CHAPTER - I

INTRODUCTION

1.1 Background of the Study

It is obvious that the world is surrounded by risks and uncertainties in the 21st century of modernization and globalization. Especially, in developing country like Nepal, safety and security are one of the key issues. It gives author an immense pleasure to research insurance market in Nepal.

People live in society. Society is full of risks and uncertainty. Insurance is a device providing financial compensation to those who suffer from misfortune. In other words, insurance is the best means for security to human life and property from various risks (Shrestha, 2001). It is a kind of investment, from which one gets return only when certain loss occurred from predetermined incidents (Singh, 2009). Moreover, life insurance encourages savings in the society because insured is paid back a lump sum amount with some bonus if he/she alive at the end of the period.

From the economic point of view, insurance is a business through which the scattered savings are collected in the form of premium and become an important source of funds for capital investment. Generally insurance companies invest such funds typically in shipping centers, hospitals, factories, housing development, new plants, etc. (Singh, 2009). As such, insurance business creates capital fund and promotes development, growth and prosperity of a country. Furthermore, insurance companies are considered as an important part of institutional investment of any country as they invest in corporate securities as well as other collective investment schemes and in turn, they produce sufficient income to meet their obligations in the form of promised insurance benefits (SEBON, 2007). In Nepal, insurance business is regulated by Insurance Board (Beema Samiti).

The insurance in Nepal doesn't have a long history. Modern insurance company began from 1947 A.D. Due to lack of awareness, people were not serious about the significance of different aspects of insurance. This resulted in people suffering heavy losses during accidents. The first insurance company was named as "Maal Chalani ra Bima Company" which was later renamed as "Nepal insurance and Transport Company" in 1959 and further renamed as "Nepal Insurance Company Ltd". In 1968, the government of Nepal established "Rastriya Bima Sasthan" under the Company act Beema Samiti (Insurance Board) is an autonomous body, established to develop, systemize, regularize and regulate the insurance business of Nepal under Insurance Act, 1992" (Insurance Board of Nepal). Insurance company collects funds as premium method in accordance to their nature and corporate objectives.(Insurance Board of Nepal)

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.

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, Davies and Podpiera, 2003).

The role of financial institutions in the economy of a country in general and insurance companies in particular and it means their efficient and effective financial system through savings mobilization, risk transfer and intermediation. Therefore, financial institutions, channel funds and transfers risks from one economic unit to another economic units so as to

facilitate trade and resources arrangement. Recent research shows that the efficiency of financial intermediation and transfer of risk can affect economic growth while at the same time institutional insolvencies can result in systemic crises which have unfavorable consequences for the economy as a whole. Hence, the important role that financial institutions such as insurance companies remain in financing and insuring economic activity and contribute to the stability of the financial system in particular and the stability of the economy of concerned country in general is part of immune and repair system of the economy.

General or non-life insurance companies provide safeguard against the financial loss of any property or unforeseen liability. The role of insurance in economic development is as equal to that of banking institutions. A study on the performance of the insurance industry is essential since the financial service provided by insurance industry is important in protecting business and individuals from risks they are exposed to.

The best performance of any industry in general and any firm in particular plays the role of increasing the market value of that specific firm coupled with the role of leading towards the growth of the whole industry which ultimately leads to the overall success of the economy. Measuring the performance of financial institutions has gained the relevance in the corporate finance literature because as intermediaries, these companies in the sector are not only providing the mechanism of saving money and transferring risk but also helps to channel funds in an appropriate way from surplus economic units to deficit economic units so as to support the investment activities in the economy.

The insurance industry in particular is part of immune and repair system of an economy and successful operation of the industry can set energy for other industries and development of an economy. To do so the insurance industry is expected to be financially solvent and strong through being profitable in operation.

Analysis of financial performance of financial service companies differ in many ways from analysis of that of manufacturing companies. Manufacturing companies bring in more capital at the time of establishment and subsequently borrow capital from banks and financial institutions, whereas financial service institutions like banking and insurance companies deal with finance. Their main business activity is getting money from their customers by the way

of accepting deposits and premiums. Hence these types of companies do not bring in more capital, but they tend to manage it with the funds obtained from customers and this is a major element in assessing performance.

1.2 An Introduction to Shikhar Insurance Company Limited

Shikhar Insurance Company Ltd. (SICL) is an established General Insurance Company promoted by a young team of reputed Industrial and Business houses involved in various fields like Aviation, Banking, Manufacturing, Trading Travel Trade Media Houses, etc.

SICL is a company with a vision, geared up to face the every challenge that persists in the insurance industry the challenges being developing policies as per the requirement of the client at an economical price, filling the void of the acute shortage of technical manpower in the insurance industry, introducing new products at par with international standards, creating capacities within the markets so that the outflow of the precious convertible currency can be minimized etc.

SICL believe that the relationship between the insured and the insurers is one of confidence and trust. Their goal is to set the standard for the insurance industry by providing quality service that exceeds customer's expectations. The company has the right combination of dedicated service oriented professional for which one can always trust for an excellent service.

1.2.1 Mission

"Guarantees to provide policy holders the best available insurance protection and prompt settlement of claims when needed."

SICL is a company with a vision, geared up to face the every challenge that persists in the insurance industry the challenges being developing policies as per the requirement of the client at an economical price, filling the void of the acute shortage of technical manpower in the insurance industry, introducing new products at par with international standards, creating capacities within the markets so that the outflow of the precious convertible currency can be minimized etc.

1.2.2 Total capital of SICL

The company's Authorized Capital amounts to Rs. 2,00,00,00,000 and Issued Capital amounts to RS. 95,39,46,400. While paid up capital amount to Rs. 81,76,68,300. Shareholders pattern of SICL is promoter share 70 percent and general public share is 30 percent, which is also shown in following figure.
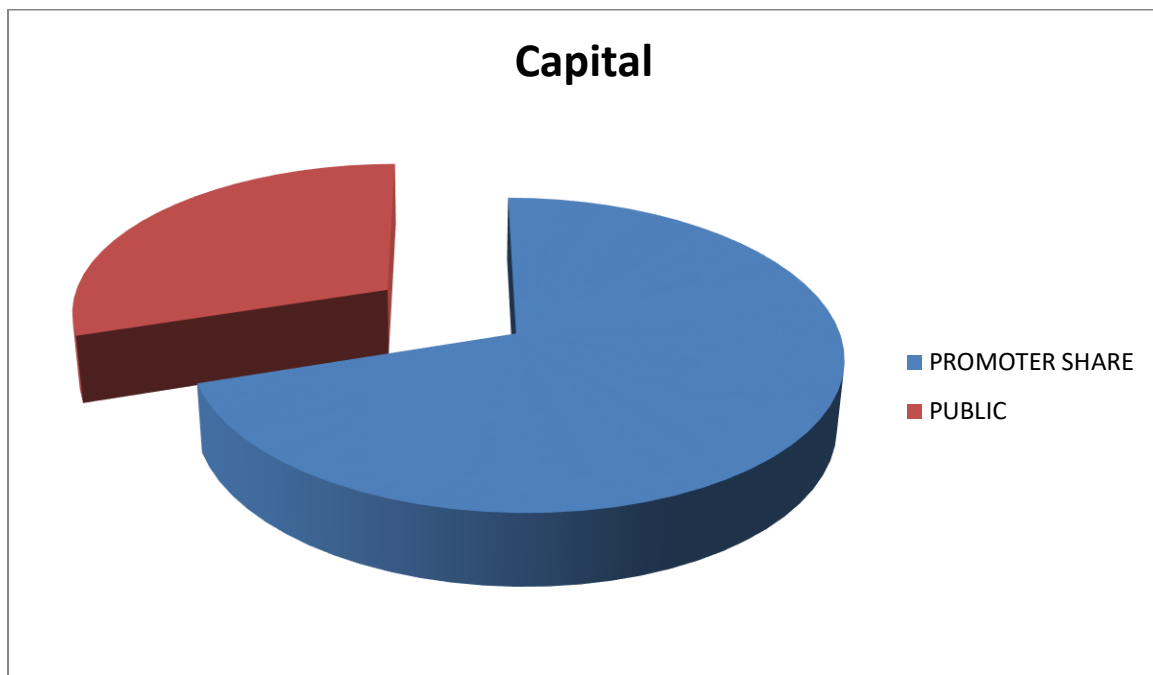
(Note : Annual Report of Shikhar Insurance)

Figure 1 Capital Structure

1.2.3 Shikhar Insurance Products

I. Agri Insurance

This insurance provides insurance coverage for various agricultural activities like Livestock, Poultry, Fish, Paddy, Vegetables, Fruits etc. Farming against the risks of Fire, Acts of God (Earthquake, Flood, Landslide, Storm), Diseases, Insects etc.

Shikhar Insurance Company Ltd. issued first policy on 7th March, 2013.

II. "Hole In One" Insurance

This insurance covers the prize money/item given to first contestant of Golf Tournament, who achieves hole-in-one to specified hole with first tee shot. The prize money/item is set by the organizer. The terms of claim payment are as below:

a) at the tournament named in the policy.
b) during a complete round on the specified date(s).
c) at the hole(s) stated in the policy
d) and is accomplished with the first tee shot

III. Banker's Indemnity Insurance

This insurance provides comprehensive insurance coverage from one single insurance policy to the institutions, which have heavy financial transactions like Bank. The risks covered under this insurance are Cash/Valuables in the premises, Cash/Valuables in Transit, Forgery, Alteration, Infidel activities of staffs etc.

Shikhar Insurance Company Ltd. started this policy from 17th November, 2004.

IV. Health Insurance

Health Insurance covers a whole range of expenses and offers Cashless Treatments in many hospitals in Nepal and over 4,000 hospitals all over India. Furthermore, one can buy this policy for self, couples, families, and/or corporate employees from 2 Lakhs - 20 Lakhs. The eligibility for this policy is from 5 - 65 years of age.

