A STUDY ON FINANCIAL PERFORMANCE OF NEPALESE NON-LIFE INSURANCE INDUSTRY

A Thesis

By

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CERTIFICATE OF AUTHORSHIP

I certify that the work in this thesis has not previously been submitted for a degree nor has it been submitted as a part of requirements for a degree except as fully acknowledged within the text.

I also certify that the thesis has been written by me. Any help that I have received in my research work and the preparation of this thesis itself has been acknowledged. I certify that all information sources and literature used are indicated in the reference selection of this thesis.

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Dwarika Budhathoki

RECOMMENDATION LETTER

I certify that the Thesis submitted by Mr. Dwarika Budhathoki entitled **"**A Study on Financial Performance of Nepalese Non-Life Insurance Industry**"** has been prepared as per the format prescribed and approved by the Faculty of Management, Tribhuvan University. This research work is completed under my supervision and guidance. This thesis is the candidate's original research work. I am fully satisfied with the language and substance of this Research submitted to Faculty of Management.

To the best of my knowledge, the candidate has fulfilled all the requirement of Master of Business Studies (MBS) degree, Faculty of Management, Tribhuvan University. I, therefore, recommend that this research be considered for the award of master's degree.

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APPROVAL SHEET

We, the undersigned, have examined the thesis entitled **"**A Study on Financial Performance of Nepalese Non-Life Insurance Industry "Presented by Dwarika Budhathoki, a candidate for the degree of Master of Business Studies **(**MBS) and conducted the viva voce examination of the candidate. We, hereby, certify that the thesis is worthy of acceptance.

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LIST OF ABBREVIATIONS

BC	Before Christ
BS	Bikram Sambat
CV	Covariance
DPS	Dividend per Share
EPS	Earnings per Share
FY	Fiscal Year
GDP	Gross Domestic Product
IPM	Insurance Performance Management
MBS	Master of Business Studies
MPS	Market Price per Share
NEPSE	Nepal Stock Exchange
NIGL	National Life and General Insurance
RBC	Rastriya Beema Corporation
ROE	Return on Equity
ROI	Return on Investment
SD	Standard Deviation
SGI	Sagarmatha General Insurance

ABSTRACT

The study aims to analyze the financial performance of non-life insurance company in Nepal and examine the effect of operating efficiency on solvency margin position and operating profit margin of selected non-life insurance companies have been analyzed. The design and methods have been applied according to the research type which is descriptive and analyses. The findings of this research were based on the Secondary data. The data has been used to extracted from Annual Reports and Nepal Beema Sasthan office. The findings are completely based on the data and facts as provided.

The findings of the research show that the overall calculated financial ratios are good enough for better financial performance of selected non-life insurance companies in Nepal. Furthermore, the study revealed that a mixed result in terms of the degree of effect of financial performance on the operating efficiency. There is both significant and insignificant effects of solvency margin and operating profit on operating efficiency of both sample insurance company. There are still major hurdles to overcome in order for Nepal to realize the growth potential of its insurance industry. Research could be conducted on the growth in the written premiums accounted by insures.

CHAPTER I
INTRODUCTION

1.1 Background of the Study

Everyone desires to live a cleaner, healthier, comfortable and easy life. To meet this requirement different enterprises, produce and provide goods and services. They make innovation and inventions, which take great risk. Large responsibility falls on the shoulder of innovators and inventors. A small error or lapse may cause numerous side effects and cause death or disability. These types of risks highlight the importance of insurance. If there had not been insurance at the back of all innovators, the world would have never been progressed. After considering this in security factor, the enterprises started looking for new and more high-tech machines - robots and gadgets, atomic technology, space traveling, computers, deep sea exploration, development of Concords and Jumbos and medical technology. All these developments could be possible with the support of insurance.

General insurance or non-life insurance policies, including automobile and homeowners' policies, provide payments depending on the loss from a financial event. General insurance is typically defined as any insurance that is not determined to be life insurance. It is called property and casualty insurance in the United States and Canada and non-life insurance in Continental Europe.

General 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).

General or nonlife insurance companies provide safeguard against the financial loss of any property or liability. However, the period of safeguarding is generally

for one year. There is no component of investment and policyholders do not expect the financial return from the policy of general insurance. There are two types of policies: (i) Personal policy having small amount per policy but large numbers policies, (ii) Commercial business having large value per policy, customized customers and small number of policies.

The role of insurance in economic development is as equal as the role of banking institutions. Financial health of insurance is a subject of great concern since every year, insurance companies are declared insolvent; thousands of policyholders suddenly find themselves with some very serious problems. So that periodic stringent evaluation and monitoring of the financial condition of insurance companies by regulators, investors, and insurer management is essential task (Das & Podpiera, 2003).

Insurance as a financial intermediary plays a significant role in economic growth of any country. Considerable debate has been made whether financial institutions contribute to economic growth or not. Historically, more focus was made on banks rather than on insurance companies. Very little effort has been made in the field of the insurance sector. But whatever research has been made on insurance field in relation to economic growth has shown a positive relation to economic growth. As a risk transfer mechanism, insurance provides financial protection from unpredictable losses. Today's world is full of risk and uncertainty. This risk and uncertainty are created due to globalization, liberalization, and innovation in science and technology. Insurance is a way to minimize and provide protection against those risks which are beyond human control. It is a way to indemnify to those unpredictable losses.

The relationship between insurance and economic growth has been dealt by many researchers concluding that there is a causal and direct link between Insurance and economic growth. United Nations Conference on Trade and Development formally acknowledged that “a sound national insurance and reinsurance market is an essential characteristic of economic growth” Development of insurance and reinsurance business is must for the economic development of any country as it

reduces uncertainty and encourages long term investment (Feyen, Lester, & Rocha, 2011).

In law and economics, insurance is a form of risk management primarily used to hedge against the risk of a contingent, uncertain loss. Insurance is defined as the equitable transfer of the risk of a loss, from one entity to another, in exchange for payment. An insurer is a company selling the insurance; an insured, or policyholder, is the person or entity buying the insurance policy. The insurance rate is a factor used to determine the amount to be charged for a certain amount of insurance coverage called the premium. Risk management, the practice of appraising and controlling risk, has evolved as a discrete field of study and practice.

The insurance industry primarily provides indemnification of risks faced by both individuals and companies, strengthens the linkages with other sectors of the economy promoting growth and stability, and creating a sizeable impact on the national income of a country. Insurance industry is part of immune and repair systems of an economy. Successful operation of the insurance industry sets impetus for other industries and development of an economy.

Insurance is defined as a cooperative form of distribution of a certain risk over a group of people who are exposed to it. As a device for handling the financial aspects of risk, insurance is feasible because insurance is able to combine the risks of individuals into groups and pay losses with funds collected from its members (Ghos & Agrawal, 1959**)**.

Kasturi, R. (2006) highlighted that the performance was assessed by maintaining the balance between all the measures in order to achieve success. In that study, he measured the financial performance of insurance company by using both financial ratios and "non-financial measures" that includes customers` orientation, growth, and firms` value to the society.

Insurance provides protection to trade and industry which ultimately contributes towards human progress. Thus, insurance is the most lending force contributing towards economic, social and technological progress of mankind. Without insur-

ance over all industrial, economic and social activities of the world will come to a grinding halt. Thus, insurance is an important and growing part of the financial sector in almost all developed and some developing economies.

In the context of Nepal, the history of insurance business is not as long as in the other countries. Generally, insurance activities of Nepal were executed by the Indian Insurance companies prior to the 2007 B.S. However, the history shows the introduction of insurance company named “Mal Chalani and Beema Company” in 2004 B.S. It was later converted into “Nepal Insurance and Transport Co. Pvt. Ltd” in 2016 B.S and now named as Nepal Insurance.

Rastriya Beema Corporation was introduced under the insurance act 2025 as first public insurance company in order to compete with the organized Indian insurance companies as well as to expand insurance business. It conducted General Insurance business from the

starting time, but life insurance business was started in 2025. In private sector, National Life of General Insurance Company Pvt. Limited was established in 2043, as per insurance act of 2025 B.S. Since that time, it has been conducting both life and general insurance business. New insurance act was formed in 2049 after restoration of democracy and economic liberalization. This regulation facilitates the liberalize market and hence several insurance companies have been established. Now there are 24 insurance companies including life and non - life in Nepal.

Furthermore, after the restoration of democracy in 1990 AD; insurance environment began to change simultaneously along with other factors. Thus, to meet the requirements of the changing situation, Insurance Act, 1968 was replaced by new Insurance Act, 1992 (Beema Ain, 2049). The preamble of the Act clearly states, "to establish an Insurance Board to systematize, regularize develop and regulate the insurance business". To achieve the goal of the preamble, Beema Samiti (Insurance Board) is formed as an autonomous body under the Insurance Act of

1992. Currently sixteen non – life and 9 life insurance companies are being regulated through Bema Samiti.

1.2 Statement of Problem

Insurance industry is considered as financial intermediaries of financial system and works as a double – edged weapon. On one hand, it provides the financial security against future loss and uncertainty and on the hand, it acts as a catalyst for economic development. So, insurance is an interesting research topic for the researchers and finance students.

In Nepalese economy, insurance companies are growing rapidly with a good operating result. Despite various past studies regarding financial performance of insurance companies, there is the need of the study to evaluate the financial soundness of Nepalese non - life Insurance company to provide clear findings about this sector's performance and contribution to national economy.

In general, the study focuses to assess the financial performance of Nepalese non - life insurance industry from FY 2069/70 to 2073/74 considering the listed companies. The study also tries to answer the following research question.

- How has Nepalese non-life insurance sector performed financially?
- What is the relationship between operating efficiency and solvency margin ratio?
- What is the relationship between operating efficiency and operating profit margin ratio?

1.3 Purposes of the Study

The main purpose of the study is to analyze financial performance of Nepalese non-life insurance industry. However, the specific objectives are as follows:

- To assess the financial performance of the non – life insurance sector in Nepal.
- To establish the relationship between operating efficiency and solvency margin ratio.

- To establish the relationship between operating efficiency and operating profit margin

1.4 Significance of the Study

Although non - life insurance sector in Nepal is continuously growing, it is not well developed. High competition, poor monitoring mechanism, limited market opportunities, low per capita income, lack of profitable investment opportunities and increasing violence and terrorism pose a negative impact in the financial sustainability of Nepalese insurance companies. The financial performance of Nepalese non - life insurance remains a question. Even though various studies have been carried out in this sector, they have not been successful to point out the facts for influencing financial performance of this sector. This study aims to provide an insight into determination of financial health of Nepalese non - life Insurance companies.

This study aims to provide an insight into determination of financial health of Nepalese non - life Insurance companies. Similarly, the study might be important for insurance companies, customers, scholars, students and other interested parties to gain knowledge about financial status of Nepalese non - life Insurance companies. The researcher believes that the study sheds some light about use of various financial ratios in analyzing the financial performance of Insurance companies. The research would play vital role to discourse ratios and its use in identifying the major factor for poor financial performance and providing the suggestion to maintain the sound financial position to compete the global and competitive insurance market. This study should also be helpful for upcoming researchers to study furthermore on this study.

1.5 Limitations of Study

The proposed study has some limitations and they are as follows:

- The study is based primarily on the secondary data, available in the form of reports and articles, through public sources such as internet, journals, magazines, annual reports.

- Due to the small sample size used for this study, result may not be generalized beyond the specific population.
- This study has only considered five years' time periods.

1.6 Chapter Plan

Chapter I: This chapter gives an overview of the background of the study, problem statement, purpose of the study, significance of the study, limitation of the study.

Chapter II: This chapter reviews the theoretical base of the study as well as the previous studies with relationship between operational efficiency and profitability.

Chapter III: This chapter covers the method used in the conduct of this study from the process of data collection to data analysis.

Chapter IV: This chapter discusses the result of data analysis. Here we analyze the financial performance of general insurance company. And the result of correlation between operating efficiency with financial performance is presented.

Chapter V: This chapter summarized the overall study and discusses the conclusion drawn from the findings of the study.

Finally, some recommendations to insurance company is provided regarding the financial performance.

CHAPTER II
LITERATURE REVIEW

The study of the existing literature helps the researcher to draw the inference of the study and helps to acquire in depth knowledge about the subject. The literature under review is obtained from journal articles, text books and websites.

2.1 Conceptual Review

This section consists of the concept, history and types of insurance and presents a review of related books to develop the conceptual framework. This chapter presents review of legal documents, research performed and published by scholars, unpublished dissertations and related published thesis about financial performance indicators.

A Study on the performance of the insurance industry is crucial since the insurance industry is currently facing many challenges, including increased competition, consolidation, solvency risks, and a changing regulatory environment. The question of the efficiency of the firms in this industry is clearly important to determine how the industry will respond to these challenges and which firms are likely to survive (Berger, Al., 1997).

A study on "Financial Performance Analysis of Nepalese Insurance Companies" by (Sharma, 2059) using different financial ratios and statistical tools has concluded that to survive and achieve better performance level insurance companies need to remove weaknesses and should manage sound liquidity position, optimal capital structure, suitable investment portfolio, effective operating management, hiring qualified human resources, introducing human resource developing program, formulating fixed rules and regulations, conducting strong supervision, evaluation and control program etc.

2.1.1 Concept of Insurance

Insurance is a commodity which offers protection against various contingencies. An insurance contract promises to make good to the insured a certain sum in consideration for a payment in the form of premium from the insured.

In respect of insurance relating to property, there are many products available. Property may be covered against fire and perils of nature including flood, earthquake etc. Machinery may be insured for breakdown. Goods in transit can be insured under a marine cargo insurance cover. Insurance covers are also available for ships and other vessels. A motor insurance policy covers third party damage as well as damage to the vehicle.

Insurance can be defined from the viewpoint of several disciplines. For instance, the Commission on Insurance Terminology of the American Risk and Insurance Association has defined insurance as follows. Insurance is the pooling fortuitous losses by transfer of such risks to insurers, who agree to indemnify insureds for such losses, to provide other pecuniary benefits on their occurrence, or to render services connected with risks (Rejda, 2008).

2.1.2 Types of Insurance

Insurance companies create insurance policies by grouping risks according to their focus. This provides a measure of uniformity in the risks that are covered by a type of policy, which in turn allows insurers to anticipate their potential losses and to set premiums accordingly. There are various types of insurance which are classified are as follows:

Life Insurance: Life insurance is also known as social insurance. In general, Life insurance is the contract under which the insurer undertakes the responsibility to pay certain sum of money either on the death of the insured or on the expiry of fixed period in consideration of premium. A person may purchase life insurance on his or her own life for the benefit of a third person or persons. Individuals may even purchase life insurance on the life of another person. For example, a wife

may purchase life insurance that will provide benefits to her upon the death of her husband. This kind of policy is commonly obtained by spouses and by parents insuring themselves against the death of a child. The objective of the life insurance is to provide protection need and saving need of the insurer and safeguard the dependent in case of unfavorable incident.

