PREMIUM COLLECTION AND INVESTMENT PATTERN OF NON-LIFE INSURANCE IN NEPAL:

A CASE OF SHIKHAR INSURANCE AND SAGARMATHA INSURANCE

A Thesis

Submitted to the Office of the Dean, Faculty of Management

Tribhuwan University, Kritipur, Kathmandu, Nepal

In the Partial Fulfillment of the Requirement for the Degree of

MASTER'S IN BUSINESS STUDIES (MBS)

BY

SIRAPA SHAKYA

T.U. Reg. No.: 7-2-0497-0014-2013

Symbol No.: 7344/18

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People's Campus

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CERTIFICATION OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of thesis entitled “Premium Collection and Investment Pattern of Non-Life Insurance in Nepal: A Case of Shikhar Insurance and Sagarmatha Insurance. The work of this thesis has not been submitted previously for the purpose of conferral of any degrees nor it has been proposed and presented as part of requirements for any other academic purposes.

The assistance and cooperation that I have received during this research work has been acknowledged. In addition, I declare that all information sources and literature used are cited in the reference section of the thesis.

Sirapa Shakya

08-09-2021

REPORT OF RESEARCH COMMITEE

Ms. Sirapa Shakya has defended a research proposal entitled "Premium Collection and Investment Pattern of Non-Life Insurance in Nepal: A Case of Shikhar Insurance and Sagarmatha Insurance" successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per and submit the thesis for evaluation.

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APPROVAL SHEET

This thesis entitled "Premium Collection and Investment Pattern of Non-Life Insurance in Nepal: A Case of Shikhar Insurance and Sagarmatha Insurance" submitted by **Ms. Sirapa Shakya** to the faculty of Management, Tribhuvan University, in partial fulfillment of the requirements for the degree of Masters of Business Studies has been found satisfactory in scope and quality. Therefore, we hereby certify that the dissertation is acceptable for the award of degree.

Dissertation Supervisor

Internal Examiner

External Examiner

Chairperson Research Committee

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Sirapa Shakya

September, 2021

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

ABBREVIATION/ ACRONYMS

CV	: Coefficient of Variation
FY	: Fiscal Year
GS	: Government Securities
PCAI	: Premium collected on aviation insurance
PCCAI	: Premium collected on cattle and agricultural insurance
PCEI	: Premium collected on engineering insurance
PCFI	: Premium collected on fire insurance
PCMI	: Premium collected on marine insurance
PCMI-1	: Premium collected on motor insurance
PCMI-2	: Premium collected on miscellaneous insurance
PCMI-3	: Premium collected on micro insurance

ABSTRACT

The purpose of this study was to know the trend and investment pattern of selected non-life insurance companies in Nepal. This study aims to examine the association between premium collection and investment pattern of selected non-life insurance companies.

A descriptive, analytical and comparative research design are used for this research. Two companies are selected randomly as a sample. Also the study tried to assess the companies' ten years data i.e. from 2009/2010-2018/2019. Various tools used for data analysis are mean, standard deviation, coefficient of variation, correlation etc. The data are collected from the various years' annual report of selected non-life insurance companies.

The findings shows that non-life insurance companies collected highest premium in motor and fire insurance. The trend of premium collection and investment is increasing. However, the pace is increasing gradually only. Higher premium collected by insurance companies results in higher investment in different sectors and more investment results in more investment return.

CHAPTER-I

INTRODUCTION

1.1 Background of the study

People want to feel safe. Following the essential goals of food, clothing, and shelter, follows a sense of security. Everyone is exposed to risk on a daily basis, whether it is while driving, strolling down the street, investing, and capital planning, or something else. The future is always unpredictable, and with that uncertainty comes risk. The risk is an unplanned event or occurrence that occurs with financial significance and results in a loss. Many happy people's lives are shattered either by the untimely death of the family's breadwinner or by other tragedies such as floods, fires, earthquakes, wars, accidents, and other natural disasters that can have a devastating impact on human life. These risks are such which cannot be known in advance as to when they will happen and it is physically impossible for an individual to make provision against them. Being a rational animal, human being is always afraid of risk and they always wish to be safe and secured his present as well as future life. This risk and uncertainty turn out due to globalization, liberalization, and innovation in science and technology. So, insurance is the way to minimize and provide protection against those risk which are beyond human control. It is way to indemnify to those unpredictable losses. Insurance is a device providing financial compensation to those who suffer from misfortune. In other words, insurance is the best means for security to human life and property from various risks (Shrestha, 2001).

Insurance is defined as a contract, which is called a policy, in which an individual or organization receives financial protection and compensation of damages from the insurer or the insurance company. In simple word, it is some form of protection from any possible financial losses. Moreover, insurance is a mechanism for transferring specified risks of individual persons or organization to an insurer of certain risks of financial loss in exchange of the payment of agreed fixed amount. The insured cannot make any profit out of the insurance but they are compensated to the extent of the pecuniary loss.

Insurance company charges a certain amount called ‘premium’ in return of assuring the insured for indemnity if the stated risk caused economic losses within the policy period. Insurance company collected fund in the form of premium and invests in different sectors for maximum return. Once earned, the premium is regarded as the income of the insurance industry. The growth and development of an insurance industry is based on the large number of groups of various individuals, corporate businesses and financial organization who are policy holders of the company obtained directly by the representatives or through agents. The large number of policyholders leads to the large amount of premium collection for the minimization of occurrence of various risk and uncertainties. Insurance companies are considered as an important part of an institutional investment of any country as they invest in corporate securities as well as other collective investment schemes and in turn, they produce sufficient income to meet their obligations in the form of promised insurance benefits (Securities Board of Nepal, 2007).

The premium is invested in stocks, bonds, and other interest-bearing assets by insurance firms. An insurance business can use the investment profits to cover claims, commissions, and administrative costs. It accumulates a large sum of money in premiums and may not have to pay out on claims for many years. The ultimate objectives of the investment directive is safeguarding the reserve funds of insurance companies and secure minimum amount of earnings to pay policyholders' future liabilities without any burden of financial scarcity.

Insurance companies performed three distinct jobs: i) Risk pooling, diversifying and loss compensation, ii) Risk management; and iii) Resource mobilization. Academicians are agreed on the positive role of insurance in both developed and developing economies. Insurance enhance the economy through promoting financial stability, mobilizing savings, facilitating trade and commerce, enabling risk management, encouraging loss mitigation, fostering efficient capital allocation, substituting the complement of government social security programs (Skipper, 2001).

Insurance contributes to society by favorably affecting the apportionment of the factors of production, engaging in loss prevention activities, identifying losses serving as a basis of the credit structures, eliminating worry and providing a channel for investible fund. Insurance spread the cost of the risk over a large group of individuals subject to the same risk, in order to reimburse the few who actually suffer from the risk. The purpose of insurance is to reduce the uncertainty and worry caused when it becomes aware of the possibility of loss. It does this by spreading the economic burden of losses among members of group. Insurance does not prevent loss but it relives the financial burden.

Nowadays in the pace of rapid growth and development of insurance industries, it is very important to develop appropriate strategies that might aid the insurance practitioners to develop appropriate insurance products and services. Insurance manages the risk of uncertainty in an effective way and plays a significant role in mobilizing domestic savings, turning capital into productive investments, by managing loss and maintain financial stability. The non-life insurance hence plays a crucial role in promoting the trade and commerce activities which contributes to the sustainable growth of an economy.

The indemnification principle of insurance mainly focuses on compensating the insured for the loss that occurs. In addition to this, as financial intermediaries, it accumulates funds and channelized the saving in national development which ultimately helps in economic growth. This shows insurance as a source of capital formation for development and growth of a country.

1.2 Historical background of insurance in Nepal

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

With the development of trade, commerce and industry, the necessity of insurance in our country was felt long age. However, there was no evidence of any organized form of insurance in Nepal until 1947. Society was organized and settled in an agricultural basis and the socio-economic organization took care of any problem or calamity confronted to the community. The fire insurance in Nepal, at first was started by "Nepal Malchalani Tatha Beema Company" and had changed its name as "Nepal Insurance & Transport Company Ltd." on 1959 A.D and again renamed as "Nepal Insurance Company Ltd." since 1991 A.D.

The "National fire insurance company" of Calcutta is the first insurance company to open branch in Kathmandu in 1958, to transact fire insurance business in Nepal. With the development of trade and industry, establishment of Nepal Rastra Bank (Central Bank), Nepal Bank Ltd. (Commercial Bank), Rastriya Banijya Bank (Commercial Bank), Agricultural Development Bank, Co-operative Bank, Nepal Industrial Development Corporation, numerous other companies and corporations, the need of fire insurance in Nepal is growing in a manifold way. To meet ever-growing needs of fire insurance Indian branches such as 'Rubu, Oriental, Sterling General and Hindustan General' and the domestic insurance company 'Insurance and Transport Company' and 'Rastriya Beema Sansthan' are transacting fire insurance business.

Though there is no organized form of life insurance in Nepal, a kind of life that can be better termed "death insurance" is practiced since a long time. Like "insurance", there is "Guthee", which helps its member in facing financial burden out of death. Its policyholders are known as "Gutheear" instead of insured. Though they do not have policies in black and white, they have a kind of verbal understanding by which they can work smoothly without facing any difficulties. Gutheears pay a certain amount of money to the Guthee, in the same way as the insured pays premium to the insurer. Before 1951, Patna branch of Indian Life Insurance Company was exploring life insurance business with the nationalization of Life Insurance Corporation of India. It is solely and wholly transacting life insurance business in Nepal. It established a branch office in Kathmandu in 1962. Thus, this corporation has a kind of monopoly in life insurance business. However a need for an insurance company that would incorporate every type of insurance function was also felt at the national level. This resulted to establishment of Rastriya Beema Sansthan on 15th December 1968. The company was established as a private company with an authorized capital of NRs. 10 million and capital issued was NRs. 2.5 million under the Nepal Company Act, 2021. The company started its business by insuring king Mahendra's Car. On February 21, 1973, five years after its establishment, life insurance was introduced.

After the introduction of Insurance Act, 1992, the number of private insurance companies came into existence. There are altogether 19 life insurance companies, 20 non-life insurance companies and 2 reinsurance companies which are operating until now.

1.3 Statement of the problem

The existing insurance law has become outdated and does not comply with best international practices. Issues relating to moral hazards is also a problem. The insurance sector regulator has not been able to create an effective framework to reduce moral hazards. It is quite difficult to for the insurers to determine the reason for losses. Nepali insurers do not have an adequate workforce to evaluate and assess the damage and claims. It needs a team of experts comprising of underwriters, statistician, risk analysts, loss assessors and specialists in the respective fields.

Despite the promising prospects, the Nepalese insurance companies have some problem and challenge to overcome. There are issues related to policies that hinder the growth of the business. There is rigidity in investment guidelines for insurance companies. The investment restriction in the guidelines has obstructed the growth of Nepali insurance companies. If the companies want to invest in areas other than specified in the guidelines, prior approval from Insurance Board is mandatory.

Another big problem of Nepali insurance companies is to mobilize collected fund in appropriate sector. Nepal is an under developed country and most of people live in village and they are illiterate. They feel burden in paying the premium.

While giving the supportive framework to the research study, following research questions are presented:

- Whether the trend of premium collection of selected non-life insurance is increasing or not?
- How the premium collection impacts on the investment pattern of non-life insurance companies?

1.4 Objectives of the study

The main objectives of this study is to examine the current trend of premium collection and investment pattern of non-life insurance companies in Nepal. The specific objectives of this study are:

- To investigate the trend pattern of premium collection of selected non-life insurance companies of Nepal;
- To assess the investment pattern of selected non-life insurance companies of Nepal, and

- To examine the association between premium collection and investment pattern of selected non-life insurance companies of Nepal;

1.5 Rationale of the study

Insurance is the risk transfer mechanism which plays significance role in the economic growth of the country. Insurance has become one of the exigent financial services just as banking, mutual funds and wealth management and possesses an important position in financial sector of economy.

Premium collection and investment are the vital activities of insurance companies. Success and failure of any insurance company depend upon these activities. This study is significant to the management of the company to take the right decision regarding premium collection and investment.

This study will be beneficial to the entire people who are directly and indirectly related to the insurance companies. It will be beneficial to board members, management, policyholders, investors, shareholders, government, competitors and other stakeholders.

1.6 Limitations of the study

The study aims at findings the facts and the trend of the investment and premium collection within the Nepalese non-life insurance industry. Therefore, the scope is limiting within the non-life insurance companies operating. Every activity has its own boundary, as the same way this study has also some boundaries, which cannot be ignored. These boundaries are called as limitations of this study. The limitations of the study are:

1. The study is based only on Shikhar and Sagarmatha's premium collection and investment pattern.
2. The study is confined only to the last 2009/2010 to 2018//2019. So, the generalization will be based on these periods only.
3. The cores of this study is based on secondary sources of information.
4. Only limited analytical tools are be used in the study.

1.7 Organization of the study

The present study is organized in such way that the stated objectives can easily be fulfilled. The structure of this thesis tries to analyze the study in a systematic way. This thesis has presented the systematic presentation and finding of the study. This study has been divided into five chapter viz. introduction, review of literature, research methodology, results and discussion, and summary and conclusion. The first chapter deals with the subject matter consisting introduction, identification of problem, objectives, rationale and limitations of the study. The second chapter of the study deals with review of literature. It includes conceptual framework, review of major studies, and review from journal, article and review from thesis related to topic. The third describes the research methodology adopted in carrying out the research. It deals with research design, sources of data, population and sample and procedure of presentation of data. The fourth chapter includes presentation and analysis of secondary data. Major findings from data have been also presented in the last portion of this chapter. The fourth chapter presents the analysis of data and discussion in the form of various tables and figures and the fifth chapter is about summary, conclusion and recommendation. Finally, an extensive references and annexure of presented at the end of the study.

CHAPTER II

REVIEW OF LITERATURE

Review of literature is a way to discover what other researchers have covered and areas untouched. It is in-depth evaluation of previous researchers. The major objectives of this chapter is to review the different literature from various sources that are relevant to the study. The chapter deals with the review of relating to the topic in detail. Various books, journals articles and some previous research work related to this topic and many indirect topics are reviewed.

2.1 Theoretical framework

Insurance is a type of risk management primarily used to hedge against the risk of a contingent and uncertain losses. Insurance is a contract that guarantees indemnification and covers losses in the event of a future occurrence. It is contractual relationship to secure against risks. An organization which provides insurance is known as an insurer or insurance company and person or entity who buys insurance policy is known as insured or policyholder. The insured is not to make any profit out of the insurance but should only be compensated to the extent of the pecuniary loss.

It is difficult to find the exact definition of insurance because there is no appropriate definition that actually defines insurance. The term ‘insurance’ has been defined by different experts on the subject. The views expressed by them through various definitions can be classified into:

a. Co-operative concept or Functional Definition
b. Legal Concept or Contractual Definition

2.1.1 Co-operative concept or functional definition

Mishra (1997) defined insurance as co-operative device. Insurance is a co-operative device to spread the loss by particular risk over a number of persons, who are exposed to it and who agree to insure themselves against the risk.

Mehr and Cammack (1976) defined insurance as a device for reducing risk by combining a sufficient number of exposure units to make their individual losses collectively predictable. The predictable loss is then shared proportionately by all units in the combination.

Bainbridge (1952) stated that insurance is indispensable to free economy and a free society because it not only protects the value produced by men or women who work for themselves but fasters in the confidence to produce more.

Thus, from above definitions, insurance is a compensation for uncertain happenings of any loss which are insured for certain period of time and for specified amount. The basic concept of insurance is the method of sharing financial loss of few from common fund out of contribution of the many who are equally exposed to the same loss.

2.1.2 Legal concept or contractual definition

Hardy Ivamy (1979) defined insurance is a contract whereby one person called the 'insurer', undertakes in return for the agreed consideration called the 'premium' to pay to another person , called the 'insured' a sum of money or its equivalent on the happening of a specified event.

Patterson (1957) defined insurance as a contract by which one party for a compensation called the premium assumes particularly risks of the other party and promises to pay him or his nominee a certain or ascertainable sum of money on a specified contingency.

2.2 Types of insurance

All the insurance companies provides certainty against the risk. When they can define in the generic concept, it will take the form like social insurance and private insurance. But, we have divided the insurance in two parts as life insurance and general insurance. Life insurance may be defined as the certain sum of money either on the death of the insured or on the expiry of a fixed period. Life insurance is concerned only about physical and mental accident risk. General insurance considers all insurance expect life insurance. However, we can classify the insurance as a life insurance and non-life insurance. Some of exports and writers separator the insurance in different viewpoint i.e. forms the potential insurers view and other. When viewed from professional use insurance will take two board forms as life and non-life insurance. We can to see all the insurance under the view of risk point.

2.2.1 Life insurance

Life insurance provides sum of amount against the various risks relating to the human being body through issuing different policies. Life insurance is a financial instrument for providing post death resources to support survivors or pay obligations of the estate of the deceased. Generally, life insurance, as a type of insurance plan conducted by the insurers, is directly related with providing assurance against the economic part of total human life. "Life insurance contract may be defined as the contract, where by the insurer, in consideration of a premium undertakes, to pay a certain sum of money either on the death of the insured or on the expiry of a fixed period" (Mishra, 1997).

It is done to safeguard the future of insurer's family by giving strength to pursue their prosperous future. It is not only in the case of death of insurer but also in times of his/her serious illness or incapable of continuing work. Life insurance provides a support to rebuild the confidence in future. "Life insurance is a contract providing for payment of a sum of money to the person assured or to his nominee, on the happening of certain events" (Bhatia and Sethi 2007).

Life insurance is particularly, concerned with that aspect of human life. Since the insurance of assurance of a person's life is impossible because of the certainty of death of a person once born, life insurance only provides assurance against the economic aspects of human life, not the assurance against the life, itself. Life insurance provides future benefits against unseen future accident and it helps to live comport in retirement life. Life insurance never fulfil losses of human life, it measures in amount of various risk and provides sum of amount in accordance to policy. Life insurance plays a vital role in the society. Therefore, it is also known as social insurance too. Life insurance can be defined as "a contract by which the insurer, for a certain sum of money or premium proportionate to the age, health and other circumstances of the person. Whose life is insured if such person shall die within the period limited in the policy, will pay the sum specified to the persons in whose favour such policy is guaranteed.

The life insurance companies have proved to be a highly efficient means for channeling capital funds into those areas of the national economy, and into those uses, in which market demands have been strongest.

2.2.2 Non-life insurance

Non-life insurance is also known as general insurance. Any insurance other than life insurance is known as non-life insurance. Because of its nature of measuring any risk in terms of money, it is also said as pure insurance. It refers to the insurance of goods and properties. It is the insurance of property and liable risk of insured against most specified cost that is premium. It also includes property insurance, liability insurance and others forms of insurance.

