22	0.17
SD	145.04	21.18	0.03
CV	43.07	39.07	0.45

Source: Financial Reports of the Company

The above table presents the increasing trend of total assets as Rs. 172.98 million in base year and reached to Rs 617.2 million in last year of this study period. But the net profit is going to decreasing and fluctuated trend in recent 3 years.

The ratio of return on assets is decreasing continuously except in F.Y. 059/060. The highest ratio is 16.0% in F.Y. 055/056 and the lowest ratio is 4.0% in F.Y. 063/064 and 064/065. The average ratio is 9.0%. The return on ratio in last 3 years is very low and unfavorable so the management should try increasing its net profit and maintaining into the average level. The standard deviation and coefficient of variation is 4.0% and 45.87 % respectively.

#### **4.2.3.4 Return on Net Worth**

Common or ordinary shareholders are entitled to the residual profit. The rate of dividend is not fixed. The earning may be distributed to shareholder or retained in the business.

This ratio indicates the capacity of the company to utilize its owner's fund. It is one of the important ratios to judge whether the firm has earned a satisfactory returns from its shareholders or not. Higher ratio indicates the sound management and efficient mobilization of the owner's fund. Net profit denotes net profit after tax and net worth includes paid of capital, reserve and surplus, and undistributed profit. This ratio is calculated as follows:

$$\text{Return on Net Worth} = \frac{\text{Net Profit}}{\text{Net Worth}}$$

**Table 4.8**  
**Return on Net Worth Ratio and Its Mean, S.D. & C.V. of NICO**  
(Rs. in million)

Years	Net Worth	Net profit	Ratio
055/056	172.98	28.63	0.17
056/057	209	28.36	0.14
057/058	214.26	30.04	0.14
058/059	245.08	38.63	0.16
059/060	293.64	62.33	0.21
060/061	313.3	68.04	0.22
061/062	344.56	83.8	0.24
062/063	454.23	57.21	0.13
063/064	503.65	66.56	0.13
064/065	617.2	78.6	0.13
Total	3367.9	542.2	1.66
Mean	336.79	54.22	0.17
SD	145.04	21.18	0.03
CV	43.07	39.07	0.45

Source: Financial Reports of the Company

The efficiency measure of owner's resources is known as return on net worth. It is the relationship between net worth and net profit. The table shows the 10 years ratio of return on net worth from FY 055/056 to FY 064/065. According to the above table the net worth of NICO in FY 055/056 is Rs 115.61 million and increasing continuously up to FY 061/062 at Rs. 209.92 million. But decrease in last year of this study period is due to the decrease of reserve for unexpired risk on fire insurance and remain at Rs 194.8 million. The average return on net worth is 15.0%. The higher return on net worth ratio is 23.0%



in FY 055/056 and lowest ratio is 11.0% in FY 062/063 and 063/064. The latest 5 years except FY 056/057 to 059/060 the ratio is less than average ratio and recent 2 years ratio is very low. It shows the weakness financial control to attract the prospective shareholders as well as to keep the existing shareholders unaffected in the company and the market value of share can't rise. The standard deviation and coefficient of variation is 5.0% and 30.04% respectively.

#### 4.2.3.5 Earning Per Share (EPS)

The earning per share measure the total earning of a share in a year, that is calculated with net profit. To analyze the financial performance of NICO, only single EPS does not show the favorable or unfavorable condition. In the absence of industry standard EPS, comparison with the help of average EPS of 10 years during the study period is made EPS is found Net profit divided by Number of existing shares.

$$\text{EPS} = \frac{\text{Net Profit}}{\text{No of existing shareholders}}$$

The table takes the relevant data from FY 055/056 to FY 064/065.

**Table 4.9**  
**Earning Per Share Ratio and Its Mean, S.D. & C.V. of NICO**

(Rs. in million)			
Years	EPS	Net profit	No. of Existing shares
055/056	172.98	28.63	0.17
056/057	209	28.36	0.14
057/058	214.26	30.04	0.14
058/059	245.08	38.63	0.16
059/060	293.64	62.33	0.21
060/061	313.3	68.04	0.22
061/062	344.56	83.8	0.24
062/063	454.23	57.21	0.13
063/064	503.65	66.56	0.13
064/065	617.2	78.6	0.13
Total	3367.9	542.2	1.66
Mean	336.79	54.22	0.17
SD	145.04	21.18	0.03
CV	43.07	39.07	0.45

Source: Financial Reports of the Company

The above table shows that the EPS of NICO in 10 years period is fluctuated and highly decrease in recent 2 years which is unfavorable condition of NICO performance. It is because the increase in no of shares but decrease in net profit.

The average EPS with in 10 years period is Rs 41.03. The highest EPS is Rs 61.51 in FY 055/056 and lowest EPS is Rs 26.17 in FY FY 062/063. The standard deviation and coefficient of variation is 12.45 and 30.34 respectively. The average EPS shows the satisfactory performance of NICO.

#### 4.2.3.6 Book Value Per Share

Book value per share measures the actual value of one share in one year. That is calculated with net worth. In this analysis if the book value per share is higher than its par value (Rs 100) that is favorable condition of the company. Book value per share is calculated as net worth divided by existing numbers of shares.

$$\text{Book value per share} = \frac{\text{Net worth}}{\text{No of existing shareholders}}$$

The table takes the relevant data from FY 055/056 to FY 064/065

**Table 4.10**  
**Book value per share and Its Mean, S.D. & C.V. of NICO**

(Rs. in million)

Years	Net Worth	No. of Existing shares	Book Value Per share
055/056	172.98	28.63	0.17
056/057	209	28.36	0.14
057/058	214.26	30.04	0.14
058/059	245.08	38.63	0.16
059/060	293.64	62.33	0.21
060/061	313.3	68.04	0.22
061/062	344.56	83.8	0.24
062/063	454.23	57.21	0.13
063/064	503.65	66.56	0.13
064/065	617.2	78.6	0.13
Total	3367.9	542.2	1.66
Mean	336.79	54.22	0.17
SD	145.04	21.18	0.03
CV	43.07	39.07	0.45

Source: Financial Reports of the Company

The table presents the 10 years ratio of book value per share. The whole years of the study period the book value of NICO is higher than its par value. The higher ratio of book value per share is 303.3 in FY 060/061 and lower ratio is 140.2 in FY 055/056. The average ratio is 245.6 it indicates that the book value per share of NICO is satisfactory level.

#### 4.2.3.7 Dividend Percent Share (DPS)

The portion of EPS, which is provided to shareholders, is known as DPS. The 10 years PS is shown in this table below:

**Table 4.11**  
**Dividend Percent Share and Its Mean, S.D. & C.V. of NICO**

(Amount in Rupees)			
Years	Amount to Equity share	No. of Existing shares	Dividend Per Share
055/056	172.98	28.63	0.17
056/057	209	28.36	0.14
057/058	214.26	30.04	0.14
058/059	245.08	38.63	0.16
059/060	293.64	62.33	0.21
060/061	313.3	68.04	0.22
061/062	344.56	83.8	0.24
062/063	454.23	57.21	0.13
063/064	503.65	66.56	0.13
064/065	617.2	78.6	0.13
Total	3367.9	542.2	1.66
Mean	336.79	54.22	0.17
SD	145.04	21.18	0.03
CV	43.07	39.07	0.45

Source: Financial Reports of the Company

The above table shows the highest dividend per share is Rs. 50 in FY 059/060 and lowest dividend per share is Rs 10 in last 4 years of this study period. The average dividend per share is Rs 22.50 and the standard deviation and coefficient of variation is 13.39 and 59.49 respectively.

The table indicates that the dividend per share is much fluctuated which is not so good for the company because the shareholders want to constant dividend policy. The constant dividend policy makes sure to the shareholder for further dividend. So the company should try to maintain the constant dividend system.

#### 4.2.3.8 Dividend Pay Out Ratio (D/P Ratio)

The percentage of EPS provided to its shareholders is known as D/P ratio. The company divided its EPS into two parts, one is return earning and other is dividend pay out ratio, though the amount of DPS is the portion of EPS. How much amount is provided to its shareholders among its EPS is calculated by D/P Ratio.