- Whole Life Insurance
- Endowment Life Insurance
- Term Life Insurance

Non-life Insurance (General Insurance): General insurance means managing risk against financial loss arising due to fire, marine or miscellaneous events as a result of contingencies, which may or may not occur. General Insurance means to Cover the risk of the financial loss from any natural calamities viz. Flood, Fire, Earthquake, Burglary, etc. i.e. the events which are beyond the control of the owner of the goods for the things having insurable interest with the utmost good faith by declaring the facts about the circumstances and the products by paying the stipulated sum a premium and not having a motive of making profit from the insurance contract.

Non-life insurance can be further divided into the following categories:

1) **Fire Insurance:** Fire insurance is a form of property insurance which protects people from the costs incurred by fires, explosions, earthquakes, lightning, water, wind, rain, collisions, and riots. When a structure is covered by fire insurance, the insurance policy will pay out in the event that the structure is damaged or destroyed by fire and other. Some standard property insurance policies include fire insurance in their coverage, while in other cases; fire insurance may need to be purchased separately. Depending on the terms of the policy, the contents of the home as well as the structure may be covered in the event of a fire. Some policies also provide a living allowance which allows the victims of a fire to rent temporary housing while their homes are repaired. These clauses in an insurance policy

typically cause the policy to become more expensive, since they will represent additional costs to the insurance company in the event of a fire.

2) **Automobile Insurance:** Vehicle insurance (also known as auto insurance, car insurance, or motor insurance) is insurance purchased for cars, trucks, and other road vehicles. Its primary use is to provide protection against physical damage resulting from traffic collisions and against liability that could also arise there from. Type of Motor Vehicle Insurance Policies available in the Nepalese Insurance Market and its scope of covers are:

   i. Third Party Liability Insurance which will indemnify for the expenses incurred against third party legal liability arises from the use of Vehicle.
   ii. Third Party Liability, Fire & Theft will indemnify for loss or damage to vehicle as a result of Fire and Theft, apart from Third Party Liability.

3) **Marine Insurance:** "Ships sailing on are exposed to various types of risks. They be collided against one another, spring a leak, caught by fire, captured enemies and seized by pirates. The ship and cargo may be lost in such a case and tremendous loss may be caused to its owners. Such risks if not covered will greatly discourage the international trade, which is mostly sea borne. That is why the Marine Insurance is considered to be the land mind of modern international trade, which is indispensable auxiliary.

   Marine insurance policies insure transporters and owners of cargo shipped on an ocean, a sea, or a navigable waterway. Marine risks include damage to cargo, damage to the vessel, and injuries to passengers. Inland marine insurance is used for the transportation of goods on land and on land-locked lakes

4) **Engineering and Contractor's Risk Insurance:** Engineering and contractor's risk insurance covers for civil works like buildings and machine works like bridges, dam's road, sea walls etc. It also covers plant and machinery used for construction as well as temporary structures set up to sup-

port the construction. It furthers covers for natural calamities, third party liability and covers for entire period of construction that may spread over several years.

5) **Aviation Insurance:** Aviation insurance is insurance of aircraft and related aircraft activities. One aspect of aviation insurance is Aircraft Hull. Another aspect is aircraft operators carrying passengers that may incur public liability for which aircraft liability insurance is require. Airports can also incur liability; this is termed Airport owners and operator's liability insurance

6) **Miscellaneous Insurance:** Miscellaneous Insurance business includes the various types of Insurance business such as Medical Insurance, Accidental Insurance, and Money-in-Transit Insurance, Machinery Breakdown Policy, Workmen's complementation Insurance, Burglary and housebreaking Insurance. Public liability Insurance, Cattle Insurance, Crop Insurance, fidelity guarantee Insurance, household Insurance, Terrorism insurance, boiler Insurance, Credit Insurance, financial loss Insurance, Professional Indemnity Insurance, Travel Insurance etc.

Major Legal Provisions to maintain Financial Efficiency of Nepalese insurance industries Aiming with maintaining the minimum financial soundness and efficiency of insurers there is the various condition and provisions in Insurance Act, Regulation, directives, different policies and guidelines issued by Insurance Board of Nepal. Following are some of the major provisions to be followed by the insurers to maintain their minimum financial health.

i. The insurer has to maintain a separate insurance fund for each category of insurance business. The fund maintained for one category of insurance business shall not be utilized to bear the liabilities relating to other category of Insurance Business.
ii. In case of a life insurance business, the reserve fund should not be less than the total liability as specified by the insurance policies.
iii. In case of a non-life insurance business, the amount should not be less than 50 per cent of the net non-life insurance premiums.

iv. The liability of the Insurer shouldn't exceed its assets.

v. The insurance companies are required to invest at least 75 per cent of their total investment in government securities, treasury bills and fixed time bank deposits. The remaining 25 per cent can be invested in housing schemes, financial companies and debenture schemes of public limited companies apart from depositing in commercial banks

vi. Audited financial statements with detail information should submit to Insurance Board within the six months after completion of the fiscal years.

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

viii. An amount of one hundred fifteen percent of the remaining amounts of the payment against the claim made by the Insurer before the expiry of each fiscal year.

ix. The Insurer may spend up to twenty-five percent in the case of Marine Insurance and up to thirty percent in the case of other Insurance for the management functions out of the total amount of the income generated from the premium while operating the Insurance Business

x. The Actuary should confirm financial soundness of the insurer. All material risks to the solvency of the insurer should be identified.

xi. The amount of calculated reserve is expected to be at least equal to the amount that shall be produced by the application of Gross Premium Method.

These insurance companies are functioning as per the norms and values of Insurance act 1992, and Insurance Rules 1993. These companies perform the works of fund creation, underwriting insurance of life and non-life property for the best security against the specified or non-specified risk; third party insurance. Anyway, there is a big scope of Insurance business in the coming days.

2.2 Research Review

This section provides review of journals and dissertations related to non-life insurance operations and the relation between operational efficiency with financial performance analysis. It provides overview regarding the findings of previous researchers, academicians and institutions in the non - life insurance study domain.

The study had been performed to know the empirical relationship between operational efficiency and profitability. Efficiency no doubt impacts on the performance of firms. One of the most important goals of company management is to maximize its effectiveness current and future financial and business performance as they affect market price per share and shareholder wealth (Gill, Al., 2014).

The relationship between efficiency and profitability should be positive when better use of resources contributes to higher profitability. However, the link between efficiency and profitability is not as unambiguous and is usually described using the efficiency profitability matrix. In that matrix, the firms are divided among four groups based on their profitability and efficiency and identified the firms that have a high level of profitability and efficiency (star), firms with a low profit and efficiency and in addition with firms with low efficiency and high profits, and firms with high efficiency and low profits by (Kumar, 2008). The existence of less efficient and yet profitable firms, and vice versa, can be explained by market imperfections. The level of competition, the type of product or service offered, and information play a very important role (Keramidou, Al., 2013).

Seller & Nicolau (2009) had examined that the link between profitability, productivity and efficiency in Spain using a sample of 567 travel agencies. They employed SFA and DEA models for assessing efficiency. Profitability performance was measured using traditional indexes: return on capital employed, return on assets and return on investment. Sales per employee and sales per outlet were used as an indicator of productivity. Their results revealed a link between the profitability indexes and efficiency of travel agencies that was not robust.

The correlation coefficients indicated only a low or statistically insignificant relationship between profitability performance and efficiency.

Different ratios like asset turnover ratio, inventory turnover ratio, fixed asset turnover ratio, accounts receivable turnover ratio and working capital turnover ratio are used as proxies of operational efficiency. How far all these ratios impact the performance of firms is defined as efficiency. In that study, total asset turnover, fixed asset turnover and accounts receivable turnover are used as efficiency ratios and current ratio and quick ratio as control variables. Profitability of firms is measured through ROE. The concept of operating efficiency has drawn attention as competition intensifies the evolution of processes and new technologies. Whenever there is more uncertainty, businesses may decide to diversify their portfolios and improve their investment portfolios to reduce risk. Due to the extremely changes in business environment, enterprises are facing severe competition, which is why one good business performance is crucial to a successful business (Goel, S., 2012).

Increasing operational efficiency directly affects the organization's profitability, efficient businesses are more cost-effective. Any aspect of operational efficiency business types is crucial and must be earned by management for consideration healthy and sustainable financial performance (Sufian. F., 2007).

Another study conducted by (Bok, Joon, & David B., 2010) using frontier analyses approach to know the impact of operational efficiency on the profitability of firms. They prefer frontier analyses because financial ratios are less precise than measures derived from frontier analyses. A significant advantage is that the frontier analyses implicitly allows for differential weighting among inputs.

Burca & Batrînca (2012) had studied that the research they were attempted to analyze the determining factors of insurance industry financial performance in terms of Return on Asset. It concluded in the study that financial leverage, growth of gross written premiums and underwriting risk has negative impact on

insurance financial performance whereas size of company, retained risk, and solvency margin has a positive linkage between financial performances.

Another study conducted by (Hifza, 2011), also identified that determinants factors of insurance companies` profitability. The study also examined firm specific factors affecting profitability particularly; age of company, size, and volume of capital, leverage ratio and loss ratio on profitability by understudy of ROA. The study also concluded that there is no relationship of age of the company and its profitability while the size of the company and volume of capital has significantly positive relationship. However, company loss ratio and leverage ratio have negative relationship with significant impact.

Empirical literature investigates the link between efficiency and profitability in different industries relatively often and the results differ. A positive impact of efficiency on profitability that identified only a small or no relationship between efficiency and profitability. Despite the existence of many studies focusing on the link between efficiency and profitability, little attention has been paid to this relationship in the tourism sector (Aissa & Goaied, 2016).

Boadi, Antwi, &Lartey (2013) had stated that in their study to investigate the determinants of insurance companies` profitability the Return on Assets was used as dependent variable implication of profitability against a set of independent variables. The internal determining factors were leverage, tangibility, liquidity, size, risk and growth.

Khandoker, R., & Rahman (2012) had stated that the firm's internal operating performance is basically calculated through its operating profit. But the non-bank financial institution companies` capital structure; composition of capital and debt, operating expenses and its total assets determine its profitability. As many researchers agree that, the firm specific factories can vary from firm to firm and from country to country.

Two measures of frontier analyses operational efficiency derived from Data Envelopment Analysis and Stochastic Frontier Analysis are used. Sales revenue is

used as input variable and cost of goods sold, general and admin costs and property plant and equipment are used as input variables. The findings of study suggest that efficiency measured by frontier analyses have positive impact on current and future profitability study conducted by (Warrad, & Omari, 2015) in the similar area. They concluded that efficiency measured by asset turnover; fixed asset turnover and working capital turnover have no significant impact on the profitability measured by ROA and ROE.

Calendro & Lane (2006) had stated that property and casualty insurance industry has historically focused on underwriting ratio as a primary measure of operating performance but in last thirty years there were many dramatic changes occurred in this industry. The changes of underwriting profit have decreased and forcing the industry relies on investment returns and careful reinsurance. A unique performance measurement system, the insurance performance measure was presented and illustrated. IPM integrates other areas of operating activity to measure profitability. The study determined the major ingredients of profitability are underwriting ratio, investment return and float generation, reinsurance, regulatory-imposed format and reserve estimation problem.

Efficiency analysis with DEA, attract quite few attentions in finance sector. In literature all over performance of companies examined in general. However, analysis of the activities performances carried out by the company can be researched with data envelopment analysis. To analyze the effectiveness of underwriting processes for insurance companies primarily inputs and outputs are determined. Efficiency analysis were made by using models of CCR and BCC with utilizing EMS program. The scale efficiencies of insurance companies which were evaluated were also examined. Finally, by using specific input and output variables analysis of insurance companies which has been developed to see performance of companies relative to single activity (Ertugurl, 2016).

Feng & Wang (2000) had studied that airline performance evaluation focus merely on operational performance. Financial performance which might directly influence the survival of an airline is usually ignored. The absence of financial

ratios will directly lead to biased assessment. The performance evaluation process for airlines with financial ratios taken into consideration. First, a conceptual framework is redeveloped, based on the one created by Fielding to help form performance indicators involving both transportation and finance aspects. Second, to overcome the problems of small sample size and unknown distribution of samples, the grey relation analysis is used to select the representative indicators and the TOPSIS method is used for the outranking of airlines. Third, the organizational characteristics of an airline are used to divide the total performance into three major departments of an airline: production, marketing, and management. The division of total performance is helpful for operators to recognize the performance of a department of an airline and to identify the responsibility of a department. Finally, a case study is conducted using the example of five major airlines. The empirical result shows that performance evaluation for airlines can be more comprehensive, if financial ratios are considered.

Kung, et al. (2006) had analyzed that the performance of 16 non-life insurance companies. They have chosen 24 financial ratios to be the performance evaluation variables of non-life insurance companies and divided these ratios into five performance indicators, including profitability, capital operational capability, capital structure, solvency, and management efficiency. The results of GRA have revealed that return on assets ratio, funds utilization efficiency ratio, current debt to capital ratio, equity ratio, and net operating profit to retention premium ratio have the greatest impact on the performance of non-life insurance companies.

2.3 Research Gap

Since the above-mentioned studies offer limited findings, more extensive testing and adjustment of necessary variables are needed in order to be more conclusive about the financial performance of the insurance companies. Previous studies were performed based on the traditional ratios still some of the major financial indicators of the non - life insurance sector have not been explored such as Solvency Margin Ratio, Change in Surplus Ratios, Premium Stability Ratio etc. Thus, there is devoid of industry level performance analysis. Even though re-

searcher carried out the study regarding the financial performance of Nepalese non- life insurance, the study period was before 2060 using the primitive ratios.

Presently, the study aims to analyze financial performance of Nepalese non-life insurance industry adopting the modern ratios that reflect the true picture of the company's financial soundness and showing the true relationship between operating efficiency with financial performance. The current study is a supplement to overcome the weakness and limitation of previous studied.

CHAPTER III
RESEARCH METHODOLOGY

3.1 Research Design

The study is based on descriptive and analysis research design. The research designs have been made to describe, explore and analyze the financial performance of selected non- life insurance industry in Nepal for the period of five years. Hence, the study shows research is quantitative rather than qualitative.

3.2 Population & Sample

There are 17 general insurance companies registered in Nepal Stock Exchange (NEPSE) and 16 general insurance companies registered in Beema Samiti Nepal. Among them two non-life insurance industry in Nepal viz Sagarmatha Insurance Company Ltd, United Insurance Company Ltd is used in this study. The data utilized in this study is compiled from annual report of non- life insurance industry.