This part of insurance includes the insurance and risk transfer of the property and liability of insured where property insurance against loss arising from the ownership or use of property includes two general classifications. The first in indemnifies the insured in the event of loss growing out of damage too or destruction of his/her property. The second form pays damages for which the insured is legally liable the consequence of negligent acts that result in injuries to other person or damage to their property. This is known as liability insurance (Bickelhaupt 1983).

The individuals and organizations have to suffer a huge loss from the destruction of their physical things. Thus, they can ensure their properties against the varieties of risk. Such risk may be marine risk, fire risk, etc. It is taken as means of providing financial protection for building, machinery, equipment, furniture, and vehicle and merchandise items against the risk of earthquake, accident and theft.

A. Fire insurance

Fire Insurance covers building, office assets, equipment and business from fire and allied perils like earthquake, storm, hurricane, flood, landslide, inundation, impact damage, Explosion and so on. It also covers riot, strike, malicious damage, sabotage and terrorism on the payment of extra premium.

B. Marine insurance

Marine Cargo Insurance is the insurance of goods in transit dispatched from and to any place and by means of sea, air, rail or road. During the transit, the cargo is exposed to various types of perils from the time it moves the warehouse of the supplier until it is received at the final warehouse of the consignee. This insurance provides coverage against both imports and exports. It provides all kind of assurance during a given period of voyage that include from natural disaster to other manmade disaster. Marine insurance is designed to manage risks in the event of unfortunate incidents like accidents and damage to the goods. While the goods are in transit, it is exposed to numerous risk like fire, road accidents, collision etc, so it is essential to take marine insurance.

C. Motor insurance

It is the insurance policy related with the vehicles running in the road. Every motorist runs the risk of incurring legal liability to pay compensation to third party for death, bodily injury, and property damage arising out of use of vehicle, with further heavy loss of accidental damage to vehicle itself. It covers full comprehensive policy and third party liability insurance too. This policy indemnifies vehicle owners against such contingencies. Private car, motorcycle, commercial vehicle owners can avail this insurance cover against comprehensive risks including third party personal injury and property damage. Due to collision fire, lightening, windstorm, earthquake, explosion, etc and liability form include the remittance of losses to the third party caused by the vehicle.

D. Engineering insurance

This insurance policy helps in covering losses and damages occurring in construction and engineering industries. It covers against damages caused in engineering equipment and plants during the construction stage. From the small machinery to big equipment, everything is insured under these policies that enable a sound completion of the consignment (Gabriel 2007).

E. Aviation insurance

Aviation insurance policy covers the loss and damage occurred in aircraft during flights, landing, and takeoffs. In addition to that, it also covers the risk of passengers and aircraft hull. It is related with the risk occurring due ti the perils, hazards or risk created by the aircrafts. Aviation is a big industry at present. So, aviation insurance policy has an immense importance for assuring any future damage and loss.

F. Cattle and agricultural insurance

This insurance provides insurance coverage for various agricultural activities like livestock, poultry, fish, paddy, vegetables, and fruits etc. Farming against the risks of fire, Acts of God (Earthquake, Flood, Landslide, and Storm), diseases, and insects etc. Agricultural insurance is commenced in Nepal during FY 2013/2014.The insurance board has assigned the districts and the mandatory areas of work to provide agricultural insurance in all districts for non-life insurance.

G. Micro insurance

Micro insurance is insurance specially-designed to protect low-income households from the risks they face in their daily lives. It is low value product with low premium amount. Insurance companies have increased access to micro insurance at local level by collaborating with micro finance institution at local level. Micro insurance covers health, property or agricultural products and other valuable items of low-income households. Micro insurance enables the poor and low-income earners to insure their assets and operations against any disaster, and also helps small businesses to safeguard their resources that enable them to mitigate risks.

H. Miscellaneous insurance

There exist many policies covering different fields of risk classes. Since, the insurers are ready to provide new kinds of insurance policy, there does not exist the limit on the kinds of insurance policies written. All the insurance other than above lies under miscellaneous insurance which of them are described as below:

i. Cash insurance

This policy is intended for banks, business houses, manufacturing organizations who deal in cash, periodically drawn from bank/other sources providing indemnity in respect of loss of such money carried by authorized employees. This policy covers loss of money carried by authorized personnel whilst in transit from one place to another and while in safe, vault and counter. A business may be robbed of cash either during normal business hours or after normal business hours. So, this insurance is essential for large as well as small businesses.

ii. Travel medical insurance

People travel abroad for various purposes. It can either be for pleasure or for business. lt cannot be guaranteed that everything will go smoothly while traveling .Travel medical insurance is a type of international insurance designed to cover emergency health care costs incurred while traveling or vacationing abroad. Also many embassies here in Nepal have made Travel medical insurance mandatory before issuing the visa. Travel medical insurance provides coverage for emergency medical treatment due to unexpected injury or illness incurred outside of Nepal. This insurance secures against any unforeseen events that may occur while travelling outside of the country. It provides compensation in case of unfortunate accidents occurred while travelling aboard. Travel medical insurance is not a general health policy. It is intended to reimburse the medical costs and expenses incurred for an emergency sickness or accident whilst on a trip outside of Nepal.

iii. Burglary and housebreaking insurance

This is intended to cover loss/damage of stock and property by burglary/house breaking including damage to premises caused by burglars during such attempt. The insurers will remit the loss occurred due to theft or robbery. Burglary/house breaking stand for theft involving entry into/exit from insured premises by violent, forcible means, assault/threat to the insured/employee/members of family. However, under this policy the security provision will be very essential and important. The property insured under fire insurance can only be insured under this insurance.

iv. Personal accident insurance

Personal Accidental Insurance provides coverage in case of accidental injury and death. Moreover, under this policy the insured gets financial assurance against being handicapped from any accidents. This insurance can also be taken by groups named as Group Personal Accidental Insurance. This policy provides benefits against bodily injury (including death) resulting solely and directly from accident caused by external, violent and visible means. It covers benefits like accidental death, permanent total disablement, temporary total disablement, permanent partial disablement and accidental medical expenses.

v. Health and medical insurance

This policy covers insured's expenses incurred during his/her treatment in hospital/nursing home due to some illness or accidental incurred during domiciliary treatment. Therefore, this policy provides the financial support against the health problem to the insured.

vi. Fidelity guarantee insurance

The Fidelity guarantee insurance covers the loss and damages against the case of fraud and dishonesty by the employee. The owner of firm or organization gets the guarantee against the fraud or betrayal or dishonesty caused by the employees. There can be a big loss as valuable employees can misuse their position and involve in fraud. If the employees betrayed the insured, the insurers would compensate the loss occurring due to the discard of the fidelity of the believed person. Banks, saving and loan association, accountants, and other business in which employees have access to large sum of money invariably take this insurance for protection.

vii. Public liability insurance

Many reasons can create liability to a person or business organization for which the person has to pay compensation. This insurance provides compensation against loss or damage to the third party personal injury and property damage arising out of the business operation. It protects the business against compensation claims and their legal costs in case of injury which also includes death to a third party or damage to their property.

2.3 Investment

"Investment may be defined as the purchase by an individual or institutional investor of a financial or real asset that produces a return proportional to the risk assumed over some future investment period. Investment is the current commitment of the savings that compensates for the time involved, the expected rate of inflation and uncertainty involved. To stare in other words, an investment is a vehicle into which funds can be placed with the expectation that they will generate positive return and / or their value will be preserved or increased. Investment, in its broadest sense means the sacrifice of current dollars for future dollars. Two different attributes are generally involves: time and risk. The sacrifice takes place in the present and is certain. The reward comes later, if at all, and the magnitude is generally uncertain" (Sharp, Alexander and Bailey, 2000).

Investment management is backbreaking area of operation in any insurance company, which has to generate reserve for claim that might arise over a period keeping in view the different risk level, regulations and variety of investment objective implicit in mind of policyholders and shareholders. Insurance companies invest their shareholder's fund, policyholder's fund and other temporarily available financial resources, which have a valuable contribution to firm as well as to economy. Insurance investment are oiling the wheels of economic and social development of the nation. Insurers should have in place sound, systematic and objective process of determining investment pattern to maximize the value of shareholders as well preserve the value of policyholders.

The investment needs be procedural task. It must follow a definite investment process. This definitely begins from the formulation of proper investment policy. Insurer has responsibility and liability to pay certain indemnity and balance the fund at a certain specified time, with the accident or loss. Therefore, insurer's basic function is not only premium collection but also investment of collected fund. Hence, while calculating premium, it has to assume that the accumulated premiums are invested. The funds should be invested to earn at least assumed rate interest. The needs of investment of funds are for the payments of claims, to avoid financial deficit, to collect the funds and to give contribute to the national economy. Further, to invest any funds requires sources of funds. Insurer also invests their fund different sectors. The funds with the insurers are accumulated from the various sources, which are explained in these forms.

- Premium
- Interest
- Capital Gain
- Saving Expense
- Non-payment of Claim

However, the insurer has advantages of investing above-mentioned sources of funds but they cannot invest all they are collected cash in profitable investment. It is so because of the primary function of the insurer, which is to provide financial assurance against insurable risks and the regulatory provisions governing them. In fact, insurer only gets a portion of their inflows as invisible fund after arranging for various items. For running, it is essential for three insured invest the fund. An insurance or insurer must mobilize its collected premium and other funds to profitable, secured and marketable sector. So, that it can earn a handsome profit, secured, and can be converted in to cash whenever needed.

After the inflow of financial asset in the form of the premium the next important one will be the income from the investment. Such investment income will be surplus for the insurer for being successful in saving-investment process. However, this part of the income will also indirectly include the policyholders claim too. Further the capital gain in the transaction of investment components or gain in the transaction of capital item will be the source. The paid in (surplus) capital accounts may also be another source of the investment. Further the annual retained earnings will be the inflow, which will be outcome of being operated successfully.

2.3.1 Principle of investment

All financial institution and intermediaries invest the collected fund under investment principles and policies. However, investment policy reformed and developed from the principle of investment. Therefore, so many determinants of principal of investment directly affect the investment policy.

Generally, policy will be a plan or a course of future action that is proposed to adopt regarding a particular field of activities. For our purpose, investment policy will also be the plan or course of future action that is purposed to adopt regarding the investment. The investment policy may be different according to the objective and nature of the organization. But, all the investment policies must be balanced as of risk return character and suggested to invest at liquidity, safety and profitable sectors. “While investment policies needed to be formed, the investors need to consider many factors. Usually these are the factors to be considered in investment planning decisions, security of principle stability of income and rate of return, marketability and liquidity”(Shim and Siegel, 1989).

Regarding the insurer investment policy and selection criteria, these will be the factors to be considered or simply we can mention following basic principle to be followed while investing the investible insurance fund.

2.3.2 Safety and security

The safety and security principle is a primary and basic principle of the investment policy. The insurer should never invest its funds in these securities, which are subject to much depreciation and fluctuation because a little difference may cause great loss. Therefore, insurers perhaps invest their funds in fixed deposits and treasury bills of NRB. The collected premium is a liability for an insurer; therefore, they are always conscious on security and safety of the investment. The basic principle for limiting the investment to those with the high margin of safety not only is imposed on the companies by the system of state investments laws described presently, it has long been recognized as a paramount consideration by the insurance companies themselves. To obtain the security on investment insurer required sound matching in their investment portfolio. To maintain the secure investment holding, the insurer needs to analyses and concentrate on the secured lending. The secured investment provides the good / sweet return and liquid cash flow whenever required. In other instances, the safety of the investment assured by the high credit standing of the borrower as evidenced by his ability to meet the interest payments or to provide or continuous flow of dividends to investors. Further, the security of investment depends upon the legal claims of the lenders and value of the underlying security but also upon the borrower’s ability to manage its affairs efficiently and its willingness as well as ability to repay. Thus, safety and security principle is very important for an insurer.

2.3.3 Profitability

Generally, insurance companies or insurer obtains their name and era through paying claim in simple procedure and right time. In order to pay claim and maintain office expenses the fund is required. An insurance company can maximize its value of wealth and collection of fund through maximization of return on their investment. So, they must invest their fund where they can gain maximum profits.

The insurer must earn at least the assumed rate of interest; otherwise, they will suffer loss. The investment should be made in such securities, which yield the highest return consistent with the principle of safety. The insurer can reduce his future premium by earnings higher interest and thus, will be able to increases his business. It has been realized that the safety and the profitability is important for insurer investment.

2.3.4 Diversification

An insurer should not lay all of the eggs in the same basket. This saying is very important to the insurer and so he/she should be always careful not to grant investment in only one sector. To minimize the risk, an insurer must diversify his/her investment in different sectors.

Diversification of investment helps to sustain loss according to the law of average because if securities of a company deprived, there may be appreciation in the securities of other companies. In this way, the loss can be recovered and the company may able to earn more profit. The diversification provides maximum security with high yield and better liquidity provided the diversification is done taking in to account of all these factors.

2.3.5 Liquidity

The principle of liquidity is important for the insurance investment. Insurer has no information about when they need to pay the claim of their client. So, at any unseen time there will be the requirement of fund. Thus, the insurer need to invest under the principle of liquidity.

Liquidity represents convertibility of investment into cash without undue loss of capital. The insurer needs to maintain working cash and bank balance order to carry out the normal transaction of receiving payments and making disbursements. Further, they need to finance the unforeseen claims occurring the form of matured contracts. Therefore, insurer needs to maintain the liquidity of their investment. The principle of liquidity is against the principle of profitability because the idle cash will earn nothing and invested cash will have no liquidity.

2.3.6 Marketability

Marketability is an important principle of investment policy. The principle of marketability suggests that the insurer should invest in that sector where e cash can be converted easily. Insurer may not have any information about the requirements of the funds to pay the claim of the insured. So, they need to invest in those sectors where marketability exists. Therefore, the convertibility or marketability principle must match with other principle as well as with the line insurance business and the nature of the required fund.

2.4 Review of Journal and Thesis

Maharjan and Jha (2020) concluded to the existence of causal relationship from the net premium collection, tax contribution, income contribution and employment contribution to the economic growth of Nepal. It shows the net premium collection for both NLIC and LGIC are in increasing trend except for the fiscal year 2072/73, where the whole country was facing crisis due to the 2072 massive earthquake. Microfinances assist to bring the most vulnerable and deprived large population under the insurance coverage causing dual benefits like increasing the market coverage, capitalization of small savings and increasing opportunities, moral support for encouraging involvement in productive economic activities by the deprived group. Domestic reinsurance, on the other hand assists economic growth by limiting the massive outflow of domestic currency in the form of reinsurance premium. Reinsurance also helps to mobilize the domestic funds for internal investment and development activities.

Khanal (2020) has stated that insurance can be acknowledged as a tool for protection which undoubtedly proves that insurance is a very important savings and risk tool for citizen of any country. But analyzing insurance sector showed that it has yet to be outreach for the common people residing in Nepal. In Nepal the general population are not well educated and aware about benefit of insurance and also are middle class who have low power of investment and insurance of Nepal has to cope with these challenges. Moreover, due to political instability and conflict among people in the name of politics development pace of country is pushed far behind. So, majority of the population are denying the adoption of insurance policy. He concluded that there is a positive correlation between the economic development of a country and amount people spend on insurance. The demand for insurance is influenced by the general price level, price of insurance service, the aversion to risk and specific social and political features of a country. The inadequate development of financial market and lack of opportunities for safe, liquid and diversified investment yields reasonable return inhibits development of competitive insurance service.

Hamal (2020) aimed to determine the profitability of non-life insurance companies is minimal or almost non-existent in Nepal. However, for maintaining the sound financial condition of the market, such studies are vital. Thus, this study aimed to investigate the impacts of liquidity ratio, leverage ratio, firm size, and age of the firm and total debt of the firm on the profitability of non-life insurance companies in Nepal. The study is based on secondary data of nine non-life insurance companies for a period of ten years, that is, from 2066/67 to 2075/76. The researcher uses mean, standard deviation, regression model, Karl Pearson's correlation. The results of the study conclude that the profitability of Nepalese non-life insurance companies increases with the increase in liquidity but decreases with the increase in leverage. He also suggested that in order to enhance the profitability, should focus on the proper management of capabilities to pay liabilities. Similarly, the companies should try to maintain a smaller value of leverage ratio to handle the above-average losses.

Tesfyae (2020) stated that insurance is a means of transferring risks, it also have different types which is essential in the insurance industries having insurance will bring balance between short term and long term rewards and measuring the performance of each industry is essential and also practical to understand manage and also to improve the companies activity. The researcher analyzed all the financial and non- financial parameters to assess the performance of non-life insurance in the Nyala Insurance S.C (NISCO) while the non -financial parameters which are capital adequacy, asset quality, re insurance & actuarial issues, management soundness, earnings & profitability and liquidity and also as non- financial parameters which are market quality, market share, growth in number of branches, market research, customer satisfaction & employee satisfaction this is therefore the researcher concluded that due to the above parameters the company performs in a good conditions. The researcher recommended the government to control price competition, set a minimum base of premium. He suggested insurance companies to work together in the rule& regulation which launched by regulatory body.

Kharel (2019) examined the contribution of insurance industries in economic growth of Nepal using premium and investment. The results showed that the insurance premium collected has been gradually increasing and contribution of insurance premium to GDP has also been in increasing order. The insurers have been investing their investable amount in a long-term manner. Government securities bond, debentures, fixed deposits on banks and financial institutions, shares, loans secured by insurance policies etc. The investable fund of life and non-life insurance companies has been increasing continuously. It has pointed to the role of insurance in economic development. There has been significant contribution of insurance business in economic growth, efficiently allocates resources, manage risk, and mobilize long-term savings and the insurance sector, for achieving the determined objectives, the insurance companies should operate on a financially sound basis.

Niraula and Kautish (2019) concluded that the implementation of proper digital channels to allow customers surf and accept insurance policies will not only benefit the customers but also the insurance company get an opportunity to expand its area and business as well. Since, insurance is a long term risk mitigation measures and may not have instant impact, people may ignore the service if its availability is difficult. But the risk minimized doing/being insured has long impact on individual life in term of financial security. They emphasized for availability of prompt insurance services the serviced offered by insurance companies must be digitalized. Customer should have such platform where all the services from the underwriting to claim are available in their finger touch. Also, using proper technology for assessing the risk associated with any insured property, insurance company could get advantage of calculating best premium amount. Further, the big data analysis of the available digitized services helps insurance company to analysis the market trend and develop product accordingly.

Tian, Jiang, Pan and Zhang (2018) studied both the long-term and short-term relationship between external factors and non-life insurance price by employing for the first time data from China. Findings for the long-term effects indicate that the price dynamics for various lines of non-life insurance are different. They highlighted that insurance companies in the Chinese non-life insurance market should widely consider economic factors in insurance rate determination, rather than solely relying on actuarial models when competing with counterparts. Regulatory authorities should pay more attention to the specific economic and institutional environments in China and adopt flexible regulatory measures when supervising the insurance markets.