Our re-insurer for health insurance is ICICI Lombard and we are able to offer 100% coverage arising from medical expenses incurred during hospitalization for more than 24 consecutive hours. Furthermore, we also cover expenses during the followings:

- 30 days pre hospitalization

- 60 days post hospitalization

- 150 Named advanced technological surgeries and procedures that require less than 24 hours of hospitalization

Please be informed that health check up is required for people over the age of 45 plus or for anyone availing insurance exceeding Rs. 5 lakh.

Shikhar Insurance Company Ltd. introduced this policy on 22nd August, 2011.

V. Secure Mind Insurance

This insurance pays the outstanding loan to Bank or Financial Institution in case of Death or Permanent Total Disablement of the insured borrower. Further, this policy also pays the tri-monthly installments in case of involuntary unemployment of the insured borrower.

Shikhar Insurance Company Ltd. introduced this policy on 18th October, 2011.

VI.Group Medical

This insurance covers the medical expenses of the insured persons arising out of accidental injury and illness whether the treatment is taken at home or hospital.

Benefit your staff with our Group Medical Insurance as the expense will be shared. Shikhar Insurance Company Ltd. started this policy from 17th November, 2004.

VII.Group Personal Accident

This insurance is quite similar to Personal Accident Insurance. Personal Accident Insurance covers for a person only whereas Group Personal Accident covers for a group of people. If you think of benefiting your real assets-"your staffs", take Group Personal Accident Insurance for your staff.

Shikhar Insurance Company Ltd. started this policy from 17th November, 2004.

VIII. Trekker's Assistance

Trekking insurance is similar to Personal Accident Insurance (PAI) with some additional features. Trekking insurance has been introduced in the market for trekker and mountaineers to address some additional risks, which is not covered under PAI.

PAI covers only accidental injuries [incl. death] by violent and visible means. However, high altitude sickness, Frost Bite and Blizzard are major risks in Trekking/Mountaineering, which are not covered under PAI. Trekking Insurance Policy covers these risks for Nepalese as well as for the foreign citizens. However, Snow Blindness is not covered.

Shikhar Insurance Company Ltd. started this policy from 17th November, 2004.

IX.Contractors' All Risk

Contractors All Risk (CAR) policy is designed to cover all types of civil engineering projects like buildings, dams, flyovers, etc. It is possible to record the interest of Principal, Contractors and Subcontractors in the policy.

This Policy broadly covers the risk of accidental physical loss or damage in respect of the contract works, during the execution of a civil project. CAR insurance provides an "all risk" cover. All perils are covered unless specifically excluded.

Cover incepts from the commencement of work or after unloading of first consignment at project site, whichever is earlier and terminates on handing over of works to the principal or expiry of policy, whichever is earlier.

Shikhar Insurance Company Ltd. started this policy from 17th November, 2004.

X. Fidelity Guarantee

This policy is intended to make good all direct pecuniary loss to the employer caused by act of Fraud or Dishonesty committed by all or any of the Employees.

Please note that all the employees for which Fidelity Guarantee Insurance should be the permanent staffs and should be the citizen of Nepal. Names of the employees should be submitted along with the proposal form.

Shikhar Insurance Company Ltd. started this policy from 17th November, 2004.

XI.Erection All Risk

This policy covers risks associated with storage, assembly/erection and testing of Plant and Machinery. EAR insurance provides comprehensive cover. All perils are covered unless specifically excluded. Cover incepts from the time of unloading of the first consignment at the project site and terminates on completion of testing or handing over of the project to the Principal, or the period chosen, whichever is earlier.

Shikhar Insurance Company Ltd. started this policy from 17th November, 2004.

XII. Cash in Transit

Handling cash has always been risky. It could be more risky if it is in transit. This applies for cash, bank notes, drafts, postal pay bonds, withdrawal slips, bearer cheques, etc. The risk is not only of loosing the money, but also of a threat to the person who is carrying the money especially if the amount is large.

In offices, where large transactions are a part of everyday job routine, Shikhar Cash in Transit Insurance provides the necessary security.

Shikhar Insurance Company Ltd. started this policy from 17th November, 2004.

XIII. Personal Accident

Accidents can take place anytime and anywhere. All accidents require treatment and that again requires money. In case of any accidents or death of a family member, the loss is not always emotional but at times financial as well. Shikhar Personal Accident Insurance provides benefits to the insured against the following:

- Accidental Death Only
- Permanent Total / Partial Disability
- Temporary Total Disability
- Medical Expenses

Shikhar Insurance Company Ltd. started this policy from 17th November, 2004.

XIV. Public Liability

This policy covers the payable compensation in connection of legal liability of the Insured on account of loss or damage to the third party property as well as third party personal injury (including death) arising out of the Business Operation of the Insured.

Shikhar Insurance Company Ltd. started this policy from 17th November, 2004.

XV. Fire & Allied Peril

One can never be certain as what future holds. Sometimes one cannot avoid mishaps despite taking proper precautionary measures due to many reasons. Sometimes one may have to loose huge investment because of various risks including natural calamities.

Shikhar Fire and Allied Perils Insurance covers loss due to Fire with extension of Earthquake, Riot, Strike Damage, Malicious Damage, Terrorism, Storm, Flood, Typhoon, Aircraft and Aerial damage etc.

Shikhar Insurance Company Ltd. started this policy from 17th November, 2004.

XVI. Marine Transit

To make the business secure and to avoid unnecessary losses, Marine Transit Insurance provides coverage against both imports and exports. Marine cargo has many risks and especially for Nepal where we do not have our own dockyard, it would take longer time for the goods to reach its destination. Shikhar Marine Transit Insurance takes the responsibility of the goods and provides peace of mind.

Shikhar Insurance Company Ltd. started this policy from 17th November, 2004.

XVII. Travel Medical Insurance

People travel abroad for various purposes. It can either be for pleasure or for business. It cannot be guaranteed that everything will go smoothly while traveling. In case of medical emergency, accidents or personal liability the financial burden in the foreign land can be too much to cope with as Medical and Emergency expenses in many European and Western countries are very expensive. So it is always better to take proper measures to deal with such situations before traveling abroad as precaution is better than cure.

Also many embassies here in Nepal have made Travel Medical Insurance mandatory before issuing the visa. We offer comprehensive Travel Trip Insurance policy having worldwide cover. Shikhar Travel Trip Insurance covers the following:

- Medical and Emergency Expenses
- Personal Liability

- Loss of Passport

- Delay floss of Checked Baggage

Shikhar Insurance Company Ltd. started this policy from 17th November, 2004.

XVIII. Aviation Insurance

This insurance covers aircraft against accidental damage, war and allied risk, third party (including passenger and cargo) liability etc. Aircrew personal accident, Loss of License to Pilots, Aero-engine Breakdown, Airport Operator's Liability Insurance also fall under this portfolio.

Shikhar Insurance Company Ltd. started this policy from 17th November, 2004.

XIX. Household Insurance

Home is where the heart lies and it is the greatest possession of ones life. Everybody seeks to give the best possible protection to their home. Home cannot be protected by only keeping various security measures available. It is exposed to various dangers like Fire, Burglary, Riot, Strike, Malicious Damage, Sabotage, Terrorism and also other natural calamities like Flood, Storm, and Earthquake etc. Sometimes a small mistake can cause huge loss to the property. Shikhar Household Insurance Policy provides the comprehensive coverage against the above mentioned risks. So be prudent and buy Shikhar Household Insurance Policy.

Shikhar Insurance Company Ltd. started this policy from 17th November, 2004.

XX. Vehicle Insurance

This Insurance covers both the damage of the vehicles and the Third Party Liability under Comprehensive Vehicle Policy. It also covers the Personal Accident of the driver and the passengers.

For many of us vehicle is still a luxury and damage or loss to the vehicle would mean huge investment loss that will take years to recover. If one buys the vehicle on loan facilities, the loss would be enormous.

There are various reasons which can lead to accidents and vehicle damages and sometimes it can happen without ones fault. This could be true in situations where there are many vehicles and congested roads everywhere. To avoid this unpleasant situation, apply for Shikhar Vehicle Insurance Policy and make the most out of it.

Shikhar Insurance Company Ltd. started this policy from 17th November, 2004.

XXI. Duty Insurance

This insurance pays duty of India / difference between market value and C.I.F. value in the case of insured goods do not reach Nepal by the reason of Theft, Pilferage and Non delivery while the goods are in course of transit from Calcutta to Nepal.

Shikhar Insurance Company Ltd. started this policy from 17th November, 2004.

1.2.4 Reinsurers of SICL

When insurers insure a risk again it is called reinsurance. It is the mechanism of risk transfer from the insurers to the reinsurers. Following are the list of reinsurers of SICL.

- General Insurance Corporation, India
- Tokio Marine Global Re, Labuan
- African Re, Mauritius
- ICICI Lombard
- Sirius International, UK Branch
- New India Assurance Limited
- IFFCO Tokio, India
- Best Re
- Various Lloyds Syndicate
- Malaysian Re

1.3 Statement of the Problem

The trend in insurance claim settlements after the earthquake shows that a majority of Nepalis and their property remain uninsured which has increased the level of vulnerability to losses if such disasters occur in the future. According to the Post Disaster Needs Assessment (PDNA), the damage to property and infrastructure amounted to Rs 517 billion. However, it is an irony that only 3 percent of the damage was insured. As per IB, 16 non-life insurers have settled 16,836 claims paying Rs 12.81 billion in compensation to the insured as of mid-February. A total of 17,782 non-life insurance claims worth Rs 16.85 billion were lodged by the policy buyers after the earthquake out of which 5,896 claims have been declared as invalid. Meanwhile, the claims for life insurance total even smaller at Rs 3.47 billion.

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, Davies and Podpiera, 2003).