3.3 Data Collection and processing procedure

The study is based on secondary data. Necessary suggestions have been taken from various experts both inside and outside the insurance companies as required**.** The necessary data such as published balance sheet, profit and loss account and Income Statement other related statement of account as well as annul reports of sampled insurance companies are obtained from Beema Samiti. Likewise, other related and necessary information are obtained from the publication and website of sampled insurance companies, Beema Samiti and security exchange center. Other sources are books, magazine, journal and newspaper related to insurance.

3.4 Data analysis tools & techniques

In the process of data analysis various financial tools such as Solvency Margin, Change in Surplus, Underwriting Ratio, Claim Ratio, Combined Ratio, Net Commission Ratio, Expenses of Management to Gross Premium Ratio, Operat-

ing Ratio, Net Earnings Ratio, Return on Net worth Ratio, Retention Ratio, Premium Growth Ratio and Technical Reserve Ratio are used for measurement of financial performance of selected non-life insurance in Nepal in order to get the meaningful result and correlation analysis are carried out to examine the relationship between operating efficiency and financial performances. Calculation is carried out with the aid of the financial software such as Excel & SPSS. Various graphical tools such as bar charts, and tables is used to present the observations. Analysis is carried out based on facts and statistics about the industry.

3.4.1 Financial Tool

The financial analysis has been carried out using ratios. The available data are collected and then classified to get the financial ratios. Ratio analysis is performed to compare selected companies' financial figures over a study period. Ratio analysis is applied to Financial Statements to analyze the success, failure and progress of insurance business.

Ratio analysis enables the business owner or manager to spot trends in a business and to compare its performance and condition with the average performance of similar businesses in the same industry. Ratio analysis may provide the all-important early warning indications that allow solving business problems before business is destroyed by them.

Ratio analysis is an important tool for analyzing the company's financial performance. The following are the important advantages of the financial ratios.

Analyzing Financial Statements: Ratio analysis is an important technique of financial statement analysis and useful for understanding the financial position of the company. Ratios are used to provide the company’s information to the concerned parties.

Judging Efficiency: Ratios are important for judging the company's efficiency in terms of its operations and management. They help to judge how well the company has been able to utilize its assets and earn profits.

Locating Weakness: Ratios can also be used in locating weakness of the company's operations even though its overall performance seems to be quite good. Management can then pay attention to the weakness and take remedial measures to overcome them.

Formulating Plans: Although ratios are used to analyze the company's past financial performance; they can also be used to establish future trends of financial performance. As a result, they help formulate the company's future plans.

Comparing Performance: It is essential for a company to know how well it is performing over the years and as compared to the other firms of the similar nature. Besides, it is also important to know how well its different divisions are performing among themselves in different years.

The limitations of the ratios are:

1. Ratio analysis can be only as good as the underlying data.
2. Ratio comparisons can be meaningful only, if data is truly comparable.
3. Ratio analysis reflects only what is in the financial statements.

Some of the major ratios used as financial performance indicators are mentioned below:

i. Solvency Margin Ratio

This ratio is the measure of financial backing provided by shareholders for the volume of business written by insurer. It indicates whether insurer is adequately capitalized in relation to level of retained premium. Low solvency margin means high risk as a result of high risk premium exposure and further analysis is required to determine the severity of the overexposure. An insurance company’s solvency ratio must be no less than 100 percent; otherwise it will fall into the inadequate solvency category. It is the statistics of shareholders fund and net premium. It is calculated by shareholder fund divided by net premium.

ii. Change in Surplus Ratio

This ratio provides an indication of the improvement or deterioration in insurer's financial condition during the year**.** A Significant decrease in surplus is an indicator of poor performance whereas huge increase in surplus may be an indication of instability and changes in ownership. New issue of capital or extraordinarily large profit earned during the year could also cause excessive increase in ratio. It is calculated as change in shareholder fund divided by shareholders fund.

iii. Underwriting Ratio

This ratio is underwriting margin of an insurer and measures the profitability of insurance business. It is the principal determinants of the surplus of the insurance business. A negative underwriting ratio may indicate underpricing i.e. premium rates are not commensurate with risk of the business. This is the relationship between underwriting profit or loss and net premium. It shows the percentage of company's net premium that goes toward underwriting expenses. It measures the underwriting efficiency of the company. It is calculated by using following model. It is calculated as underwriting profit divided by net premium.

iv. Claim Ratio

This ratio is indication of insurer's claim experience and measures the quality of business written. It is claim payable as a percentage of premium income. The influence on profit performance is due to the underlying claims that arise from the business that company has written. Claim costs are influenced by both the number and size of claims the extent that they are more or less than was anticipated in the premium charged. A high ratio could be due to poor underwriting and acceptance of bad quality risk. It is the relationship between Net claims and Net premium. It is calculated as net claims divided by net premium earned.

v. Combined Ratio

Combined ratio is a measure of profitability used by an insurance company to indicate how well it is performing in its daily operations. A ratio below 100 per

cent indicates that the company is making an underwriting profit while a ratio above 100 per cent means that it is paying out more money in claims that it is receiving from premiums. A company may still make a profit despite a combined ratio of over a 100% as insurance companies normally have substantial investment income. It is the relationship of claim and operating expenses as a percentage of premium income. It is calculated as (incurred claims + expenses) divided by net earned premium.

vi. Net Commission Ratio

This ratio measures acquisition cost of business. The higher the ratio higher the acquisition cost. Commission ratio is the relationship between net commission and net premium. A high ratio indicates that premium charge is inadequate, and insurer is engaging in cash flow underwriting. This ratio reflects the working efficiency of the insurance company. It is calculated by using following formula. It is calculated as commission net of reinsurance divided by gross premium.Net commission is taken as companies receive the reinsurance commission as well as pay commission to agent.

vii. Expenses of Management to Gross Premium Ratio

This ratio measures administrative cost incurred in underwriting operations and an indication of efficiency of insurer. It indicates the relationship between management expenses and gross premium. So, it measures the expenses relative to premium. The lower value of the ratio is better performance. As gross premium increases, management expenses increase automatically. So, the management expenses should be in the limit as prescribed by regulators. The ratio is obtained by following model. It is calculated as management expenses divided by gross premium.

viii. Operating Profit Ratio

Operating profit ratio is the numerical relationship between underwriting profit and investment income to net premium. It measures the efficiency of manage-

ment of business. A higher ratio is prescribed for the company. Following formula is used to determine this ratio**.** It is calculated as (underwriting profit + investment income) divided by net premium

ix. Net Earnings Ratio

Net earnings ratio is the numerical relationship of profit after tax and net premium. It reveals how much earning is gained in comparison to net premium. It is calculated as profit after tax divided by net premium.

x. Return on Net worth Ratio

Return on net worth indicates the relationship between profit after tax and net worth. It tells how much profit a company earned in comparison to the total amount of shareholders equity. It is the final justification of the profitability to evaluate overall return. The following model is used for this ratio. It is calculated by profit after tax divided by net worth.

xi. Retention Ratio

Net retention ratio is a ratio of net premium to gross premium. This ratio is the measurer of the insurer's retention for own account and should be commensurate with its financial resources which determine retention capacity. It measures the risk retention capacity of the insurance company. It tells about proportion of risk being carried out by the company. An insurer with low retention ratio and high solvency margin would appear to be acting as an agent and relying on earnings from reinsurance commission. It is calculated as net premium divided by gross premium.

xii. Premium Growth Ratio

A large increase or decrease in volume of the net premium written is an indication of lack of stability in insurer's operation. In addition, large increase in premium may indicate that the insurer is engaging in cash flow under writing in order to meet the claim**.** This ratio is calculated as change in net premium to the net

premium of the previous year premium. It is calculated by change in net premium divided by net premium (previous year).

xiii. Technical Reserve Ratio

Technical reserves comprise both reserves for unexpired risk and provision for loss reserve protect the company for its sustainability. This ratio is rough measure of the adequacy of reserving. A low ratio may imply that insurer is under re-served. A high ratio may also indicate insurer's business portfolio is unprofitable, requiring sustainable provision for loss reserves. It is calculated by following formula technical reserve divided by net premium.

CHAPTER IV
RESULTS

In this chapter, major ratios that are being used by insurance regulatory agency. Beema Samiti, is tabulated and presented in graphs for clear picture. The theoretical details have been presented in the Research Methodology. Also, major findings of the study are included at the end of this chapter.

4.1 Status of Financial Statement

4.1.1 Solvency Margin Ratio

Table 4.1 and Figure 4.1 detail the solvency margin ratio of sampled insurers and insurance industry from FY 2069/70 through 2073/74. High solvency margin means insurer is adequately capitalized in relation to level of retained premium. Low solvency margin means high risk as a result of high-risk premium exposure. An insurance company's solvency ratio must be no less than 100 percent; otherwise it will fall into the inadequate solvency category.

United and Sagarmatha have solvency margin ratio 1.40 and 1.37 which is significantly less than industry mean 1.59, united solvency margin ratio is slightly higher than Sagarmatha but lower than industry, Sagarmatha has the lowest ratio 1.37 which far lowest than industry mean value. Although the solvency margin ratio for industry has increased for the fiscal year 2070/71 to 2071/72 but greatly decrease for the fiscal year 2072/73 and with highly increased at 2073/74. All the sample insurers have solvency margin ratio more than 100 percentage thus adequately capitalized in relation to the level retained premium**.**

Table 4.1: Solvency Margin Ratio

Insurer/FY	2069/70	2070/71	2071/72	2072/73	2073/74	Mean	SD	CV
Sagarmatha	1.27	1.39	1.10	1.49	1.61	1.37	0.61	0.45
United	1.17	1.39	0.96	-0.42	3.92	1.40	1.59	1.14
Industry	1.22	1.39	2.06	0.53	2.77	1.59	1.28	0.81

Data Source: Beema Samiti Annual Reports

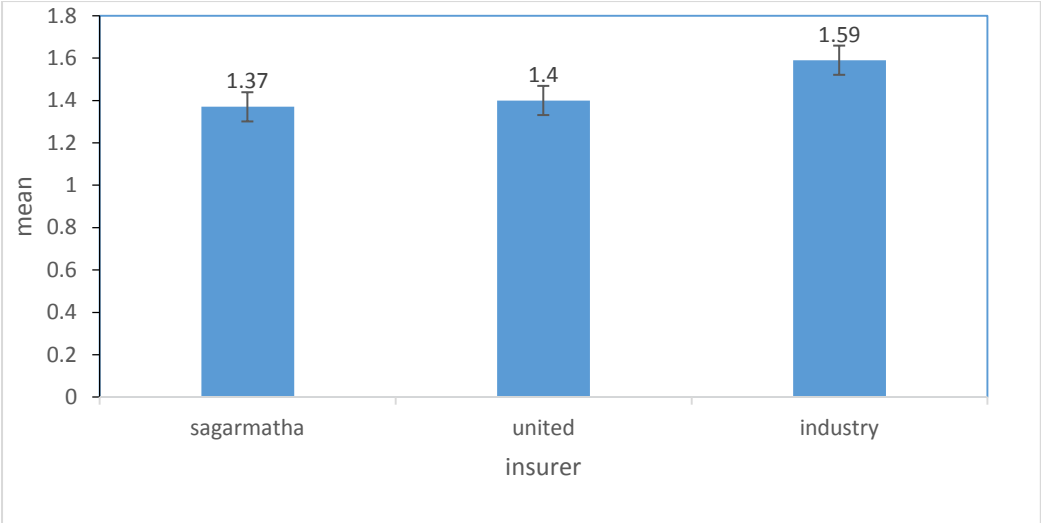


Figure 4.1: Solvency Margin Ratios

4.1.2 Change in Surplus Ratio

The Table 4.2 and Figure 4.2 illustrate the analysis of the ratio of change in surplus of sample insurance companies and industry average over 5 fiscal year. This ratio is used to identify whether there is improvement or deterioration in insurer's financial condition during the year. A significantly decrease in surplus is an indicator of poor performance whereas huge increase in surplus may be an indication of instability and changes in ownership.

Sagarmatha surplus is significantly increased for fiscal year 2069/70 to 2070/71 but significantly decreased for fiscal year 2071/72 with greatly increased in 2074. In case of united surplus is slightly increased for the fiscal year 2070/71 but decreased in 2071/72 then it is highly increased in slightly decreased form for fiscal year 2073/74.

The industry change in surplus has mixed trend. There is fare increasement in fiscal year 2070/71 but decreased in fiscal year 2071/72 then highly increased in fiscal year 2073/74. The change in surplus ratio does not show the sharp decline or sharp increased pattern with very low ratio mean value i.e. 0.43 thus fair performance and slight stability of change in ownership.

Table 4.2: Change in Surplus Ratio

Insurer/FY	2069/70	2070/71	2071/72	2072/73	2073/74	Mean	SD	CV
Sagarmatha	0.15	0.18	-0.12	0.04	0.72	0.19	0.56	2.95
United	0.045	0.34	0.064	1.45	1.37	0.65	0.7	1.08
Industry	0.098	0.26	-0.028	0.75	1.05	0.43	0.45	1.05

Data Source: Beema Samiti Annual Reports

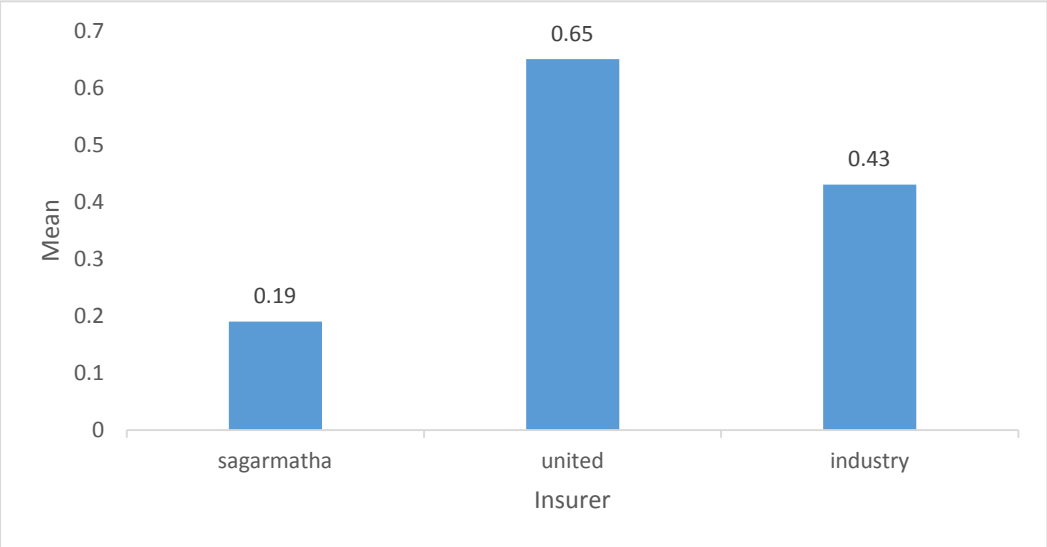


Figure 4.2: Change in Surplus Ratio

4.1.3 Underwriting Ratio

Underwriting ratio is underwriting margin of an insurer and measures the profitability of insurance business with its underwriting efficiency. A negative underwriting ratio may indicate underpricing i.e. premium rates are not commensurate with risk of the business.