Hussain and Kumari (2016) advanced the knowledge and understanding of how the various factors have affected the investment pattern of insurance companies in India. It was found that, as expected, highly liquid, highly profitable and large size companies have invested more in long term than lowly liquid, lowly profitable and small size companies. Furthermore, companies with higher risk retention ratio and higher leveraged ratio have invested less in long term than companies with lower risk retention ratio and lower leveraged ratio. The results, particularly in respect of financial leverage or risk retention ratio are generally supportive of the view widely reported in the practitioner literature that insurance companies with high financial leverage or higher risk retention ratio will increase the expected costs of financial distress or bankruptcy cost. Large company size or highly profitable companies may have more space to undertake investment decision due to impressive financial aspect of scale, technical adroitness and potential trading volume.

Risal (2016) concluded that there is higher degree of positive relationship between the premium collection by life insurance companies in aggregate and its investment and higher degree of positive correlation or relationship between investment and investment return. Regarding the premium collection, the selected life insurance companies in aggregate, premiums collection were in increasing trend as compare to previous fiscal years. The percentages increases as compare to previous fiscal year were in decreasing trend. It was found that the majority part of the premium collection consisted of renewal life premium.

Basu (2013) asserted that investment function cannot be taken as incidental to but crucial to business of non-life insurance. Investment management in general insurance industry is at the cusp of a new inflection point with recent implementation of IRDA (Investment Regulation) 2013, coupled with the expectation of passing insurance bill in parliament. Author believed that favorable global and domestic macro-economic factors will demand for high level of efficiency in portfolio management to foster the profitability of operation, paving the way for higher insurance penetration in country.

Ghimire (2013) had analyzed current status of investment portfolio structure and investment practices adopted by both life and non-life insurance companies and compare it with norms of directives. He also argued that prudential supervision is as more essential as to banking institutions .Regulatory authority has right to issue the regulation in one hand and they are not free from the responsibility of monitoring and supervision of whether the regulation is properly followed by companies. The severe violation of guidelines is subject to penalized but before to come to severe legal action, early warning system also need to adopt by regulators that makes easy to take precautionary measure and can take necessary step immediately after getting the notice of wrong doing. He stated that 91 percent fund of life and 84 percent fund of non-life is invested in most secured sector. The consequences of excess investment on more secure sector is management feels more secure on reserve fund but in the same time investment income is foregoing at the same amount.

Panda (2013) analyzed the investment pattern of LIC of India and its risk taking ability while investing in different segments. The paper has used autocorrelation through linear trend analysis for keeping present and past years in the analysis of segment wise investment with Box Ljung statistics. The result of study indicated a significant increase in trends in case of G-securities segment, S-securities plus housing/infrastructure, corporate sector & project loan while investment in housing and infrastructure alone does not reveal any significant increase.

Charumati (2012) had analyzed a sound developed insurance sector is a key for the economic development of a country. They provide long- term funds for the infrastructure of development and strengthen the risk taking ability of the country. A well-developed insurance market paves way for efficient resource allocation through the transfer of risk and mobilization of savings. The profitability of life insurers is positively and significantly influenced by the size and liquidity. The leverage, premium growth and logarithm of equity capital negatively and significantly influence the profitability of Indian life insurers. This study does not find any evidence for the relationship between underwriting risk and profitability. In view of the untapped huge insurance market; unique regulatory environment comprising a hybrid model of regulation with competition; proposed approval to allow the players to tap the capital market for public issues; proposal to tie up with banks; and the proposal to increase the foreign direct investment, life insurers would shift their focus towards designing products providing long term savings and protection for the economy, through sustainable business models.

Upadhaya (2006) had highlighted that the insurance industry clings to tariffs as a way of generating their income rather than evaluating risks and pricing, not singled out for understanding for risk factors in each. He came to conclusion that Beema Samiti have been directly controlling over premium rate in fire and allied insurance and motor insurance. The decision of Beema Samiti is mandatory and has the force of law. This control over tariff rates has indicates that the industry is still in development of underwriting skills, cannot compete internally and pretensions of expertise to face market reality of risk management has been made. He also highlighted that the insurance industry is afraid that without tariff barriers, it will collapse.

Shrestha (2003) on changing investment portfolio of Rastriya Beema Sansthan, attempted to analyze the investment portfolio holding pattern and its effect to financial performance of Rastriya Beema Sansthan. He found the dominant part of total volume of investment portfolio in development bonds and a very negligible figure of total investment in share of other companies. Due to this fact, the contribution of income from development bond to total incomes from the portfolios in dominant part. The creation by a sound investment project is very crucial to Rastriya Beema Sansthan to minimize return rather than always taking some traditional policy investing in government securities, fixed deposits, certificated and others.

Thapa (2002) concluded that the premium collection rate of Nepalese insurance industry has been fluctuating trend. The insurance industry has not consisted in the investment proportion of various investment sector and investment portfolio too. He argued that among the insurance policy, the ratio of premium collection is higher in fire insurance and lower in engineering policy. The researcher suggested that the entire insurance should follow the investment policy and improve its management, should maintain and make uniformity on premium collection under all insurance policies, and should enforce the diversification among the investment portfolio.

Skipper (1997) highlighted importance of insurance activity, both as a provider of risk transfer and indemnification and as an institutional investor, may contribute to economic growth by promoting financial stability, facilitating trade and commerce, mobilizing domestic savings, allowing different risks to be managed more efficiently encouraging the accumulation of new capital, fostering a more efficient allocation of domestic capital, and helping to reduce or mitigate losses. The role of insurance companies in the allocation of resources has not been studied as extensively as that of bank.

2.5 Research gap

Various study in international level and few studies in national level have been conducted in non-life insurance companies. A study made in another country may not be significant for our country since the policies and the mechanism of operating the non-life insurance companies are different on a country basis. Similarly, a research made on particular period of time may not be true at all other point of time because the variables or data that have been undertaken for the study may have changed from time to time, hence updating result is also important. Previous study focused on premium policy only while this study is based on premium collection and investment pattern of non-life insurance companies. They have only used financial tools and ignored statistical tools but this study used both financial and statistical tools. Previous study are based on descriptive but this study used descriptive, comparative as well as analytical basis.

CHAPTER III

RESEARCH METHODOLODY

Research methodology is a sequential procedure and collection of scientific methods to be adopted in a systematic way. In other words, research methodology describes the methods and procedures applied in this study. It is the way to systematically solve the problem. In this regard, this chapter explains not only talk of the research methods but also considers the logic behind the methods, which will be used in the context of our research. This chapter consists of the research design, population, sources and analysis of data.

3.1 Research framework and definition of variable

The variable under this study is premium and investment. They are illustrated as below:

Figure 1. Research framework of the study

The definition of each variable used in the study are described below:

3.1.1 Premium

Premium is the certain amount of payment, which is paid by the insured to the insurer for bearing uncertain risk, peril or hazards. Usually, premium calculated under different method as considering different affected factor. "Premium can be ascertained either by numerical rating system, evaluates each and every item and marks are assigned to them according to their merits and degrees influencing risk" (Robinson and Wrights man, 1968). Insurer charges the premium differently accordance to nature of risk. Thus, the judgment and personal evaluation play vital role in rating/fixing premium. Therefore, various factor to influence the risk. The management and ownership are very important factor while risks are evaluated for rate fixing.

Generally, the insurer charges higher premium for higher riskier insurance and lower premium for less riskier insurance policy. The premium is always directly affected by the nature of risk expenditure of office, other expense and written period. Generally, premium is one of the main sources of raising fund for insurer. So, insurer should obtain sound management for calculating premium amount and collection process. Different insurance companies or insurer may charge different premium to insured under their objective and goal with accordance to the policies, risk and uncertainty.

3.1.2 Investment

Investment as a term is quite confusing and multi-faced. In pure sense "the subsequent use of the term investment will be the prevalent financial sense of the placing of money in the hands of other of others for their use, in return for proper instruments for entitling the holders to fixed income payments or the participation in expected profits. But for manufacturing and trading firms the investment will be those long term expenditures that aim at increasing plant capacity of efficiency or at building up goodwill. Thereby producing and increased return over a period" (Dowrie and Fuller, 2000).

For our purpose in the study of the financial institutions the investment and investment problem will revolve around the concept of managing the surplus financial assets in such a way, which will lead to the wealth maximization and providing a significant further sources of income. Thus, the investment for insurer's purpose will be the management of the surplus resources in such a way as to make it work for providing benefits to the owners by increasing the total assets.

3.2 Research design

Research design is a framework that stipulates what sort of information to be gathered from which source. This research is based on secondary data. Hence, descriptive, analytical and comparative research design are used to analyze the data and information. Descriptive approach is used to interpret the premium collection and investment pattern of selected non-life insurance company. For the analytical part, various statistical and financial tools are used with the help of published annual reports of the selected non-life insurance companies.

3.3 Population and sampling procedure

Population refers to the entire group of people, events or things of interest that a researcher wants to investigate. A small portion chosen from the population for studying its properties is called a sample and the number of units in the sample is known as the sample size. There are 20 non-life insurance companies in Nepal. So, all non-life insurance companies are the population of this study and among them 2 non-life insurance companies are selected randomly as sample. In this study, Sagarmatha

Insurance Co. Ltd. and Shikhar Insurance Co. Ltd. are taken to a study as a sample. Samples are selected on the basis of nature and types of insurance facilities. Shikhar is top non-life insurance and Sagarmatha is oldest insurance in Nepal. The data from these insurance are analyzed for the purpose of conclude the result accordance to the objectives.

3.4 Nature and sources of data collection

The main source of data for this study is secondary data. The secondary source of data are collected from the annual report of selected non-life insurance companies as well as website of the Insurance Board of Nepal, different books from library, periodicals, newspapers, company's magazines etc. The various unpublished thesis, research work and guidelines that are related to insurance are also used for the purpose of this study. Significant information are also be collected from internet and various other websites.

3.5 Methods of analysis

Collected data need to be presented, edited, tabulated and analyzed. The data should not only be presented in systematic form but also calculated in systematic way to get the desired output relating to the subject matter to achieve the basic objective. On the basis of analyzed data, specific conclusions of the study are made. Calculation is carried out with the aid of the financial software such as Excel & SPSS. The method of data analysis are:

- Ratio Analysis
- Trend Analysis
- Mean
- Standard Deviation
- Coefficient of Variation
- Correlation
- Coefficient of determination
- Probable Error

i) Ratio analysis

The term ratio refers an arithmetical relationship between the components or variables. Ratio can be expressed as percentage, fraction and stated comparison between numbers. In simple word ratio analysis or financial ratio express, the relation between the accounting figures mathematically. It is an indicator for evaluating the financial position and performance of a firm. As for this study, ratio analysis is used to present the position of the investment and its performance as compared with the overall position and performance of the insurer. In order to analyze, the investment pattern and performance of premium collection, followings ratios are used.

- PCFI to Total Premium Collection $= \dfrac{\text{Premium on Fire Insurance}}{\text{Total Premium}}$

- PCMI to Total Premium Collection $= \dfrac{\text{Premium on Marine Insurance}}{\text{Total Premium}}$

- PCMI-1 to Total Premium Collection $= \dfrac{\text{Premium on Motor Insurance}}{\text{Total Premium}}$

- PCEI to Total Premium Collection $= \dfrac{\text{Premium on Engineering Insurance}}{\text{Total Premium}}$

- PCAI to Total Premium Collection $= \dfrac{\text{Premium on Aviation Insurance}}{\text{Total Premium}}$

- PCCAI to Total Premium Collection $= \dfrac{\text{Premium on Cattle and Agriculture Insurance}}{\text{Total Premium}}$

- PCMI-2 to Total Premium Collection $= \dfrac{\text{Premium on Miscellaneous Insurance}}{\text{Total Premium}}$

- PCMI-3 to Total Premium Collection $= \dfrac{\text{Premium on Micro Insurance}}{\text{Total Premium}}$

- Return on Investment $= \dfrac{\text{Income from investment}}{\text{Total investment}}$

- GS to Total Investment $= \dfrac{\text{Investment on government securities}}{\text{Total investment}}$

- Fixed Deposit to Total Investment $= \dfrac{\text{Investment on fixed deposit}}{\text{Total investment}}$

-Investment on Share to Total Investment $= \dfrac{\text{Investment on share}}{\text{Total investment}}$

-Investment on Preference Share & Debenture to Total Investment $= \frac{\text{Investment on preference share \& debenture}}{\text{Total investment}}$

- Other Investment to Total Investment $= \frac{\text{Other investment}}{\text{Total investment}}$

ii) Trend analysis

In order to draw the valid conclusion of investment and premium aspect, trend analysis is used for showing the basic nature of investment and premium in the past years which gives us idea of pattern of investment and premium and clear the picture of future trends also.

The linear trend by the least square method is:

Y= a + bt

Where, Y= Value of variable

a=intercept of trend line

b=slope of trend line

t=time variable

iii) Mean

An arithmetic mean is the value, which represents the group of values and gives an idea about the concentration of values in the central part of the distribution. An average gives us a point, which is most representative of the data. It depicts the characteristic of the whole group. The value of arithmetic mean lies in between the two extreme observations of the entire data. It is an envoy of the mass of homogeneous data. An arithmetic mean of a set of observations is defined as the ratio of the sum of all the observations to the total number of observation. The value of the Arithmetic Mean is calculated by adding together all the items and by dividing this total by the number of items.

Arithmetic mean (AM) is given by:

$$AM = \frac{\sum X}{N}$$

Where, $\sum X$ = Sum of all the values of the variable X.

N = Number of observations

iv) Standard deviation

The standard deviation is the best tools to study fluctuation in any data. It is usually denoted by the letter sigma (δ). The standard deviation is the measure that is used to quantify the amount of variation or dispersion of a set of data values. A low standard deviation indicates the data points tend to be close to mean while high standard deviation indicates that the data points are spread out over a wider range of values. It is calculated as follows:

$$S.D\ (\delta) = \sqrt{\frac{\sum(x-\bar{x})^2}{n}}$$

Where, $\bar{x} =$ mean

n= number of observation

v) Coefficient of variation (CV)

It is defined as the standard deviation divided by the mean of expected return. CV is the relative measure of risk. It measures the risk associated with each unit of return. It should be used to compare investment or return when the standard deviation and expected values of companies or scheme differ.

$$CV = \frac{\delta}{\bar{x}}$$

Where, $\bar{x} =$ Mean

δ = Standard Deviation

vi)Correlation

Correlation is a statistical technique that can show whether and how strongly pairs of variables are related. By this statistical tool, the degree of relationship between two variables is identified. In other words, this tool is used to describe the degree to which one variable is linearly related to other variables. Two or more variables are said to be correlated if change in the value of one variable appears to be linked with the change in the other variables. The correlation analysis refers the closeness of the relationship between the variables. It helps to determine whether a positive or a negative relationship exists and establish causes and effects relation if any. Degree and type of relationship between any two or more variables vary together over a period. Correlation value falls between -1 to +1. Value close to +1 indicates a high-degree of positive correlation, and values close to -1 indicate a high-degree of negative correlation. In this study, correlation is calculated for the finding the degree of relation between independent variables and dependent variables.

Coefficient of correlation (r) $= \frac{n\sum dx \sum dy - \sum dx \sum dy}{\sqrt{[n\sum dx^2 - (\sum dx)^2]}\sqrt{[n\sum dy^2 - (\sum dy)^2]}}$

Where, X= Value of independent variable.

Y=Value of dependent variable

N= Number of year

vii) Coefficient of determination

The square of the multiple correlation coefficients is called coefficient of multiple determination. The main significance of the coefficient of multiple determinations is to represent the portion of total variation in the dependent variable that is explained by the variations in the independent variables

Coefficient of multiple determination = r^2

viii) Probable error

Probable error is used to measure the significance of the relation between two variables. If the coefficient of correlation (r) is greater than the 6 x PE, the relation is significant and if the (r) is lower, the relation is insignificant. The significant relation shows the reliability of relation between the comparative terms of companies, while insignificant relation is the sign of existing of numerous errors.

CHAPTER IV

RESULTS AND DISCUSSION

In this chapter, to achieve the objectives, which are set in introduction chapter, the relevant data and information on insurance are presented. Presentation and analysis of data is the major part of this research study. So, we analyze the data to achieve our objective of this study, using the various statistical tools and financial tools discussed in 'Research Methodology'.

4.1 Analysis through financial tools

4.1.1 Premium collection

4.1.1.1 Premium collection on fire insurance to total premium ratio

Fire insurance is the insurance against any loss of or damage to the property by fire. This ratio measures the proportion of fire insurance premium of total collected premium. It has been analyzed as below:

Table 1. Premium collected on fire to total premium

Fiscal Year	Insurance Companies	
	Shikhar (%)	Sagarmatha (%)
2009/2010	13.38	23.03
2010/2011	14.35	22.91
2011/2012	11.69	24.45
2012/2013	14.78	29.07
2013/2014	18.04	30.56
2014/2015	18.46	33.74
2015/2016	21.93	33.87
2016/2017	16.97	30.15
2017/2018	16.90	25.49
2018/2019	19.77	24.55
Mean	16.62	27.78
SD	3.11	4.23
CV	0.19	0.15

Noted from Various years' annual report of Shikhar and Sagarmatha

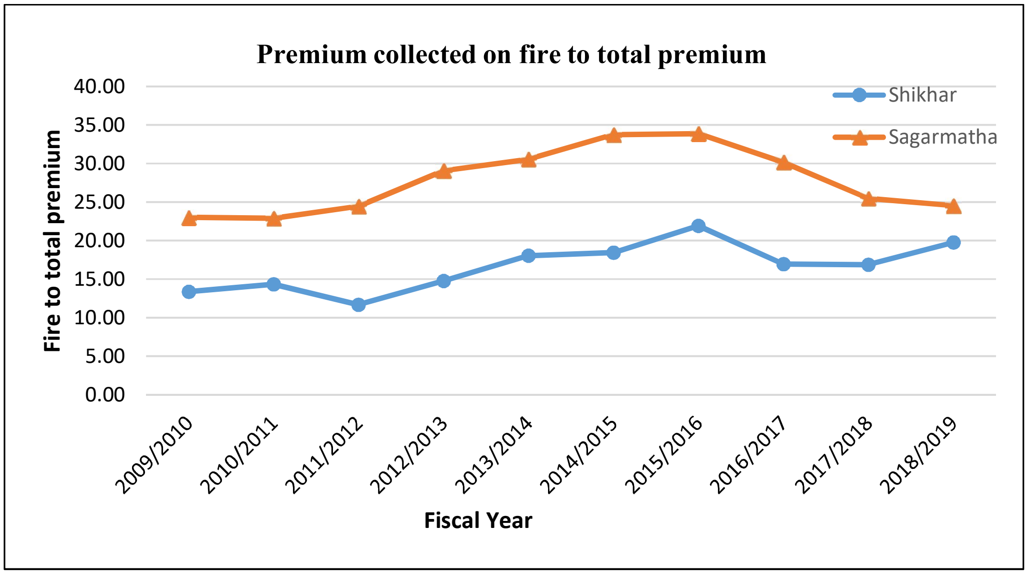

Figure 2. Premium collected on fire to total premium

The table 1 and figure 2 shows the premium collected from fire insurance out of total premium. The fire premium collected from total premium of Shikhar in 2009/2010 is 13.38 percentage and it has increased to 14.35 percentage in year 2010/2011. However in 2011/2012, it has decreased to 11.69 percentage. It has been gradually increasing until 2015/2016. In FY 2016/2017 and 2017/2018, it has decreased to 16.97 percentage and 16.90 percentage respectively. However in FY 2018/2019, it has increased slightly to 19.77 percentage. Likewise, the ratio of Sagarmatha is in increasing trend till 2015/2016. From FY 2016/2017 to 2018/2019, the ratio is in decreasing trend.