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 in order to determine how the industry will respond to these challenges and which firms are likely to survive (Berger et. al, 1997).

The failure of the insurance companies obviously affects entire economy including banking and trade and commerce. Nepalese insurers are how far maintaining the sound financial health is a major issue to regulators, insurers, policyholders and policyholders with a different angle and perspectives. Do insurers are maintaining minimum acceptable level of financial status in Nepal? Are policyholders safe and shareholders are secure in term of their investment? These issues try to address by this paper.

1.4 Objective of the Study

The main objective of this study is to analyze the financial performance of the non life insurance company. However, following objectives are listed below:

- To determine the financial performance on the basis of CARAMEL model
- To analyze the financial strength and weakness of the sample company

1.5 Significance of the Study

The development of insurance industry clearly indicates that the golden days for the nepali insurance sector has become possible. The business of insurance is thriving and insurers are gradually reaching out to many new parts of the country that previously remained out of the radar of the insurance sector. With the new entries, observers say that the growth of the risk-mitigation business is likely to accelerate over the next few years. Presently, there are 27 insurance companies, nine in life and 17 in non-life areas, operating with more than 400 branches across the country.

The addition of the newcomers brings the total number of insurance companies in Nepal to 42, a number that signals a new era for market expansion of insurers and increase in access to insurance in Nepal.

The increasing number also shows rising investor confidence in the domestic insurance market. This is displayed by fact that despite the mandatory hike in paid-up capital of insurance companies, new players want to immediately enter the market while the existing insurers are looking to further strengthen their position. The IB in late March announced a fourfold requirement for increment of paid-up capital of both life and non-life insurance companies giving them a deadline of mid-July 2018. As per the directive issued by the regulator, the new paid-up capital requirement for an insurance company has been set at Rs 2 billion from the current level of Rs 500 million for Life Insurance Companies. Likewise, non-life insurance companies have been told to increase their paid-up capital to Rs 1 billion which was previously Rs 250 million.

Similarly, the interest of general public towards insurance over the last few years has grown as more Nepalis are looking to get insured. The devastating earthquake of 2015 with the huge loss of human lives and property proved to be an important lesson in this regard. As a consequence, people have become more aware that insurance can be instrumental to mitigate the risks in the future. More than 9,000 people lost their lives, 22,000 got injured and damage amounting to USD 10 billion was registered due to the natural disaster.

In such a situation, this study tried to analyse and indicate the overall financial health whether they are capable to compete the challenges and grab to opportunities or not. Insurance sectors are also important part of financial sector. However, it has given less priority compared to banking sectors by researchers. So, the study basically covered the non-life insurance falling in the same strategic group to be more meaningful. No single measure can tell much. Thus, a case study has conducted on based on non-life insurance sector. Thus the study may be more fruitful and rationale to their stakeholders at present situation.

1.6 Limitations of the Study

The following are the limitation of the present study: -

• This study is limited to the study of financial performance of only one non life insurance company i.e. Shikhar Insurance Company Ltd.

• This study is based on secondary data.

• This study has analysed and evaluated of data to the latest five years period i.e. since 2012/13 to 2016/17 (i.e. 5 years historical data)

• In this study, only selected financial and statistical tools and techniques are used.

1.7 Organization of the Study

This study has organized into the following five chapters:

Chapter – I: Introduction This chapter includes general background of the study, introduction of the organization, statement of the problems, objectives of the study, significance of the study, limitations of the study and organization of the study.

Chapter - II: Review of Literature This chapter reviews the existing literature on the concept of financial performance analysis. It also contains review of related literature like books, journals and articles, report, magazine and earlier thesis related to the subject.

Chapter - III: Research Methodology This chapter expresses the way and technique of the study applied in the research process. It includes research design, population and sample, data collection procedure and processing, tools and method of analysis.

Chapter - IV: Analysis and Interpretation of Data In this chapter collected and processed data has presented, analysed and interpreted with using financial tools as well as statistical tools.

Chapter - V: Summary, Conclusion and Recommendations In this chapter, summary of whole study, conclusions and recommendations have made. At the end of the study, Bibliography and Appendices have also incorporated.

CHAPTER II

REVIEW OF LITERATURE

2.1 Introduction

A literature review is a text of a scholarly paper, which includes the current knowledge including substantive findings, as well as theoretical and methodological contributions to a particular topic.(Wikipedia). Review of literature comprises upon the existing literature and research related to the present study with a view to find out what had already been studied. The purpose of the reviewing the literature is to develop some expertise in One's area, to see what new contribution can be made and to review some idea for Developing research design". (Pant, 1996)

2.1.1 Conceptual Framework

Scholars all over the world have attempted to define insurance based on their opinion. Dickson (1960) in Oke (2012) opined that insurance is designed to protect the financial wellbeing of an individual, company or other entity in case of unexpected loss. According to him, some forms of insurance are required by law, while others are optional. Agreeing to the terms of an insurance policy and paying the premium create a contract between the insurer and the insured. Adebisi (2006), states that insurance is a complicated issue which involves economic and social devices for the handling of risks to life and property. It is social in nature because it represents the cooperation of various individuals for mutual benefits by working together to reduce the consequence of similar risks. As every new area of risks, and since new insurance package is mounted to take care of more and more areas of risks, the insurance industry lourishes.

Furthermore, Kunreuther, (2010) opined that insurance is an economic institution that allows the transfer of financial risk from an individual to a pooled group of risks by means of a two-party contract. The insured party obtains a specified amount of coverage against an uncertain event for a smaller but certain payment. Similarly, Igbojekwe (2006) defined insurance as the identification of a purchaser of an insurance contract against losses which may arise from the occurrence of specified type of events after the payment of a consideration called premium. Insurance also entails a contract between insurer/assurer and insured/assured whereby one party agrees to undertake the risk of another in exchange for consideration known as premium.

Agbaje (2005) defined insurance as the business of pooling resources together to pay compensation to the insured or assured (i.e. the policy holder) on the happening of a specified event in return for a periodic consideration known as premium. Note that, an insurance contract is usually evidenced by a document called the insurance policy which is usually signed by the insurer or assurer or his agent. Insurance businesses help buyers organize their risk. In exchange for a constant stream of premiums, insurance businesses offer to pay conditioners an addition of cash upon the incident of a predetermined event, such as a natural disaster. More amply put, insurance businesses conceive worth by pooling and redistributing diverse kinds of risk. It does this by collecting liabilities (i.e premiums) from every person that it insures and paying them out to the few that really need them. Insurance businesses theoretically make cash in two ways: Firstly, by ascribing enough premiums to cover the expected payouts that they will have to cover over the life of the principle. Secondly by earning investment comes back (―the float‖) utilizing the collected premiums.

2.2 Meaning of Insurance

Uncertainty is at the heart of insurance. This is already manifested in our limited knowledge about (observable) past events. In the "real" world all our activities depend on uncertain and unknown circumstances beyond the control of a single individual. Unambiguous, deterministic cause-effect relationships are replaced by ambiguity in the perception of the economic environment. With respect to the future, uncertainty looms still larger. However, it is possible to make forecasts about future events even with incomplete knowledge of past events.

There are different degrees of uncertainty.

(1) Uncertainty, where the structure of the system and the cause–effect relationships are known.

(2) Uncertainty with known probability distributions (uncertainty of the first degree, usually called risk). Individuals have a probabilistic but exact notion of the world. Probabilities can be based on objective evidence or on subjective judgement.

(3) Uncertainty without knowledge of probabilities.

(4) Uncertainty arising out of game situations (uncertainty of the second degree), where individuals play against each other and choose from a set of feasible strategies.

Insurance is occasionally called the "business of uncertainty". On the one hand, insurance is only possible in the presence of uncertainty and on the other hand, insurance is supplied by firms who seek to make a profit out of this. Insurance is, however, not the only way to cope with risk or uncertainty; rather there exists a large variety of other measures, methods, and institutions individuals use to create, influence, transfer, and finally bear risks. Insurance is, however, of particular importance for risks with negative consequences (which corresponds to the colloquial meaning of "risk"). Usually risk is understood as the danger of incurring a loss. This danger can materialize in different ways, ranging from complete loss, impairment or reduction of value of an asset to the loss of a limb or even loss of life. According to (Hax, 1964), "Insurance is the exchange of an uncertain loss of unknown magnitude for a small and known loss (the premium)".

The term insurance is equivocal one. It can designate, in the first place, the institutions of insurance, whatever their objective of social form may be. Private and nationalized companies, social security schemes, mutualist societies, companies run on a premium basis, insurance against accident death, fire, civil liability: there are a multiplicity of such institutional types, which specialists have set out to classify in various ways, distinguishing between insurance of persons and property, mutualist and premium systems, social and private insurance(Ewold, 1991).

2.3 Risks

Risk is the term used for the uncertainty about future losses. It is an unknown consequence of future that can raise future damage or loss. According to A.S Hornby in oxford dictionary, "*Risk is the possibility or chance of the meeting danger or suffering loss*". (Hornby 1996) Risk has been more usual phenomenon that is occurring in daily life. Thus, to minimize this risk, people tend to insuring themselves.

2.4 Risk Management

Risk management is a process to manage future uncertainty which is called risk. In other words, it is a systematic way of minimizing the future loss by proper planning in handling risks. "*Risk management is general management functions that identify asses and address the cause and effect uncertainty and risk on an organization*". (Williams & Young 1995)

It deals with every aspects of risk that can happen in future by identifying, analyzing, and handling the possible consequences. Risk management plays a key role in any business.

2.5 Types of insurance

Insurance Company insures wide variety of uncertain aspects of our life and society that can be classified as life and general insurance. Life insurance is a contract that is made between an individual and insurance company where individual agrees to pay premium and in return, insurance company pays a certain sum of money either on the death of insurer or on the expiry of a fixed period. It deals only with physical and mental accident of individual whereas general insurance considers all insurance except life insurance.