**Table 4.12**  
**Dividend Pay out Ratio and Its Mean, S.D. & C.V. of NICO**

(Rs. in million)			
Years	Dividend Per Share	Earning shares	Dividend Pay Out Ratio
055/056	172.98	28.63	0.17
056/057	209	28.36	0.14
057/058	214.26	30.04	0.14
058/059	245.08	38.63	0.16
059/060	293.64	62.33	0.21
060/061	313.3	68.04	0.22
061/062	344.56	83.8	0.24
062/063	454.23	57.21	0.13
063/064	503.65	66.56	0.13
064/065	617.2	78.6	0.13
Total	3367.9	542.2	1.66
Mean	336.79	54.22	0.17
SD	145.04	21.18	0.03
CV	43.07	39.07	0.45

Source: Financial Reports of the Company

The above table presents that the highest dividend pay out ratio is 103.0 in FY 059/060, which is more than the total dividend of this year that means the reserve dividend of previous year also provided as dividend of this year. In FY 061/062 the dividend pay out ratio is 33.0%, which is the lowest D/P Ratio of this study period and average D/P Ratio is 52.0%. The standard deviation and coefficient of variation is 21.0 and 40.89 respectively. Through this analysis the range of dividend pay out ratio over the study period is highly fluctuated. So the company should try to maintain the constant dividend pay out system.

#### **4.2.4 Other Financial Analysis**

Insurance company has some different features than other organization so only the standard ratio analysis is not sufficient for analyze the financial performance. So it should be analyze some other ratios which are related to the insurance field, those are highlighted below.

##### **4.2.4.1 Management Expenses to Gross Premium Ratio**

The relationship between management expenses and gross premium is known as management Expenses to Gross Premium Ratio. There is inverse relation between management expenses and gross premium. Lower the ratio is favorable. The 10 years ratio over the study period is given below.

According to the table 4.13 the gross premium of NICO is increasing continuously and reached to Rs 185.5 million in last year from Rs. 62.74 million in first year of this study period. The management expenses also going to increase from Rs. 11.47 million to Rs 33.51 million up to FY 061/062 but decreased in last year and remains at Rs. 24.5 million.

The highest ratio is 25.0% in FY 057/058, lowest ratio is 13.0% in FY 064/065 and average ratio is 20.0%. The standard deviation and coefficient of variation is 4.0 and 22.19 respectively.

The Management Expenses to Gross Premium Ratio is not bad even though the NICO use new method to minimize management expenses.

**Table 4.13**

**Management Expenses to Gross Premium Ratio and Its Mean, S.D. & C.V. of NICO**

(Rs. in million)

Years	Management Expenses	Gross Premium	Ratio
055/056	172.98	28.63	0.17
056/057	209	28.36	0.14
057/058	214.26	30.04	0.14
058/059	245.08	38.63	0.16
059/060	293.64	62.33	0.21
060/061	313.3	68.04	0.22
061/062	344.56	83.8	0.24
062/063	454.23	57.21	0.13
063/064	503.65	66.56	0.13
064/065	617.2	78.6	0.13
Total	3367.9	542.2	1.66
Mean	336.79	54.22	0.17
SD	145.04	21.18	0.03
CV	43.07	39.07	0.45

Source: Financial Reports of the Company

**4.2.4.2 Agency Commission to Gross Premium Ratio**

In insurance companies agents are appointed for business collection. The company should provide certain percent of premium to the agents as a commission. The commission for agent is legal provision in insurance business.

So it should be analyze for financial performance of Nepal Insurance Company Limited. The Agency Commission to Gross Premium Ratio measures the dependency of company's business with agent. The Agency Commission to Gross Premium Ratio of FY 055/056 to FY 064/065 is shown below.

**Table 4.14****Agency Commission to Gross Premium Ratio and Its Mean, S.D. & C.V. of NICO**

(Rs. in million)

Years	Agency Commission	Gross Premium	Ratio
055/056	172.98	28.63	0.17
056/057	209	28.36	0.14
057/058	214.26	30.04	0.14
058/059	245.08	38.63	0.16
059/060	293.64	62.33	0.21
060/061	313.3	68.04	0.22
061/062	344.56	83.8	0.24
062/063	454.23	57.21	0.13
063/064	503.65	66.56	0.13
064/065	617.2	78.6	0.13
Total	3367.9	542.2	1.66
Mean	336.79	54.22	0.17
SD	145.04	21.18	0.03
CV	43.07	39.07	0.45

Source: Financial Reports of the Company

From the above table it is cleared to say that the amount of agency commission is increasing continuously from FY 055/056 to FY 060/061 but decrease in FY 062/063 and reaches at Rs 4.6 million. The minimum agency commission amount is Rs 4.6 million and maximum is Rs 15.22 million.

The highest agency commission to gross premium ratio is 11.0% in FY 058/059, lowest ratio is 3.0% in FY 063/064 an average ratio is 8.0%. The standard deviation and coefficient of variation is 0.02 and 32.02 respectively.

From the above calculation the portion of agency commission with gross premium is not more than 11.0% i.e. maximum amount of agency commission paid to the agent is 11.0% of gross premium. That is satisfactory for the company. But also the company should try to collect the business through direct approach.

#### 4.2.4.3 Total Claim to Net Premium Ratio

The main aspect of insurance is related with claim. The insurance companies take the responsibility of certain risk and ready to pay claim amount when certain accident occurred. The payment of claim is net loss for the insurance company so it should be measure with net premium. The table below presents the 10 years data of total claim to net premium ratio.

**Table 4.15**

**Total Claim to Net Premium Ratio and Its Mean, S.D. & C.V. of NICO**

(Rs. in million)

Years	Total Claim	Net premium	Ratio
055/056	172.98	28.63	0.17
056/057	209	28.36	0.14
057/058	214.26	30.04	0.14
058/059	245.08	38.63	0.16
059/060	293.64	62.33	0.21
060/061	313.3	68.04	0.22
061/062	344.56	83.8	0.24
062/063	454.23	57.21	0.13
063/064	503.65	66.56	0.13
064/065	617.2	78.6	0.13
Total	3367.9	542.2	1.66
Mean	336.79	54.22	0.17
SD	145.04	21.18	0.03
CV	43.07	39.07	0.45

Source: Financial Reports of the Company

Total premium can be divided into two parts as net premium and reinsurance premium. Total premium is known as gross premium and gross premium minus reinsurance premium is known as net premium. According to the above table both net premium and total claim are going to in increasing trend besides the last year in net premium. But the increasing trend of total claim is very fast. In the last year over the study period total claim to net premium ratio is more than 100%, which is due to the transfer the riot and strike and terrorism premium to Nepal Market Pool.



The higher ratio is 126.0% in FY 062/063 and 063/064, lower ratio is 7.0% in FY 055/056 and average ratio is 66.0%. The standard deviation and coefficient of variation is 0.44 and 65.98 respectively.

From this analysis it showed that the risk ness of the insurance business also rises over the periods so the NICO must filter it's business and divert its business into secured field.

#### 4.2.4.4 Analysis of Premium

Insurance companies can't cover the total risk itself. So the companies divert its certain insurable liability to other insurance company. That is known as reinsurance. Out of the total premium it can be divided into two parts as net premium and R.I. Premium. It shows the risk bearing capacity of the company. Who take the more retention get more risk and more gain. The table below presents the 10 years data.