The Table 4.3 and Figure 4.3 depict the Underwriting Ratio of the sample insures as well as average ratio of industry from the FY2069/70 to 2073/74.United has reported the highest value i.e. 0.83 which is greater than average industry where as Sagarmatha has lowest value i.e. 0.59. Thus, united and Sagarmatha are overpricing their product and hence failed to utilize the proper underwriting standards.

Overall, the industry underwriting ratio is satisfactory with positive and stable performance except in fiscal year 2073/74.With this fair underwriting performance; Nepalese non- life insurance business shows profitability during study period with proper underwriting practices to commensurate premium rates with risk of the business despite the political instability in a country and global economic recession.

Table 4.3: Underwriting Ratio

Insurer/FY	2069/70	2070/71	2071/72	2072/73	2073/74	Mean	SD	CV
Sagarmatha	0.58	0.54	0.64	0.52	0.61	0.59	0.05	0.08
United	0.92	1.06	0.84	0.85	0.49	0.83	0.21	0.25
Industry	0.75	0.8	0.74	0.69	0.55	0.71	0.09	0.13

Data Source: Beema Samiti Annual Reports

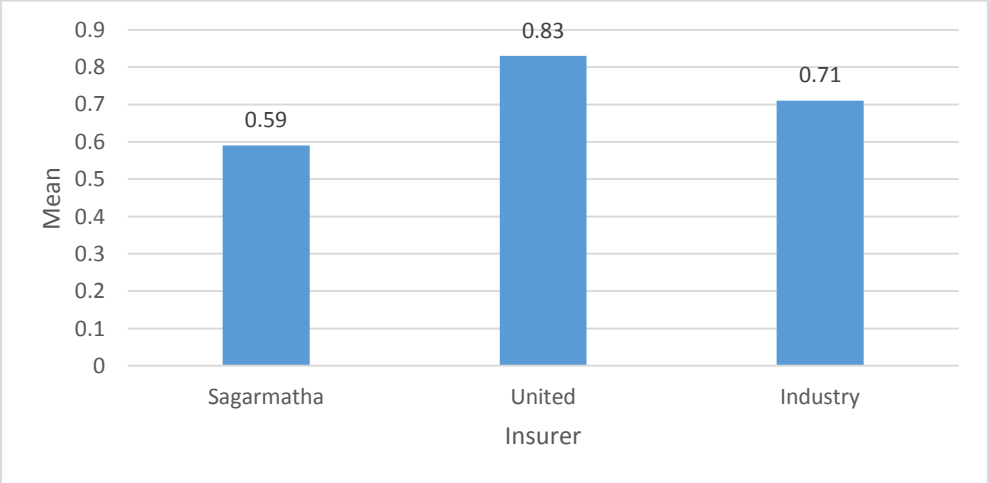


Figure 4.3: *Underwriting Ratio*

4.1.4 Claim Ratio

Analysis in Table 4.4 gives the incurred claims ratio by two non - life insurers and industry average over a five years period from fiscal year 2069/70 to 2073/74. A high ratio could be due to poor underwriting and acceptance of bad quality of risk. Sagarmatha has the highest value of 0.53, thus paid more amounts in the form of the claims and thus experienced poor underwriting with bad quali-

ty of risk. It had very high claim value 0.97 in the fiscal year 2072/73. The united has less claim ratio than industry average which is 0.51 thus it had the lowest claim ratio during the study period is able to manage the underwriting with acceptance of good quality of risk only.

The industry claim ratio shows the mixed trend during the study period. The high value of claim ratio in the fiscal year 2069/70, 2072/73 and 2073/74 where lower in fiscal year 2070/71 and 2071/72. Since the average claim ratio is around 50 percent i.e. 51 percent; it can be concluded that Nepalese insurance companies are not paying higher value of claim and experiencing proper underwriting practice by accepting the good quality of the risk.

Table 4.4: Claim Ratio

Insurer/FY	2069/70	2070/71	2071/72	2072/73	2073/74	Mean	SD	CV
Sagarmatha	0.37	0.33	0.35	0.97	0.64	0.53	0.28	0.53
United	0.53	0.48	0.32	0.5	0.6	0.48	0.1	0.21
Industry	0.45	0.41	0.34	0.74	0.64	0.51	0.16	0.31

Data Source: Beema Samiti Annual Reports

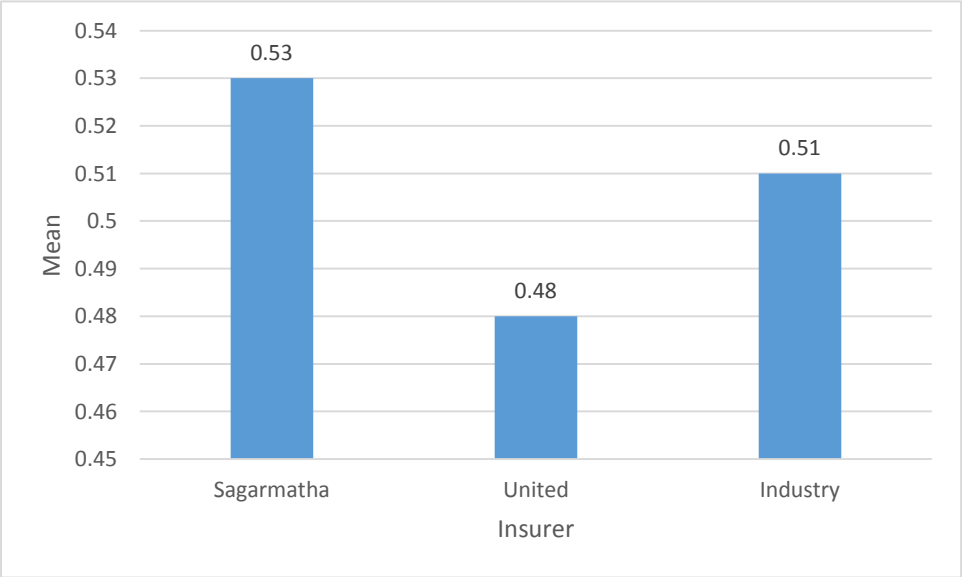


Figure 4.4: *Claim Ratio*

4.1.5 Combined Ratio

A ratio below 100 per cent indicates that the company is making an underwriting profit while a ratio above 100 per cent means that it is paying out more money in claims that it is receiving from premiums. Table 4.5 gives the combined ratio for sample non -life insurers and average of the industry. Analyses reveals that all the insurers throughout the five-year span have had a combined ratio lower than 100 per cent indicating that insurers are paying fewer claims than what they are earning in the form of premiums. Combined ratio for both the sample insurers has improved gradually over the span of five years. Sagarmatha had the better combined ratio than united. It maintained mean value of 89 percent where united had lowest mean combined value than average industry...The whole industry combined ratio is 61 percent.

From the study it can be concluded that there is mix pattern of the combined ratio during the study period. This ratio is higher in the FY 2073/74, 2072/73and 2070/71 but lower values in FY 2069/70 and 2071/72 which may due to the political instability and economic recession during the recent years.

Looking at the combined ratio it can be said that Nepalese non - life insurance industry is failing to manage claims. This fact leaves a scope of improvement for the management of non- life insurers.

Table 4.5: Combined Ratio

Insurer/FY	2069/70	2070/71	2071/72	2072/73	2073/74	Mean	SD	CV
Sagarmatha	0.69	0.71	0.42	1.24	1.42	0.89	0.42	0.47
United	0.11	0.12	0.39	0.56	0.41	0.32	0.19	0.59
Industry	0.4	0.42	0.41	0.9	0.92	0.61	0.27	0.44

Data Source: Beema Samiti Annual Reports

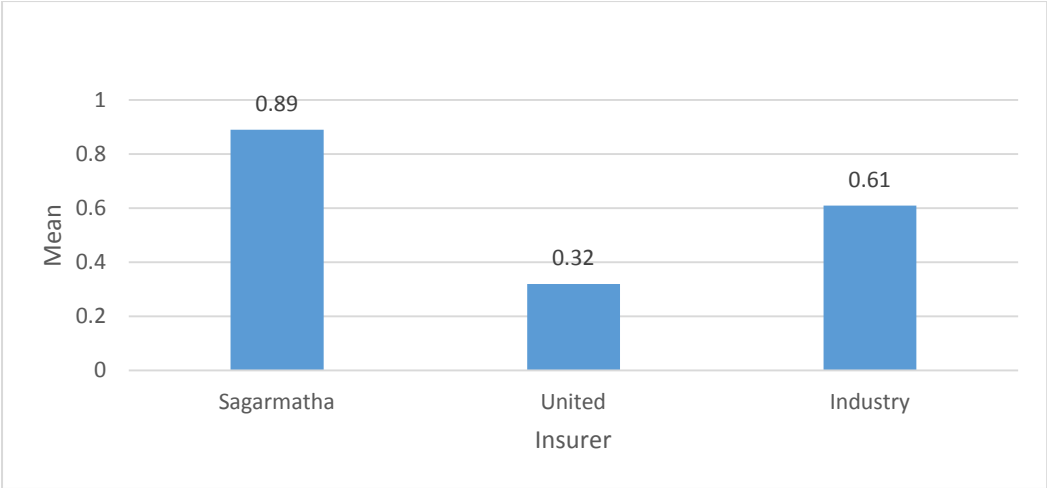


Figure 4.5: Combined Ratio

4.1.6 Net Commission Ratio

This is also one of the financial indicators used to appraise the financial position of the insurance company. From the Table 4.6 and Figure 4.6 it can be inferred that Sagarmatha has highest ratio value 0.15 which is greater than industry i.e. 0.13. Since the CV of united is higher, there is higher fluctuation in the commission ratio during the study period.

Commission is expenses for the company and United reported the lowest value i.e. is 0.11 with the highest performance whereas Sagarmatha has highest value 0.15 thus the lowest performance.

The average commission ratio of the industry shows the mix trend pattern during the study periods. It is constant for fiscal year 2069/70 to 2070/71 than it increased at 2071/72 and again slightly decreased at increasing ratio up to 2073/74. The industry average 0.13 is not so high value, indicating that Nepalese General Insurance companies have lower commission expenses with good performance for the industry but poor performance as an agent.

Table 4.6: Net Commission Ratio

Insurer/FY	2069/70	2070/71	2071/72	2072/73	2073/74	Mean	SD	CV
Sagarmatha	0.14	0.15	0.17	0.14	0.14	0.15	0.01	0.06
United	0.12	0.1	0.14	0.11	0.08	0.11	0.02	0.18
Industry	0.13	0.13	0.16	0.13	0.12	0.13	0.01	0.07

Data Source: Beema Samiti Annual Reports

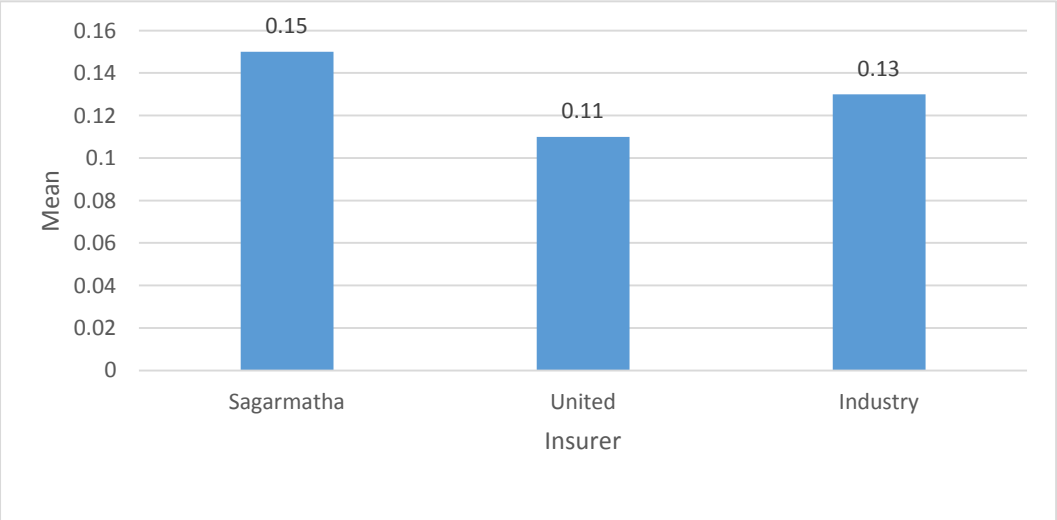


Figure 4.6: Net Commission Ratio

4.1.7 Expenses of Management to Gross Premium Ratio

Expense of the management to gross premium ratio measures the expenses relative to gross premium. The lower is the ratio, the better is the result. As gross premium grows, a management expense grows automatically. From the Table 4.7 and Figure 4.7 Sagarmatha has the lowest ratio value of 0.010, thus efficient performance due to proper handling of the management expenses and higher growth of gross premium. United had almost same performance level as industry with the value 0.012 that of industry 0.011. The management expenses ratio for fiscal year 2069/70 is 0.012 and increased to 0.016 in fiscal year 2070/71 again remain same to 0.016 in the year 2071/72. After that this ratio has declined pattern. Since the average industry Management expenses is not very much high, there is higher

growth in gross premium thus satisfactory performance level shown by the industry during the study period.