The mean value of Shikhar and Sagarmatha are 16.62 percentage and 27.78 percentage respectively. The standard deviation of Shikhar is lower than that of Sagarmatha. Shikhar has low risk than Sagarmatha. Shikhar has high variation while Sagarmatha has low variation. With the increase in income level and property, people are doing fire insurance to mitigate the loss. The premium collected of Sagarmatha is high due to excessive marketing and after massive earthquake in 2015, people start to purchase this policy to mitigate from huge loss.

4.1.1.2 Premium collection on marine insurance to total premium ratio

Marine insurance is a contract between the insurers and insured whereby the insurer undertakes to indemnify the insured in manner and to the interest thereby agreed marine losses incident to marine adventure. The premium collection on marine insurance to total premium ratio shows the proportion or average of marines' premium.

Table 2. Premium collected on marine to total premium

Fiscal Year	Insurance Companies	
	Shikhar (%)	Sagarmatha (%)
2009/2010	5.37	11.64
2010/2011	5.04	8.64
2011/2012	3.76	8.33
2012/2013	4.69	7.47
2013/2014	6.62	7.53
2014/2015	4.97	7.35
2015/2016	8.17	7.68
2016/2017	6.94	7.36
2017/2018	5.58	7.88
2018/2019	5.22	8.04
Mean	5.64	8.10
SD	1.27	1.28
CV	0.23	0.16

Noted from Various years' annual report of Shikhar and Sagarmatha

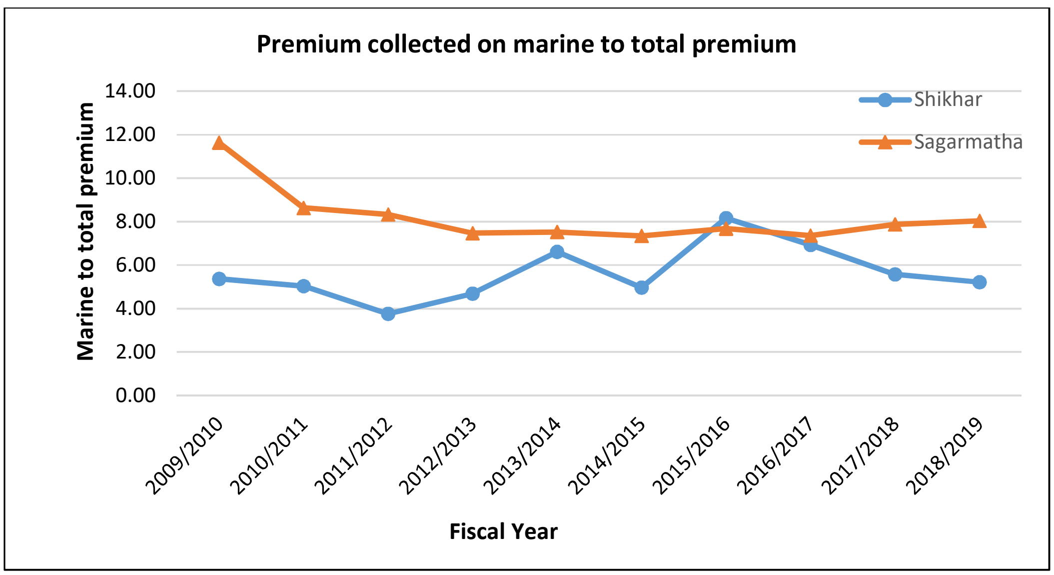

Figure 3. Premium collected on marine to total premium

The premium collection of marine insurance from total premium is low as per above table. The marine premium of Shikhar is very fluctuating in nature. The highest marine premium is 8.17 percentage in year 2015/2016. From FY 2016/2017 to 2018/2019, the marine premium is in decreasing order. The highest marine premium of Sagarmatha is 11.64 percentage in FY 2009/2010. From FY 2010/2011 to 2017/2018, the premium of Sagarmatha is in decreasing order. However in FY 2018/2019, there is slight increase in premium to 8.04 percent.

The average of Shikhar is 5.64 percentage whereas average of Sagarmatha is 8.10 percentage. The standard deviation of Shikhar is 1.27 percentage whereas that of Sagarmatha is 1.28 percentage. The least CV is seen of Sagarmatha under marine premium than Shikhar which reflects its consistency in premium collection from marine business. From above analysis and evaluation it is clear that the percentage cover by marine insurance in Nepalese insurance is low due to sellers has already done insurance in their own country as Nepal imports maximum goods from foreign countries.

4.1.1.3 Premium collection on motor insurance to total premium

Motor insurance is the insurance for coverage of material damage of vehicle and third party liability insurance of passengers and drivers. The premium collected of Shikhar and Sagarmatha are analyzed below:

Table 3. Premium collected on motor to total premium

Fiscal Year	**Insurance Companies**	
	Shikhar (%)	**Sagarmatha(%)**
2009/2010	40.94	49.47
2010/2011	36.45	52.72
2011/2012	30.56	51.56
2012/2013	36.06	45.86
2013/2014	38.92	38.62
2014/2015	44.78	37.46
2015/2016	49.96	41.38
2016/2017	53.18	42.73
2017/2018	48.01	44.68
2018/2019	46.65	48.94
Mean	42.55	45.34
SD	7.14	5.31
CV	0.17	0.12

Noted from Various years' annual report of Shikhar and Sagarmatha

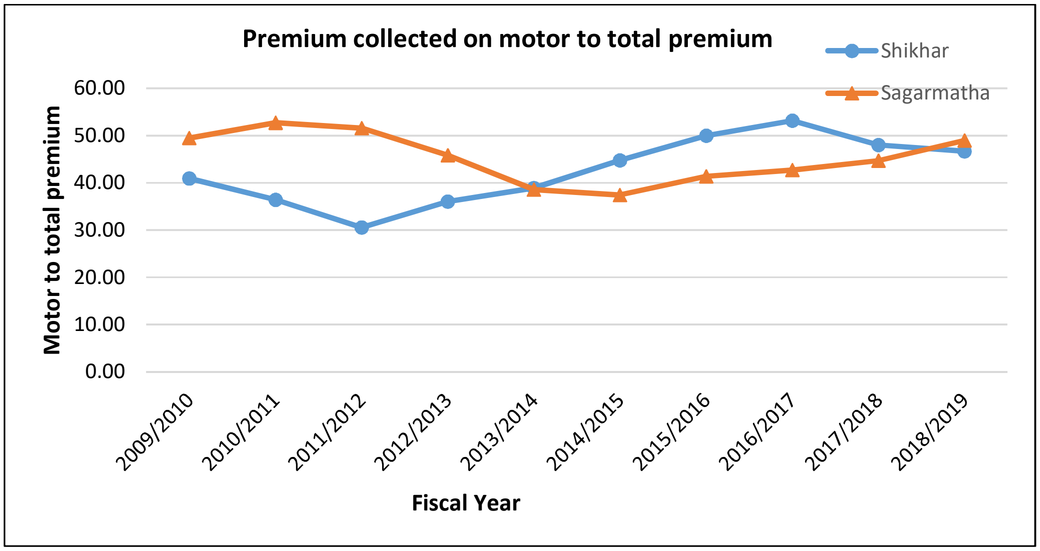

Figure 4. Premium collected on motor to total premium

The premium collected from motor insurance out of total premium is huge as per above table. The motor premium of Shikhar is in increasing trend and reaches its highest peak in FY 2016/2017 and in FY 2017/2018 and 2018/2019, the motor premium is gradually decreasing. During the study period of Sagarmatha, motor premium is decreasing till FY 2014/2015 and thereafter it is increasing slowly.

Vehicle has become necessity in today's world to reach one's destination in time. Due to increasing number of vehicle in Nepal and third party motor insurance being compulsory, the ratio of people doing motor insurance is higher. The average of Shikhar is 42.5 percentage and Sagarmatha is 45.34 percentage during study period. The standard deviation of Shikhar is 7.14 percentage whereas that of Sagarmatha is 5.31 percentage. Both the companies have least CV under motor premium which reflects its consistency in premium collection from motor business.

4.1.1.4 Premium collection on engineering insurance to total premium

The premium collected from engineering of Shikhar and Sagarmatha are analyzed below:

Table 4. Premium collected on engineering to total premium

Fiscal Year	Insurance Companies	
	Shikhar (%)	**Sagarmatha (%)**
2009/2010	3.80	6.63
2010/2011	4.07	6.78
2011/2012	3.18	6.47
2012/2013	2.68	7.39
2013/2014	3.62	11.10
2014/2015	3.34	10.32
2015/2016	2.28	7.07
2016/2017	4.50	10.50
2017/2018	7.87	12.90
2018/2019	3.16	9.33
Mean	3.85	8.85
SD	1.55	2.28
CV	0.40	0.26

Noted from Various years' annual report of Shikhar and Sagarmatha

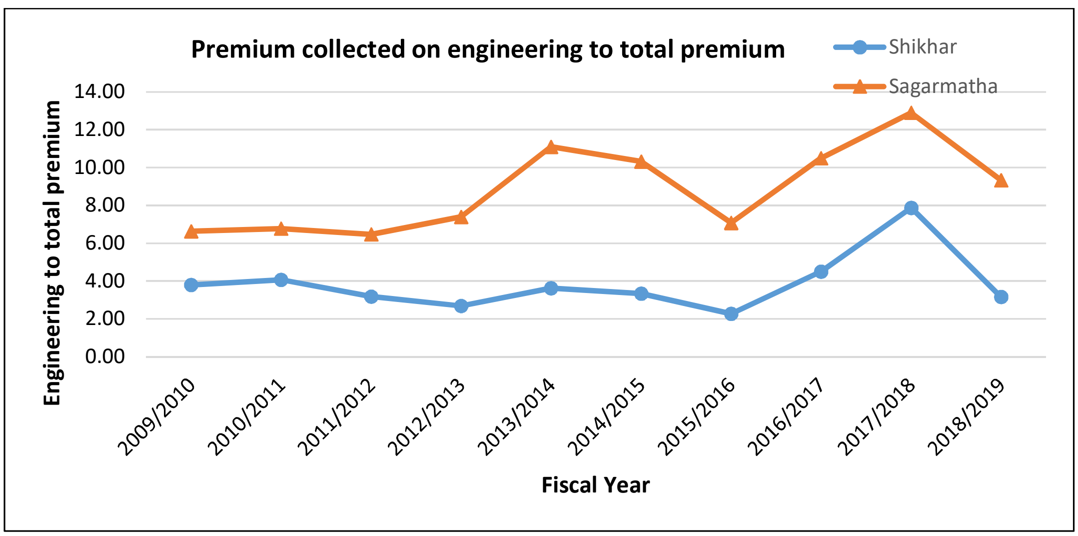

Figure 5. Premium collected on engineering to total premium

From above table and figure, it is clearly shown that premium collected from engineering insurance has mixed trend patterns during study periods. Premium collected from engineering insurance of Shikhar is fluctuating in nature. In year 2010/2011, the premium increased from 3.80 percentage to 4.07 percentage and it started to decease in FY 2011/2012 and 2012/2013. In year 2013/2014 and 2014/2015, it remained constant and leading to decrease in year 2015//2016. In FY 2016/2017, the premium has increased leading to tremendous increase in FY 2017/2018. Again in FY 2018/2019, the premium reduced drastically.

Premium collected from engineering insurance of Sagarmatha is also fluctuating in nature. The premium remained constant till 2011/2012 leading to increase in 2012/2013 and 2014/2015. The percentage massively dropped in 2015/2016 and again rise in 2016/2017 and 2017/2018 and again slightly decreased to 9033 percentage at 2018/2019.

Average shows mixed trend patterns during study periods. The standard deviation and CV show that Sagarmatha insurance have low variation and high risk in engineering insurance. The concept of insuring in engineering risk is gradually growing and people are being aware of doing insurance. The engineering insurance business is non-tarrif in Nepal due to which Sagarmatha has been successfully collect more premium than that of Shikhar.

4.1.1.5 Premium collection on aviation insurance to total premium

Aviation insurance policy covers the loss and damage occurred in aircraft during flights, landing, and takeoffs. The premium collected from aviation of Shikhar and Sagarmatha are analyzed below:

Table 5. Premium collected on aviation to total premium

Fiscal Year	Insurance Companies	
	Shikhar (%)	Sagarmatha (%)
2009/2010	23.87	-
2010/2011	26.38	-
2011/2012	38.16	-
2012/2013	28.98	-
2013/2014	17.58	1.42
2014/2015	14.09	1.03
2015/2016	4.88	0.31
2016/2017	6.34	0.16
2017/2018	7.00	-
2018/2019	8.12	-
Mean	17.54	0.73
SD	11.41	0.59
CV	0.65	0.81

Noted from Various years' annual report of Shikhar and Sagarmatha

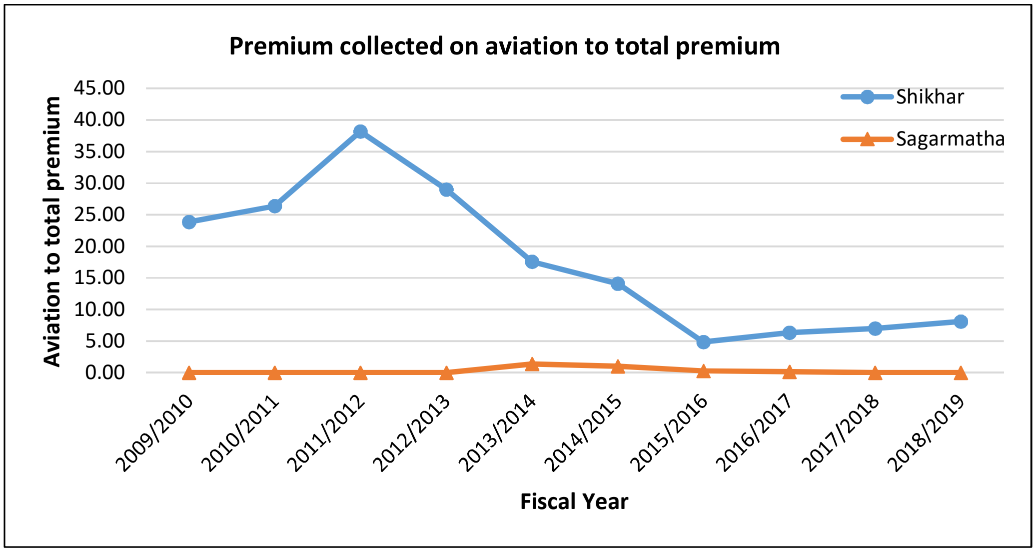

Figure 6. Premium collected on aviation to total premium

The table 5 and figure 6 shows the premium collected from aviation insurance out of total premium. The premium collected from aviation insurance of Shikhar reached highest peak in FY 2011/2012 by 38.16 percentage. After that, in FY 2013/2014 and 2014/2015, the premium collected is 17.58 percentage and 14.09 percentage respectively. However, in FY 2015/2016, there has been huge drop down of premium to 4.88 percentage. After that it gradually increases and reached 8.12 percentage by the FY 2018.2019. Sagarmatha has no provision of insuring aviation insurance till 2012/2013. Sagarmatha has collected aviation premium of 1.42 percentage during 2013/2014 and it gradually decreased to 1.03 percentage in FY 2014/2015. Sagarmatha collected low amount of premium during FY 2015/2016 and 2016/2017 and it has not collected any premium during FY 2017/2018 and 2018/2019.

The portion of premium collection from aviation business is seen very inconsistent for both companies. The most inconsistent on premium from aviation business is of Sagarmatha with highest CV of 0.81. Shikhar haV of 0.6s maintained the consistency on aviation business with the least C5. Due to the limited aircrafts in Nepal and market size being small, Sagarmatha has not able to do aviation insurance business in many years. The insurance companies doing aviation insurance have to pay high amount of premium to the reinsurers. It is a highly regulated and risky business, there can be loss or profit.

4.1.1.6 Premium collection on cattle and agriculture insurance to total premium

The premium collected from cattle and agriculture insurance of Shikhar and Sagarmatha are analyzed below:

Table 6. Premium collected on cattle and agriculture to total premium

Fiscal Year	Insurance Companies	
	Shikhar (%)	Sagarmatha (%)
2009/2010	-	-
2010/2011	-	-
2011/2012	-	-
2012/2013	-	-
2013/2014	0.38	0.12
2014/2015	1.64	0.72
2015/2016	1.28	1.13
2016/2017	1.17	1.48
2017/2018	2.12	1.47
2018/2019	2.92	1.86
Mean	1.58	1.13
SD	0.87	0.63
CV	0.55	0.56

Noted from Various years' annual report of Shikhar and Sagarmatha

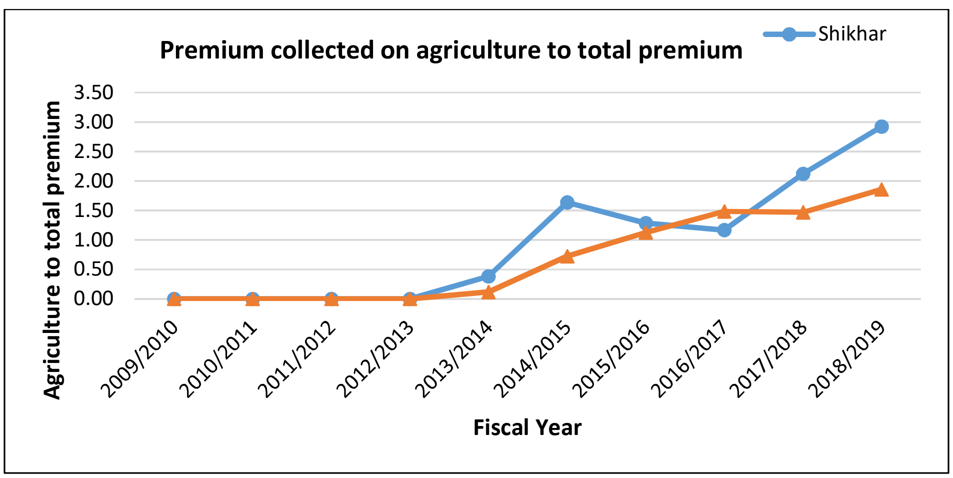

Figure 7. Premium collected on agriculture to total premium

Since, the agricultural and cattle insurance business started in Nepal during year 2013, premium collected is nil before FY 2013/2014. During FY 2013/2014, Shikhar has been successfully collected 0.38 percentage of the total premium during FY 2013/2014. The premium drastically increased to 1.64 percentage in FY 2014/2015 and then it started to decrease to 1.28 percentage and 1.17 percentage in FY 2015/2016 and 2016/2017 respectively. Since then in FY 2017/2018 and 2018/2019, the premium collected from cattle and agriculture insurance is in increasing pace. In contrast, Sagarmatha has been collecting premium from cattle and agriculture insurance in increasing pattern. Sagarnatha has collected 0.12 percentage in FY 2013/2014. It slowly increases and successfully collected 1.86 percentage of the total premium by the year end of FY 2018/2019.