**Table 4.16**

**Analysis of Net Premium and R.I Premium and Its Mean, S.D. & C.V. of NICO**

(Rs. in million)

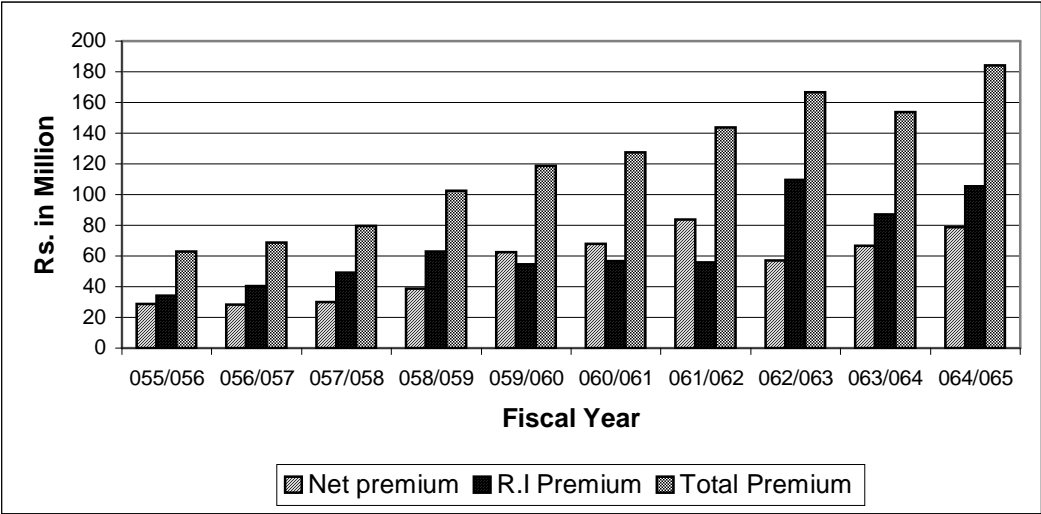
Years	Net premium		Reinsurance Premium		Total Premium	
	Rs.	%	Rs.	%	Rs.	%
055/056	172.98	28.63	0.17	055/056	172.98	28.63
056/057	209	28.36	0.14	056/057	209	28.36
057/058	214.26	30.04	0.14	057/058	214.26	30.04
058/059	245.08	38.63	0.16	058/059	245.08	38.63
059/060	293.64	62.33	0.21	059/060	293.64	62.33
060/061	313.3	68.04	0.22	060/061	313.3	68.04
061/062	344.56	83.8	0.24	061/062	344.56	83.8
062/063	454.23	57.21	0.13	062/063	454.23	57.21
063/064	503.65	66.56	0.13	063/064	503.65	66.56
064/065	617.2	78.6	0.13	064/065	617.2	78.6
Total	3367.9	542.2	1.66	Total	3367.9	542.2
Mean	336.79	54.22	0.17	Mean	336.79	54.22
SD	145.04	21.18	0.03	SD	145.04	21.18
CV	43.07	39.07	0.45	CV	43.07	39.07

Source: Financial Reports of the Company

The table indicates that the major part of the total premium of beginning 4 years and ending 3 years is diverted to reinsurance companies. But in FY 059/060 to FY 061/062 portion of net premium is higher than reinsurance premium. Again in last year of this table most of the total premium is diverted to reinsurance premium due to the riot & strike and terrorism premium is transferred into Nepal Marker Pool. By this analysis in previous 6 years the NICO did not take retention and applied 'no risk no gain' formula. The result of this net profit also minimized. Then after 3 years NICO had changed its reinsurance structure and extend the retention and applied 'more risk more gain' formula. Now again the NICO going to take only secured business and all the riot & strike and terrorist premium transfer to reinsurance.

Hence the management of NICO is risk averter. So the NICO should try to extend the retention according to the risk nature.

**Figure 4.1**  
**Net Premium and R.I Premium**



**4.2.4.5 Analysis of Investment**

Investment is one of the sources of income so it should be analyze separately. The table below shows the 10 years investment structure of NICO.

**Table 4.17****Analysis of Investment portfolio and Its Mean, S.D. & C.V. of NICO**

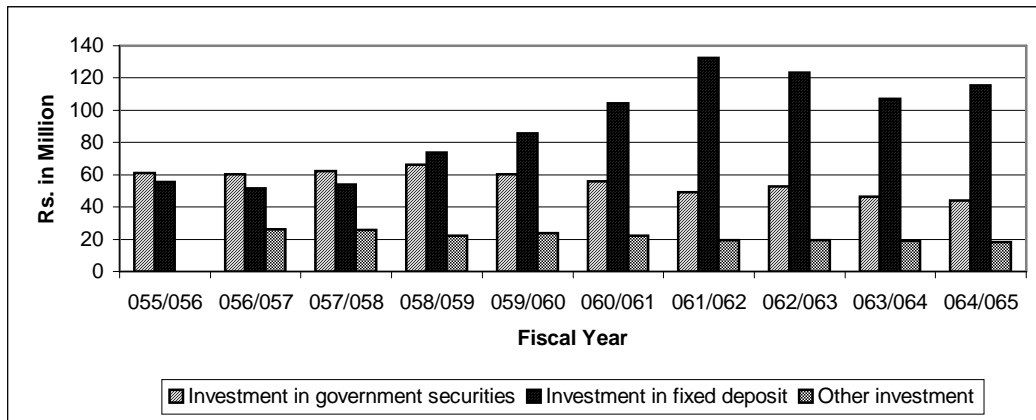
(Rs. in million)

Years	Investment in Government securities		Investment in Fixed deposit		Other Investment	
	Rs.	%	Rs.	%	Rs.	%
055/056	172.98	28.63	0.17	055/056	172.98	0
056/057	209	28.36	0.14	056/057	209	26.33
057/058	214.26	30.04	0.14	057/058	214.26	25.64
058/059	245.08	38.63	0.16	058/059	245.08	22.22
059/060	293.64	62.33	0.21	059/060	293.64	23.91
060/061	313.3	68.04	0.22	060/061	313.3	22.08
061/062	344.56	83.8	0.24	061/062	344.56	19.49
062/063	454.23	57.21	0.13	062/063	454.23	19.48
063/064	503.65	66.56	0.13	063/064	503.65	18.92
064/065	617.2	78.6	0.13	064/065	617.2	18.28
Total	3367.9	542.2	1.66	Total	3367.9	
Mean	336.79	54.22	0.17	Mean	336.79	
SD	145.04	21.18	0.03	SD	145.04	
CV	43.07	39.07	0.45	CV	43.07	

Source: Financial Reports of the Company

The figure indicates that bulk amount of investment is invested in Government securities and fixed deposit. Only from FY 056/057 the NICO started to invest in other sectors by investing the share of bank of Cylon. But the invested amount is not so increase up to now. It shows that the management of NICO does not ready to increase the investment in others sector. Only the management prefers the secured sector with nominal interest. It does not seem diversify investment portfolio system. The NICO management is risk averter management. By this analysis the NICO should try to diversify its investment in various sector.

**Figure 4.2**  
**Analysis of Investment Portfolio**



#### 4.2.4.6 Analysis of Income

Insurance Company can earn the income from different sources. In this study the income is classified into three parts i.e. income from insurance business, income from investment and others income, though it is necessary to analyze its various income. The table presents the 10 years income from different sources.

**Table 4.18**  
**Income from Different Sources and Its Mean, S.D. & C.V. of NICO**

(Rs. in million)

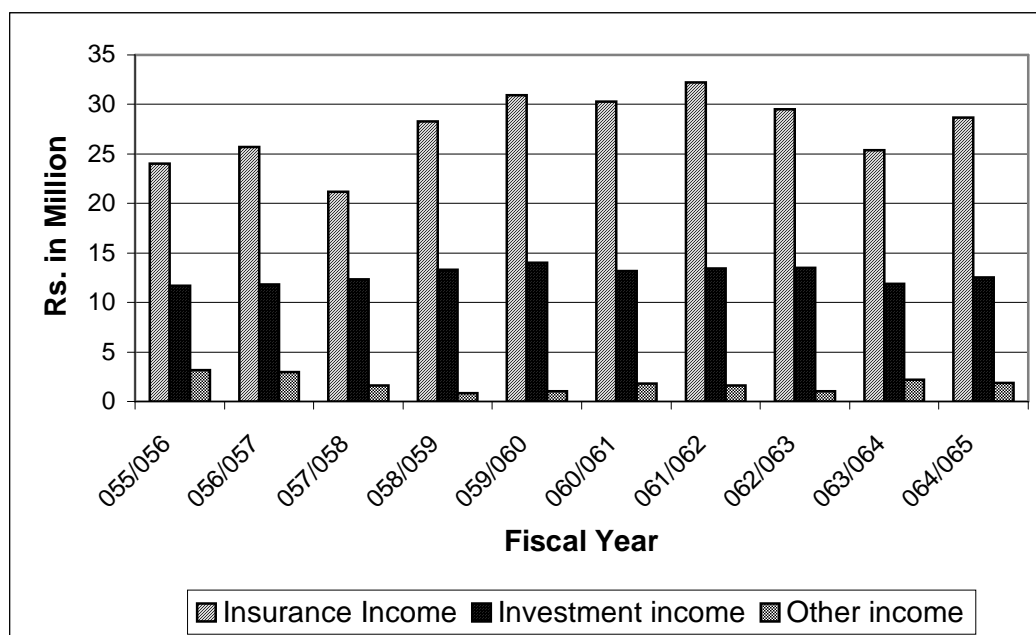
Years	Insurance Income		Investment Income		Other Income	
	Rs.	%	Rs.	%	Rs.	%
055/056	172.98	28.63	0.17	055/056	172.98	28.63
056/057	209	28.36	0.14	056/057	209	28.36
057/058	214.26	30.04	0.14	057/058	214.26	30.04
058/059	245.08	38.63	0.16	058/059	245.08	38.63
059/060	293.64	62.33	0.21	059/060	293.64	62.33
060/061	313.3	68.04	0.22	060/061	313.3	68.04
061/062	344.56	83.8	0.24	061/062	344.56	83.8
062/063	454.23	57.21	0.13	062/063	454.23	57.21
063/064	503.65	66.56	0.13	063/064	503.65	66.56
064/065	617.2	78.6	0.13	064/065	617.2	78.6
Total	3367.9	542.2	1.66	Total	3367.9	542.2
Mean	336.79	54.22	0.17	Mean	336.79	54.22
SD	145.04	21.18	0.03	SD	145.04	21.18
CV	43.07	39.07	0.45	CV	43.07	39.07