Table 4.7: Management Expenses to Gross Premium

Insurer/FY	2069/70	2070/71	2071/72	2072/73	2073/74	Mean	SD	CV
Sagarmatha	0.009	0.012	0.009	0.011	0.011	0.01	0.002	0.2
United	0.015	0.019	0.022	0.0017	0.0018	0.012	0.009	0.75
Industry	0.012	0.016	0.016	0.0064	0.0064	0.011	0.004	0.3

Data Source: Beema Samiti Annual Reports

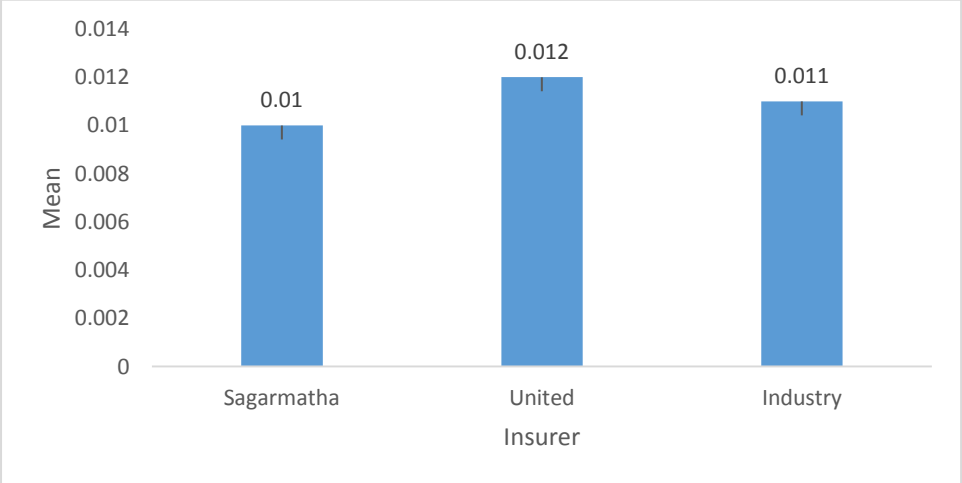


Figure 4.7: Management Expenses to Gross Premium

4.1.8 Operating Profit Ratio

Operating profit ratio is the relationship between underwriting profit plus investment income and net premium. It is used to measure the management efficiency. The Higher is the operating profit ratio; the better is the company's financial performance. Table 4.8 and Figure 4.8 shows the operating profit ratio of sample insures and the industry as a whole. The industry mean value is 0.85. The United maintained higher value 0.95 than industry value. United showed the best performance indicating that company generating more profit whereas Sagarmatha maintained the lowest value 0.74 indicating the weakest performance of the sample insure producing the less profit from the insurance operations. The operating

profit has been increased from the fiscal year 2069/70 to 2072/73 then it has declining pattern till fiscal year 2073/74. Since the industry operating profit ratio is 0.85 percent, which is not an outstanding performance in terms of the profit generation. The Nepalese non - life insurance is severely affected by the global economic crisis and the political instability in the country. Also insures are falling to expand the business to the large scale to generate the sufficient operating profit for the financial soundness.

Table 4.8: Operating Profit Ratio

Insurer/FY	2069/70	2070/71	2071/72	2072/73	2073/74	Mean	SD	CV
Sagarmatha	0.67	0.66	0.99	0.71	0.68	0.74	0.74	0.19
United	1.06	1.16	1	0.85	0.67	0.95	0.95	0.2
Industry	0.87	0.91	0.99	0.78	0.68	0.85	0.11	0.12

Data Source: Beema Samiti Annual Reports

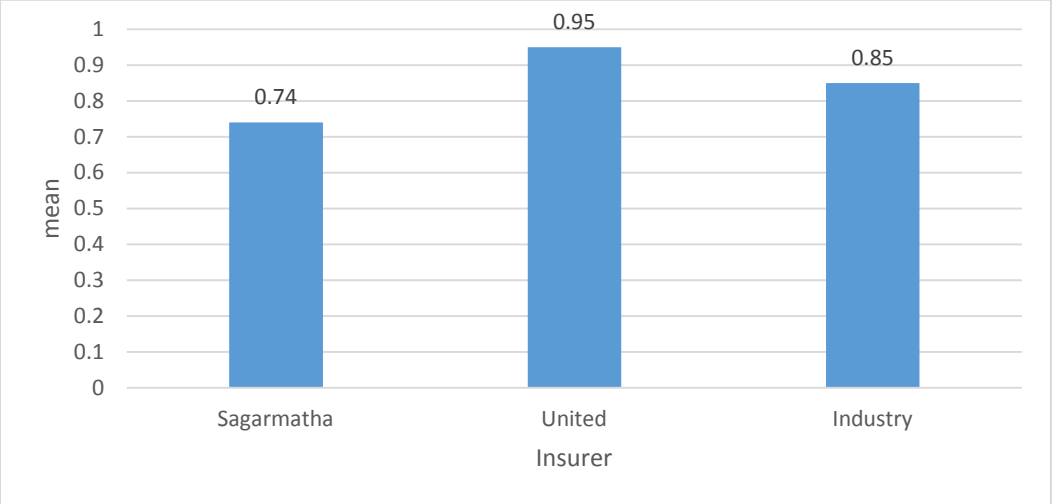


Figure 4.8: Operating Profit Ratio

4.1.9 Net Earnings Ratio

The Net Earnings Ratio shows how profitable the insurance business is. This ratio reflects the summary of all activities during the period under review. The Net Earnings Ratio has been calculated by dividing profit after tax to net written pre-

mium. Table 4.9 explains the net earnings of the Nepalese non – life insurance companies for 5 fiscal years.

As it is evident from the Table Sagarmatha maintained the highest value 0.37 which is greater than industry mean value 0.31 percent thus shown the better performance in terms of earnings.

United fails to collect sufficient profit and hence weakest performer in terms of the net earning with insignificant mean value 0.25 percent less than the industry mean. The overall net earning pattern of the industry does not have particular trend but has mixed trend. The ratio value is significantly higher in fiscal year 2072/73 which is 0.38

From the study it can be inferred that the Nepalese General insurance net earnings is satisfactory. Since the industry average 0.31 percent is not high figure, there is more ground to improve the net earning patterns.

Table 4.9: Net Earnings Ratio

Insurer/FY	2069/70	2070/71	2071/72	2072/73	2073/74	Mean	SD	CV
Sagarmatha	0.47	0.43	0.14	0.38	0.43	0.37	0.13	0.36
United	0.17	0.26	0.17	0.38	0.29	0.25	0.08	0.35
Industry	0.32	0.35	0.15	0.38	0.36	0.31	0.09	0.31

Data Source: Beema Samiti Annual Reports

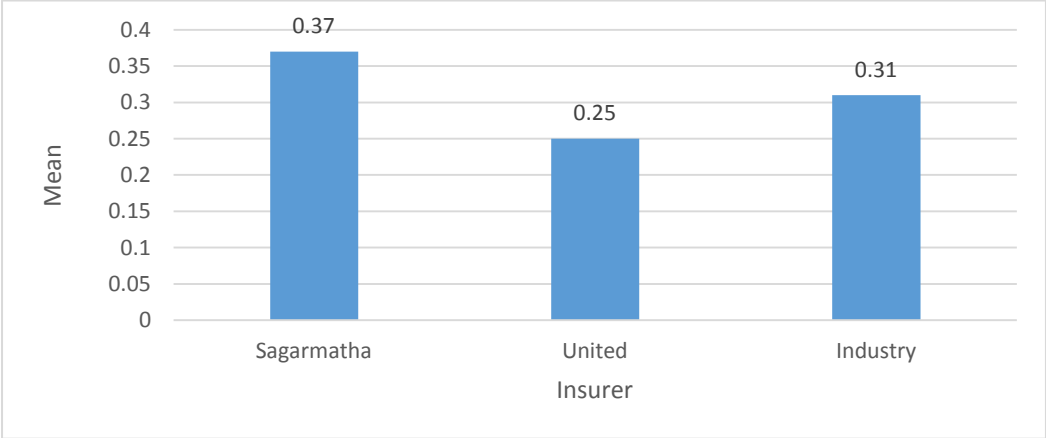


Figure 4.9: Net Earnings Ratio

4.1.10 Return on Net Worth

Return on net worth ratio indicates how well the resources of the owners have been used. It measures the return accruing to owners' capital. It is computed by dividing profit after tax to Net Worth. Table 4.10 shows the return accruing to owners' capital in the General Insurance companies.

The Table mirrors that the mean value of Net Worth ratio of United 0.27 percent which is higher than the average industry 0.25 percent thus shown better performance comparative to another sample insurer. Sagarmatha had weaker performer in terms of the Net worth with mean values 0.22. These figures are slightly lower than the industry average figures.

An investigation into the annual reports of all the insurance companies under study revealed that the reason for better performance of net worth of industry is due to their higher investment income.

Table 4.10: Return on Net Worth

Insurer/FY	2069/70	2070/71	2071/72	2072/73	2073/74	Mean	SD	CV
Sagarmatha	0.33	0.27	0.09	0.2	0.21	0.22	0.08	0.4
United	0.14	0.17	0.15	0.47	0.42	0.27	0.16	0.59
Industry	0.24	0.22	0.12	0.34	0.32	0.25	0.08	0.35

Data Source: Beema Samiti Annual Reports

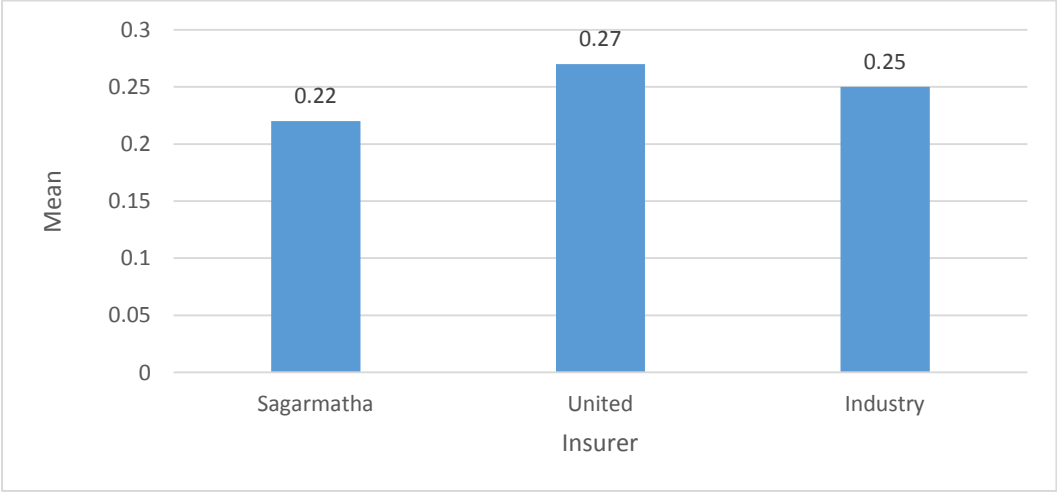


Figure 4.1.10: Return on Net Worth

4.1.11 Retention Ratio

The retention ratio is the relationship between the net premium and the gross premium. It is a rough measure of how much of the risk is being carried by an insurer rather than bring passed to reinsurers. This ratio is a measure of insurers' retention for own account and should be commensurate with its financial resources that determine retention capacity.

From the Table 4.11 and Figure 4.11 it can be observed that United maintained the Retention ratio 52 percent which is slightly higher than the industry means 50 percent. Sagarmatha has mean value 49 percent lower than industry.

Since the average retention ratio of industry is not significantly high, it can be concluded that insures do not retained the high amount of risk rather feel secured by reinsuring the bad quality of risk from reinsurance companies. Since retention ratio is neither high nor low thus moderately relying on earning reinsurance commission.

Table 4.11: Retention Ratio

Insurer/FY	2069/70	2070/71	2071/72	2072/73	2073/74	Mean	SD	CV
Sagarmatha	0.52	0.49	0.51	0.48	0.45	0.49	0.02	0.05
United	0.42	0.47	0.63	0.51	0.58	0.52	0.08	0.16
Industry	0.47	0.48	0.57	0.49	0.52	0.5	0.04	0.08

Data Source: Beema Samiti Annual Reports

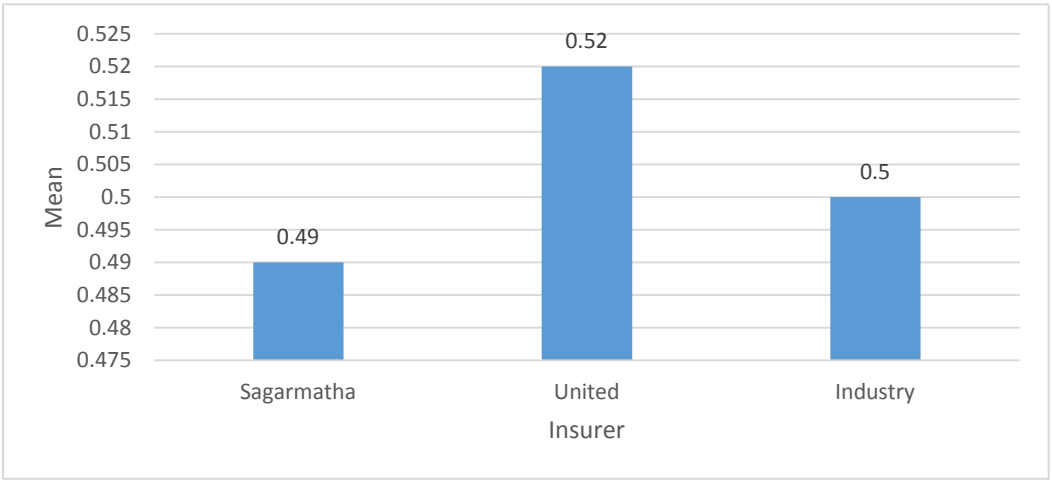


Figure4.1.11:Retention Ratio

4.1.12 Premium Growth Ratio

A large increase or decrease in volume of the net premium written is an indication of lack of stability in insurer's operation. In addition, large increase in premium may indicate that the insurer is engaging in cash flow under writing in order to meet the claim**.**

Table 4.12 and Figure 4.12 detail the premium growth ratio of sampled insurers and whole insurance industry for the FY 2069/70 through 2073/74. It is seen that mean premium growth ratio of The United is highest among the sample insurer which is 1.94 greater than industry mean 0.26 whereas Sagarmatha has lowest value 0.14.

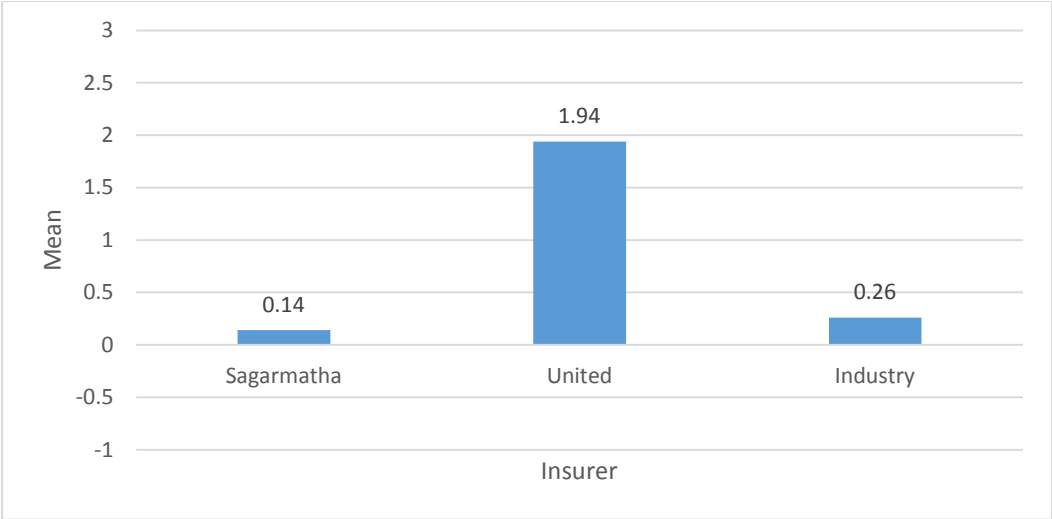
The industry premium growth trend is random order during study period it was 0.21 in initial period but decreased in FY 2070/71 and increased rapidly 0.32 in FY 2071/72 then again decreased and slightly increased to 0.57 at 2073/74.