Life and general insurance are broad concept and are discussed below.

2.5.1 Life Insurance

Life is uncertain. A man may die relatively young, leaving his dependent without adequate financial supports. So, life insurance plays a major role to overcome this deficiency. It is an insurance that is done to safeguard the future of insurer's family by giving strength to pursue their prosperous future. It is not only in the case of death of insurer but also in times of

his/her serious illness or incapable of continuing work. Life insurance provides a support to rebuild the confidence in future. "*Life insurance is a contract providing for payment of a sum of money to the person assured or to his nominee, on the happening of certain events*" (Jyotsna & Nishwan 2007)

Generally, life insurance is a type of insurance plan conducted by the insurers that is directly related with providing assurance against the common part of total human life. It is not the assurance of life as it is impossible. However, it assures and tries to meet the economic aspects of human life. It provides future benefits against unseen future accident and it helps to live comfortably during retirement and incapable stage of life.

Nepal Insurance Act 1992(section 2-1) has defined life insurance as "the contract of insurance, affected on human life on the basis of age to pay a fixed sum to the assured or his nominee, on the death or on the happening of any contingency, dependent on human life in consideration of payment of a fixed installment premium by the insured person".

Insurance companies provided various polices in accordance to insured interest and desire. The policies in life insurance that are common in practice are listed below.

1) Whole Insurance

Life insurance policy that covers the entire life is called whole insurance. This policy covers a policy holder against death during his whole life. This policy is a long term policy that insures the individual throughout his life.

*"*Whole life insurance doesn't have any expiration date. When signing the contract, the insurance company and the policy holders agree to set a face value (amount of money benefit in case of death) and a premium."(Rull, Hong & Victor 2004)

This type of life insurance helps in building the value that is paid out to beneficiary in case of death of policy holder. Moreover, the premium is fixed irrespective of your age.

2) Term Insurance

Term insurance policy is the most common life insurance policy and it covers for a specified term. It protects a policyholder's life only until its expiration date and after that it expired as it is for certain period. This policy premium is less than whole life insurance premium costs. It is beneficial for a short period of time and helps in immediate need. For example, it is a good choice of parents to have coverage of young children for term life insurance until their children grow enough to make living themselves. (Rull, Hong & Victor 2004)

2.5.2 Non-Life Insurance

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

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

General insurance is designed according to the customer necessity and it is very appropriate for covering any kind of uncertainty in future. It can play a vital role in building a progressive business by assuring their business activities. This will propel individuals and business sectors to take risk and be successful in future.

There are different kinds of non-life insurance classified according to their nature, which are as follows:

1) Marine Insurance

The marine insurance is the oldest form of insurance that originated from Greek and maritime loan. This insurance policy is focused on insuring the loss or damage involved during transportation of goods from the points of loading to unloading of the goods. It is very essential insurance for the shipping industry as it protects against loss or damage by peril of the sea and generally, through the hazards of transit.

In fact, marine insurance provides all kind of assurance during a given period of voyage that include from natural disaster to other manmade disaster. The modern marine insurance policy provides the protection against inland transit loss arising on the way to seller and buyer. Marine insurance can be classified into following categories: (Goel: 151f)

- Hull insurance

- Cargo insurance

- Freight insurance

- Liability Insurance

2) Fire Insurance

The insurance policy that covers loss and damages caused by fire is called fire insurance. It is a contract made to compensate a certain loss or damage during the policy period caused by fire. Fire insurance plays a pivotal role in compensating the losses as it can cause a huge destruction of valuable property.

However, the policy of fire insurance can be modified according to need of insurer that may include wide range of danger close to fire like wind, storm, earthquake, terrorism, explosion, and landslide. Fire insurance contract can be customized by changing the premium as for the need of insurer.

3) Aviation Insurance

Aviation insurance policy covers the loss and damage occurred in aircraft during flights, landing, and takeoffs. In addition to that, it also covers the risk of passengers and aircraft hull. Aviation is a big industry at present. So, aviation insurance policy has an immense

importance for assuring any future damage and loss. It includes the hull insurance, aircraft liability insurance and medical payments too.

4) Motor Insurance

Automobile insurance has immense impact in sharing the loss and controlling the damage caused from vehicles. This insurance policy helps by covering the losses and damages resulting due to accidents of vehicles. With the growing number of vehicles in the street, road accidents have been major threat compared to other means of transport. Automobile insurance policy generally covers property, liability, and medical expense according to the contract made between insurance company and insurer.)

5) Engineering Insurance

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

6) Contractors All Risk Insurance

This insurance provides indemnity to contractors for physical damage that may take place during the period of construction and also during certain period of maintenance. This policy can be extended to cover third party liabilities also, depending upon the agreement.

7) Money and Transit Insurance

This type of insurance policy is generally required for bank and financial institution that are involved in receiving and sending cash from one place to another. It provides the indemnity of the cash loss during transit period.

8) Personal Accident Insurable Policies

The policy helps insurer by financially assuring against being handicapped or disability resulting from accident. This insurance policy is very important for any individual as it financially helps in times of need and incapability.

9) Fidelity Guarantee Insurance

The Fidelity guarantee insurance covers the loss and damages against the case of fraud and dishonesty. The owner of firm or organization gets the guarantee against the fraud or betrayal caused by the employees. There can be a big loss as valuable employees can misuse their position and involve in fraud.

2.6 History of Insurance

Marine insurance was the first in the world history of insurance. Fire insurance was a later development. After fire insurance, life insurance came into existence. Conventionally, insurance was considered as a cooperative form of distributing a certain risk over a group of persons who are exposed to it. But now it is taken as a contract or an agreement in which it is agreed that a certain amount of money would be paid as compensation in case the loss or destruction occurs due to certain risks. In return, the insured agrees to pay a certain amount as premium.

First, insurance was developed to protect insured's life against the financial trouble but gradually, the scope of insurance spread out to in a wider shape which become an integral part human being, society, corporate sector and government. The practice of insurance is as old as human civilization. In Rigveda, the word Yogakshema meaning protecting what has come and using the same for the welfare of the concerned people) is famous and it had in practiced in Vedic era. Ancient history of insurance goes date backs to 3000 B.C. (The Chinese traders did insurance of their ships), 2100 B.C. (loan guarantee of traders), 1750 B.C. (The Babylonians ensured their loan for shipments of goods), 600 AD (The Greeks and Romans introduced the origins of health and life insurance). Modern insurance history has begun during the period of industrialization around the 14th century.

The first insurance was marine insurance. Invention of actuarial table in 1654 AD and mortality table in 1693 AD by Blaise Pascal had brought great revolution in insurance history. Modern history of insurance started in 1600s in Europe. First marine insurance was started by Lloyds house fire office was established in United Kingdom in 1668 and in USA in 1752. First, marine insurance was came into practiced, followed by fire and life insurance. Now uncountable types of insurance and similar types of products and policies are in practices. The credit of development of insurance goes to traders, mathematicians, health

practitioners and economists. Now, insurance is developed as a separate discipline of study and research and has magnificent impact on society as banking sector

2.7 History of Insurance in Nepal

The history of insurance practices evolves with "Guthi System" which is the joint family culture that has been prevalent from ancient times in Nepal. This system has provided security and assistance to individuals and families in times of need. It is a kind of trust where lands and money are allocated from different sources for religious and charitable purposes. Hence, this trust was referred as Guthi and this money or lands were utilized for a needy purpose, which was called as a Guthi system. In other words, this was practical system of gathering properties or assets from a state or people and using in future for some social cause. 'Guthi' is derived from Sanskrit word 'Gosthi' that refers to an association or an assembly. But modernization and growth of various small-scale industries brought the necessity of insurance companies in Nepal to insure any loss and damage. (Neelam Pradhanga, Krishna K. Shrestha & John Dee 2009)

In 1937, to meet the growing economic and social development Nepal Bank Limited was established as the first bank of the country. However, there were not any Nepalese insurance company and Indian insurance companies were doing business here and taking the premium collected to foreign land. To stop the strong presence of foreign insurance companies in local market, Nepal Insurance and Transport Company was establish under the ownership of Nepal Bank Limited in 1947. It was the first local insurance company ever established in Nepal.

The democracy in Nepal brought a rapid economic and social revolution and in result, many industries began to establish. Investment began to increase in education, trade and transport. Many Indian insurance companies started to have dominance in the Nepalese market as Nepalese insurance company had limited sources and was still in infant stage. To meet the demand of increasing need of modern insurance company, Nepal government established 'Rastriya Beema Sansthan Private limited'. Later, it was converted to Rastriya Beema Sansthan in 1968. (Insurance Board Nepal)

Beema Samitee was also established in 1968. "The word 'Beema' means 'Insurance' and 'Samiti' means 'Board' in Nepalese language. Hence, the word 'Beema Samiti' is

synonymous to Insurance Board, which is constituted to systematize, regularize, develop and regulate the insurance business within the country under Insurance Act, 1992"(Insurance Board Nepal). Deposit Insurance and Credit Guarantee Corporation were established in 1974 and General Insurance Company in 1968. These were the first private insurance companies in Nepal. After the restoration of democracy, the government initiated economic liberalization in the country and as a result, many private insurance companies were introduced.

Now, among the insurers in the life insurance business, six have investment from Nepali private sector investors. The companies are National Life Insurance, Nepal Life Insurance, Surya Life Insurance, Prime Life Insurance, Asian Life Insurance and Gurans Life Insurance, respectively. The government-owned Rastriya Beema Sansthan is also in the life insurance business.

Similarly, 13 companies in the non-life insurance business have been operating with domestic private investment. The companies are Everest Insurance, Himalayan General Insurance, Prudential Insurance, Neco Insurance, Premier Insurance, Lumbini General Insurance, NLG Insurance, United Insurance, NB Insurance, Sikhar Insurance, Prabhu Insurance (formerly known as Alliance Insurance), Siddhartha Insurance and Nepal Insurance Company, respectively.