Source: Financial Reports of the Company

The table shows that more than 50 percent income is generate from insurance business. NICO has strong income source of investment. Which cover more around 30 percent of total income. Besides this INCO has other income sources also, i.e. income from transportation and clearing service can generate some part of income.

The above figure indicates that income from operating activities of NICO is not so satisfactory because income from investment and other sources also contribute the large part of total income. So the NICO should increase its operative activities.

**Figure 4.3**  
**Income from Different Sources of NICO**



#### 4.2.5 Cash Flow Analysis

The balance sheet provides information about an enterprise's assets, obligations and equity at a point of time, but does not explain the changes during a period in these times. The profit and loss account provides information about an enterprise's financial performance during a period but earnings are measured by accrual accounting, it does not show the cash generated through an enterprise's operations. The statement of cash flows

complements these statements by providing information on the major sources of cash receives and cash payments.

From the statement of cash flows, it is possible to infer whether a company financed capital expenditure by raising additional share capital, issuing loans, selling investments, diverting cash from operations, or by drawing on cash balance. The effect of operations on cash flows can be seen by compared the net profits with the net cash flows from operating activities. The company's strength in responding to unexpected needs or opportunities can be seen by examining its ability to sell its investments without tampering operations, its ability to issue additional debt or equity at short notice, and availability of unutilized lines of credit. The quantity of earnings of the company can be judged by comparing the extent to which sales have been converted into cash.

The table 419 presents the overall cash flow of the NICO in the study period. The lower level of cash inflow from operating activities is Rs 17.88 million in FY 057/058 and higher is Rs 42.08 million in FY 058/059. The company issue its share in FY 055/056 and cash inflow at Rs 0.02 million. The highest cash inflow from share issue is Rs 15.82 in FY 061/062. The company also inflow cash from loan in FY 056/057 at Rs 15.65. Sale of fixed assets and investment also generate some cash inflow. The main source of cash is Rs 28.43 million and 7.30 in FY 061/062 and 055/056 respectively. Some sort of outflow is in loan payment and cash loss in operation. Lowest highest cash flow is Rs 71.31 million in FY 061/062 and lowest is Rs 31.65 in FY 055/056. The cash and bank balance of NICO is highly fluctuated at minimum Rs 3.0 million in FY 057/058 and maximum Rs 20.87 in FY 062/063.

**Table 4.19**  
**Cash flow from Operatives, Financing and Investing Activities**

(Rs. in million)

Fiscal Year	055/56	056/57	057/058	058/59	059/60	060/61	061/62	062/63	063/64	064/65
Cash and bank balance	0.55	7.17	3.37	3.0	9.07	14.27	18.92	18.72	20.87	18.72
Add cash inflow										
Cash from operational activities	19.39	21.26	17.88	42.08	19.25	37.56	22.15	28.78	37.16	
Issue of share	0.02	0.02		0.02			15.82			
Raising of loan		15.65								
Sales of fixed assets					0.07		0.85			
Sales of investment								5.66		
Income from investment	11.69	11.82	12.34	13.32	14.04	13.17	13.57	13.47	18.04	29.31
Total	31.65	55.92	33.59	58.42	42.43	65	71.31	37.85		
Cash outflow										
Purchase of fixed assets	2.03	4.80	3.09	1.51	0.50	0.68	2.00	1.08	1.07	1.48
Repayment of loan	4.25		4.96	10.70						
Purchase of investment	10.90	34.60	4.12	24.0	11.87	13.81	22.15			
Dividend payment	7.30	13.15	18.42	13.15	15.79	31.59	28.43	7.90	7.8	7.8
Cash loss in operations								8.0		
Cash and bank balance at the end	7.17	3.37	3.0	9.06	14.27	18.92	18.73	20.87	20.87	48.82
Total	31.65	55.92	33.59	58.42	42.43	65.0	71.31	37.85		

Source: Financial Reports of the Company

### 4.3 Statistical Analysis

This chapter deals statistical analysis. The financial performance of Nepal insurance company limited can evaluate and analyze with the help of statistical tools. Statistical analysis means to find the relationship between variables and prediction of future possibility through defined tools. The tools used in this analysis are standard deviation, coefficient of variation, coefficient of correlation, and time series analysis. The graphs and diagrams are also presented to picturize the relevant data more clearly.

#### 4.3.1 Standard Deviation

The standard deviation reflects the deviation of actual value with average mean. The deviation of average premium of NICO with actual premium of different insurance business like, fire insurance, miscellaneous insurance and marine insurance is found in this study. The standard deviation will be helpful for NICO to analyze the existing insurance policy and helpful to adopt the appropriate policy in coming years. It measures risk, so S.D. helps the management to change the attitude on risk return trade in NICO.

**Table 4.20**  
**Standard Deviation and Co-efficient of Variation of Portfolio wise Premium of NICO for ten years period.**

Category	Standard deviation	Co-efficient of variation
Fire insurance	6.53	0.2589
Miscellaneous insurance	16.50	0.6554
Marine Insurance	0.46	0.7012

Source Appendix 5, 6, 7

The above table clearly shows that the premium is fluctuated more in miscellaneous insurance i.e. 16.50 and fire insurance and marine insurance is fluctuated by 6.53 and 0.46 respectively. It indicates that the premium collection trend in miscellaneous



insurance business is higher than other insurance business and lower standard deviation in marine insurance business reflects the very low premium collection trend in marine insurance

From the above analysis it shows that the major part of premium collection of NICO is from miscellaneous i.e. rapidly increasing in motor business which may be harmful for the company because motor business is risky business. So the company should diversity its business in various fields.

### 4.3.2 Co-efficient of Variation

The above table shows that the coefficient of variation in marine insurance business is higher than others i.e. 0.7012, which indicates the risky business. So the company should pay more attention in the marine insurance business because the excessive claim payment should be made the cause of decreasing the profit in future. The coefficient of variation in miscellaneous insurance business also higher i.e. 0.6554, so the company should considers about this business as compare with other insurance business and gives more priority of other insurance sector to collect more premium.

### 4.3.3 Coefficient of Correlation

To analyze the financial performance of NICO with the help of coefficient of correlation the study analysis the relation between gross premium and total claim occurrence & net premium and net profit of ten years period from FY 055/056 to FY 064/065.

**Table 4.21**  
**Correlation coefficient probable error and coefficient of determination**

Variables	Correlation(r)	Coefficient of determination ( $r^2$ )	Probable error
Gross premium and claim occurrence	0.994	0.98	0.0025
Net premium and net profit	-0.1423	0.020	0.2091

Source Appendix 8, 9

The above table shows the highly positive correlation between gross premium and claim occurrence i.e. 0.994. But the probable error is 0.0025 by the probable error the correlation coefficient or the relationship is significant. The coefficient of determination R<sup>2</sup> of then is 0.98. It indicates that the 98% of the total variance to the claim are explained by the gross premium.