Since the premium growth ratio 0.26 but not significant value there is poor performance of premium growth of Nepalese non - life insurance. From the study it can be concluded that the insurance industry is experiencing the inadequate reserve and instability in product mix. Also, there is cash flow underlying and hence immediate regulatory action is required.

Table 4.12: Premium Growth Ratio

Insurer/FY	2069/70	2070/71	2071/72	2072/73	2073/74	Mean	SD	CV
Sagarmatha	0.14	0.23	0.11	0.03	0.18	0.14	0.07	0.54
United	0.28	0.12	0.53	0.04	0.96	1.94	1.77	0.91
Industry	0.21	0.18	0.32	0.04	0.57	0.26	0.19	0.73

Data Source: Beema Samiti Annual Reports



Figurer 4.12: Premium Growth Ratio

4.1.13 Technical Reserve Ratio

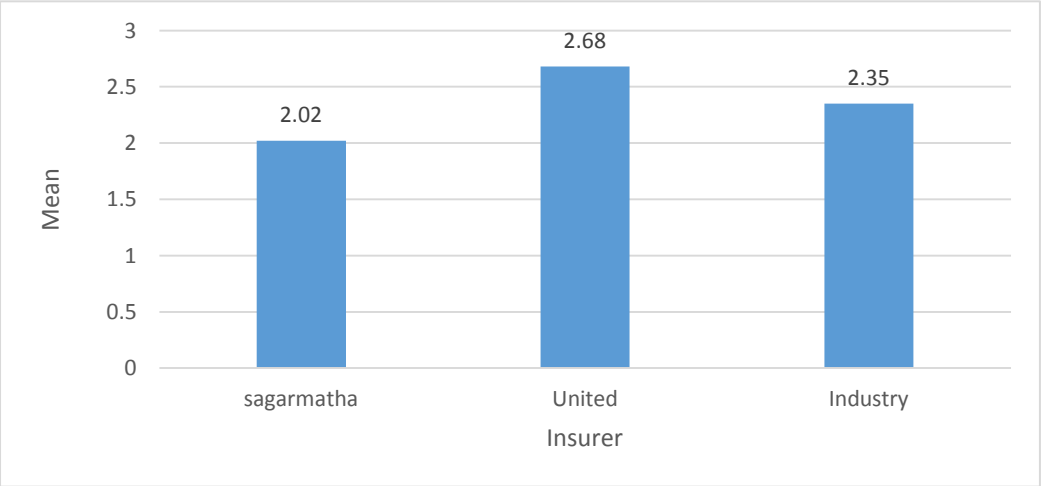
Technical reserve to net premium ratio is used to assess whether the company is sustainable in terms of unexpected loss. The Higher is the reserve ratio; the better is the company's financial performance. Table 4.13 and Figure 4.13 shows the technical ratio of sample insures and the industry as a whole. United has the highest mean value 2.68 which implies good performance indicating that company is more sustainable for any unexpected loss. Sagarmatha maintained relatively lower ratio value 2.02 than the industry value during the study period thus less capable of withstand the unexpected loss and need to increase the reserve for future unseen losses.

The ratio is declining from fiscal year 2069/70 to 2070/71 but fairly raised in fiscal year 2071/72 again increased highly value in fiscal year 2072/73 to 2073/74.Since the industry technical reserve value is 2.35 it can be concluded that Nepalese General insurance companies are capable to pay for the future unseen losses thus better performance in terms of maintain the sufficient reserves.

Table 4.13: Technical Reserve Ratio

Insurer/FY	2069/70	2070/71	2071/72	2072/73	2073/74	Mean	SD	CV
Sagarmatha	1.86	1.85	2.4	2.21	1.79	2.02	0.27	0.13
United	2.69	1.71	1.77	3.05	4.16	2.68	1.01	0.38
Industry	2.28	1.78	2.09	2.63	2.98	2.35	0.47	0.21

Data Source: Beema Samiti Annual Report



Figurer 4.13: Technical Reserve Ratio

4.2 Relationship between Operating Efficiency and Financial Performance

This section of the study presents the results and discussions of the Pearson correlation analysis. Correlation analysis shows the degree of linear relationship among the variables of operating efficiency with operating profit margin and solvency margin ratio using Pearson correlation coefficient. The correlation coefficients show the extent and direction of the linear relationship between operating efficiency variables with operating profit margin ratio and solvency margin ratio measures of the non-life insurance company. A positive correlation reveals that direction of the relationship with one increasing in reaction to the other. Meanwhile, a negative correlation reveals an inverse of the above: an increasing in one and the other decreases.

The relationship between dependent variable (solvency margin ratio and operating profit margin) and independent variable (operating efficiency) of non-life insurance company in Nepal.

Here we try to find out the relationship between operating efficiency with operating profit margin and solvency margin prospects .Higher the correlation between the two variables , higher is the viability of a company in the long run this is always a win ,win situation for shareholders variables like assets turnover , fixed assets turnover and equity turnover measurers the operational efficiency of company whereas solvency margin represent the company in long run.

Table 4.22 Operating efficiency and Solvency margin ratio of Sagarmatha Non-Life Insurance company

	Operating Efficiency			
FY	**Total Assets Turnover**	**Fixed Assets Turnover**	**Total Equity Turnover**	**Solvency**
2069/70	0.36	2.44	1.5	1.27
2070/71	0.34	4.1	1.15	1.39
2071/72	0.29	3.23	1.17	1.1
2072/73	0.25	2.61	1	1.49
2073/74	0.03	4.3	0.87	1.61

From above table 4.22 the total assets turnover ratio slightly in decreasing over the period from FY 2069 to 2072/73 and greatly decreased at last period of year. Whereas fixed assets turnover ratio is slightly increasing and in decreasing over the periods and reached highest 4.3 in fiscal year 2073/74.Total equity turnover ratio of Sagarmatha insurance is in decreasing form over the periods of years. The solvency margin ratio is increasing up to year 2069/70 and 2070/71 then decreasing in 2071/72 and increasing FY 2073/74 with ratio i.e. 1.61.

Table 4.23 Correlation matrix between Operating Efficiency and Solvency margin Ratio of Sagarmatha Non-Life Insurance Company

Variables		Solvency	Total Asset Turnover	Fixed Asset Turnover	Total Equity Turnover
Solvency		1			
	r	0.69	1		
Total Assets Turnover	p	0.002			
	r	0.42	0.55	1	
Fixed Assets Turnover	p	0.005	0.336		
	r	0.66	0.79	0.60	1
Total Equity Turnover	p	0.016	0.104	0.284	

From the above table, the correlation between solvency margin and total assets is 0.69 which is strongly positive. This means there is strongly positive effect of total assets on solvency margin. This is further analyzed by the p-value which is less than its level of significance i.e. $p = 0.002 < 0.05$. This result shows that there is significant effect of total assets on solvency margin of the selected insurance company.

From the above table, the correlation between solvency margin and fixed assets is 0.42 which is moderately positive. This means there is moderately positive effect of fixed assets on solvency margin. This is further analyzed by the p-value which is less than its level of significance i.e. $p = 0.005 < 0.05$. This result shows that there is significant effect of fixed assets on solvency margin of the selected insurance company.

From the above table, the correlation between solvency margin and total equity is 0.66 which is strongly positive. This means there is strongly positive effect of total equity on solvency margin. This is further analyzed by the p-value which is less than its level of significance i.e. $p = 0.016 < 0.05$. This result shows that there is significant effect of total equity on solvency margin of the selected insurance company

Table 4.24**:** *Operating efficiency and Solvency margin ratio of United Non-Life Insurance Company*

	Operating Efficiency			
FY	**Total Assets Turnover**	**Fixed Assets Turnover**	**Total Equity Turnover**	**Solvency**
2069/70	0.31	1.99	2.11	1.17
2070/71	0.25	3.56	1.27	1.39
2071/72	0.3	2.72	2.52	0.96
2072/73	0.28	2.78	1.02	-0.42
2073/74	0.94	5.87	1.94	3.92

From the above table 4.24 shows Total assets turnover ratio of United is slightly decreasing from FY 2069/70 to 2070/71 and slightly increased in FY 2071/72 and reached to highest ratio 0.94 in 2073/74. Fixed assets have mixed trend increasing and decreasing but reached 5.87 highest ratio in FY 2073/74, whereas Equity turnover ratio is also increasing and decreasing form and highest ratio in FY 2071/72 i.e. 2.52. Solvency margin of United is highest in FY2073/74 which is 3.92 and lowest in FY 2072/73 i.e. -0.42.

Table 4.25: Correlation matrix between Operating Efficiency and Solvency margin Ratio of United Non-Life Insurance Company

Variables		**Solvency**	**Total Asset Turnover**	**Fixed Asset Turnover**	**Total Equity Turnover**
Solvency		1			
	r	0.88	1		
Total Assets Turnover	p	0.043			
	r	0.84	0.89	1	
Fixed Assets Turnover	p	0.070	0.038		
	r	0.35	0.2	0.04	1
Total Equity Turnover	p	0.553	0.736	0.936	

From the above table, the correlation between solvency margin and total assets is 0.88 which is strongly positive. This means there is strongly positive effect of to-

tal assets on solvency margin. This is further analyzed by the p-value which is less than its level of significance i.e. p = 0.043 < 0.05. This result shows that there is significant effect of total assets on solvency margin of the selected insurance company.

From the above table, the correlation between solvency margin and fixed assets is 0.84 which is strongly positive. This means there is strongly positive effect of fixed assets on solvency margin. This is further analyzed by the p-value which is more than its level of significance i.e. p = 0.070 >0.05. This result shows that there is no significant effect of fixed assets on solvency margin of the selected insurance company.

From the above table, the correlation between solvency margin and total equity is 0.35 which is weakly positive. This means there is weakly positive effect of total equity on solvency margin. This is further analyzed by the p-value which is more than its level of significance i.e. p = 0.553 >0.05. This result shows that there is no significant effect of total equity on solvency margin of the selected insurance company.

Table 4.26: Operating efficiency and Operating Profit margin ratio of Sagarmatha Non-Life Insurance company

	Operating Efficiency			
FY	**Total Assets Turnover**	**Fixed Assets Turnover**	**Total Equity Turnover**	**Operating Profit Margin**
2069/70	0.36	2.44	1.52	0.67
2070/71	0.34	4.1	1.15	0.66
2071/72	0.29	3.23	1.17	0.99
2072/73	0.25	2.61	1	0.71
2073/74	0.03	4.3	0.87	0.68

From the above table 4.26, the total assets turnover ratio slightly in decreasing over the period from FY 2069 to 2072/73 and greatly decreased at last period of year. Whereas fixed assets turnover ratio is slightly increasing and in decreasing over the periods and reached highest 4.3 in fiscal year 2073/74.Total equity turnover ratio of Sagarmatha insurance is in decreasing form over the periods of years. The Operating profit margin of Sagarmatha has slightly increasing from FY 2069/70 to2071/72 and reached highest ratio 0.99 than after slightly decrease for last two years.

Table 4.27: *Correlation matrix between Operating Efficiency and Operating Profit Margin of Sagarmatha Non-Life Insurance Company*

Variables		**Operating Profit Margin**	**Total Asset Turnover**	**Fixed Asset Turnover**	**Total Equity Turnover**
Operating Profit Margin		1			
	r	0.11	1		
Total Assets Turnover	p	0.85			
	r	0.12	0.55	1	
Fixed Assets Turnover	p	0.83	0.33		
	r	0.003	0.79	0.60	1
Total Equity Turnover	p	0.99	0.10	0.28	

From the above table, the correlation between operating profit and total assets is 0.11 which is moderately positive. This means there is positive effect of total assets on operating profit. This is further analyzed by the p-value which is more than its level of significance i.e. $p = 0.85 > 0.05$. This result shows that there is no significant effect of total assets on operating profit of the selected insurance company.

From the above table, the correlation between operating profit and fixed assets is 0.12 which is moderately positive. This means there is positive effect of fixed assets on operating profit. This is further analyzed by the p-value which is more

than its level of significance i.e. p = 0.83 >0.05. This result shows that there is no significant effect of fixed assets on operating profit of the selected insurance company.

From the above table, the correlation between operating profit and total equity is 0.003 which is weakly positive. This means there is weakly positive effect of total equity on operating profit. This is further analyzed by the p-value which is more than its level of significance i.e. p = 0.99 >0.05. This result shows that there is no significant effect of total equity on operating profit of the selected insurance company.

Table 4.28: Operating efficiency and Operating Profit margin ratio of United Non-Life Insurance Company

	Operating Efficiency			
FY	**Total Assets Turnover**	**Fixed Assets Turnover**	**Total Equity Turnover**	**Operating Profit Margin**
2069/70	0.31	1.99	2.11	1.06
2070/71	0.25	3.56	1.27	1.16
2071/72	0.3	2.72	2.52	1
2072/73	0.28	2.78	1.02	0.85
2073/74	0.94	5.87	1.94	0.67

From the above table4.28, shows Total assets turnover ratio of United is slightly decreasing from FY 2069/70 to2070/71 and slightly increased in FY 2071/72 and reached to highest ratio 0.94 in 2073/74. Fixed assets have mixed trend increasing and decreasing but reached 5.87 highest ratio in FY 2073/74, whereas Equity turnover ratio is also increasing and decreasing form and highest ratio in FY 2071/72 i.e. 2.52 whereas Operating profit margin of united has increased from FY 2069/70 to 2070/71 and from FY2071/70 to 2073/74 it is slightly decreasing and reached to lowest ratio i.e. 0.67.

Table 4.29: *Correlation matrix between Operating Efficiency and Operating Profit Margin of United Non-Life Insurance Company*

Variables		Operating Profit Margin	Total Asset Turnover	Fixed Asset Turnover	Total Equity Turnover
Operating Profit Margin		1			
	r	0.82	1		
Total Assets Turnover	p	0.008			
	r	0.68	0.89	1	
Fixed Assets Turnover	p	0.023	0.936		
	r	0.005	0.2	0.04	1
Total Equity Turnover	p	0.093	0.736	0.936	

From the above table, the correlation between operating profit and total assets is 0.82 which is strongly positive. This means there is strongly positive effect of total assets on operating profit. This is further analyzed by the p-value which is less than its level of significance i.e. $p = 0.008<0.05$. This result shows that there is significant effect of total assets on operating profit of the selected insurance company.

From the above table, the correlation between operating profit and fixed assets is 0.68 which is strongly positive. This means there is strongly positive effect of fixed assets on operating profit. This is further analyzed by the p-value which is less than its level of significance i.e. $p = 0.023<0.05$. This result shows that there is significant effect of fixed assets on operating profit of the selected insurance company.