From the figure, it is evident that average ratio of Shikhar is higher than that of Sagarmatha. CV of Sagarmatha is higher than Shikhar which shows Shikhar have maintained the consistency on cattle and agriculture business.

4.1.1.7 Premium collection on miscellaneous insurance to total premium

The premium collected from miscellaneous insurance of Shikhar and Sagarmatha are analyzed below:

Table 7. Premium collected on miscellaneous to total premium

Fiscal Year	Insurance Companies	
	Shikhar (%)	Sagarmatha (%)
2009/2010	12.65	9.22
2010/2011	13.71	8.96
2011/2012	12.66	9.19
2012/2013	12.81	10.21
2013/2014	14.83	10.66
2014/2015	12.73	9.38
2015/2016	11.50	8.57
2016/2017	10.90	7.61
2017/2018	12.51	7.58
2018/2019	14.12	7.25
Mean	12.84	8.86
SD	1.16	1.13
CV	0.09	0.13

Noted from Various years' annual report of Shikhar and Sagarmatha

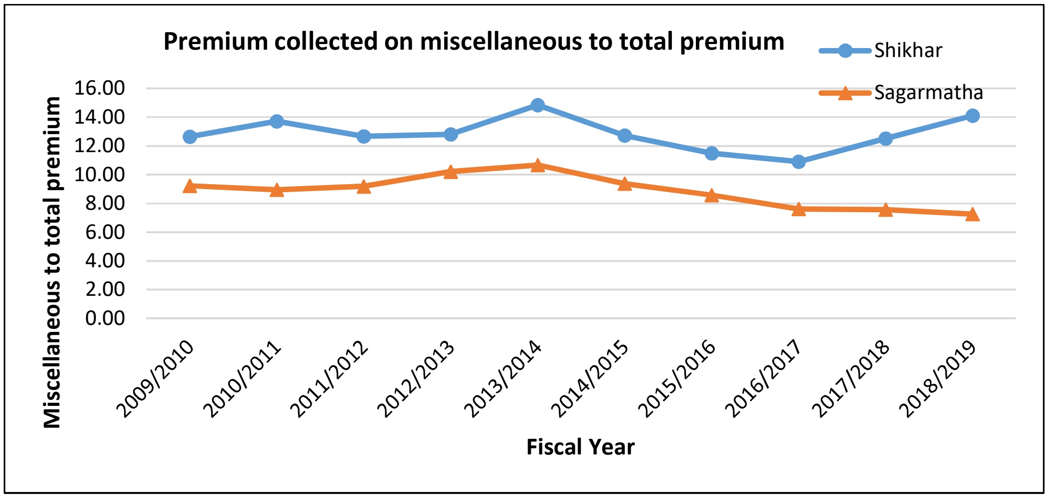

Figure 8. Premium collected on miscellaneous to total premium

The above figure shows that the miscellaneous premium to total premium of Shikhar is in fluctuating trend and Sagarmatha has decreasing trend during the study period. Shikhar collected 12.65 percentage of miscellaneous premium in FY 2009/2010 and it increased in FY 2010/20011 to 13.71 percentage. Then after it decreased in FY 2011/2012 and 2013/2014 and again it increased in FY 2013/2014. Again the premium started to drop in the subsequent three fiscal year. Never the less, Shikhar have tried to maintain consistency from FY 2017/2018 afterwards. Likewise, Sagarmatha maintained consistency upto FY 2011/2012 and the premium started to increase gradually in next two fiscal year. The premium reached to 10.66 percentage by the FY 2013/2014 and it started to decrease from FY2014/2015 afterwards.

The premium collected from Shikhar insurance from miscellaneous insurance is higher than that of Sagarmatha due to strong corporate relationship. Lower degree of standard deviation and CV suggests that Shikhar have maintained consistency in collecting miscellaneous premium. Sagarmatha have higher degree of standard deviation and CV which depicts Sagarmatha have not maintained consistency in collecting miscellaneous premium.

4.1.1.8 Premium collection micro insurance to total premium

Micro is a means of protecting the low income households from risks and alleviating poverty. The premium collected from micro insurance of Shikhar and Sagarmatha are analyzed below:

Table 8. Premium collected on micro to total premium

Fiscal Year	Insurance Companies Shikhar (%)	Sagarmatha (%)
2009/2010	-	-
2010/2011	-	-
2011/2012	-	-
2012/2013	-	-
2013/2014	-	-
2014/2015	-	-
2015/2016	-	-
2016/2017	0.00588	0.00004
2017/2018	0.00951	0.00003
2018/2019	0.04433	0.01666
Mean	0.20	0.01
SD	0.17	0.01
CV	0.85	1.75

Noted from Various years' annual report of Shikhar and Sagarmatha

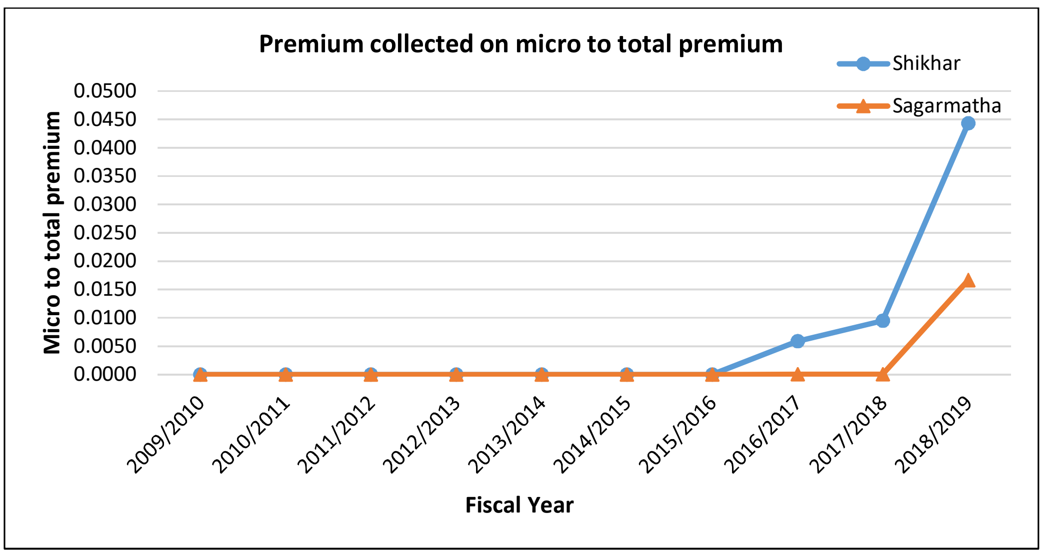

Figure 9. Premium collected on micro to total premium

Since there is no provision of micro insurance in Nepal earlier, premium collected from micro insurance is nil until 2015/2016. Premium collected from micro insurance is very low during the study period. Premium collected from micro insurance is inclining upward for the both the companies. During FY 2016/2017 and 2017/2018, Shikhar has constant premium collection and in FY 2018/2019, premium collection has been tremendously increased. Sagarmatha have collected only few amount of premium out of total premium. Even though standard deviation is lower, insurance companies has weakest performance in collecting premium from micro insurance.

The Insurance Board of Nepal directs non-life insurance companies to compulsorily facilitate agricultural insurance service to certain assigned districts to reach insurance service to all parts of Nepal. One company may collect more premium than other due to districts assigned to them due to outreach of market. For instance, the Terai region of Nepal is more focused on agricultural business than in Himalayan region. As micro insurance is newly emerging concept in history of Nepal, it is slowly increasing its pace.

4.1.2 Investment pattern and composition

4.1.2.1 Return on investment

For meeting the objective, every financial institution has to invest capital and get certain return on it. Return on investment shows the success and failure of company. It is the rate of average investment income. It shows the proportion with respect to investment. This ratio shows the performance of the investment and it indicates whole investment portfolio performance. Here the total investment consist the investment optional and compulsory sectors and the net income carried from profit and loss account.

Table 9. Return on investment

Fiscal Year	Insurance Companies	
	Shikhar (%)	**Sagarmatha(%)**
2009/2010	2.94	3.11
2010/2011	3.60	3.98
2011/2012	6.23	3.68
2012/2013	3.93	3.52
2013/2014	3.65	3.46
2014/2015	17.63	5.00
2015/2016	2.53	2.71
2016/2017	3.23	3.24
2017/2018	4.13	4.22
2018/2019	5.35	4.39
Mean	5.32	3.73
SD	4.46	0.68
CV	0.84	0.18

Noted from Various years' annual report of Shikhar and Sagarmatha

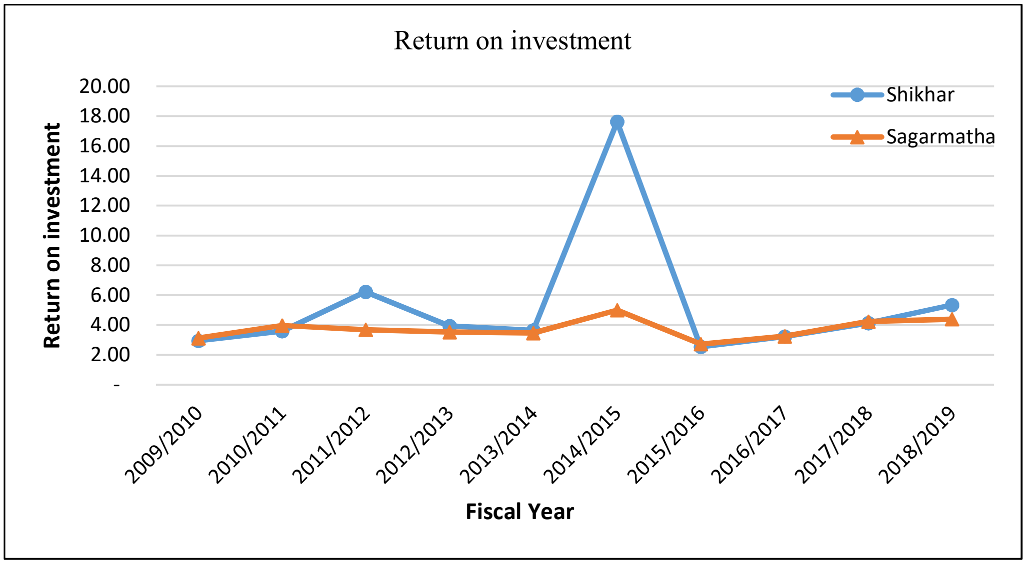

Figure 10. Return on investment

The above figure and table shows the rate of return on investment. The return of investment is very low in study periods. Shikhar has mixed trend patterns. It increased rapidly from 2.94 percentage to 3.60 percentage to 6.23 percentage for the FY 2009/2010, 2010/2011 and 2011/2012 respectively. By the year 2012/2013 and 2013/2014 the rate dropped down to 3.93 percentage and 3.65 percentage. In FY 2014/2015, the return from investment increased enormously to 17.63 percentage which is the highest return from investment during the study period. During FY 2014/15, Shikhar has invested more in shares and debentures which gives high rate of return. From 17.63 percentage, the ratio fell down to 2.53 percentage in FY 2015/2016 and again it slightly increased to 3.23 percentage, 4.13 percentage and 5.35 percentage in FY 2016/2017, 2017/2018 and 2018/2019 respectively. Same does not hold true for Sagarmatha insurance. The rate of return is constant at an average of 3.73 percentage. From FY 2009/2010, the rate on investment is 3.11 percentage and then it slightly increased to 3.98 percentage and again slightly decreased by the year ending 2012/2013 and it is constant for FY 2013/2014. In FY 2014/2015, it increased to 5 percentage and again it decreased to 2.71 percentage in the year 2015/2016. There is increasing trend till 2018/2019.

The average of Shikhar is greater than that of Sagarmatha ie 5.32 percentage >3.73 percentage which means the return from investment is high of Shikhar. Shikhar has higher return with higher risk whereas Sagarmatha has higher return with low risk.

4.1.2.2 Investment in government securities

The ratio measures the percentage of investment of particular insurer in government securities. The companies have not to bear risk in their investment in government securities. It comprises of both long term and short term investment.

Table 10. Investment in government securities

Fiscal Year	Insurance Companies	
	Shikhar (%)	Sagarmatha (%)
2009/2010	9.60	3.76
2010/2011	12.47	13.85
2011/2012	13.94	16.56
2012/2013	10.21	13.53
2013/2014	8.52	7.44
2014/2015	13.26	5.86
2015/2016	3.10	0.41
2016/2017	2.11	0.35
2017/2018	1.70	0.25
2018/2019	1.30	-
Mean	7.62	8.66
SD	5.08	8.21
CV	0.67	0.95

Noted from Various years' annual report of Shikhar and Sagarmatha

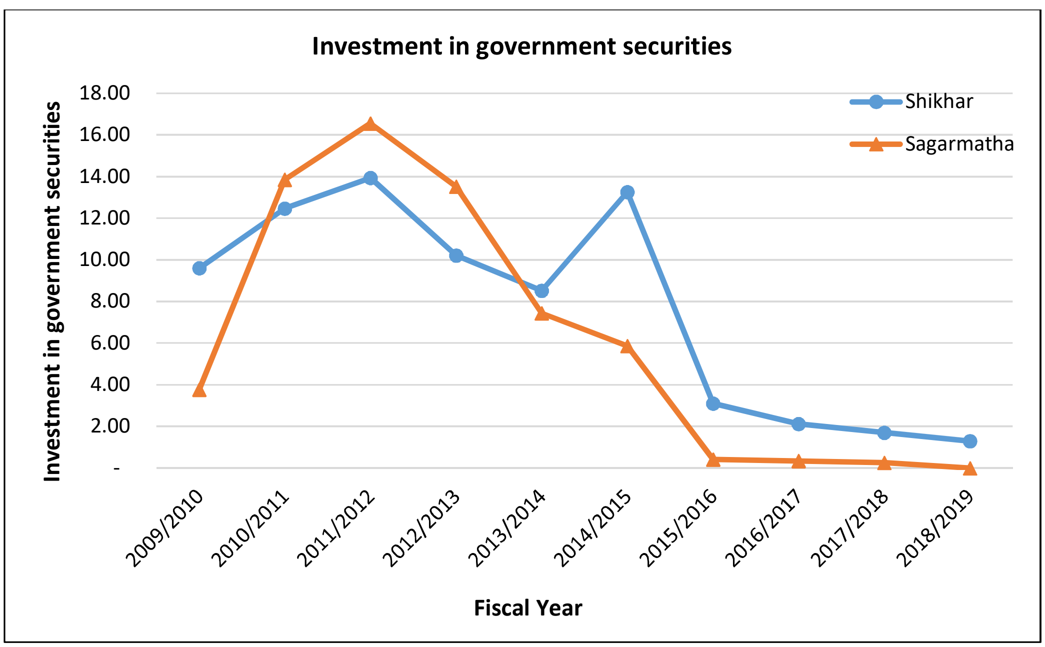

Figure 11. Investment in government securities

The above figure and table shows proportion of investment in government securities of the total investment. The investment in government securities is in fluctuating order for both the companies. The investment in government securities is in upward direction upto FY 2012/2013 for Shikhar which decreases to 8.52 percentage in 2013/2014 and it again increases in FY 2014/2015. However, the percentage decreases in FY 2015/2016 afterwards shows decreasing pattern. Sagarmatha has invested greater amount in government securities only in FY 2010/2011, 2011/2012 and 2012/2013. In other years, Sagarmatha has invested only low amount out of total investment in government securities. It is noted from figure that Sagarmatha has invested less than 1 percentage of total investment for FY 2015/2016 afterwards which is also in declining order and it has not invested any amount in FY 2018/2019.During FY 2018/19, Sagarmatha has invested more in fixed deposit and has invested in mutual funds, Nepal Re-insurance Co. Ltd. and Kriti Capital & Investment.

The average of Shikhar and Sagarmatha is 7.62 percentage and 8.66 percentage. The low value of standard deviation and coefficient of variation shows the investment in government securities has low or little variation and low risk. Shikhar is able to diversify the risk in risk free assets.

4.1.2.3 Investment in fixed deposit

The entire insurers deposit their fund in fixed deposits. The investment on bank fixed deposits to total investment ratio is the average of investment on fixed deposit. It is the secured investment sector therefore, almost all insurer invest their higher fund in fixed deposits.