Meanwhile, four insurers have been operating as joint ventures with two each in life and non-life areas. LIC Nepal is the JV company in life insurance, while Sagarmatha Insurance is in non-life insurance. LIC Nepal is a joint venture between Life Insurance Corporation of India and Nepali conglomerate Vishal Group. National Insurance Company Limited (NICL) is a Government of India undertaking which has been operating in Nepal since 1973. Sagarmatha Insurance is a Nepal-Sri Lanka non-life insurance JV with the leading Sri Lankan insurer Ceylinco Insurance PLC being the joint venture partner.

The US-based multinational insurer Metlife (formerly known as Metlife Alico), meanwhile, is the only fully foreign life insurance company in Nepal. In the non-life segment, India-based The Oriental Insurance (Nepal) and National Insurance Company Limited (NICL) have been operating as extended arms of their respective institutions in Nepal since 1956 and 1973 respectively.

There is also a reinsurance company which came into existence in 2014 succeeding the Insurance Pool established in 2003 during the worsening times of the insurgency.

Table - 1

Ownership Structure of Insurance Companies

Ownership	Non-life	Life	Reinsurence	Total
Government	1	1	-	2
Private	12	5	-	17
Foreign	2	1	-	3
Joint Venture	2	2	1	5
Total	17	9	1	27

(Note: Insurance Board)

2.7.1 List of Non Life Insurance Companies

1. Nepal Insurance Company Limited
2. The Oriental Insurance Company Limited
3. National Insurance Company Limited
4. Himalayan General Insurance Company Limited
5. United Insurance Company (Nepal) Limited
6. Premier Insurance Company (Nepal) Limited
7. Everest Insurance Company Limited
8. Neco Insurance Company Limited
9. Sagarmatha Insurance Company Limited
10. Prabhu Insurance Company Limited
11. NB Insurance Company Limited
12. Prudential Insurance Company Limited
13. Shikhar Insurance Company Limited
14. Lumbini General Insurance Company Limited
15. NLG Insurance Company Limited
16. Siddhartha Insurance Company Limited
17. Rastriya Bima Company Limited

2.7.2 Insurance related terminologies

a. Accident

Accident is an unlooked for mishap or an untoward event, which is not expected or designed.

b. Deductible or Excess

The amount of a loss agreed to be borne by insured himself.

c. Hazard

Hazard is th condition which may create or increase the chance of loss arising from any peril.

d. Insurance

Insurance helps to indemnify the financial loss of high value in return of payment of comparatively less amount of money (Premium). It is the process of sharing of financial loss of the "Few" from a common fund created by the contribution of many equally exposed to the same risk.

e. Insured

The party who seeks protection against a particular risk and is entitled to receive money from the insurer in the event of happening of the stated contingency, is known as Insured. An Insured is generally a policy holder.

f. Insurer

The party which agrees to pay money on the happening of a contingency is known as Insurer. Mostly, the Insurer are insurance companies.

g. Nominee

A nominee is the person designated by the policy holder to reveice the proceeds of an insurance policy, upon the death of the insured.

h. Peril

Peril is the cause of loss. For e.g. Fire, Earthquake, etc.

i. Policy

The document which contains the terms and conditions of the insurance contract is termed as Insurance Policy.

j. Premium

The amount which is paid by the insured to the insurer as the consideration of the insurance contract is known as premium. In simple words, Premium is the price of insurance.

k. Reinsurance

When insurers insure a risk again, it is called Reinsurance. Reinsurance is the mechanism of risk transfer from the insurers to the reinsurers. Reinsurers can be direct insurers and or specialized reinsurance company. As insurance is a contract between insured and insurers, so reinsurance is a contract between insurer and reinsurer.

l. Risk

Risk is uncertainty about financial loss. There are two types o risk. First is the speculative risk, where financial loss is difficult to measure and cannot be insured. Second is the pure risk, where the financial risk can be measured and can be insured.

m. Salvage

Salvage is the property which is saved from loss or damage.

n. Sum Insured

Sum insured is the monetary limit of liability of insurer.

2.8 Financial Performance

(Eshna, 2012) had clearly presented the concept of financial performance and its importance. According to her financial performance refers to the degree to which financial objectives being or has been accomplished and is an important aspect of finance risk management. It is the process of measuring the result of a firm's portolicies and operations in monetary terms. It is used to measure firm's overall financial health over a given period of time and can also be used to compare similar firms across the same industry or to compare industries or sectors in aggregation.

Firms and interested group such as managers, shareholders, creditors, and tax authorities look to answer important questions like:

What is the financial position of the firm at a given point of time?

How is the financial performance of the firm over a given period of time?

In this paper, we examine the financial health of the Nepalese non life insurance company using CARAMEL model. CARAMEL model (short form of Capital Adequacy, Asset Quality, Reinsurance and Actuarial Issues, Management efficiency, Earnings and Profitability, Liquidity) which is a widely acceptable tool to assess the financial efficiency is basically ratio based model of evaluating financial performance of insurance undertakings prescribed in the Handbook of Financial Sector Assessment by World Bank and IMF. Das (2003) has also prescribed the same set of indicators.

Capital Adequacy

Capital is seen as a cushion to protect insured and promote the stability and efficiency of financial system, it also indicates whether the insurance company has enough capital to absorb losses arising from claims. The position of capital is measured by various ratios: Net Premium to Capital ratio and Capital to Total Assets ratio. Higher capital adequacy ratio means capital is sufficient to the smooth run of the business.

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Asset Quality:

Financial health is affected by quality of fixed and current asset, real investment and financial investments. The asset quality is measured by Equities to total assets ratio and Real estate plus unquoted Equities plus Debtors divided by total assets ratio.

Reinsurance and Actuarial Issues:

These ratios also known as the risk retention ratio, reflect the overall underwriting strategy of the insurer and depict what proportion of risk is passed on to the reinsurers. It is measured by Net Premium to gross premium ratio and Net Technical reserves to Average of Net claims paid in last three years. Reinsurance and Actuarial

Management Efficiency:

Sound management is crucial for financial stability of insurers. The management efficiency and soundness in fact is outcome of operational efficiency of the companies and measure by operating expenses to Gross premium.

Earnings and Profitability:

Earnings are the key and arguably the only source of long term capital. Low profitability may signal fundamental problems of the insurer and may consider a leading indicator for solvency problems. Net claims to net premiums, expenses to net premium, investment income to net premiums, return on equity, combined ratio are used to measures the firm's earnings and profitability.

Liquidity:

Liquidity is usually a less pressing problem for insurance companies at least as compared to banks, since the liquidity of their liabilities is relatively predictable and for non life insurers the liabilities, besides claims are for shorter period of time. Liquidity is measure by Current assets divided by current liabilities.

2.9 EMPERICAL STUDIES

(Skogh, 1989), has presented a theory of insurance that is complementary to the pooling-of risk theory. While purchasing insurance certain contingencies are transferred to an insurer specializing in pricing and low probability risks, the advantage of doing this is due to the firm's specialization in writing contracts   low probability risks and its credibility. Credibility depends on the firm's experience, its funds and its expected future in the market. The combined need of credibility and special skills in pricing risks and in claim adjustments gives the insurer a comparative advantage relative to risk managers that supply separate risk management services

(Garven, 1990), have evaluated the major property liability insurance pricing models over the 60 year period from 1926 through 1985 and the result of the various models are compared in terms of the ability to predict actual underwriting profit margin. It provides an equal focus on the underwriting and investment sides of the insurance transaction by testing pricing models that have been derived from both the insurance and financial economic areas over a consistent period. Insurance pricing model tested include the target underwriting profit margin, target total rate of return, CAPM, discounted cash flow model and option pricing model. The result of the test indicates that higher rankings usually tend to go to the total rate of return and option pricing models

(Cummins & Tennyson, 1992), trying to find a remedy for the increase of Automobile Insurance Price. Compensation region falls into two categories, tort and no fault. The researchers have found out that the Price of auto insurance focuses on the behaviour of insurance companies. These companies are blamed for inflation of late 1980's.Some companies will try to compensate their loss by adjusting it in the premium; these companies will lose their market share. State insurance department should make sure that insurance markets are competitive. Reducing excessive claim costs and ensuring competition in the insurance marketplace offer the best hope for controlling automobile insurance prices.

Murrey Jr. Joe H. Fenstermaker, J. Van (1992), examined the industry's development during the first 100 years and analyzes the performance of a group of Boston fire and marine stock insurance companies from 1795 to 1898. This paper also examines the first growth of marine

insurance, the development of fire insurance and the performance of the "Boston stock fire" and marine companies. It is found out that the early companies failed to diversify their risk over a sufficiently large geographic area, neglected to set up adequate reserves for their liabilities and paid out most of their profit as dividends. Boston insurance also paid excellent dividends but neglected reserve accounts. The Boston fire of 1872 destroyed most Boston companies, and they never fully returned to their original profitability.

 (Bernstein, 1994), described the development of a model for estimating changes from various reform efforts in California Personal Lines Automobile Insurance. Travel survey data were combined with data from auto insurers and many government departments, to form a data base that could successfully model changes in automobile insurance. The model was tested on a pay at the pump automobile insurance system. The resulting effort will depend upon factors such as driver's safety records, annual miles driven, years of driving experience, location, type of car, travel patterns, coverages and tort rules. The net result is people who are not price conscious will save the most, but possibly realize it the least since they don't pay much attention to price. Since they pay more for their insurance and thus higher commissions to their agents, they may be getting more personal service than any other pay at pump system. The level of service provided under pay at pump will affect how each individual insured decides if it is better or worse off under pay at pump.