From the above table, the correlation between operating profit and total equity is 0.005 which is weakly positive. This means there is weakly positive effect of total equity on operating profit. This is further analyzed by the p-value which is more than its level of significance i.e. $p = 0.093 >0.05$. This result shows that

there is no significant effect of total equity on operating profit of the selected insurance company.

4.3 Major Findings of the Study

This thesis has been concentrated on the financial performance of Non - life insurance Company in Nepal. The major findings of descriptive statistics and correlation analysis have been shown below:

1. All sample insurers as well industry maintained higher solvency margin ratio i.e. more than 100 percent thus moderately adequate in relation to level of retained premium with higher value of the shareholders fund and exposed to the less risk with higher underwriting profit and reinsurance protection non –life insurance.
2. SGI has increasing pattern of surplus throughout the study period except year 2071/72. United has lowest surplus in the fiscal year 2071/72 but improved financial condition after periods. The industry change in surplus ratio has mixed trend. There is fair increasement in fiscal year 2070/71, significant decreased in fiscal year 2071/72, significant increase in fiscal year 2072/73 and moderately increasing in fiscal year 2073/74.
3. Since all sample insurers and industry as a whole has positive ratio value, it is found that non - life insurance does not experience underpricing and commensurate with risk. United reported the higher values 0.83 respectively which is greater than industry average 0.71. SGI has lowest mean value of 0.56 with weakest performance failing to underwrite the products pricing.
4. SGI experiences the poor underwriting with bad quality of risk with highest claim ratio 0.53 percent. The other insurer has lesser claim ratio than the industry average which is 0.51 percent. United has the lowest claim ratio during the study period thus is able to manage the underwriting with acceptance of good quality of risk only. Since the average claim ratio of industry is around 51 percent; it can be concluded that Nepalese non- life insurance companies are not paying higher value of claim and experiencing proper underwriting practice by accepting the good quality of the risk.

5. SGI has maintained the combined ratio of 89 percent which is higher than the industry means as well as all other sample insurer. The mean combined ratio of the industry is 61 percent. United has mean ratio of 32 percent.
6. SGI has highest commission ratio value 0.15 which is more than the industry value 0.13. United reported lowest commission value 0.11 with highest performance.
7. The expenses of management to gross premium ratio value of industry are 0.011. SGI has the lowest ratio value 0.010. United has maintained highest value 0.012, and average industry mean value is 0.011 respectively.
8. Operating profit is positive throughout the study period. General insurance could maintain 0.85 percent of operating profit during the study period. United has the higher values 0.95 than the industry. SGI reported the mean values 0.74 respectively lower than the industry means. SGI could maintain the lowest value, indicating the weakest performance among the sample insurer.
9. SGI have maintained significantly higher values 0.37 respectively than the industry average 0.31. United could maintain the lowest ratio value of 0.25 thus showed the weakest performance in terms of net earnings trend.
10. Industry mean value of Net worth ratio during the study period fiscal year 2069/70 to 2073/74 is 0.25. United maintained the highest value of 0.27 thus better performance comparative to another sample insurer. SGI are weaker performer in terms of the Net worth with mean values 0.22 respectively.
11. United maintained the retention ratio 0.52 percent which is slightly higher than the industry means 0.50 percent. SGI have mean value 0.49 lower than the industry means. Since the average insurance ratio of industry is not significantly high it can be concluded that insures do not retained the high amount of risk.
12. United maintained the highest premium Growth Ratio value 1.94 which is greater than average industry value, i.e. 0.26 whereas SGI has maintained lowest mean value 0.14

13. The mean technical reserve ratio of the company during FY 2069/70 to 2073/74 is 2.35. It can be concluded that Nepalese General insurance companies are capable to pay for the future unseen losses thus better performance in terms of maintain the sufficient reserves. Reported the highest mean value of united is 2.68 whereas SGI has the lower ratio value of 2.02 respectively.
14. On the basis of correlation analysis the independent variables i.e. total assets, fixed assets, and total equity have positive correlation with solvency margin and operating profit margin of selected non-life insurance companies.
15. On the basis of correlation analysis the degree of effect of operating efficiency has both significant and insignificant results on solvency margin and operating profit margin of selected non-life insurance companies.

CHAPTER V
SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

The summary, Conclusion and recommendation of the study are the content of this chapter. Summary includes the briefing of the study. Conclusions drawn from the study are mentioned under conclusion section and suggestions and recommendation of the study are placed under recommendation section.

The study has conducted as academic requirement of Master of Business Studies entitled "A Study on Financial Performance of Nepalese Non - Life Insurance Industry". The motto of the study is to assess the financial performance of non - life insurance with the help of major ratios that are financial soundness indicators of the industry and analysis is carried with correlation between operating efficiency and financial performance indicator i.e. solvency margin and operating profit margin. Insurance is an important and growing part of the financial sector in almost all developed as well as developing economies. Economic liberalization and awareness of public toward the risk and natural disaster have facilitated growth of insurance industry in Nepalese economy. Insurance industry is growing rapidly in Nepalese economy and showing the attractive segment of the business in this recent time.

The insurance industry provides indemnification of risks faced by both individuals and companies, strengthens the linkages with other sector of the economy in promoting growth and stability and creating a sizable impact on the national income of a county. In peace, the insurance provides protection to trade and industry which ultimately contributes towards human progress. Thus, insurance is the most lending force contributing towards economic, social and technological progress of mankind. Without insurance over all industrial, economic and social activities of the world will come to a grinding halt. Thus, insurance is an important and growing part of the financial sector in almost all developed and some developing economies.

The history of insurance business in Nepal is not as long as in other. Generally, insurance activities of Nepal were executed by the Indian Insurance companies prior to the 2007 B.S. However, the history shows the introduction of insurance company named 'Mal Chalani and Beema Company" in 2004 B.S. It was later converted into "Nepal Insurance and Transport Co. Pvt. Ltd" in 2016 B.S and now named as Nepal Insurance. To compete with the organized Indian insurance companies and to expand insurance business Rastriya Beema Corporation was introduced under the insurance act 2025 as first public insurance company.

In private sector National Life of General Insurance Company Pvt. Limited was established in 2043, as per insurance act of 2025 B.S. It is conducting both life and general insurance business. New insurance act was formed in 2049 after restoration of democracy and economic liberalization. After this several insurance companies have been established. Now there are 24 insurance companies in Nepal and financial performance of these companies are different at different level.

Various academic materials were reviewed in order to build up the conceptual foundation and clear destination of the research work. Historical development of insurance, meaning and function of insurance companies, types of insurance business, benefits of insurance, value of insurance, concept of financial performance of insurance companies, concept of premium, claim, risk retention and legal provision for insurance industry, were reviewed as conceptual review. Review of journals national as well as international and review of master's dissertations were included in research review section.

The study span is from fiscal year 2069/70 to 2073/74 from the inception of the listed selected insurance companies. The Study is concerned with financial performance of insurance company and relationship between operating efficiency with financial performance indicators. The study was designed within in the framework of descriptive and analyzes research designed. The selected population of the study is two general insurance companies out of 17 Non –life insurance companies in Nepal. The required data and information were extracted from

the secondary sources. The insurance ratios have been extracted by visiting the web site of Beema Samiti and office.

Financial analysis is the key tools for marketing strategies and starting point for making plan before using sophisticated budgeting procedures. The values of this approach are the quantitative relation which can be used to diagnose strengths and weakness in the firm's financial performance. Such analysis is the considerable thing for the common stockholders, investors, bondholders and others. Financial tools were used to analyze the major ratios that are the indicative E.W.S such as Solvency Margin Ratio, Change in Surplus, Underwriting Ratio, Claim Ratio, Combined Ratio, Net Commission Ratio, Expenses of Management Ratio, Operating Profit Ratio, Net Earnings Ratio, and Return on Net worth Ratio, Retention Ratio, Premium Growth Ratio and Technical Reserved Ratio. The correlation analysis had done to find out that the Total Asset, Fixed Asset and Total Equity has positive correlation with Solvency margin ratio and Operating profit margin of selected non-life insurance companies. At last it was further revealed that there was mixed result of degree of effect of operating efficiency on financial performance of selected non-life insurance company.

5.2 Conclusion

Initially, insurance was viewed primarily as a tax saving device. However, policyholders' perspective is slowly changing towards taking insurance cover irrespective of tax incentives. The improved performance in the domestic economy is also reflected in the insurance industry. Higher per capital income, domestic savings and availability of more instruments for parking surplus funds have facilitated growth in the activities of financial services like insurance.

Solvency margin of both sample insurers and industry is more than 100 percent throughout the study period thus they are adequately capitalized in relation to level of retained premium with ability to meet long term obligations and can service over a long period. Study concludes that Shareholders performance is satis-

factory for providing the cushion against uncertainty and declines in values of investment

The change in surplus ratio does not show the sharp decline or sharp increased pattern thus fair performance and stability of change in ownership. Overall, the industry underwriting ratio is satisfactory with positive and stable performance. Nepalese non- life insurance business shows profitability during study period with proper underwriting practices to commensurate premium rates with risk of the business despite the political instability in a country and global economic recession.

The commission paid by sample insurer and the industry as whole is about less than 53%, thus paying not higher value of claim and experiencing proper underwriting practice by accepting the good quality of the risk. Having lower commission expenses means good performance for the industry but poor performance as an agent. Lower value of management expenses of sample insurers and insurance industry indicates the efficient management with improving the gross premium. As combined ratio of sample insurers as well as industry is ratio below 100 percent, non- life Insurance industry is making an underwriting profit paying out less money in claims that it is receiving from premiums. Operating profit of sampled insurer and industry is more than 50 percent and thus indicates that there is good performance but not outstanding. Also, net earnings are satisfactory which is 31 %. But not outstanding performance in operating profit and net earnings might be due to low market penetration, poor management practices, falling to adopt the new technologies and the effective policies, the political instability of the country and the global economic recession. Study revealed that non-life insurers are experiencing the better performance of net worth of due to their higher investment.

Since the average retention ratio of sample insurers and industry is not significantly high, it can be concluded that insures do not retained the high amount of risk rather feel secured by reinsuring the bad quality of risk (major part of the risk) is passed to the reinsurer rather than holding themselves. Also, lower retention ratio means insurers are moderately relying on earning from reinsurance

commission. Since the premium growth ratio 0.26 is positive but not significant value there is poor performance of premium growth of Nepalese non - life insurance industry is experiencing the inadequate reserve and instability in product mix. Also, there is cash flow underlying and hence immediate regulatory action is required.

Since average technical reserve ratio is 2.35 insurers are capable to pay for the future unseen losses with better solvency margin with ability maintain the sufficient reserves. Also, higher value of technical reserve indicates that non – life insurance portfolio is profitable.

Based on correlation analysis, the independent variables, Total Asset, Fixed Asset and Total Equity have positive correlation with Solvency margin ratio and operating profit margin of selected non-life insurance companies. From the above analyses, it can be concluded that there was mixed result of degree of effect of operational efficiency on financial performance of selected non-life insurance company

5.3 Recommendation

Based on the findings and issues that have been analyzed in the study, following recommendation have been made to improve the financial performance of the non-life insurance in Nepal.

Even though non - life insurance Solvency margin is more than 100 percent and adequately capitalized in relation to level of retained premium, insurers need to strive in competitive market by balancing the factors such as underwriting ratio, distribution of premiums and adequacy of reinsurance protection that affects the performance in regard to solvency margin. Since underwriting performance is fair, insurers need to improve the underwriting performance to maintain the adequate solvency margin and remain safe from the unseen losses. Non - life insurance companies require ensuring year on year increase in the amount of underwritten premiums. Currently, they make profits from existing customer base but to continue to earn higher profits they need to increase underwritten premiums by

exploring newer markets with newer policies and increase in already existing customer base. Change in surplus is one of the major indicators of the profitability measurement. Since the change is surplus value is not significantly high, insurers should adopt the effective strategies to improve performance indicators such as change in underwriting results, capital gains or loss, investment incomes, dividend payment, value of the assets and technical ratios that affect the performance of the company in regards of its surplus change. Non - life insurers must work towards reducing their claims ratio which is currently above 25 percent. This can be done by increasing the amount of net premiums earned each year. Insurers must work towards improving net premiums earned to bring down the claims ratio and increase their profits. Insurers need to improve their operational activities with modern management practices. This would in turn help reducing in operating expenses and at the same level increase in net premium earned. Improved combined ratio would mean higher profits earned through operational activities rather than other investment activities. Other profitability such as operating profit, net earnings and net worth are not satisfactory. Also insures have no stability of the premium growth. Thus, insurers need to adopt necessary steps to improve the above indicators by increasing the amount of net premium earned year by year. There is both significant and insignificant relationship between operating efficiency with financial performance so, insurance company must work hard to get better financial ratios in order to make all significant effect with operating efficiency. With new business opportunities for various industrial sectors, non – life insurers must introduce innovative products to ensure achieve higher profitability and a steady long-term growth. Beema Samiti must introduce segmental reporting by the insurers in terms of business from the individuals and from the corporate as well as utilize the modern regulatory frameworks. This would assist analyzing the penetration of the insurers into Nepalese market as well as to judge the awareness of insurance among the individuals.