Table 11. Investment in fixed deposit

Fiscal Year	Insurance Companies	
	Shikhar (%)	Sagarmatha (%)
2009/2010	84.87	91.05
2010/2011	80.32	81.83
2011/2012	79.18	79.76
2012/2013	81.08	82.62
2013/2014	77.71	87.10
2014/2015	15.94	76.24
2015/2016	81.21	76.58
2016/2017	82.65	77.23
2017/2018	80.35	81.67
2018/2019	70.27	82.40
Mean	73.36	81.65
SD	20.54	4.69
CV	0.28	0.06

Noted from Various years' annual report of Shikhar and Sagarmatha

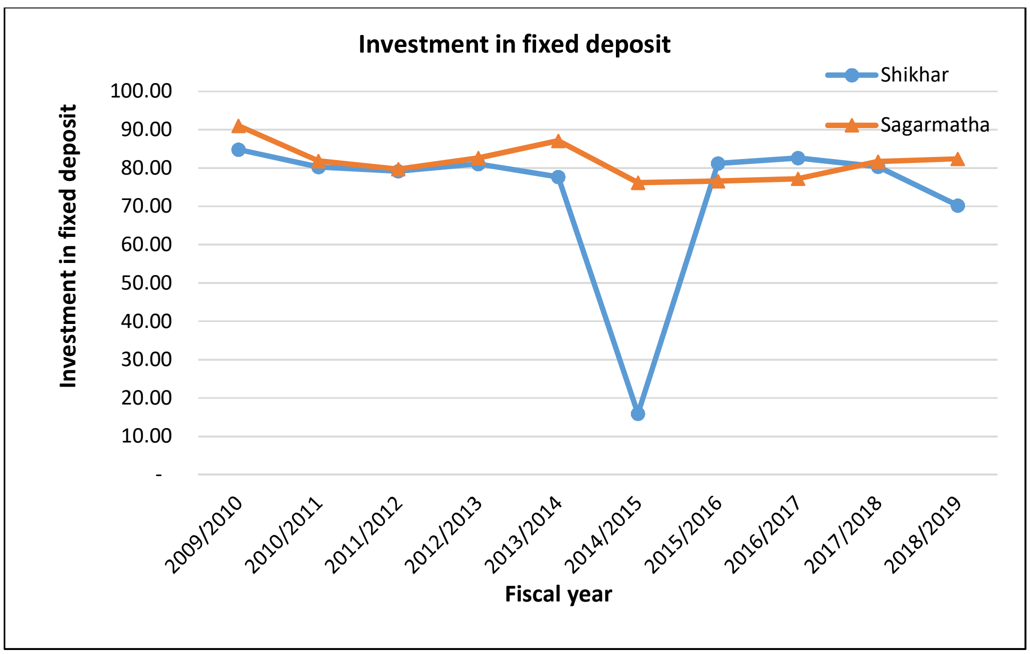

Figure 12. Investment in fixed deposit

From above figures and tables, it can be seen that the insurers invest more than 70 percentage in fixed deposit except in the year 2014/2015, Shikhar has invested only 15.94 percentage of total investment in fixed deposit. The investment in fixed deposit of Shikhar has moderate fluctuation. Shikhar recorded highest of 84.87 percentage in FY 2008/2010 and lowest of 15.94 percentage in FY 2014/2015. Never the less, after the huge percentage drop in FY 2014/2015, Shikhar have maintained consistency after

FY 2014/2015. Sagarmatha has maintained moderate consistency in investment of fixed deposit. Sagarmatha recorded highest of 91.05 percentage in FY 2008/2010 and lowest of 76.24 percentage in FY 2014/2015.

Insurance companies invest more in fixed deposit to maintain business relationship with banks and to sell them insurance products. From the above table, it is clear that Sagarmatha have higher average than Shikhar ie 81.65 percentage >73.36 percentage. Sagarmatha has low standard deviation with 4.69 percentage whereas Shikhar has 20.54 percentage of standard deviation. The CV of Sagarmatha is 0.06 which is lower than that Shikhar with CV of 0.28.The higher average, lower degree of standard deviation and CV suggest that Sagarmatha have maintained consistency in their ratio.

4.1.2.4 Investment in share

This ratio shows the share of different company's share in total investment of particular insurer and insurance industries as well.

Table 12. Investment in share

Fiscal Year	Insurance Companies	
	Shikhar (%)	Sagarmatha (%)
2009/2010	-	0.93
2010/2011	-	0.75
2011/2012	0.32	0.53
2012/2013	0.35	0.58
2013/2014	2.67	1.58
2014/2015	14.78	2.17
2015/2016	3.49	2.78
2016/2017	6.78	5.23
2017/2018	7.02	4.32
2018/2019	9.15	4.69
Mean	20.98	2.36
SD	32.78	1.81
CV	1.56	0.77

Noted from Various years' annual report of Shikhar and Sagarmatha

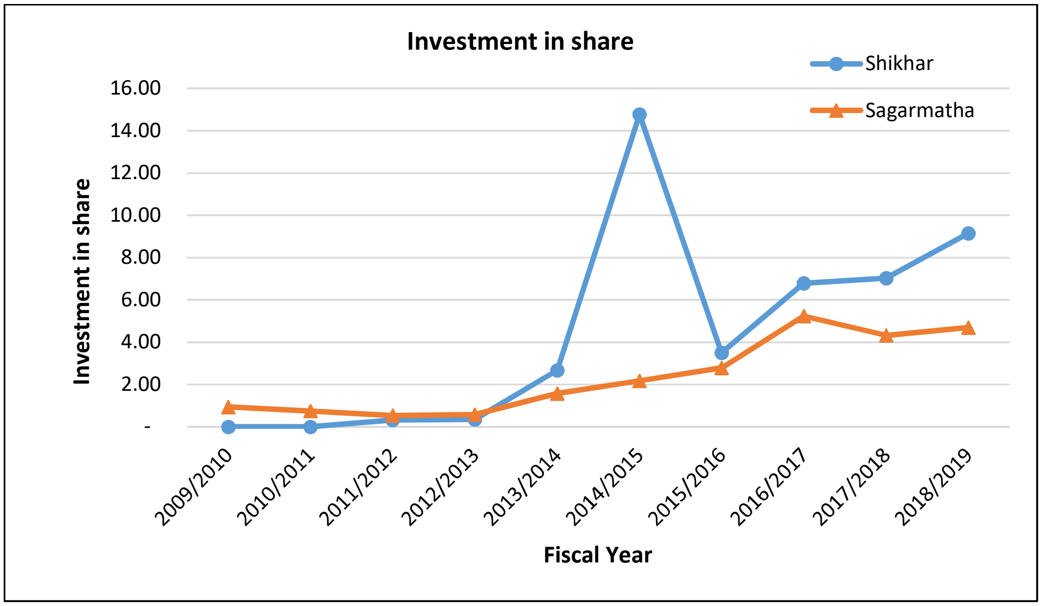

Figure 13. Investment in share

The above table and figures illustrates that insurance company invest less percentage of total investment in shares. Shikhar has not invested any amount in share during FY 2009/2010 and 2010/2011. During FY 2011/2012, Shikhar has invested 0.32 percentage of total investment in share and 0.35 percentage in preceding fiscal year. It gradually increased to 2.67 percentage in FY 2013/2014 and in FY 2014/2015, it drastically increased to 14.78 percentage. During FY 2014/2015, Shikhar invested more in banks and finance companies shares. However in FY 2015/2016, it invested 3.49 percentage and afterwards the percentage is in increasing order. Sagarmatha has moderate fluctuation in investing share during the study period. Sagarmatha invested 0.93 percentage in FY 2009/2010 which decrease to 0.75 percentage in FY 2010/2011 and again it decreases in FY 2011/2012 to 0.53 percentage. In FY 2012/2013, it gradually increase to 1.58 percentage and then 2.17 percentage in 2014/2015. Again it increases to 2.78 percentage in FY 2015/2016 and 5.23 percentage in FY 2016/2017. It decreases to 4.32 percentage in FY 2017/2018 and again increases to 4.69 percentage in FY 2018/2019.

Since, Sagarnatha has lower degree of standard devation and CV, it has maintained consistency in the ratio. In the other hand, Shikhar has inconsistency in ratio as the degree of standard deviation and CV is higher. Shikhar insurance invest more in shares to get higher return.

4.1.2.5 Investment in bank and financial institution preference share and debenture

This ratio shows investment in bank and financial institution preference share and debenture in total investment of particular insurance company.

Table 13. Investment in bank and financial institution preference share and debenture

Fiscal Year	Insurance Companies	
	Shikhar (%)	Sagarmatha (%)
2009/2010	2.09	3.22
2010/2011	1.74	2.73
2011/2012	5.43	2.44
2012/2013	6.36	2.52
2013/2014	9.59	3.23
2014/2015	17.78	7.05
2015/2016	3.08	9.07
2016/2017	2.10	7.62
2017/2018	5.34	5.41
2018/2019	12.77	4.71
Mean	6.62	4.8
SD	5.29	2.4
CV	0.80	0.50

Noted from Various years' annual report of Shikhar and Sagarmatha

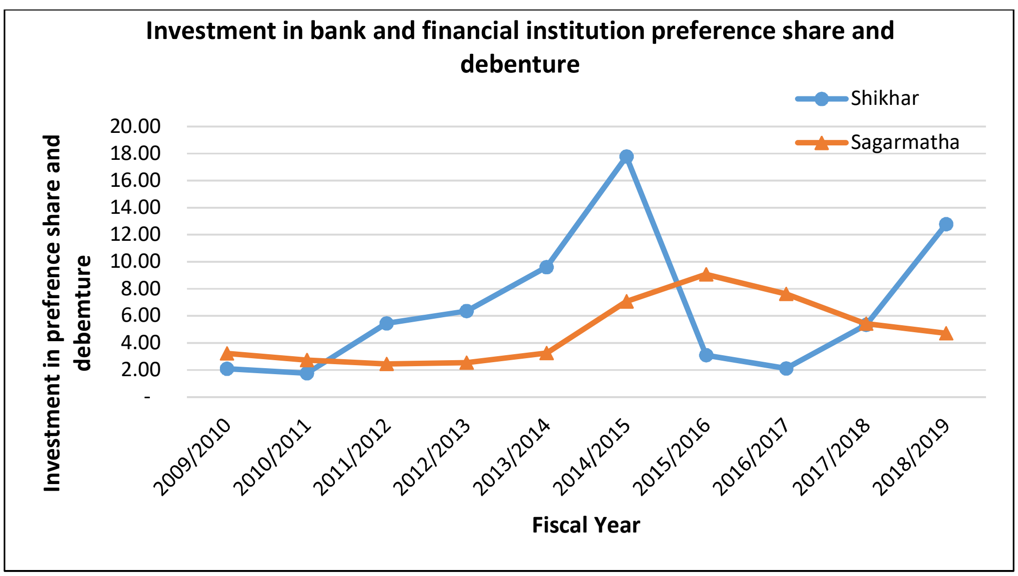

Figure 14. Investment in bank and financial institution preference share and debenture

The figure 14 demonstrates that Shikhar has high fluctuation and Sagarmatha has moderate fluctuation in investing preference shares and debentures. Shikhar has set highest record in FY 2014/2015 by 17.78 percentage and lowest in FY 2010/2011.

Shikhar invest in FY 2014/2015 to secure its return. Likewise, Sagarmatha has recoded highest of 9.07 percentage in FY 2015/2016 and lowest in 2010/2011.

Lower degree of standard deviation and CV suggest that both the companies have maintained consistency in their ratios. There is less risk in investing in preference shares and debentures than investing in shares. Investing in preference share and debentures is secured investment and also gives fixed return.

4.1.2.6 Other investment

Other investment includes investment in sectors other than above mentioned category. It includes investment in other sectors like investment in mutual funds, citizen investment trust, Nepal Reinsurance Company, micro insurance pool and many other.

Table 14. Other investment

Fiscal Year	**Insurance Companies**	
	Shikhar (%)	**Sagarmatha (%)**
2009/2010	3.44	1.03
2010/2011	5.48	0.83
2011/2012	1.13	0.72
2012/2013	2.01	0.76
2013/2014	1.51	0.65
2014/2015	38.25	8.68
2015/2016	9.11	11.16
2016/2017	6.36	9.57
2017/2018	5.59	8.35
2018/2019	6.51	8.21
Mean	7.93	4.99
SD	10.95	4.5
CV	1.38	0.90

Noted from Various years’ annual report of Shikhar and Sagarmatha

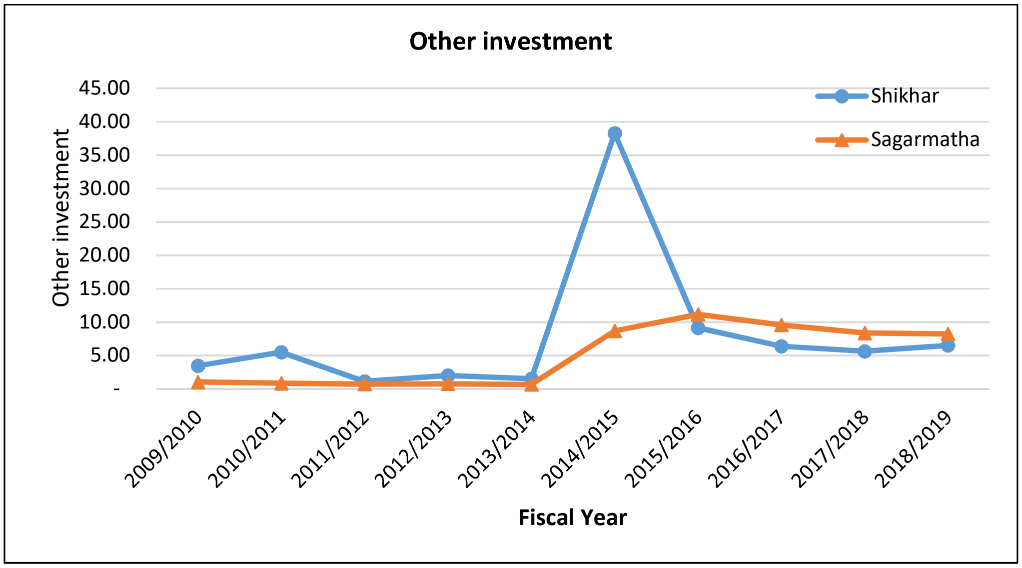

Figure 15. Other investment

The above figure demonstrates other investment of Shikhar and Sagarmartha.Shikhar has invested 3.44 percentage in FY 2009/2010 and it increases rapidly to 5.48 percentage in FY 2010/2011. In FY 2011/2012, it decreases to 1.13 percentage and again increases to 2.01 percentage and again decreases to 1.51 percentage. The maximum increase has been found in FY 2014/2015 with 38.25 percentage during the study period. It again decreased in FY 2015/2016, 2016/2017 and 2017/2018 and it slightly increase to 6.51 percentage in FY 2018/2019. The investment of Sagarmatha is gradually increasing from FY 2009/2010 to FY2013/2014. In FY 2014/2015 and 20151/2016, the investment ratio is increasing rapidly. Then after in FY 2016/2017 afterwards, the ratio is in declining order.

Insurance invest in other sectors to diversify portfolio. The investment in other sectors is seen very inconsistent for both companies. The most inconsistent on investing is of Shikhar with highest CV of 1.38. Sagarmatha has maintained the moderate consistency on other investment with the least CV of 0.90.

4.2 Analysis through statistical tools

4.2.1 Trend analysis

It is a method that aims to predict future behaviors of certain variables by examining past behavior. It enables researcher to forecast the future behavior of the variables under study, changes in the values of different variables and past behavior of a variable in trend analysis.

Here, for trend analysis, average of premium collection and total investment, in million, of different insurance are taken.

Table 15. Trend analysis of premium collection and investment pattern

Fiscal Year	Premium in million (Rs.)	Investment in million (Rs.)
2009/2010	477.67	340.89
2010/2011	569.50	418.09
2011/2012	751.11	547.81
2012/2013	822.62	693.15
2013/2014	1,008.26	855.71
2014/2015	1,168.19	867.63
2015/2016	1,555.00	1,241.87
2016/2017	2,075.31	1,669.98
2017/2018	2,585.26	2,163.52
2018/2019	2,804.65	2,719.41
2019/2020	3,423.48	3,001.63
2020/2021	3,763.77	3,309.93
2021/2022	4,104.06	3,618.24
2022/2023	4,444.34	3,926.54
2023/2024	4,784.63	4,234.85

Source: Annex 7 & 8

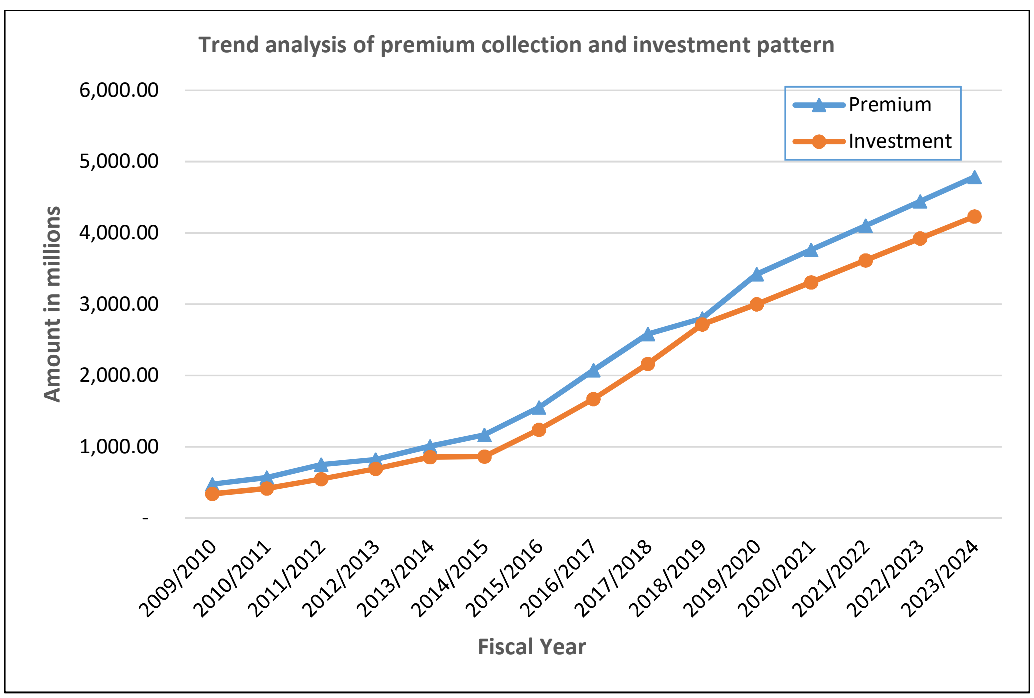

Figure 16. Trend analysis of premium collection and investment pattern

From the above table and chart, it is clear that the amount of investment is less than premium collection. With the increase in aware of insurance term, the people are doing insurance. The collection of premium is in increasing trend. At the beginning of study period, the premium has been increased by only small amount. The greatest premium increment has been seen in the FY 2016/2017. After the massive earthquake in year 2015, insurance has been able to sell fire insurance product leading to highest premium collection increment FY 2016/2017. With the increase in premium, the investment ratio has been also increased accordingly.

The premium forecast in FY 2019/2020 is Rs. 3,423.48 million, FY 2020/2021 is Rs 3,763.77 million, FY 2021/2022 is Rs. 4,104.06, FY 2022/2023 is Rs. 4,444.34 and FY 2023/2024 is Rs, 4,7834.63 million. Likewise, The investment forecast in FY 2019/2020 is Rs. 3,001.63 million, FY 2020/2021 is Rs 3,309.93 million, FY 2021/2022 is Rs. 3,618.24, FY 2022/2023 is Rs. 3,926.54 and FY 2023/2024 is Rs, 4,234.85 million.

From the above trend of premium collection and investment pattern we can forecast that the amount on investment will increase accordingly and investment will also be made on new area while due to lack of proper information about insurance among people, poor marketing and unhealthy competition the amount of premium collection remain constant or slightly fall or rise in coming year.

4.2.2 Correlation

By this statistical tool, the degree of relationship between two variables is identified. It helps to determine whether a positive or a negative relationship exists and establish causes and effects relation if any. The statistical tools, correlation analysis is preferred in this study to identify the relationship between premium and investment. Similarly, collected premium and investment are used to measure of the degree of linear association or correlation between these two variables. Likewise, probable error is used to measure the significance of the relation between two variables.