The table clearly reveals that the two variables net profit shows the low correlation between them i.e. 0.1423. It indicates that the result is not satisfactory. But also it is higher than the probable error i.e. 0.2091. The coefficient of determination R<sup>2</sup> is 0.020 or 2 percent. It means that from the above analysis it is found that when the gross premium increase of the company claim also going in increasing order. It means the NICO cover the most risky business. So the company should filter its insurance business.

The above analysis of net premium and net profit shows that even the net premium of NICO increases the ratio of net profit; it is not as increased as the net premium. It is affected by various factors like highly claim ration, increasing management cost.

#### **4.3.4 Time Series Analysis**

The time series analysis is an important statistical tool. The basis assumption of time series analysis is that the time is independent variable itself and other are considered as dependent variable upon time.

The time series analysis is used to forecast the numerical value of any variable for future based on past data.

##### **4.3.4.1 Trend Analysis of Gross Premium**

The trend analysis of gross premium is helpful for the analysis of financial performance of NICO. The trend equation for gross premium  $Y_c = 123.43 + 7.38x$  where y and x used to denote the gross premium and time variable respectively. The intercept is Rs. 123.43 million, which is the average of gross premium during the 10 years period. The slope of

trend line is Rs. 7.38 million, which indicates that the premium has been increasing at the rate of Rs. 7.38 million multiplied with respect to the value of 'x' every year.

**Table 4.22**  
**The actual value and trend value of gross premium**

(Rs. in Million)

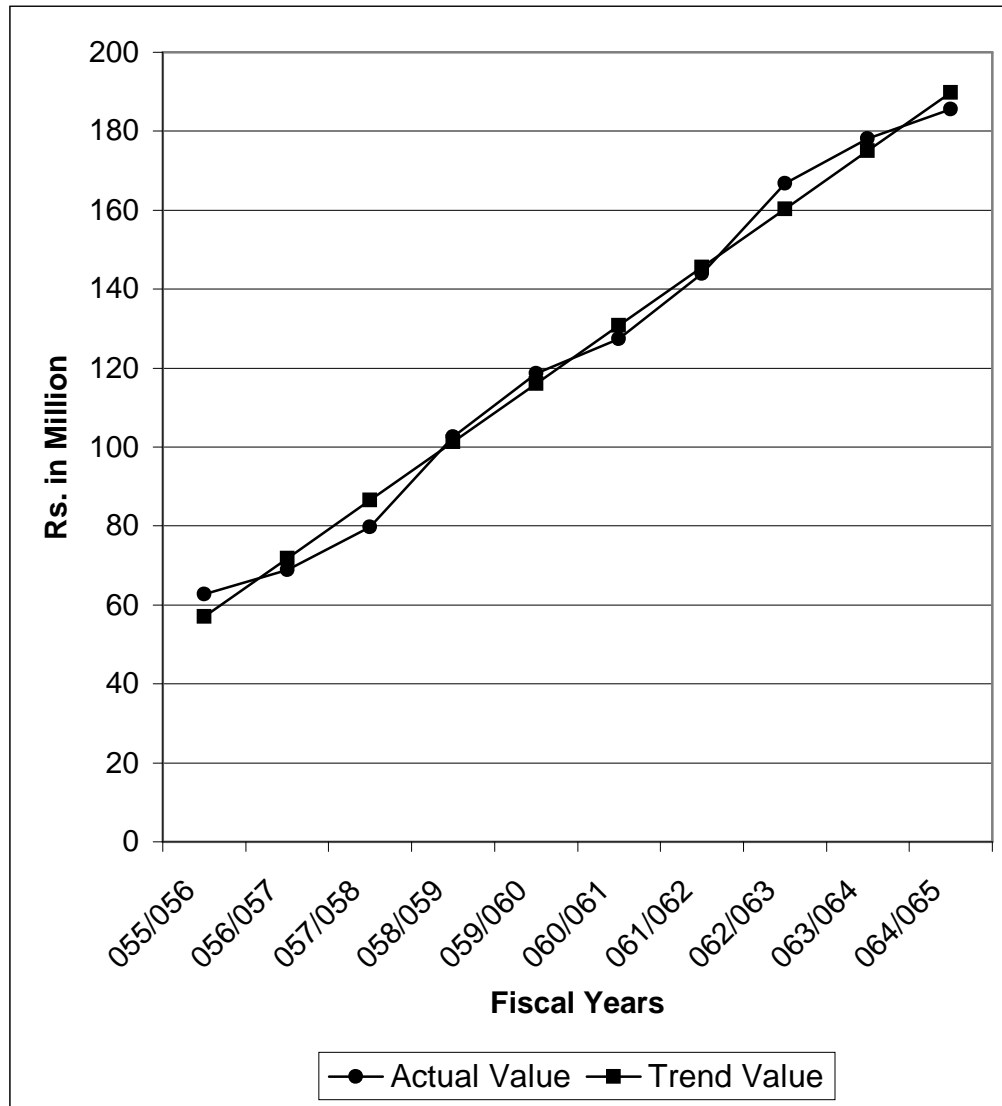
Year	Actual Value	Trend Value
055/056	62.74	57.01
056/057	68.89	71.77
057/058	79.72	86.53
058/059	102.52	101.29
059/060	118.63	116.05
060/061	127.42	130.81
061/062	143.87	145.57
062/063	166.82	160.33
063/064	178.2	175.09
064/065	185.5	189.85

Source Appendix -1

The above table shows that the yearly increasing trend of gross premium is Rs. 14.76 million. The base year trend value of gross premium is Rs. 57.01 million and reached to Rs. 189.85 million in the final of this study period. In starting year of this study period the actual value is greater than trend value and the remaining 9 years the trend value is greater.

From the above analysis, the slope of trend is satisfactory, the actual value and trend value both are increasing order. With the help of slope of trend the estimated value of gross premium in FY 067/068 is Rs. 234.13 million.

**Figure 4.4**  
**Actual Value and Trend Value of Gross Premium**



#### 4.3.4.2 Trend Analysis of Net Premium

The trend equation for net premium is  $Y = 289.89 + 22.09x$  where  $y$  and  $x$  are used to denote the net premium and time variable respectively. The  $y$  intercept is Rs. 289.89 million, which is the average of net premium during 10 year's period. The slope of trend line is Rs. 22.09 million, which indicates that the premium has been increasing rate of Rs. 22.09 million multiplied with respect to the value of  $x$  every year.

**Table 4.23**

**The actual value and trend value of net premium**

(Rs. in Million)

Year	Actual Value	Trend Value
055/056	172.98	28.63
056/057	209	28.36
057/058	214.26	30.04
058/059	245.08	38.63
059/060	293.64	62.33
060/061	313.3	68.04
061/062	344.56	83.8
062/063	454.23	57.21
063/064	503.65	66.56
064/065	617.2	78.6