(Hazelbaker, 1997), examined motor vehicle theft has become a major problem for insurance industry and consumers. Much of this loss is initially paid by the insurance industry and then the consumer who will pay a higher premium. In fact it is the society who bears the cost of auto theft through insurance mechanism. The insurance institute for highway safety and its affiliate, the highway loss data institution are dedicated to reducing the economic losses due to owning and operating motor vehicles. IIHS main aim was reducing vehicle crashes where as HLDI main aim was to produce statistically reliable information for use by insurers and the public. And also they have tried to improve vehicle safety and reduce insurance losses. IIHS and HLDI is the strongest advocate of airbag, they convinced people that the airbag could reduce the accident by public awareness campaign conducted by the insurance industry. Apart from accidents, car crashes etc auto theft is a major problem for the insurance industry. Almost half of all insurance dollars is paid for theft .Insurance industry encourages the managers to use Antitheft Devices like Immobilize a vehicle, alarm etc.

(Yaman, 1999), first attempted to empirically investigate the demand for general insurance of non-financial corporation by using data on Japanese corporation. 504 companies are chosen as the preliminary sample. Regression model is used. The result has shown that insurance demand elasticity in terms of a firm's size is less than unity. Small corporations are likely to purchase relatively more insurance than large corporations. It is also found that firms with a higher probability of bankruptcy demand more insurance, and regulated industry demand more insurance than non-regulated industries.

(Walker, 2000), focused on the characteristics of earthquakes insurance that have limited its utilization as an effective disaster management tool and its interrelationship with earthquake engineering. The paper looks at the characteristic features of earthquakes insurance, how it has developed to the present day, how it is likely to develop in future and the role that earthquake engineering is likely to play in this development. The output information is used to provide insurance and re-insurance companies with probabilistic information on their total exposure or exposure to specific event, for use in designing financial risk protection programs, including traditional re-insurance programs. It can also help to find premiums for individual properties. The new tool in combination with modern electronic communication helps to estimate the total loss by summing up the individual losses. Modern developments in earthquake loss simulation are enabling the design of innovative risk financing programs which do not have the restrictions of traditional insurance.

(Chen & Wong, 2004), focused on the solvency of general and life insurance companies in Asia using firm data and macro data separately. It has found out that the factors which significantly affect general insurer's financial health in Asian economies are firm size, investment, performance, liquidity ratio, surplus growth, combined ratio and operating margin.

Second important factors are change in product mix, change in asset size and investment performance. The financial health of insurance companies in Singapore seems to be significantly weakened by the Asian financial crisis.

(Born & Viscui, 2004), examined the insurance market effects of the 1980s tort liability reforms on general liability insurance. The result indicates that these reforms measure on insurance firms, over the 1985 through 1991 period, were generally successful in achieving their vowed objective of reducing loss level by 17% in the short run and by 27% in the long

run. Purchasers on insurance benefited from this dampening of losses as well, as the lower loss levels in turn resulted in lower premiums, which declined by 7% following the adoption of liability reforms. The net effect was to enhance insurer profitability and loss ratios declined by 11% in the short run and by 25% in the long run, following the adoption of reforms. Liability reform is a major contributor to enhance the profitability of insurance markets.

(Rogozin, 2006), studied the compulsory motor third party insurance on Russian market, how it changed the Russian Motor Insurance Market and how the customer feels about this compulsory third party insurance. The researcher has concluded the paper with the opinion that quality is very important. This will help insurance companies to gain a competitive advantage. The second important factor 'understands the customer need' and 'offer the service' accordingly. Insurance companies which aim to gain a competitive advantage through service differentiation should have strong marketing abilities, creative vision, fresh ideas, reliable brand and reputation

(Kapur, Mandic, & Fulton, 2006), have explored whether state small group reforms had intended effects, by studying the extent of size distortions among small firms, as a result of small group health insurance regulation. The primary focus on examining the size of small firms that offer health insurance, and behaviour of the small firm that do not offer health insurance, to determine if data show any evidence that insured small firms close to the regulatory threshold drop insurance. Repeated cross section samples from 1993 to 1998 were used. It has been found that the states that have implemented the regulatory reforms are more likely to be just above the threshold than just below the threshold. It is concluded that the small employers near the threshold that offered the state health insurance reforms to be onerous increased their size in order to avoid the regulated market.

(Kumar, 2008), studied that the third party insurance is essential for all the commercial vehicles. But third party insurance is a loss for insurance companies. Indian Motor Third Party Insurance Pool has been set up by all general insurers in India to collectively service commercial vehicle third party insurance business. This pool is to make third party insurance available to all commercial vehicle owners at reasonable rates and terms. Third party premiums charged in cars and two wheelers are not in the pool and these are handed by the

general insurance companies themselves. All third party risk is transformed to the Indian Motor Insurance Pool.

According to market share of the company, they should participate in the pooling arrangement. This mechanism is started when almost all non life insurer have began avoiding third party risk cover. The insurer treats this as a bleeding portfolio. A pool is created to ensure that anyone seeking cover would be given one, and the premium would go into a common pool management by GIC. But most of the private companies are not happy with this pooling arrangement. High retention ratios are the major reason for discontent among the private sector companies.

Meaning (2009), has proposed a bottom up approach to compare individual driving behavior under various types of insurance pricing. The researcher has pointed out the benefits and disadvantages of "pay as you drive" where premiums are quoted per mile. In the researcher's opinion pay as you drive can reduce the premium rate according to the usage of vehicle. Pay as you drive can also reduce the accidents rate, because in pay as you drive, they will monitor the driving habit of the driver. But the main disadvantage is when the premium is fixed according to the usage of vehicle, those who drive less frequently prefers this method, others will go for the fixed cost method. So this will make the insurance industry less profitable.

Hoyt and Khang (2009), tried to suggest factors other than simple risk reduction that create corporate incentives to purchase insurance. Practical validity of the analytic arguments regarding corporate demand for insurance is tested. An ordinary least square regression model is used to test the arguments concerning the relation between the amount of insurance purchased by a firm and the firm's various operating characteristics. It has been found out that the firm's size is associated with corporate incentives to purchase insurance and also the firms with relatively more accumulated depreciation purchase more insurance. Firms in a regulated industry buy less insurance.

Syn and OBO (2009), examined the evaluation framework being used by the Ghanian regulatory and supervisory body the NIC and compare it with the CARAMELS (Capital adequacy, Actuarial, Reinsurance, Asset quality, Management soundness earnings and profitability) in determining the financial health of non life insurance in Ghana. The main tool used by the department in evaluating insurers in Ghana is trend analysis, ratio analysis and analytical services. The analysis suggests that the framework being used currently by the

NIC to assess financial health of non life insurance companies in Ghana is not comprehensive enough to give early warnings to the industry's stakeholders.

Jawadi, Burunea and Sghaier (2009), studied the adjustment dynamics of the non life insurance premium and test the dependence to the financial market in the five countries viz Canada, France, Japan, the United Kingdom and the United States. The threshold co-integration models: the switching transaction error correction model is used. Result shows that switching transaction error correction model performs better than linear error correction model to reproduce the non life insurance premium dynamics. Empirical result shows that the adjustment of the non life insurance premium in France, Japan , and the United States is rather discontinuous, asymmetrical and nonlinear. There is a significant relationship between insurance and financial markets.

Bagchi (2009), tried to find out how adequate and effective are the provisions of unexpected risks as laid down by the accounting practices. The result shows that for the fire coverages the deviation factor is a good proxy measure for the risk of this portfolio. In other two classes of business, viz marine and miscellaneous coverages, the accounting practices are poor measure for reflecting solvency of the companies. The entropy analysis of the non life insurance companies shows that the accounting practices cannot be relied on to reflect true solvency of the firms.

Yin (2010), has examined economies of scale in the Japanese non life insurance industry using different proxies such as number of policies, net premium and claims amount for the output variable. The study supports the existence of economies of scale in the Japanese non life insurance industry using different proxies such as number of policies, net premium, and claims amount for the output variable. The Japanese government's move towards deregulating the industry, particularly eliminating the tariff pricing system and reducing entry barriers has resulted in a lower cost structure for the whole industry and an improvement in economies of scale. But being too big is not beneficial to the firm as there is the risk of running the company at decreasing return of scale. A minimum solvency margin of 200% is required to ensure the soundness of Japanese insurers to pay future claims.

Singh and Kumar (2010), aimed at examining the emerging trends of each product portfolio in the public sector and private sector general insurance companies in the post liberalization

era to identify the gaps and to make suggestions to general insurance companies to increase spread penetration by improving their product portfolio performance. The study finds that there exists a mixed trend in the growth rate of marine cargo portfolio for both the public sector and the private sector. An upward trend is identified in motor portfolio, workmen compensation and health portfolio. Fire portfolio, personal accident portfolio, aviation portfolio and personal liability portfolio show a negative trend. The study concludes that Indian general insurance product industry lacks balanced product portfolio performance, as the companies emphasize only few portfolios like motor, fire, health etc. The growth of the private sector is higher than the public sector.

Edward (2010), studied insurance regimes are classified at the state level as being either no-fault, tort or choice. Drivers in choice states are offered the option between preserving their tort rights and limiting their tort right in exchange for lower premiums. Only Kentucky, New Jersey and Pennsylvania operate under a choice regime. This paper reviews the experiences of these three states with choice auto insurance. It also examines the theoretical model of choice auto insurance and contrasts its predicted results with the outcomes experienced by each of the state. It is found that among the three states that are classified as choice states, only Pennsylvania has a high enough percentage of its drivers enrolled in both plans to be considered as a choice state. If a state finds that its drivers are dissatisfied with its current system, a choice plan similar to Pennsylvania could be a successful proposal.