4.2.2.1 Correlation between premium collection and investment pattern

This relation is between the premium collection and investment of particular insurance company within the ten years period.

Table 16. Correlation of premium collection and investment in aggregate

Coefficient of Correlation	Relationship	R^2	Probable Error P.E. (r)	6*P.E. (r)	Significant or insignificant
0.991	Higher degree of positive relationship	0.9820	0.004	0.023	Highly significant

Source: Researcher's calculation

The study concluded that there is higher degree of positive relationship between the premium collection by non-life insurance companies in aggregate and its investment. That had revealed more premium collection means more investment. In case of non-life insurance companies in aggregate, the variation in independent variable (premium collection) explained 98.20 percentage of variations in dependent variable (investment). The significance relationships between premium collection and investment had been measured by calculating probable error of correlation of coefficient. Since the co-efficient of correlation (r) is greater than the 6 P.E. (r), therefore the study had concluded that the relation between the two variables is highly significant.

4.2.2.2 Correlation between investment and investment return

Generally, the profit earned strongly depends upon the investment. If the investment amount is high then definitely return will be high. In this investment is assumed as independent variable and net profit is dependent variable.

Table 17. Correlation of investment and investment return in aggregate

Coefficient of Correlation	Relationship	R^2	Probable Error P.E. (r)	6*P.E. (r)	Significant or insignificant
0.931	Higher degree of positive relationship	0.8668	0.028	0.170	Significant

Source: Researcher's calculation

The study had concluded that there is higher degree of positive correlation or relationship between investment and investment return. The study had revealed that more investment means more investment return. The coefficient of determination is 0.8668, means the variation in independent variable (investment) explains 29.1045 percentage of the variation in return. As coefficient of correlation is less than the value equal to 6 X P.E, there is significant relationship between average net return and investment.

4.3 Discussion

This study concentrated on drawing the conclusion of all analysis of premium collection and investment aspect of Nepalese insurance industry with the help of secondary data analysis. According to the purpose of the study, the trend of premium collection and composition and investment pattern and composition has been analyzed. The research adopted trend analysis and correlation model in order to know the pattern and association of premium collection and investment pattern of non-life insurance company in Nepal.

Among the insurance policy, the ratio of premium collection is higher in fire insurance and motor insurance and lower in agriculture and micro policy. The ratio of fire premium is in increasing trend. After the massive earthquake of 2015, people are attracted to buy fire insurance policy. After the earthquake year, the premium collected from fire insurance has also been increased. The premium ratio on marine insurance is in fluctuating order. The average marine insurance ratio over 10 years of Shikhar is 5.64 percent and Sagarmatha is 8.10 percent only. The motor premium is in increasing trend as third party motor insurance is compulsory in Nepal. After FY 2013/2014, the premium collected from motor insurance has been increasing. Shikhar has collected highest motor premium of 53.18 percent in FY 2016/2017 and Sagarmatha has collected highest motor premium of 51.56 percent in FY 2011/2012. So, it is possible for insurance companies to collect motor premium more than 50 percentage of total premium. The premium collection from engineering insurance has mixed trends during the study periods. During study period, Sagarmatha has collected more engineering insurance with an average of 8.85 percent while Shikhar has collected an average of 3.85 percent. The premium collected from aviation insurance is inconsistent during the study period. Sagarmatha has not done business of aviation insurance in FY 2009/2010, 2010/2011, 2011/2012, 2012/2013, 2017/2018 and 2018/2019. The premium collected on agriculture and micro insurance is in increasing trend but agricultural and micro insurance still has not introduced in massive scale with systematic and organized way. Likewise, premium collected from miscellaneous insurance is in fluctuating order. The trend analysis of aggregate premium collection shows that there is increasing trend in premium collection which matches with the findings of Kharel (2019).

The trends of investing the fund of insurance companies are limited. They are investing in only specified or certain sectors. They have similarity in investment sectors. During beginning of study period, it is seen that companies' investment in government securities has been increasing but it gradually decreases after FY 2014/2015. The companies invest more in fixed deposit to maintain business relationship with banks and finance companies. Shikhar and Sagarmatha invest highest investment in fixed deposit of 84.87 and 91.05 percentage of total investment respectively in FY 2009/2010.The non- insurance companies had given more priority to invest in fixed deposits. The bank deposit amount covers more than 70 percentage of total investment, then in government securities, preference share and debenture and other sector respectively. The insurance company invested in most secure sector which matches with the findings of Ghimire (2013). The trend analysis of aggregate investment shows that there is increasing trend in investment. Return on investment is not satisfied, as the maximum return is only 17.63 percentage and minimum is 2.53 percentage.

There exist higher degree of positive relationship between the premium collection by non-life insurance companies in aggregate and its investment which matches with the findings of Risal (2016). The investment amount increases with the increase in premium collection. The coefficient of correlation between investment and investment returns of Nepalese insurance industry has high degree of positive correlation with significant relationship.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

Insurance contributes to society by favorably affecting the apportionment of the factors of production, engaging in loss prevention activities, identifying losses serving as a basis of the credit structures and providing a channel for investible fund. The purpose of this study is to explain the trend of premium and investment pattern. This study aims to explain the association of premium collection in the investment. It employs various quantitative statistical tools and techniques like descriptive, correlational, analytical and comparative research design is used to analyze the data and information. For this purpose secondary data was collected and analyzed in systematic way to derive the findings. In this study, the data are analyzed using mean, standard deviation, coefficient of variation, trend analysis and correlation.

This study attempted to review the non-life insurance sector of Nepal and the product offered. The non-life insurance company collected highest premium collection in motor and fire insurance. After the massive earthquake in 2015, people tend to purchase the fire insurance policy to mitigate the loss from the earthquake. Both the companies collected highest fire premium in FY 2015/2016. With the increase in trade with foreign countries, people tend to purchase marine insurance. However the ratio is very low. The highest marine premium collected of Shikhar is 8.17 percent in FY 2015/2016 and for Sagarmatha is 11.64 percent in FY 2009/2010. Every year the vehicle increases by huge number in Nepal, the premium from motor insurance policy is also in increasing trend. As the third party liability motor insurance is compulsory in Nepal and highest premium is collected in this insurance, it denotes the forced market in non-life insurance industry. In average, more than 40 percentage of total premium is collected in motor insurance. Agriculture and micro insurance is in increasing order. Nepal being the landlocked country, the pace is still not acceptable. Many villagers have no access and unknown about insurance. Agricultural insurance still has not introduced in massive scale with systematic and organized way. The aggregate premium collection is in increasing trend. The premium has been growing positively as compared to previous year. It is forecasted that by the year 2023/2024, the aggregate premium would reach to Rs. 4,784.63 million.

The non-life insurance are investing only in certain sectors. They have invested high amount in fixed deposit and government securities. The insurance companies have maintained consistency in investing in fixed deposit which includes more than 70 percentage of total investment. Both the companies invest highest fixed deposit amount in FY 2009/2010. The companies invest in fixed deposit in order to maintain business relationship with banks. The investment in government securities decreased after FY 2015/2016 leading to investing in other sectors. The investment in share and debentures is in increasing order. In FY 2014/2015, Shikhar invest 14.78 percentage in share to bear more risk and to get higher expected return.The return from investment is very low as the insurance company invest more in secured sectors. The average return of Shikhar and Sagarmatha is 5.32 and 3.73 percentage only. The aggregate investment is in increasing trend. The investment has been growing positively as compared to previous year. . It is forecasted that by the year 2023/2024, the investment would reach to Rs. 4,234.85 million.

There is significant relationship between premium collection and investment patterns as there is higher degree of positive relationship between the premium collection by non-life insurance companies in aggregate and its investment. This revealed more premium collection results more investment. Likewise, there exist higher degree of positive relationship between investment and investment returns. The study had revealed that more investment means more investment return.

5.2 Conclusion

The study has come to a conclusion that premium collection and investment pattern is in increasing order. Although the premium collection increased, the increase in percent is not so satisfactory. Agricultural and micro insurance is lagging behind and more emphasis should be given to increase in awareness among the farmers about the agricultural insurance. Insurance companies are investing their fund in very sectors. They have seen investing in more on the fixed deposit and government saving fund risk free sectors. The return from investment is also not satisfactory. There is positive relation between premium collection and investment. Insurers need to increase the earnings through forming better investment portfolios and to ensure long term sustainability. The ultimate objectives of the investment is safeguarding the reserve fund of insurance companies and secure minimum amount of earnings to pay policyholders' future liabilities without any burden of financial scarcity. it can be concluded that insurance companies have strived good till now but with little improvisation based on market research can lead insurance companies & the concept to a level of excellence in Nepal.

5.3 Recommendation

The recommendation are made as per the analysis of findings from study as well as relating information about Nepalese insurance industry.

i. People's awareness towards insurance has been a key factor in this positive change. In the present context, people are being more knowledgeable about the importance and the benefits that insurance provides in their personal and professional life. These encouraging developments in insurance sector have opened a door for fierce competition in insurance industry. Insurance companies should look for innovative products and services to gain a competitive edge.

ii. Insurance companies should charge fair premium to the customers as customers expect insurance service based on premiums.

iii. Insurance companies should clarify technical terms used in insurance contract paper to clients and should briefly explain coverage and exclusions of policy.

iv. Insurance companies are suggested to expand insurance activities in rural area by the establishment of branches or by the appointment of agents according to its potentiality.

v. Insurance companies should reschedule and re-manage the investment portfolio. The insurance companies should be able develop research based decision making system and able to diversify portfolio.

vi. Companies need to change the structure of investment. They should permit them to such schemes, so that the money of general public as premium could be saved and return too could be high. The insurance companies should develop expertise in risk and expected return assessment.

vii. The insurance companies invest more in government securities and fixed deposits with low risk. They are recommended to invest in high risk portfolio to gain higher return in short period of time.

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ANNEXURE

Annex-1

Premium collection of Shikhar Insurance Company

in million

Fiscal Year	Fire	Marine	Motor	Engineering	Aviation	Cattle & Agriculture	Miscellaneous	Micro	Total Premium
2009/2010	70.75	28.39	216.54	20.07	126.28	-	66.89	-	528.92
2010/2011	87.86	30.86	223.20	24.92	161.56	-	83.92	-	612.33
2011/2012	100.99	32.47	264.07	27.47	329.69	-	109.35	-	864.04
2012/2013	135.11	42.85	329.67	24.52	264.91	-	117.08	-	914.15
2013/2014	189.48	69.51	408.70	37.99	184.65	3.99	155.74	-	1,050.06
2014/2015	243.71	65.61	591.39	44.09	186.06	21.61	168.09	-	1,320.56
2015/2016	439.33	163.68	1,000.82	45.66	97.81	25.73	230.29	-	2,003.33
2016/2017	465.78	190.44	1,459.86	123.51	173.90	32.08	299.25	0.16	2,744.98
2017/2018	563.96	186.17	1,601.96	262.64	233.45	70.89	417.40	0.32	3,336.78
2018/2019	679.15	179.19	1,602.32	108.56	278.76	100.44	484.92	1.52	3,434.87

Annex-2

Premium collection of Sagarmatha Insurance Company

in million

Fiscal Year	Fire	Marine	Motor	Engineering	Aviation	Cattle & Agriculture	Miscellaneous	Micro	Total Premium
2009/2010	98.22	49.66	210.95	28.27	-	-	39.32	-	426.41
2010/2011	120.65	45.51	277.65	35.70	-	-	47.17	-	526.67
2011/2012	156.03	53.19	329.03	41.27	-	-	58.67	-	638.18
2012/2013	212.51	54.63	335.31	54.02	-	-	74.62	-	731.10
2013/2014	295.36	72.73	373.22	107.26	13.68	1.14	103.07	-	966.46
2014/2015	342.78	74.62	380.49	104.83	10.44	7.33	95.32	-	1,015.82
2015/2016	374.78	84.95	457.92	78.22	3.43	12.47	94.88	-	1,106.67
2016/2017	423.74	103.48	600.63	147.58	2.30	20.87	107.03	0.001	1,405.63
2017/2018	467.39	144.48	819.28	236.58	-	26.97	139.04	0.001	1,833.75
2018/2019	533.87	174.93	1,064.23	202.97	-	40.34	157.73	0.362	2,174.44

Annex-3

Investment of Shikhar Insurance Company

in million

Fiscal Year	Government Securities	Fixed Deposit	Share	Prefrence share and Debenture	Other investment	Total investment	Income from investment
2009/2010	23.00	203.30	-	5.00	8.25	239.55	7.03
2010/2011	35.88	231.07	-	5.00	15.75	287.70	10.35
2011/2012	44.13	250.57	1.00	17.18	3.57	316.45	19.72
2012/2013	44.13	350.57	1.51	27.50	8.68	432.38	16.98
2013/2014	51.25	467.20	16.04	57.68	9.06	601.23	21.92
2014/2015	43.00	51.70	47.93	57.68	124.07	324.37	57.20
2015/2016	43.00	1,125.60	48.44	42.68	126.33	1,386.04	35.11
2016/2017	43.00	1,680.60	137.87	42.68	129.35	2,033.49	65.67
2017/2018	43.00	2,035.60	177.87	135.18	141.73	2,533.38	104.51
2018/2019	38.48	2,076.10	270.22	377.33	192.24	2,954.35	158.00

Annex-4

Investment of Sagarmatha Insurance Company

in million

Fiscal Year	Government Securities	Fixed Deposit	Share	Prefrence share and Debenture	Other investment	Total investment	Income from investment
2009/2010	16.65	402.65	4.13	14.24	4.57	442.23	13.77
2010/2011	75.95	448.83	4.13	15.00	4.57	548.48	21.81
2011/2012	129.03	621.45	4.13	19.00	5.57	779.17	28.66
2012/2013	129.03	788.17	5.51	24.00	7.22	953.92	33.57
2013/2014	82.63	966.93	17.53	35.88	7.22	1,110.18	38.47
2014/2015	82.63	1,075.73	30.57	99.52	122.45	1,410.90	70.55
2015/2016	4.55	840.62	30.57	99.52	122.45	1,097.71	29.77
2016/2017	4.55	1,009.04	68.31	99.52	125.04	1,306.47	42.28
2017/2018	4.55	1,464.81	77.48	97.02	149.80	1,793.66	75.74
2018/2019	-	2,047.09	116.44	117.02	203.91	2,484.46	108.99

Annex-5

Calculation of mean, standard deviation and CV of Shikhar Insurance Co. Ltd.

Fiscal Year	**Fire (%)**	**Marine (%)**	**Motor (%)**	**Engineering (%)**	**Aviation (%)**	**Cattle & Agriculture (%)**	**Miscellaneous (%)**	**Micro (%)**
2009/2010	13.38	5.37	40.94	3.80	23.87	-	12.65	-
2010/2011	14.35	5.04	36.45	4.07	26.38	-	13.71	-
2011/2012	11.69	3.76	30.56	3.18	38.16	-	12.66	-
2012/2013	14.78	4.69	36.06	2.68	28.98	-	12.81	-
2013/2014	18.04	6.62	38.92	3.62	17.58	0.38	14.83	-
2014/2015	18.46	4.97	44.78	3.34	14.09	1.64	12.73	-
2015/2016	21.93	8.17	49.96	2.28	4.88	1.28	11.50	-
2016/2017	16.97	6.94	53.18	4.50	6.34	1.17	10.90	0.00588
2017/2018	16.90	5.58	48.01	7.87	7.00	2.12	12.51	0.00951
2018/2019	19.77	5.22	46.65	3.16	8.12	2.92	14.12	0.04433
Mean	16.62	5.64	42.55	3.85	17.54	1.58	12.84	0.20000
SD	3.11	1.27	7.14	1.55	11.41	0.87	1.16	0.17
CV	0.19	0.23	0.17	0.40	0.65	0.55	0.09	0.85

Source: SPSS result

Annex-6

Calculation of mean, standard deviation and CV of Sagarmatha Insurance Co. Ltd.

Fiscal Year	Fire (%)	Marine (%)	Motor (%)	Engineering (%)	Aviation (%)	Cattle & Agriculture (%)	Miscellaneous (%)	Micro (%)
2009/2010	23.03	11.64	49.47	6.63	0.00	-	9.22	-
2010/2011	22.91	8.64	52.72	6.78	0.00	-	8.96	-
2011/2012	24.45	8.33	51.56	6.47	0.00	-	9.19	-
2012/2013	29.07	7.47	45.86	7.39	0.00	-	10.21	-
2013/2014	30.56	7.53	38.62	11.10	1.42	0.12	10.66	-
2014/2015	33.74	7.35	37.46	10.32	1.03	0.72	9.38	-
2015/2016	33.87	7.68	41.38	7.07	0.31	1.13	8.57	-
2016/2017	30.15	7.36	42.73	10.50	0.16	1.48	7.61	0.00004
2017/2018	25.49	7.88	44.68	12.90	0.00	1.47	7.58	0.00003
2018/2019	24.55	8.04	48.94	9.33	0.00	1.86	7.25	0.01666
Mean	27.78	8.10	45.34	8.85	0.73	1.13	8.86	0.00550
SD	4.23	1.28	5.31	2.28	0.59	0.63	1.13	0.01
CV	0.15	0.16	0.12	0.26	0.81	0.56	0.13	1.75

Source: SPSS result

Annex-7

Average premium collection and forecasted premium collection

Fiscal Year	Total Premium of Shikhar (in Rs)	Total Premium of Sagarmatha (in Rs)	Average (in Rs. Million)
2009/2010	528,919,988.00	426,413,864.12	477.67
2010/2011	612,327,772.00	526,671,699.27	569.50
2011/2012	864,037,532.00	638,183,053.47	751.11
2012/2013	914,149,194.00	731,096,199.94	822.62
2013/2014	1,050,060,869.00	966,464,785.15	1,008.26
2014/2015	1,320,564,623.00	1,015,824,070.00	1,168.19
2015/2016	2,003,328,776.00	1,106,669,085.00	1,555.00
2016/2017	2,744,982,504.00	1,405,633,865.00	2,075.31
2017/2018	3,336,777,486.00	1,833,749,004.00	2,585.26
2018/2019	3,434,866,030.00	2,174,435,706.00	2,804.65
2019/2020	-	-	3,423.48
2020/2021	-	-	3,763.77
2021/2022	-	-	4,104.06
2022/2023	-	-	4,444.34
2023/2024	-	-	4,784.63

Source: SPSS result

Annex-8

Average investment and forecasted investment

Fiscal Year	Total Investment of Shikhar (in Rs)	Total Investment of Sagarmatha (in Rs)	Average (in Rs. Million)
2009/2010	239,546,429.00	442,233,058.33	340.89
2010/2011	287,696,429.00	548,478,363.96	418.09
2011/2012	316,446,429.00	779,173,581.32	547.81
2012/2013	432,380,518.00	953,922,660.17	693.15
2013/2014	601,232,727.00	1,110,184,721.06	855.71
2014/2015	324,368,892.00	1,410,899,555.00	867.63
2015/2016	1,386,035,955.00	1,097,712,091.00	1,241.87
2016/2017	2,033,489,553.00	1,306,474,521.00	1,669.98
2017/2018	2,533,378,345.00	1,793,661,543.00	2,163.52
2018/2019	2,954,354,852.00	2,484,456,705.00	2,719.41
2019/2020	-	-	3,001.63
2020/2021	-	-	3,309.93
2021/2022	-	-	3,618.24
2022/2023	-	-	3,926.54
2023/2024	-	-	4,234.85

Source: SPSS result

A Thesis Proposal on

PREMIUM COLLECTION AND INVESTMENT PATTERN OF NON-LIFE INSURANCE IN NEPAL: A CASE OF SHIKHAR INSURANCE AND SAGARMATHA INSURANCE

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1. **INTRODUCTION**

1.1 Background of the study

People want to feel safe. Following the essential goals of food, clothing, and shelter, follows a sense of security. Everyone is exposed to risk on a daily basis, whether it is while driving, strolling down the street, investing, and capital planning, or something else. The future is always unpredictable, and with that uncertainty comes risk. The risk is an unplanned event or occurrence that occurs with financial significance and results in a loss. Many happy people's lives are shattered either by the untimely death of the family's breadwinner or by other tragedies such as floods, fires, earthquakes, wars, accidents, and other natural disasters that can have a devastating impact on human life. These risks are such which cannot be known in advance as to when they will happen and it is physically impossible for an individual to make provision against them. Being a rational animal, human being is always afraid of risk and they always wish to be safe and secured his present as well as future life. This risk and uncertainty turn out due to globalization, liberalization, and innovation in science and technology. So, insurance is the way to minimize and provide protection against those risk which are beyond human control. It is way to indemnify to those unpredictable losses. Insurance is a device providing financial compensation to those who suffer from misfortune. In other words, insurance is the best means for security to human life and property from various risks (Shrestha, 2001).