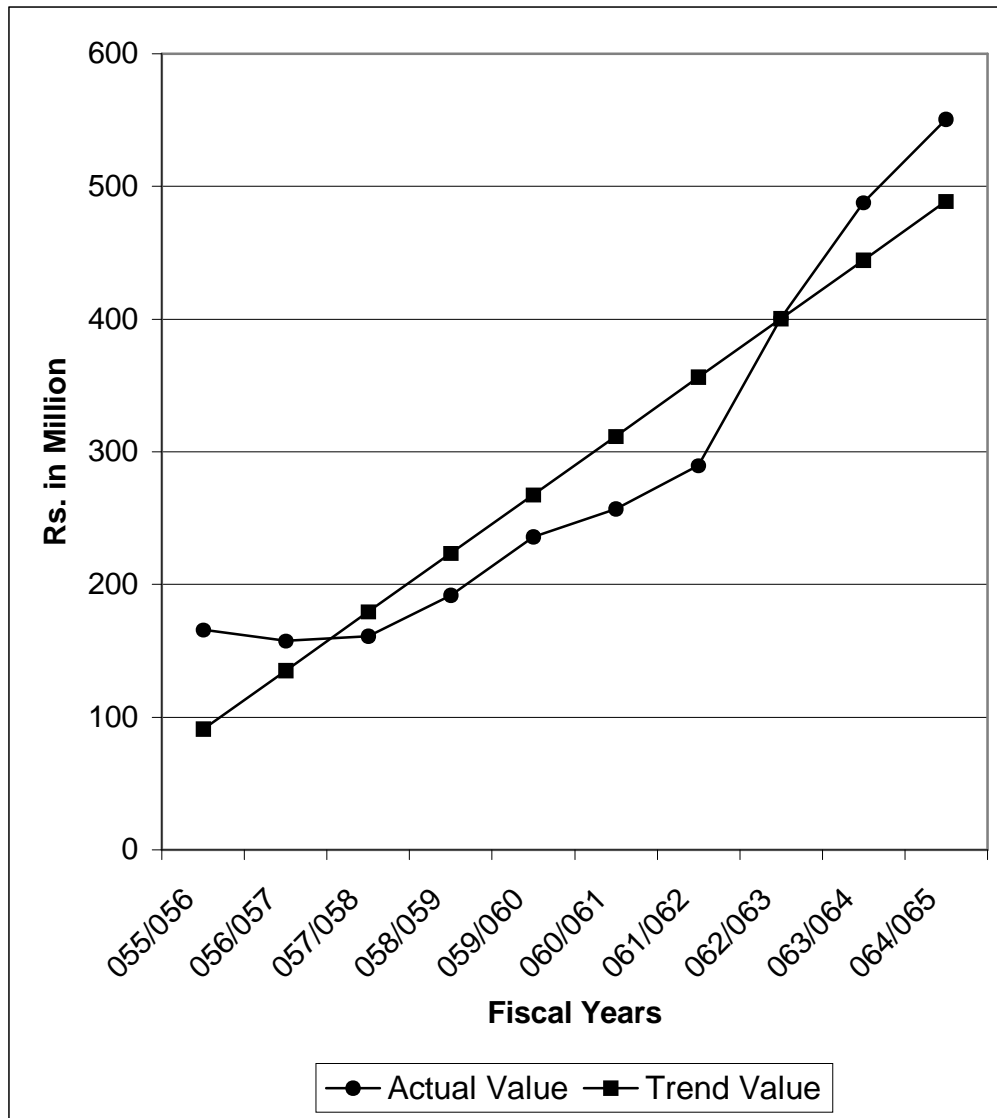
Source Appendix -2

The above table reflects that the trend value of net premium is increasing by Rs. 44.18 million. The actual value of net premium is Rs 165.71 million in base year and reach to Rs 550.7 in final year. And the trend value of net premium is Rs 91.08 in base year to reach at Rs. 488.7 million in last year of this study period. The actual value of net premium is decreased in FY 056/057 and FY 062/063 in FY 062/063 the net premium is affected by Nepal market pool.

From this analysis the estimated trend value of net premium for the FY 067/068 is Rs 621.24 million. That is satisfactory level for the NICO.

Figure 4.5

Actual Value and Trend Value of Net Premium



#### 4.3.4.3 Trend Value of Total Claim Occurred

Total claim is an important indicator of NICO. The financial efficiency of NICO depends upon the effective control and manage of the claim is  $Y = 42.26 + 5.42x$  where  $y$  and  $x$  are used to denote total claim and time variable respectively. The  $y$  intercept is Rs. 42.26 million, which is the average of total claim during the 10 years period. The slope of trend line is Rs. 5.42 million. Which indicates that the total claim has been increasing rate of

Rs. 10.84 million multiplied with respect to the value of X every year indicates that the total claim has been increasing rate of Rs. 10.84 million multiplied with respect to the value of x every year.

**Table 4.24**  
**The actual and trend value of total claim**

(Rs. in Million)

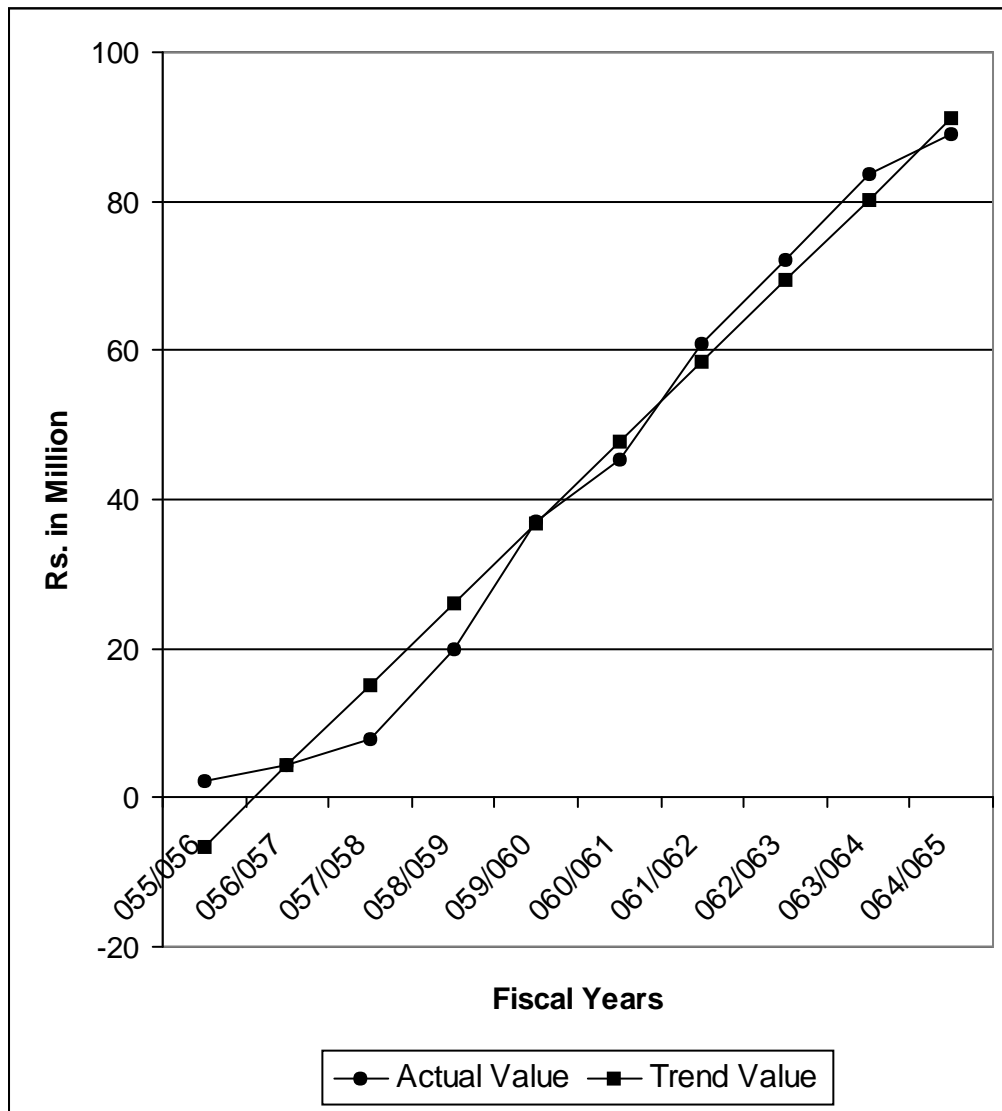
Year	Actual Value	Trend Value
055/056	172.98	28.63
056/057	209	28.36
057/058	214.26	30.04
058/059	245.08	38.63
059/060	293.64	62.33
060/061	313.3	68.04
061/062	344.56	83.8
062/063	454.23	57.21
063/064	503.65	66.56
064/065	617.2	78.6

Source Appendix -4

The table shows that the actual value of total claim is Rs. 2.14 million is base year and reached to Rs. 89.1 million in last year and the trend value of total claim is negative trend in first year i.e. Rs. -6.52 million in base year and reached to Rs. 91.04 million in last year. The yearly increasing trend is Rs. 10.84 million. The first and last 1 year actual value of total claim is greater than trend value and the remaining year's trend value is greater.

From the above analysis the estimated trend value for FY 064/065 is Rs. 123.56 million. This is unfavorable for the company. So the company should minimize its claim trend.

**Figure 4.6**  
**Actual Value and Trend Value of Total Claim**



**4.3.4.4 Trend Analysis of Net Profit:**

The net profit of the company measures its real performance. The net profit trend equation is  $Y = 26.08 - 0.38x$  where  $y$  and  $x$  are used to denote net profit and time variable respectively.