Auerbach, Holtzblatt, Jacobs, Minicozzi, Moomau (2010), have provided an analytical framework for evaluating the effects of individual health insurance mandates on coverage. That framework draws from three literature-health economics, tax compliance, and behavioral economics, to identify the factors that affect people's response to health insurance mandates. The health economics literature explains how people value health insurance and how changes in its cost affect coverage. The tax compliance literature indicates that the probability of detection and people's attitudes towards risk effect perceptions of those costs. The health economics perspective provides the starting point that a penalty raises the costs of being uninsured. The tax compliance literature provides that the effective penalty will differ from the statutory penalty. The behavioural economics perspectives further refines that, analysis indicating that the size is affected by the salience of the mandate. But a mandatory would increase coverage.

Kumar and Alamelu (2011), aimed at developing an index for insurance inclusion for India. In constructing the present insurance index, the researchers have adopted two dimensional approach, accessibility and usage. Insurance inclusion of India is 0.29 which means that the insurance inclusion is achieved only 0.29% in the country. Insurance accessibility index and insurance usage index is used to arrive at this result. The result also reveals that the insurance inclusion in India is poor, and state wise analysis shows that only few states are in the upper medium and high category. Majority of the states are falling under lower medium and low category of insurance inclusion.

Foong (2012), examined the effect of leverage on the financial performance of general insurance companies in Malaysia and investigate whether the leverage performance relationship is a function of or contingent on the extent of product diversification. The sample consisted of the entire population of authorized general insurance companies operating during the period from 2006 to 2009 in Malaysia. It is found out that leverage is negatively associated with firm performance. There is a significant interaction effect between leverage and product diversity on firm performance. The findings also indicated that leverage could be beneficial or detrimental to the financial performance of general insurance firms' contingent to the extent of product diversity of firms.

Darzi, (2011), in his Doctoral dissertation entitled "Financial performance of insurance industry in post liberalization era in India" uses the CARAMELS tool to compare the financial performance of public and private sector general insurance companies for the period 2004/05 to 2008/09. He concludes that the financial performance of insurers in post liberalization period is better than pre liberalization era.

Ahmed and Usman (2011), examined the impact of firm level characteristics (size, leverage, tangibility, risk, growth, liquidity and age) on performance of listed life insurance companies of Pakistan over seven years from 2001 to 2007 using CARAMELS parameter. The results of Ordinary Least Square (OLS) regression analysis indicate that size, risk and leverage are important determinants of performance of life insurance companies of Pakistan while ROA has statistically insignificant relationship with growth, profitability, age and liquidity.

Sinha (2013), compared the financial soundness of two life insurers Bajaj Allianz and ICICI Prudential using CARAMELS parameter taking data from 2004/05 to 2009/10. He concludes

that both of the companies give mix results. Several areas has been indentified for the improvement of both insures such as capital adequacy, liquidity, operating expenses.

Nepal (2012), has presented current situation of insurance market in Nepal, discuss and draw a conclusion to attract more participation in insurance business. In other words, this research provided an overview of insurance and its significance in this modern, complex world. In addition, this study provides insight into modern services in insurance business like online insurance and study about its probable niche market in Nepalese insurance industry.

The study used qualitative research method to get an actual picture of current insurance market situation of Nepal and future prospects of new creative services in this sector. Secondary research is considered to analyze the trend of the insurance market. It is essential to answer research questions about the situation of insurance market in Nepal and probable market niche in online insurance company.

Ghimire (2013), provided a brief overview of the financial efficiency of non life insurance industries of Nepal. It also indicates that most of the legal compliances have been fulfilled by the insurers. Position of some ratios such as Expenses ratio, Return on equity, Return on assets, Retention Ratios, Gross premium to equity ratio, Net premium to equity ratio, Return on Capital during the study period is improving whereas other ratios: Investment Ratio, Investments to total assets ratio, Capital to liabilities ratio is deteriorating in the same period. Claims ratio and Combined ratio performance was fluctuating during the period and Profit Ratio to Underwriting Ratio trend also become slightly decreasing. The financial soundness of the overall industry has been improving gradually. The paper concluded that maintaining the sound financial health of insurance industry is most challenging job for regulatory agencies while its contribution to the economy and society is noteworthy.

(Kumar & Ghimire, 2013), assessed the financial performance and soundness of Life insurance companies in Nepal on the basis of CARAMEL parameters during 2007/08 to 2011/2012. Quantitative analysis shows the mix results but this is not enough to obtain the true and fair picture of the financial health of insurers since qualitative factors also play vital role on its financial soundness. The study provides detail summary of financial performance of each company for 2011/12 and brief and aggregate overview over the five years period under the different dimensions: Capital adequacy, Assets quality, Reinsurance and Actuarial issues, management soundness, Earnings and profitability and liquidity.

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(Siddiqua & Parvin, 2014), studied the performance of private non-life insurance industry in Bangladesh. For the analysis, researchers selected five private non-life insurance companies and used the financial statements of the companies for the year 2012- 2014 as a secondary source of data. Seven variables were selected to analyze the performances which were total asset, investment, net premium, and profit after tax, total insurance policy, earnings per share (EPS) and return on asset (ROA). Growth rate, trend equations and square of correlation coefficient (r2) were tested in respect of these variables. All the companies had a positive trend equations and the r2 of the variables were above 0.50. The result indicates that the non-life insurance industry has a great prospect in Bangladesh.

Rani and Shankar (2014), examined the financial performance in terms of capital adequacy and assets quality of public sector insurance companies in india and they found that high risk was found while not increasing capital periodically proportionate to the business generated and quality of assets in terms of equity investment was found similar range for all companies.

2.10 Research Gap

There are many studies have been carried out on banking sector, but having a part of financial system, insurance sector has given less priority by researchers, regulators and insurers themselves. There are limited research based literatures written in Nepalese context in the area of insurance. Assessing the financial soundness of insurance industries using CARAMELS parameter is not new concept but the tool is hardly used by regulators and insurers. Thus, this study tries to analyse financial performance of private sector insurance industry using CARAMEL model using latest data available in annual report of selected company.

CHAPTER – III

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem, with certain objectives in view. In other words, research methodology describes the methods and processes applied in the entire subject of the study. Research Methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done significantly. It is necessary for the researcher to know not only the research methods / techniques but also the methodology. Researchers not only need to know how to develop certain indices or tests, how to calculate the mean, the research techniques, but they also need to know which of these methods or techniques are relevant and which are not, and what would they mean and indicate and why.

The paper is primarily based on the secondary data collected from the annual report of the non life insurers, publication of Insurance Board, sole regulating body of insurance and Economic Survey, an official publication of Government of Nepal. To find out the various ratios of non life insurers Balance Sheet, Revenue accounts and Profit and Loss Accounts are used. On the basis of five years data, various ratios are calculated in aggregate basis.

 The interest of general public towards insurance over the last few years has grown as more Nepalis are looking to get insured. The devastating earthquake of 2015 with the huge loss of human lives and property proved to be an important lesson in this regard.

Nowadays the third party insurance is also mandatory to pay the vehicle tax. It also boosts the transactions of general insurance. Among general insurance companies Shikhar Insurance Company Ltd has increased its profit and market value. After issuance of FPO and bonus share it has the highest paid up capital in general insurance company sector. Highest paid up capital and highest profit earning non life insurance company is 2016/17 is shikhar insurance company ltd. So it is taken as the sample company for the study to analyse the financial performance.

The research methodology adopted for the present study is mentioned in this chapter which deals with research design, sources of data, data collection, processing and tabulating procedure and methodology.

3.2   Research Design

A research design is purely and simply the framework or plan for a study that guides the collection and analysis of data. Research design is the plan, structure and strategy of investigations conceived so as to obtain answers to research questions and to control variances. A true research design is basically concerned with various steps to collect the data for analysis and draw a relevant conclusion. It is the arrangement of conditions for collection and analysis of data that aims to combine relevance to the research purpose with economy in procedure. To achieve the objective of this study, descriptive and analytical research design has been used. Some financial and statistical tools have been applied to examine facts and descriptive techniques have been adopted to evaluate financial performance of Shikhar insurance company ltd .

3.3   Population and Sample

The population refers to the industries of the same nature and its services and product in general. Thus, the total private sector insurance companies constitute the population of the data and the company under study constitutes the sample for the study. So, from the 17 population of non-life insurance companies operating in Nepal, Shikhar Insurance Company Limited has been selected as the sample for the study.

3.4   Sources of Data

This study will be merely based on secondary data. The annual report of the subjected insurance company will be the major source of data. Expert advice if possible will also be taken into consideration with regards the study. However, beside the annual reports of the respective insurance company, the following sources of data will also be considered;

- Annual Report

- Economic Survey

- Articles published in the newspaper and magazines

- Journal on the same topic

- Various websites

- Bema samiti directives

3.5   Data Collection Techniques

This study is mainly based on secondary data obtained from various sources mentioned above. The annual reports of Shikhar Insurance Limited for the period of five years from fiscal year 2012/13 to 2016/17 AD were obtained from the website of the company. The data on some aspects of the company has also been obtained from the publications and websites of Beema Samiti. Some supplementary data and information and literature review have been collected from Peoples Campus Library, Central Library T.U., different Journals, magazines and other published and unpublished reports documented by the concerned authorities.

3.6   Data Analysis Tools

Presentation and Analysis of the collected data is the core of the research work. The collected raw data are first presented in systematic manner in tabular forms and are then analyzed by applying different financial and statistical tools to achieve the research objectives. Besides these, some graph charts and tables have been presented to analyze and interpret the findings of the study. The tools applied are:

3.6.1 Financial Tools

Financial tools basically help to analyze the financial strength and weakness of a firm. Ratio analysis is one of the important financial tools that have been used in the study. A ratio is simply one number expressed in term of another and such it expresses the quantitative relationship between any two numbers. Ratio can be expressed in terms of percentage, proportion and as coefficient. Financial ratio is the mathematical relationship between two accounting figures. Ratio analysis is a part of the whole process of analysis of financial statements of any business or industrial concern especially to take output and credit decisions.