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APPENDIX

Appendix I - CALCULATION OF SHAREHOLDER'S FUND

Paid up Capital in '000' RS (I)

Fiscal Year	2069-2070	2070-2071	2071-2072	2072-2073	2073-2074
Sagarmatha	258365	310038	356544	441223	538292
United	100800	100800	100800	302400	597179
Industry	17953	205419	228672	371811	567736

Data Source: Beema Samiti Annual Reports

General Reserve in '000' RS (II)

Fiscal Year	2069-2070	2071-2072	2071-2072	2072-2073	2073-2074
Sagarmatha	121544	166137	145205	157170	218313
United	57134	100949	117917	144034	182586
Industry	89339	133543	131561	150602	200449

Data Source: Beema Samiti Annual Reports

Profit and Loss Appropriations Account in RS (III)

Fiscal Year	2069-2070	2070-2071	2071-2072	2072-2073	2073-2074
Sagarmatha	179034	203185	75053	206754	27621
United	27384	45854	44941	107109	153002
Industry	103209	124520	59997	156931	214605

Data Source: Beema Samiti Annual Reports

Appendix II - Shareholders Fund in RS

Fiscal Year	2069-2070	2070-2071	2071-2072	2072-2073	2073-2074
Sagarmatha	558943	679360	576802	805147	1032812
United	185318	247603	263658	553543	932767
Industry	372131	463482	420230	679345	982789

Shareholder's Fund = Paid up Capital (I) + General Reserve (II) + Profit and Loss Appropriation Account (III)

Appendix III - NET PREMIUM in RS

Fiscal Year	2069-2070	2070-2071	2071-2072	2072-2073	2073-2074
Sagarmatha	440113	488748	524365	540366	641498
United	158392	178132	274644	553543	237951
Industry	299252	333440	399505	546955	439724

Data Source: Beema Samiti Annual Reports

Appendix IV – CALCULATION OF SOLVENCY MARGIN RATIO OF SAGARMATHA NON-LIFE INSURANCE

Fiscal Year	Shareholder funds	Net Premium	Solvency Margin Ratio
2069/70	558943	440113	1.27
2070/71	679360	488748	1.39
2071/72	576802	524365	1.10
2072/73	805147	540367	1.49
2073/74	1032812	641498	1.61

Solvency Margin Ratio =shareholder Fund /Net Premium

Appendix V – CALCULATION OF SOLVENCY MARGIN RATIO OF UNITED NON-LIFE INSURANCE

Fiscal Year	Shareholder funds	Net Premium	Solvency Margin Ratio
2069/70	185318	158392	1.17
2070/71	247603	178132	1.39
2071/72	263658	274644	0.96
2072/73	553543	553543	-0.42
2073/74	932767	237951	3.92

Solvency Margin Ratio =shareholder Fund /Net Premium

Appendix VI - CALCULATION OF TOTAL ASSETS TURNOVER RATIO

NET SALES in RS

Fiscal Year	2069-2070	2070-2071	2071-2072	2072-2073	2073-2074
Sagarmatha	382163	471326	522667	539183	638103
United	158261	177394	271928	285245	298324

Data Source: Beema Samiti Annual Reports

TOTAL ASSETS in RS

Fiscal Year	2069-2070	2070-2071	2071-2072	2072-2073	2073-2074
Sagarmatha	1061564	1386260	1802302	2156730	21270104
United	523815	861351	935876	1070748	1156894

Data Source: Beema Samiti Annual Reports

Appendix VII - TOTAL ASSETS TURNOVER RATIO OF SGI

Fiscal Year	Net Sales	Total Assets	Total Assets Turnover Ratio
2069/70	382163	1061564	0.36
2070/71	471329	1386260	0.34
2071/72	522667	1802302	0.29
2072/73	539183	2156730	0.25
2073/74	638103	21270104	0.03

Total Assets Turnover Ratio =Net sale/Total Assets

Appendix VIII - FIXED ASSETS TURNOVER RATIO OF SGI

Fiscal Year	Net Sales	Fixed Assets	Fixed Assets Turnover Ratio
2069/70	382163	156624	2.44
2070/71	471329	114958	4.1
2071/72	522667	161817	3.23
2072/73	539183	206583	2.61
2073/74	638103	148396	4.3

Fixed Assets Turnover Ratio = Net Sales/Fixed assets

Appendix IX - TOTAL EQUITY TURNOVER RATIO OF SGI

Fiscal Year	Net Sales	Total Equity	Total Equity Turnover Ratio
2069/70	382163	251423	1.52
2070/71	471329	409850	1.15
2071/72	522667	446724	1.17
2072/73	539183	539183	1
2073/74	638103	733451	0.87

Total Equity Turnover Ratio=Net Sales/Total Equity

A STUDY ON FINANCIAL PERFORMANCE OF NEPALESE NON- LIFE INSURANCE INDUSTRY

A Thesis Proposal

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INTRODUCTION

1.1 Background of the Study

Everyone desires to live a cleaner, healthier, comfortable and easy life. To meet this requirement different enterprises, produce and provide goods and services. They make innovation and inventions, which take great risk. Large responsibility falls on the shoulder of innovators and inventors. A small error or lapse may cause numerous side effects and cause death or disability. These types of risks highlight the importance of insurance. If there had not been insurance at the back of all innovators, the world would have never been progressed. After considering this in security factor, the enterprises started looking for new and more high-tech machines - robots and gadgets, atomic technology, space traveling, computers, deep sea exploration, development of Concords and Jumbos and medical technology for Hydro Hear led diseases. All these developments could be possible with the support of insurance.

In law and economics, insurance is a form of risk management primarily used to hedge against the risk of a contingent, uncertain loss. Insurance is defined as the equitable transfer of the risk of a loss, from one entity to another, in exchange for payment. An insurer is a company selling the insurance; an insured, or policyholder, is the person or entity buying the insurance policy. The insurance rate is a factor used to determine the amount to be charged for a certain amount of insurance coverage called the premium. Risk management, the practice of appraising and controlling risk, has evolved as a discrete field of study and practice.

Insurance is defined as a cooperative form of distribution of a certain risk over a group of people who are exposed to it. As a device for handling the financial aspects of risk, insurance is feasible because insurance is able to combine the risks of individuals into groups and pay losses with funds collected from its members (Ghos & Agrawal, 1959).

The role of insurance in economic development is as equal as the role of banking institutions. Financial health of insurance is a subject of great concern since every year, insurance companies are declared insolvent; thousands of policyholders

suddenly find themselves with some very serious problems. So that periodic stringent evaluation and monitoring of the financial condition of insurance companies by regulators, investors, and insurer management is essential task (Das & Podpiera, 2003)

In peace, the insurance provides protection to trade and industry which ultimately contributes towards human progress. Thus insurance is the most lending force contributing towards economic, social and technological progress of mankind. Without insurance over all industrial, economic and social activities of the world will come to a grinding halt. Thus insurance is an important and growing part of the financial sector in almost all developed and some developing economies.

The insurance industry primarily provides indemnification of risks faced by both individuals and companies, strengthens the linkages with other sectors of the economy promoting growth and stability, and creating a sizeable impact on the national income of a country. Insurance industry is part of immune and repair systems of an economy. Successful operation of the insurance industry sets impetus for other industries and development of an economy.

In the context of Nepal, the history of insurance business is not as long as in the other countries. Generally, insurance activities of Nepal were executed by the Indian Insurance companies prior to the 2007 B.S. However the history shows the introduction of insurance company named “Mal Chalani and Beema Company” in 2004 B.S. It was later converted into “Nepal Insurance and Transport Co. Pvt. Ltd” in 2016 B.S and now named as Nepal Insurance.

Rastriya Beema Corporation (RBC) was introduced under the insurance act 2025 as first public insurance company in order to compete with the organized Indian insurance companies as well as to expand insurance business. It conducted General Insurance business from the starting time but life insurance business was started in 2025. In private sector, National Life of General Insurance Company Pvt. Limited was established in 2043, as per insurance act of 2025 B.S. Since that time it has been conducting both life and general insurance business. New insurance act was formed in 2049 after restoration of democracy and economic liberalization. This regulation facilitates the liberalize market and hence a number of insurance companies have been

established. Now there are 24 insurance companies including life and non - life in Nepal.

Furthermore, after the restoration of democracy in 1990 AD; insurance environment began to change simultaneously along with other factors. Thus to meet the requirements of the changing situation, Insurance Act, 1968 was replaced by new Insurance Act, 1992 (Beema Ain, 2049). The preamble of the Act clearly states "to establish an Insurance Board to systematize, regularize develop and regulate the insurance business". To achieve the goal of the preamble, Beema Samiti (Insurance Board) is formed as an autonomous body under the Insurance Act of 1992. Currently sixteen non-life and 9 life insurance companies are being regulated through Beema Samiti.

1.2 Statement of Problem

Insurance industry is considered as financial intermediaries of financial system and works as a double – edged weapon. On one hand, it provides the financial security against future loss and uncertainty and on the hand it acts as a catalyst for economic development. So insurance is an interesting research topic for the researchers and finance students.

In Nepalese economy, insurance companies are growing rapidly with a good operating result. Despite various past studies regarding financial performance of insurance companies, there is the need of the study to evaluate the financial soundness of Nepalese non - life Insurance company to provide clear findings about this sector's performance and contribution to national economy.

In general, the study focuses to assess the financial performance of Nepalese non - life insurance industry from FY 2069/70 to 2074/75 considering the listed companies. The study also tries to answer the following research questions.

- How has Nepalese non-life insurance sector performed financially?
- What is the relationship between operating efficiency and solvency margin ratio?
- What is the relationship between operating efficiency and operating profit margin ratio?

1.3 Purpose of the Study

The main purpose of the study is to analyze financial performance of Nepalese non-life insurance industry. However the specific objectives are as follows:

- To assess the financial performance of the non-life insurance sector in Nepal.
- To establish the relationship between operating efficiency and solvency margin ratio.
- To establish the relationship between operating efficiency and operating profit margin.

1.4 Significance of the Study

Although non - life insurance sector in Nepal is continuously growing, it is not well developed. High competition, poor monitoring mechanism, limited market opportunities, low per capita income, lack of profitable investment opportunities and increasing violence and terrorism pose a negative impact in the financial sustainability of Nepalese insurance companies. The financial performance of Nepalese non - life insurance still remains a question. Even though various studies have been carried out in this sector, they have not been successful to point out the facts for influencing financial performance of this sector. This study aims to provide an insight into determination of financial health of Nepalese non - life Insurance companies and forecast the future performance based on the past performance.

This study aims to provide an insight into determination of financial health of Nepalese non - life Insurance companies and forecast the future performance based on the past performance. Similarly the study might be important for insurance companies, customers, scholars, students and other interested parties to gain knowledge about financial status of Nepalese non - life Insurance companies. The researcher believes that the study sheds some light about use of various financial ratios in analyzing the financial performance of Insurance companies as well as time series analysis to give the future performance aspect of the insurance industry. The research would play vital role to discourse ratios and its use in identifying the major factor for poor financial performance and providing the suggestion to maintain the sound financial position to compete the global and competitive insurance market. This

study should also be helpful for upcoming researchers to study further more on this study.

1.5 Limitation of Study

The proposed study has some limitations and they are as follows:

- The study will be based primarily on the secondary data, available in the form of reports and articles, through public sources such as internet, journals, magazines, annual reports.
- Due to the small sample size used for this study, result may not be generalized beyond the specific population.
- This study has not consider the Air insurance
- Forecasting will be done in a certain time period using simple exponential method.

1.6 Literature Review

The study of the existing literature helps the researcher to draw the inference of the study and also helps to acquire in depth knowledge about the subject. The literature under review is obtained from journal articles, text books and websites. The following are the review of some related literature:

The study had been performed to know the empirical relationship between operational efficiency and profitability. Efficiency no doubt impacts on the performance of firms. One of the most important goals of company management is to maximize its effectiveness current and future financial and business performance as they affect market price per share and shareholder wealth (Gill, Al., 2014).

The relationship between efficiency and profitability should be positive when better use of resources contributes to higher profitability. However, the link between efficiency and profitability is not as unambiguous and is usually described using the efficiency profitability matrix. In that matrix, the firms are divided among four groups based on their profitability and efficiency and identified the firms that have a high level of profitability and efficiency (star), firms with a low profit and efficiency and in addition with firms with low efficiency and high profits , and firms with high efficiency and low profits by (Kumar, 2008). The existence of less efficient and yet

profitable firms, and vice versa, can be explained by market imperfections. The level of competition, the type of product or service offered and information play a very important role (Keramidou, Al., 2013).

The property and casualty insurance industry has historically focused on underwriting ratio as a primary measure of operating performance but in last thirty years there were many dramatic changes occurred in this industry. The changes of underwriting profit have decreased and forcing the industry relies on investment returns and careful reinsurance. A unique performance measurement system, the insurance performance measure, was presented and illustrated. IPM integrates other areas of operating activity to measure profitability. The study determined the major ingredients of profitability are underwriting ratio, investment return and float generation, reinsurance, regulatory-imposed format and reserve estimation problems (Calandro & Lane, 2006).

Efficiency analysis with DEA, attract quite few attention in finance sector. In literature all over performance of companies examined in general. However analysis of the activities performances carried out by the company can be researched with data envelopment analysis. In this paper, in order to analyze the effectiveness of underwriting processes for insurance companies primarily inputs and outputs are determined. These input and output variables were obtained from annual reports of the 12 insurance companies operating in Turkey. Efficiency analysis were made by using models of CCR and BCC with utilizing EMS program. Thus, according to both models efficient and inefficient companies were determined. In addition, scale efficiencies of insurance companies which were evaluated were also examined. Finally, by using specific input and output variables analysis of insurance companies which has been developed to see performance of companies relative to single activity by (Ertugrul, 2016)

1.7 Research Methodology

It is the process of arriving to the solution of the problems through planned and systematic dealing with the collection, analysis and interpretation of fact and figures. This study attempts to analyze the "Financial performance of non-life insurance industry in Nepal'' in order to fulfill the basic objective. It consists of research design,

sources of data, population and sample, data processing procedure and tools and technique of analysis of data. It covers quantitative methodology using financial and statistical tools.

1.8 Research Design

The study is based on descriptive and analysis research design. The research designs have been made to describe, explore and analyze the financial performance of selected non- life insurance industry in Nepal for the period of five years. Hence, the study shows research is quantitative rather than qualitative.

1.9 Population and Sample

There are 17 general insurance companies registered Nepal Stock Exchange (NEPSE) and 16 general insurance companies registered in Beema Samiti Nepal. Among them five non-life insurance industry in Nepal viz Alliance Insurance Company Ltd, Himalayan Insurance Company Ltd, Premier Insurance Company Ltd, Sagarmatha Insurance Company Ltd and United Insurance Company Ltd will be used in this study. The data utilized in this study will complied from annual report of non-life insurance industry.

1.10 Data Collection and processing procedure

The study is based on secondary data. Necessary suggestions have been taken from various experts both inside and outside the insurance companies as required**.** The necessary data such as published balance sheet, profit and loss account and other related statement of account as well as annul reports of sampled insurance companies are obtained from Beema Samiti. Likewise, other related and necessary information are obtained from the publication and website of sampled insurance companies, Beema Samiti and security exchange center. Other sources are books, booklets, magazine, journal and newspaper related to insurance.

1.11 Data analysis tools & techniques

In the process of data analysis various financial tools are used for measurement of financial performance of selected non-life insurance in Nepal in order to get the meaningful result and correlation analysis are carried out to examine the relationship

between operating efficiency and financial performances. Calculation will be carried out with the aid of the financial software such as Excel, SPSS. Various graphical tools such as bar charts, and tables will be used to present the observations. Analysis is carried out based on facts and statistics about the industry.

1.12 Chapter Plan

Chapter I **-Introduction:** This chapter gives an overview of the background of the study, problem statement, purpose of the study, significance of the study, limitation of the study.

Chapter II **- Review**: This chapter reviews the theoretical base of the study as well as the previous studies on impact of cash flow reporting on individual investors' investment decision making.

Chapter III**-Research Methodology**: This chapter covers the method used in the conduct of this study from the process of data collection to data analysis.

Chapter IV**-Results:** This chapter discusses the result of data analysis. Here we analyze the individual investors' on investment decision making. And the result of correlation between cash flow reporting and individual investors' is presented.

Chapter V**-Conclusion:** This chapter summarized the overall study and discusses the conclusion drawn from the findings of the study. Finally some recommendations to individual investors' will be provided regarding the investment decision making.

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