**Table 4.25****The actual and trend value of net profit**

(Rs. in Million)

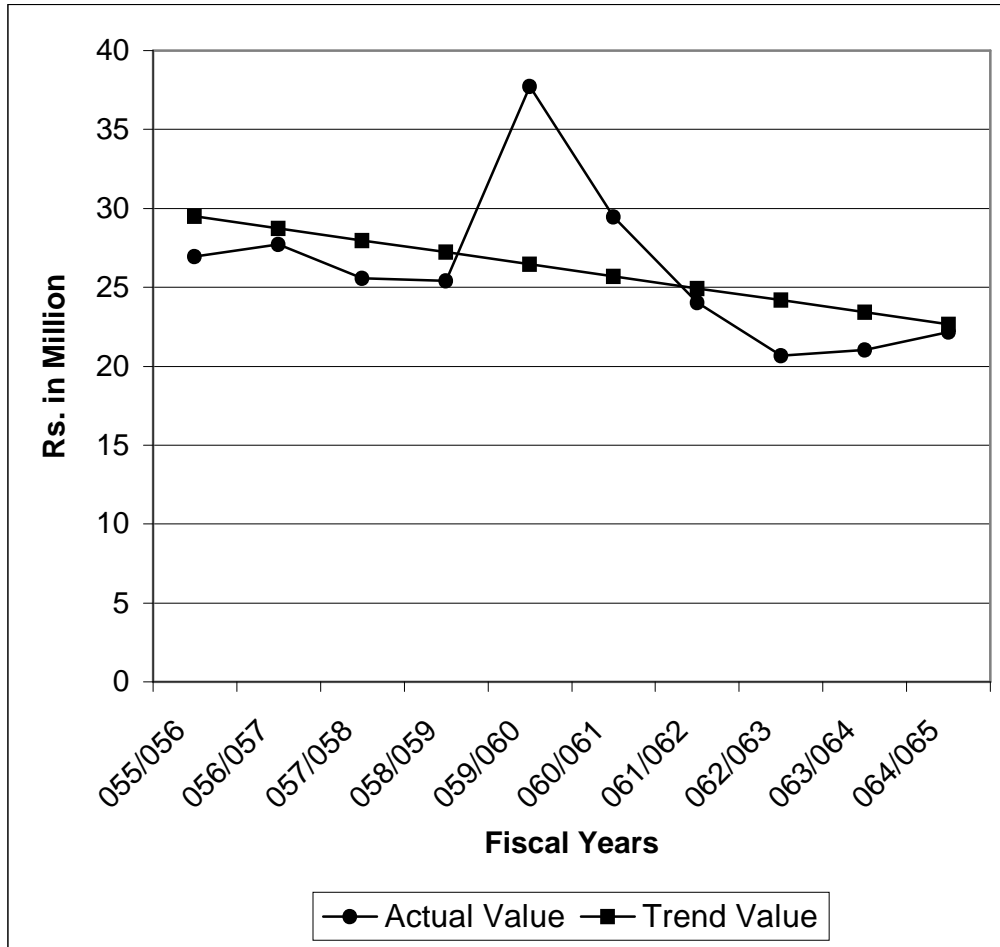
Year	Actual Value	Trend Value
055/056	172.98	28.63
056/057	209	28.36
057/058	214.26	30.04
058/059	245.08	38.63
059/060	293.64	62.33
060/061	313.3	68.04
061/062	344.56	83.8
062/063	454.23	57.21
063/064	503.65	66.56
064/065	617.2	78.6

Source Appendix -3

The table shows that the actual value of net profit is fluctuated year to year. But the yearly decreasing trend of net profit is Rs. -0.76 million. The trend value of net profit is Rs. 29.5 million in base year and reached to Rs. 22.66 million in last year of this study period.

From the above analysis, it is clear to say that the company couldn't maintain net profit satisfactory because the actual net profit is less than the trend value of net profit in these recent years. The estimated trend value of net profit for the fiscal year FY 067/068 is Rs. 20.38.

**Figure 4.7**  
**Actual Value and Trend Value of Net Profit**



#### 4.4 Major Findings

The main theme of the study is evaluating the financial performance of NICO. For this various financial and statistical tools has been analyzed in previous chapter and by this some of the major findings are highlighted as follows.

- The liquidity position of NICO is good. The average ratio is 2.70 times and the highest ratio is 3.16 times in FY 055/056 and lowest ratio is 1.97 times in FY 059/060. Except in FY 059/060 the current ratio is always higher than the standard ratio 2:1 times.

- The total assets turnover ratio of NICO is fluctuating. The highest ratio is 0.24 times in FY 061/062 and lowest ratio is 0.13 times in FY 062/063. In FY 062/063 the ratio has decreased at 0.13 from 0.24 times of previous year due to the decrease in net premium. The main reason of decrease in net premium in FY 062/063 is that the major part of total premium is diverted into Nepal Market Pool.
- Fixed assets turnover ratio is in increasing trend from FY 055/056 to FY 064/065 at 3.93 times to 7.29 times respectively. But decrease in FY 062/063 is at 5.35 times. The average fixed assets turnover ratio is 4.96. The portion of fixed assets with total assets is very low. So the ratio is higher than the total assets turnover ratio.
- The operating profit ratio of the NICO is decreasing regularly due to the increase 2. The ratio of management expenses to gross premium is fluctuating. The lowest ratio is 16% in FY 062/063 and highest ratio is 25.34 in FY 057/058. The average ratio is 20.0%.
- The agency commission to gross premium ratio of NICO is fluctuated in this study period. The highest ratio is 10.58% in FY 061/062 and the lowest ratio is 6.65% in FY 062/063. The average ratio is 8.0%.
- The total claims to net premium ratio is in increasing trend except is FY 055/056 in this 10 years period. The lowest ratio is 7.0% in FY 055/056 and the highest ratio is 126.0% in FY 062/063. The average ratio is 66.0%.
- The analysis of net premium and RI premium of NICO shows the increasing trend in this study period except in FY 062/063 of net premium and RI premium in FY 061/062 and the lowest percent is 34.29% in FY 062/063. The highest percent of RI premium is 65.71% in FY 062/063 and lowest percent is 38.84% in FY 061/062.
- The investment analysis of NICO indicates the traditional management system. Major part of the investment is in fixed deposit and Government securities. The large percent of Government securities is 52.38% in FY 055/056 and small percent is 24.17% in FY 062/063. Like that the highest percent of fixed deposit is 56.33%

in FY 062/063 and lowest percent is 34.16% in FY 057/058. Investment in share of other companies has started from FY 056/057 at 40 million, which is 26.33% of total investment. The lowest percent of other companies share investment is 19.45% in FY 061/062.

- The income sources of NICO are of three types i.e. income from insurance business, income from investment and income from other sources. Among these income sources major percent of income is from insurance business which is 68.17% in FY 061/062 and lowest percent is 58.54% in FY 055/056. Very small percent of total income is contributed by other income i.e. lowest is 0.81% in FY 059/060 and highest is 3.15% in FY 056/057.
- The standard deviation of portfolio wise net premium shows that miscellaneous insurance has higher S.D. of all i.e. 16.50 and marine has lower S.D. i.e. 0.46 and coefficient of both is very high and that indicates the very scattered ness of net premium. But in fire insurance both S.D. & C.V. is normal. So NICO should consider both miscellaneous & marine business.
- From the trend analyses of gross premium it indicates the increasing order of gross premium and in last year actual value of gross premium has improved and higher than trend value. It shows the positive result of gross premium.
- By the trend analysis of net premium the actual value of net premium is going on increasing order up to FY 061/062 but decreasing at once in last year due to the transfer of terrorist premium into Nepal Market Pool.
- The analysis of total claim occurred indicates that recent two years actual value is higher than trend value it means claim ratio of NICO is on increasing trend. So the company tries to decrease its claim ratio through covering selected business.
- From the analysis it is clear that the company couldn't maintain net profit satisfactorily because the actual net profit is less than the trend of net profit in recent years.

## CHAPTER – FIVE

### SUMMARY, CONCLUSION AND RECOMMENDATIONS

#### 5.1 Summary

The study performs as "Financial Performance Analysis of Nepal Insurance Company Limited," Insurance business has played vital role in the field of economic development either by collection of small scattered capital or by transferring risks. In this study an attempt is made to provide independent views of the financial performance of Nepal Insurance Company Limited and focusing on the problems of NICO in the context of competitive market.