Insurance is defined as a contract, which is called a policy, in which an individual or organization receives financial protection and reimbursement of damages from the insurer or the insurance company. In simple word, it is some form of protection from any possible financial losses. Moreover, Insurance is a mechanism for transferring specified risks of individual persons or organization to an insurer of certain risks of financial loss in exchange of the payment of agreed fixed amount. The insured is not to make any profit out of the insurance but should only be compensated to the extent of the pecuniary loss.

Insurance company charges a certain amount called ‘premium’ in return of assuring the insured for indemnity if the stated risk caused economic losses within the policy period. Insurance company collected fund in the form of premium and invests in different sectors for maximum return. Once earned, the premium is regarded as the income of the insurance industry. The growth and development of an insurance industry is based on the large number of groups of various individuals, corporate businesses and financial organization who are policy holders of the company obtained directly by the representatives or through agents. The large number of policyholders leads to the large amount of premium collection for the minimization of occurrence of various risk and uncertainties. Insurance companies are considered as an important part of an institutional investment of any country as they invest in corporate securities as well as other collective investment schemes and in turn, they produce sufficient income to meet their obligations in the form of promised insurance benefits (Securities Board of Nepal, 2007).

The premium is invested in stocks, bonds, and other interest-bearing assets by insurance firms. An insurance business can use the investment profits to cover claims, commissions, and administrative costs. It accumulates a large sum of money in premiums and may not have to pay out on claims for many years. The ultimate objectives of the investment directive is safeguarding the reserve funds of insurance companies and secure minimum amount of earnings to pay policyholders' future liabilities without any burden of financial scarcity.

Insurance companies performed three distinct jobs: i) Risk pooling, diversifying and loss compensation, ii) Risk management; and iii) Resource mobilization. Academicians are agreed on the positive role of insurance in both developed and developing economies. Insurance enhance the economy through promoting financial stability, mobilizing savings, facilitating trade and commerce, enabling risk management, encouraging loss mitigation, fostering efficient capital allocation, substituting the complement of government social security programs (Skipper, 2001).

Insurance contributes to society by favorably affecting the apportionment of the factors of production, engaging in loss prevention activities, identifying losses serving as a basis of the credit structures, eliminating worry and providing a channel for investible fund. Insurance spread the cost of the risk over a large group of individuals subject to the same risk, in order to reimburse the few who actually suffer from the risk. The purpose of insurance is to reduce the uncertainty and worry caused when it becomes aware of the possibility of loss. It does this by spreading the economic burden of losses among members of group. Insurance does not prevent loss but it relives the financial burden.

Nowadays in the pace of rapid growth and development of insurance industries, it is very important to develop appropriate strategies that might aid the insurance practitioners to develop appropriate insurance products and services. Insurance manages the risk of uncertainty in an effective way and plays a significant role in mobilizing domestic savings, turning capital into productive investments, by managing loss and maintain financial stability. The non-life insurance hence plays a crucial role in promoting the trade and commerce activities which contributes to the sustainable growth of an economy.

The indemnification principle of insurance mainly focuses on compensating the insured for the loss that occurs. In addition to this, as financial intermediaries, it accumulates funds and channelized the saving in national development which ultimately helps in economic growth. This shows insurance as a source of capital formation for development and growth of a country.

1.2 Statement of the problem

The existing insurance law has become outdated and does not comply with best international practices. Issues relating to moral hazards is also a problem. The insurance sector regulator has not been able to create an effective framework to reduce moral hazards. It is quite difficult to for the insurers to determine the reason for losses. Nepali insurers do not have an adequate workforce to evaluate and assess the damage and claims. It needs a team of experts comprising of underwriters, statistician, risk analysts, loss assessors and specialists in the respective fields.

Despite the promising prospects, the Nepalese Insurance companies have some problem and challenge to overcome. There are issues related to policies that hinder the growth of the business. There is rigidity in investment guidelines for insurance companies. The investment restriction in the guidelines has obstructed the growth of Nepali insurance companies. If the companies want to invest in areas other than specified in the guidelines, prior approval from Insurance Board is mandatory.

Another big problem of Nepali insurance companies is to mobilize collected fund in suitable sector. Nepal is an under developed country and most of people live in village and they are illiterate. They feel burden in paying the premium. Like this, the geographical situation is not favor for the expansion of insurance business. Poverty is also main problem, the last reason is most of Nepalese people do not faith on insurance, and there is lack of awareness of insurance among general people.

While giving the supportive framework to the research study, following research questions will be presented:

- Whether the trend of premium collection of selected non-life insurance is increasing or not?
- How the premium collection impacts on the investment pattern of non-life insurance companies?

1.3 Objectives of the study

The main objectives of this study will be to examine the current trend of premium collection and investment pattern of non-life insurance companies in Nepal. The specific objectives of this study will be:

- To examine the trend of premium collection of selected non-life insurance companies;
- To assess the investment pattern of selected non-life insurance companies, and
- To examine the association between premium collection and investment pattern of selected non-life insurance companies;

1.4 Rationale of the study

Insurance is the risk transfer mechanism which plays significance role in the economic growth of the country. Insurance has become one of the exigent financial services just as banking, mutual funds and wealth management and possesses an important position in financial sector of economy.

Premium collection and investment are the vital activities of insurance companies. Success and failure of any insurance company depend upon these activities. This study is significant to the management of the company to take the right decision regarding premium collection and investment.

This study will be beneficial to the entire people who are directly and indirectly related to the insurance companies. It will be beneficial to board members, management, policyholders, investors, shareholders, government, competitors and other stakeholders.

This study will be helpful to the following groups and individuals:

- Insurance Companies: This study may help insurance companies to compare each other’s performance and make plan and strategies accordingly.
- Policy maker and Industrialist: The recommendations that this study intends to propose on the basis of its findings are expected to be useful for the policy makers associated with the development of insurance companies. It also helps Nepalese industrialist to take decision to establish new insurance companies.
- Foreign insurance companies: The foreign insurance company can know about the current situation of non-life insurance companies in Nepal. This study helps them to take decision to open their branches in Nepal.
- University students: This study will be useful to the university students who are curious to know about the premium collection and investment pattern of Nepalese non-life insurance companies.
- Further researchers: This study will leave a lot of space to carry out further research studies in this topic and the related. This research report will be very helpful and will act a potential guide to the interested research student.

1.5 Limitations of the study

The study aims at findings the facts and the trend of the investment and premium collection within the Nepalese non-life insurance industry. Therefore, the scope is limiting within the non-life insurance companies operating. Every activity has its own boundary, as the same way this study has also some boundaries, which cannot be ignored. These boundaries are called as limitations of this study. The limitations of the study are:

5. The study will be only on selected two insurance company’s premium collection and investment pattern.
6. The study will be confined only to the last 2009/2010 to 2018//2019. So, the generalization will be based on these periods only.
7. The cores of this study will be based on secondary sources of information

8. Only limited analytical tools will be used in the study.

2. Review of Literature

A literature review is an essential part of all studies. It is a way to discover what other researchers have covered and left in the area. A critical review of the literature helps the researcher to develop a thorough understanding and insight into previous research works that relates to the present study. Thus, a literature review is the process of locating, obtaining, reading and evaluating the research literature in the area of the student's interest. The purpose of literature review is to find out what research studies have been conducted in one's chosen field of study and what remains to do. This part of study deals with review of prior researches and theories.

Skipper (1997) highlighted importance of insurance activity, both as a provider of risk transfer and indemnification and as an institutional investor, may contribute to economic growth by promoting financial stability, facilitating trade and commerce, mobilizing domestic savings, allowing different risks to be managed more efficiently encouraging the accumulation of new capital, fostering a more efficient allocation of domestic capital, and helping to reduce or mitigate losses. The role of insurance companies in the allocation of resources has not been studied as extensively as that of banks.

Thapa (2002) concluded that the premium collection rate of Nepalese insurance industry has been fluctuating trend. The insurance industry has not consisted in the investment proportion of various investment sector and investment portfolio too. He argued that among the insurance policy, the ratio of premium collection is higher in fire insurance and lower in engineering policy. Mr. Thapa suggested that the entire insurance should follow the investment policy and improve its management, should maintain and make uniformity on premium collection under all insurance policies, and should enforce the diversification among the investment portfolio.

Upadhaya (2006) has highlighted that the insurance industry clings to tariffs as a way of generating their income rather than evaluating risks and pricing, not singled out for understanding for risk factors in each. He came to conclusion that Beema Samiti have been directly controlling over premium rate in fire and allied insurance and motor insurance. The decision of Beema Samiti is mandatory and has the force of law. This control over tariff rates has indicates that the industry is still in development of underwriting skills, cannot compete internally and pretensions of expertise to face market reality of risk management has been made. He also highlighted that the insurance industry is afraid that without tariff barriers, it will collapse.

Charumati (2012) had analyzed a sound developed insurance sector is a key for the economic development of a country. They provide long- term funds for the infrastructure of development and strengthen the risk taking ability of the country. A well-developed insurance market paves way for efficient resource allocation through the transfer of risk and mobilization of savings. The profitability of life insurers is positively and significantly influenced by the size and liquidity. The leverage, premium growth and logarithm of equity capital negatively and significantly influence the profitability of Indian life insurers. This study does not find any evidence for the relationship between underwriting risk and profitability. In view of the untapped huge insurance market; unique regulatory environment comprising a hybrid model of regulation with competition; proposed approval to allow the players to tap the capital market for public issues; proposal to tie up with banks; and the proposal to increase the foreign direct investment, life insurers would shift their focus towards designing products providing long term savings and protection for the economy, through sustainable business models.

Basu (2013) asserted that investment function cannot be taken as incidental to but crucial to business of non-life insurance. Investment management in general insurance industry is at the cusp of a new inflection point with recent implementation of IRDA (Investment Regulation) 2013, coupled with the expectation of passing insurance bill in parliament. Author believed that favorable global and domestic macro-economic factors will demand for high level of efficiency in portfolio management to foster the profitability of operation, paving the way for higher insurance penetration in country.

Jawaharlal (2013) emphasized that investment have to be managed with a high level of dexterity which lead to never failure of insurance companies to honor the claim when incurred. Author has suggested that deployment of funds should be strictly regulated which will avoided all chances of defaulting. In addition to this, national priorities also have to keep in mind while setting sectorial limits.

Ghimire (2013), has analyzed current status of investment portfolio structure and investment practices adopted by both life and non-life insurance companies and compare it with norms of directives. He also argued that prudential supervision is as more essential as to banking institutions .Regulatory authority has right to issue the regulation in one hand and they are not free from the responsibility of monitoring and supervision of whether the regulation is properly followed by companies. The severe violation of guidelines is subject to penalized but before to come to severe legal action, early warning system also need to adopt by regulators that makes easy to take precautionary measure and can take necessary step immediately after getting the notice of wrong doing.

Dhakal (2015) has concluded that net investment income of the life insurer with the industry was around three fourth of net premium collection whereas net investment of the non-life insurer with the industry was around two fifth of net premium collection.

Kosmala (2016) analyses the significance of the growth of non-life insurance markets in the development of an economy. The purpose of this study was to provide the evaluation of the observable changes in the non-life insurance markets in the eight European countries and its effect in economic development.

Tian, Jiang, Pan and Zhang (2018) study both the long-term and short-term relationship between external factors and non-life insurance price by employing for the first time data from China. Findings for the long-term effects indicate that the price dynamics for various lines of non-life insurance are different. They highlighted that insurance companies in the Chinese non-life insurance market should widely consider economic factors in insurance rate determination, rather than solely relying on actuarial models when competing with counterparts. Regulatory authorities should pay more attention to the specific economic and institutional environments in China and adopt flexible regulatory measures when supervising the insurance markets;

3. Research Methodology

Research methodology is a sequential procedure and collection of scientific methods to be adopted in a systematic way. In other words, research methodology describes the methods and procedures applied in this study. It is the way to systematically solve the problem. In this regard, this chapter explains not only talk of the research methods but also considers the logic behind the methods, which will be used in the context of our research. This chapter consists of the research design, population and sampling procedure, sources and analysis of data.

3.1 Research design

Research design is a framework that stipulates what sort of information to be gathered from which source. This research will be based on secondary data. Hence, descriptive and analytical research design will be used to analyze the data and information. Descriptive approach will be used to interpret the premium collection and investment pattern of selected non-life insurance company. For the analytical part, various statistical and financial tools are used with the help of published annual reports of the selected non-life insurance companies.

3.2 Population and Sampling procedure

Population refers to the entire group of people, events or things of interest that a researcher wants to investigate. A small portion chosen from the population for studying its properties is called a sample and the number of units in the sample is known as the sample size. There are 20 non-life insurance companies in Nepal. So, all non-life insurance companies are the population of this study and among them 2 non-life insurance companies are selected as sample. In this study, Sagarmatha Insurance Co. Ltd. and Shikhar Insurance Co. Ltd. will be taken to a study as a sample.

3.3 Nature and sources of data collection

The main source of data for this study will be secondary data. The secondary source of data will be collected from the annual report of selected non-life insurance companies as well as website of the Insurance Board of Nepal, different books from library, periodicals, newspapers, company's magazines etc. The various unpublished thesis, research work and guidelines that are related insurance which will be the secondary data for the purpose of this study. Significant information will also be collected from internet and various other websites.

3.4 Research framework

The variable under this study is Premium and Investment. They are illustrated as below:

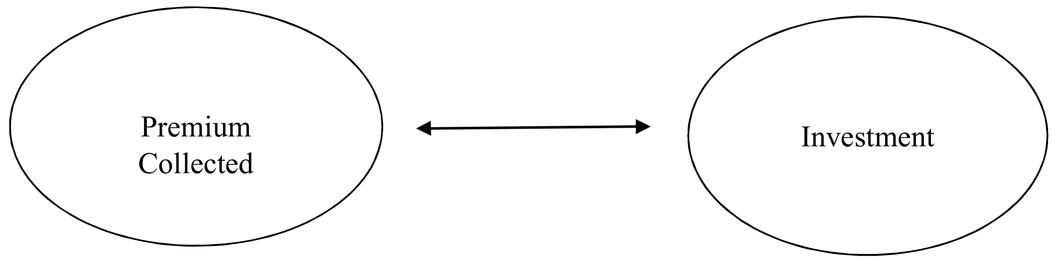

Figure: Research framework of the study

3.5 Definition of variable

3.5.1 Premium

Premium is the certain amount of payment, which is paid by the insured to the insurer for bearing uncertain risk, peril or hazards. Usually, premium calculated under different method as considering different affected factor. "Premium can be ascertained either by numerical rating system, evaluates each and every item and marks are assigned to them according to their merits and degrees influencing risk" (Robinson and Wrights man, 1968). Insurer charges the premium differently accordance to nature of risk. Thus, the judgment and personal evaluation play vital role in rating/fixing premium. Therefore, various factor to influence the risk. The management and ownership are very important factor while risks are evaluated for rate fixing.

Generally, the insurer charges higher premium for higher riskier insurance and lower premium for less riskier insurance policy. The premium is always directly affected by the nature of risk expenditure of office, other expense and written period. Generally, premium is one of the main sources of raising fund for insurer. So, insurer should obtain sound management for calculating premium amount and collection process. Different insurance companies or insurer may charge different premium to insured under their objective and goal with accordance to the policies, risk and uncertainty.

3.5.2 Investment

Investment as a term is quite confusing and multi-faced. In pure sense "the subsequent use of the term investment will be the prevalent financial sense of the placing of money in the hands of other of others for their use, in return for proper instruments for entitling the holders to fixed income payments or the participation in expected profits. But for manufacturing and trading firms the investment will be those long term expenditures that aim at increasing plant capacity of efficiency or at building up goodwill. Thereby producing and increased return over a period" (Dowrie and Fuller, 2000).

For our purpose in the study of the financial institutions the investment and investment problem will revolve around the concept of managing the surplus financial assets in such a way, which will lead to the wealth maximization and providing a significant further sources of income. Thus, the investment for insurer's purpose will be the management of the surplus resources in such a way as to make it work for providing benefits to the owners by increasing the total assets.

3.6 Methods of data analysis

Collected data need to be presented, edited, tabulated and analyzed. The data should not only be presented in systematic form but also calculated in systematic way to get the desired output relating to the subject matter to achieve the basic objective. On the basis of analyzed data, specific conclusions of the study will be made. The method of data analysis will be:

- Ratio Analysis
- Trend Analysis
- Standard Deviation
- Correlation

4. Organization of the study

The whole study will be divided into five chapters, which includes:

Chapter I: Introduction

Chapter II: Review of Literature

Chapter III: Research Methodology

Chapter IV: Data Presentation and Analysis

Chapter V: Summary, Conclusion and Recommendation.

A bibliography and appendixes will be attached at the end of the study.

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