In this study financial and statistic analysis are the main weapons to analyze the performance of NICO. On which ten years data were taken and all the data were taken from secondary sources i.e. –annual reports of NICO. But some help has been taken with the staff of NICO by the unstructured questionnaire. The collected information were tabulated to attain the stated objectives of this study. Then presentation and analysis are made on the use of methodologies.

The liquidity position of NICO shows high but the total assets turnover ratio is very low. Even the company has increased its gross premium but not increased its net profit because of the high increased its management cost and claim ratio. The company does not take high retention limit; it means the company transfers its risk to re insurer. This is also a cause to reduce profit of NICO. The company adopted traditional policy, so the company can not change its investment portfolio and business portfolio. Even the company has normal standard deviation and coefficient of variation on fire insurance but has very scattered in miscellaneous insurance. The trend line of gross premium shows the satisfactory result but the trend line of net premium, total claim occurred and net profit shows the decreasing position in study period.

## 5.2 Conclusion

This study is related with Nepal Insurance Company Limited. It analyze the performance of the company. It is the first insurance company of Nepal. It provides general insurance all over the country.

Through the analysis, the average current ratio of NICO is higher than 2:1. It showed that high solvency position of NICO. The total assets turnover ratio is very low due to the high current assets, but a fixed assets is favorable. The company has not maintained good operating profit margin due to the increase in total operating expenses. Even the net worth going to increasing order but return on net worth ratio is poor due to the fluctuating of net profit. The EPS and DPS of NICO does not have same ratio. Both gross premium and management expenses ratio is in increasing trend. It indicates the lack of control of management expenses. The agency commission to gross premium ratio indicates the high dependency on agent for premium collection. The company has not selected less risky business in recent years, so the claim ratio going to increase unexpectedly. Low retention, invest in secured sectors with low return and highly dependency on traditional insurance business are the main cause of profit minimize of NICO.

Standard deviation and coefficient of variation of fire insurance is normal but of miscellaneous insurance has some scattered. The trend analysis of gross premium presents the satisfactory but the trend analysis of net premium, total claim occurred and net profit indicate the unfavorable result in recent years.

This study is limited only to financial performance of insurance company. Apart from financial problem, there are many problems of insurance companies. Such problems will be helpful tool for researcher in future.

## Issues

This study is based in the subject of financial performance of Nepal insurance company limited, but the subject is affected by various internal and external environment of the company. Likes as the company's management, staff quality and behaviour, business policy, investment policy are the internal environment and national economy, government policy are the external environment of the study. This study is based on the quantitative aspects of limited financial indicators. Some issues and gaps are highlighted below.

- The increase in the fixed assets presents the strong financial position of the company but unnecessary fixed assets cannot generate income. In insurance business there is no need of extra fixed assets except office equipment.
- In comparison to gross total income gross operating profit is lower due to the increase in operating expenses.
- The higher current ratio indicates a very good solvency position of NICO but it affects profit due to the high unproductive current assets.
- The net worth is the resource of capital in any company. The return on net worth is tested to find how well the company has used the resource of owners. It shows the falling of return on net worth of NICO year to year. It indicates the improper use of its net worth.
- The fluctuated EPS of NICO shows the inefficient management. The dividend is in the range of 10-50%, which is the unsystematic dividend policy because it affects the market price of company's share but the shareholders want the stable dividend policy.
- The increasing trend of management expenses and agency commission of NICO indicates the inefficiency of management. The high increase of total claim to net premium ratio shows the lack of risk management technique. The excess claim is directly affected to net profit.

- Higher reinsurance premium of NICO indicates that the retention capacity of NICO is very low. It means that NICO's management adopts the risk averse policy: The result of low retention shows that the net business volume is regularly decreasing. Then it affects the profitability of the company.
- The investment policy of NICO is traditional. It does not apply the "more risk more gain" theory. The block amounts of investment are invested in low return sectors i.e. government securities and fixed deposits. Vary little amount is invested in other sectors i.e. share of other companies.
- NICO does not take a balance business portfolio to minimize the insurance risk. Large business volume of NICO is covered by traditional insurance policies like fire, motor and marine. New insurance policies like mediclaim, Hospitalization, personnel accident covered very small business volume.
- The claim process of NICO depends only in surveyor reports. There is lack of check and balance of spot survey.

### **5.3 Recommendations**

The recommendations are made as per the findings and issues, which have been shown in previous chapter. From the analysis it is clear that NICO has to improve some of its strategies for its existence in competition insurance market. The advertisement and publicity should be increased to make the people aware of insurance. The company tries to invent new schemes through its research and development department and has to launch in insurance market. Train and energetic personnel can lead the performance of the company. So NICO always recognize its staff with changing market environment. Without risk no one can expect high return. So NICO moves its traditional investment policy into different stocks of reputed organizations. The following recommendations are made to relieve the problems arisen in financial performance of Nepal Insurance Company Limited.



### **a) Proper Utilization of Fixed Assets**

A fixed asset is the permanent asset of any organization. More fixed asset shows the financially strong of the company. It makes confidence to shareholders as well as other relative parties toward the company. But in insurance company unnecessary or unproductive fixed assets can not generate income. But also NICO report shows the regular increase in fixed assets. So the company should be improved by proper, effective and optimum utilization of fixed assets and avoiding unnecessary investment in fixed assets.

### **b) Increase Operating Income**

The portion of operating income of NICO is not at satisfactory level, so NICO is suggested to increase operating income for its sustainability and to meet the competition.

### **c) Regular training to the Staff**

Trained and energetic personnel are the permanent wealth of any organization, and financial performance of organization depends on personnel behavior. The annual report of 058/059 of the company showed the penalty paid to the tax office due to the lack of account clearance in time. It indicates the inefficiency of staffs even at the company has around 150 staffs. So the NICO should build qualitative staffs and mobilize according to their performance. So the human resource department of NICO should actively involve increasing the personnel efficiency.

### **d) Need to Extend the Business Area**

Even the first insurance company of Nepal, the business volume of NICO is not at so satisfactory level in comparison to other insurance company. Even the NICO has spread its branches in different parts of the country, very low portion of total country business is covered by Nepal Insurance Company Limited. So the company should identify the

prospective business area and mobilize its agents to these areas with advertisement in good media like TV, Radio, Newspapers, Magazine and other special program like seminar, talk program, sponsor program etc.

#### **e) Diversify the Business Portfolio**

Nepal Insurance Company Limited should diversify the business portfolio. The high dependency on fire insurance business cannot be able to meet the highly growing competition. The company tries to move aviation insurance policy and give high emphasis to marine and miscellaneous insurance.

#### **f) Establish Research and development Department**

For the successfully running in competitive market NICO should establish research and development department for the present and future business potentialities in the market. The company can launch attractive and easily affordable policy for the mass people who live in rural area i.e. worker's insurance, student's insurance etc.

#### **g) Consider the Investment Policy**

Nepal Insurance Company Limited has adopted traditional investment policy, which affects on financial performance of NICO due to low return. So the company has to analyze the various securities return of the various companies and should diversify its investment into these sector like shares, bonds etc which has high return.

#### **h) Control Management Expenses**

Even though management expenses of NICO is low than the insurance act, but the main target of the company is profit maximization so the company should control and avoid unnecessary expenditure. For this the NICO should apply budgeting system.

### **i) Emphasis on Publicity of Company**

In spite of being the first insurance company of Nepal, only the specific urban people know about NICO. So the advertisement and publicity should be increased to make the people aware of insurance even though the expenditure will increase. Effective devices should be used for publicity and advertisement so that the message can be transmitted to the target place.

### **j) Manage Optimum Liquidity Position**

Most of the years of the study period the current ratio is very high than standard ratio. It shows that NICO has reserved much of the assets as liquidity provision, which can not be used in productive way. So the NICO tries to maintain its current ratio at the level of current ratio.

### **k) Increase in claim Supervision**

In the claim process joint survey system is effective. Only dependency on surveyor report does not expect good result for all cases. So NICO has to inspect the claimed property on the spot. It reduces the fake of surveyor and delusive claim. For that NICO should established claim-monitoring team, which can be collected field report directly.

### **l) Apply Fixed Dividend Policy**

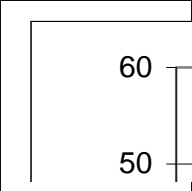
NICO has unsystematic dividend policy. The dividend is highly fluctuated year by year. So the company has to maintain fixed dividend policy.

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