Even though there are many ratios to analyze and interpret the financial statement, only those ratios that are related to the investment operation of the bank are have been covered in this study. Different types of ratios have been used in this study.

Table 2

Caramel Component Used for Financial Performance Analysis

CARAMEL Component	Core set	Encouraged set
Capital Adequacy(C)	Capital to Total Assets Net Premium to Total Capital	
Asset Quality (A)	(real estate+ unquoted equities+debtors)/total assets Equities/total assets	
Reinsurance and Actuarial Issues (RA)	Net premium/ gross premium	
Management Efficiency (M)		Operating expenses/gross premium
Earnings and Profitability(E)	Loss ratio(net claims/ net premium) Expense ratio(expenses/net premium) Combined Ratio(loss ratio + expense ratio) Return on Equity(net profit after tax/ net worth)	
Liquidity Analysis (L):	Liquid asset/ current liabilities	

(Note: Appendix)

3.6.1.1 Capital Adequacy Ratio

The success of the insurance business lies in meeting claims as and when it arises, which means it should possess sufficient capital base to face such an eventuality.

Capital adequacy ratio of insurance companies is calculated in two different aspects. First, capital adequacy is calculated in terms of net premium to capital. Second, is capital to total assets ratio. Here, net premium refers to gross premium minus premium paid for reinsurance. Capital is the sum of share capital. To ensure safety against insolvency, high capital adequacy ratio is desirable. In other words, a situation when business is generated not serviceable by

existing capital base is not desirable. On the contrary, too low a business, insufficient to the level of capital is also not desirable. Hence a ratio of more than 1 and less than 2 may be considered ideal and is adopted in this study.

i)   Net premium to capital ratio

$$= \frac{\text{Net Premium}}{\text{Total Capital}}$$

Where, net premium = Gross premium – Premium ceded for reinsurance

Total capital = Share capital

ii)   Capital to Total Assets Ratio

$$= \frac{Capital}{Total\ Assets}$$

3.6.1.2 Asset Quality

Asset quality ratio is also considered as an important indicator of financial soundness of a general insurance company. Asset backing becomes essential when claims need to be met, since assets should be sufficiently liquid to meet the liabilities. At the same time, the available assets should also be judiciously invested in such forms so as to earn returns to the company, which would determine the profitability.

The proportion of the two set of assets namely the market quoted equities and bonds which are easily marketable and the assets in the form of real estates and unquoted equities which are less liquid is expected to reveal the nature of asset quality. Two ratios have been used, one which assesses the proportion of equities to total assets and the other, the proportion of real estate, unquoted equities and debtors to total assets. In this study is calculated and analysed with regard to the selected private sector general insurance company.

i)   Equities to Total Assets

$$= \frac{Equities}{Total\ Assets}$$

Where, equities refers to the market quoted equities and bonds and total assets include all assets side of balance sheet of the company.

ii)   Unquoted equities, real estate, debtors to total asset

$$= \frac{Unquoted\ equities+ Real\ estate+ Debtors}{Total\ Assets}$$

3.6.1.3 Reinsurance and Actuarial Issues

The risk-hedging strategy in the insurance sector can be exclusively dealt by the risk-retention ratio, expressed as a ratio of net premiums to gross premiums, and is applied for both life and non-life insurance businesses. The   ratio reflects the overall underwriting strategy of the insurer and shows the portion of risk passed on to the reinsurers.

i)   Retention Ratio

$$= \frac{Net\ Premium}{Gross\ Premium}$$

Where, the net premium refers to gross premium minus premium paid to reinsurers and gross premium refers to total premium collected.

3.6.1.4 Management Soundness

Sound management is crucial for financial stability and soundness of the non-life insurers. Based on the encouraged set of FSIs as proposed by the researchers, the ratio of 'Operating expenses to gross premiums' – also referred to as the 'Management Efficiency ratio' has been considered in the present study.

i) **Management Efficiency Ratio**

$$= \frac{\text{Operating Expenses}}{\text{Gross Premium}}$$

Moreover, lower ratios may be preferred to higher ones, as lower ratios indicate the efficiency of the non-life insurers in controlling costs and enhancement of profit margins.

3.6.1.5 Earnings and Profitability

Earnings are the key and arguably the only long-term source of capital base for an insurance company. Low profitability may signal fundamental problems of the insurer and hence considered as a leading indicator for solvency problems. For the purpose of the study, the four ratios have been used i.e. the Loss ratio, Expense Ratio, Combined Ratio and the Return on Equity.

i) **Loss Ratio**

$$= \frac{\text{Net Claim}}{\text{Net premium}}$$

ii)   Expense Ratio

$$= \frac{\text{Expenses}}{\text{Net Premium}}$$

iii)   Combined Ratio

$$= \text{Loss ratio} + \text{Expense Ratio}$$

iv)   Return on Equity

$$= \frac{\text{Profit After Tax}}{\text{Net Worth}}$$

3.6.1.6 Liquidity

The term 'Liquidity' ensures adequate cash/bank balances and highly liquid investments of the insurers to efficiently meet any short-term obligations and immediate claims of the policyholders. Higher ratios may be preferred to lower ones, as higher ratios reflects the insurer's ability to efficiently service its short term obligations of the policyholders.

i)   Liquidity Ratio

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

3.6.2 Statistical Tools

It is the mathematical technique used to facilitate the analysis and interpretation of the performance of the organizations. It also helps to present the data, show the relation and deviation or differences of variables of organization. Some important statistical tools are used

to achieve the objective of this study. In this study statistical tools such as mean, standard deviation and coefficient of variation have been used.

3.6.2.1 Mean

A mean is the average value or the sum of all the observations divided by the number of observations and it is denoted and given by the formula:

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

Where, $\overline{X}$ = Mean of the values.

N = Number of Pairs of Observations.

During the analysis of data, mean is calculated by using the statistical formula 'AVERAGE' on excel data sheet on computer.

3.6.2.2 Standard Deviation

The standard deviation measures the absolute dispersion. It is said that higher the value of standard deviation the higher the variability and vice versa. Karl Pearson introduced the concept of standard deviation in 1823 and this is denoted by the small Greek letter σ (read as sigma).

The formulas to calculate the standard deviation are given below:

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

Where, x = (X- $\overline{X}$)

During the analysis of data, standard deviation is calculated by using the statistical formulae 'STDEV' on excel data sheet on computer.

3.6.2.3 Coefficient of Variation

The standard deviation calculated in the above formulas gives an absolute measure of dispersion. Hence, where the mean value of the variables is not equal, it is not appropriate to

compare two pairs of variables based on standard deviation only. The coefficient of variation measures the relative measures of dispersion, hence capable to compare two variables independently in terms of their variability. The percentage of measure of co-efficient of so is called coefficient of variation. Less CV is the more uniformity and consistency and vice versa. The coefficient of variation (C.V.) is given by the following formulae and this gives the percentage.

$$\text{Coefficient of variation (C.V.)} = \frac{\sigma}{\overline{X}} * 100$$

3.6.2.4 Graphical Representation

Diagram and graphs are visual aids that give a bird eye view of the given set of numerical data. They represent the data in simple and readily comprehensive form. Here various graphs have been used for presentation and analysis of data.

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

In this chapter, presentation and analysis of selected data of Shikhar Insurance collected to fulfil the set objectives of the study. Under this chapter various financial ratios are used to analyze the financial performance of non life insurance companies.

4.1 Capital Adequacy Ratio

Capital is viewed as a cushion that protects the interests of the policyholders and promotes the stability and financial efficiency of the non-life insurers. The success of the insurance business lies in meeting claims as and when it arises, which means it should possess sufficient capital base to face such an eventuality. Is also provides an indication that whether the insurers have sufficient capital to cover up the losses arising out of unexpected claims.

In the case of insurance companies analyzing capital adequacy in terms of its capital base is considered essential, since the company should be in a position to meet its liability for the business it had accepted or under written.

Two aspects which indicate capital adequacy are related to; 1) The extent of business under written in terms of premium collected, for which the insurer would become liable if a claim is raised; and 2) the extent of asset backing, because the insurers need to meet the liabilities as it arises from out of its assets. Hence capital adequacy is considered the first key indicator to the financial soundness of an insurance company.

4.1.1 Net Premium to Total Capital Ratio

First, capital adequacy is calculated in terms of net premium to capital. Here, net premium refers to gross premium minus premium paid for reinsurance. Capital is the sum of share capital. Net premium is an indicator of the business generated and retained by the company, in terms of new policies taken up and continuation of existing policies by renewals for a

further period or a year. To ensure safety against insolvency, high capital adequacy ratio is desirable. In other words, a situation when business is generated not serviceable by existing capital base is not desirable. On the contrary, too low a business, insufficient to the level of capital is also not desirable. Hence a ratio of more than 1 and less than 2 may be considered ideal and is adopted in this study.

Table 3 shows capital adequacy ratio in terms of net premium to total capital of Shikhar Insurance Company for the period from 2012-13 to 2016-17.

Table 3

Net Premium to Total Capital ratios (Times)

Insurance Company	FY					Mean	S.D.	C.V. (%)
	2012/13	2013/14	2014/15	2015/16	2016/17			
Shikhar insurance	1.92	1.51	1.80	2.03	1.73	1.80	0.20	10.88

(Note: Appendix-I)

Table shows the capital adequacy ratio in terms of net premium to total capital of Shikhar Insurance Company Ltd. The capital adequacy ratio of Shikhar Insurance Company Ltd., was more than 1.5 during most of the years of the study period. The mean ratio is 1.80 and the value of C.V. is 10.88 percent. This means that the company has maintained its capital adequacy as it has generated its business to the extent of capital coverage and maintained the ratio consistency. During 2013-14 the capital adequacy ratio was around 1.51 and it was the highest at 2.03 during the year 2015-16. It is also shown in following graph too.
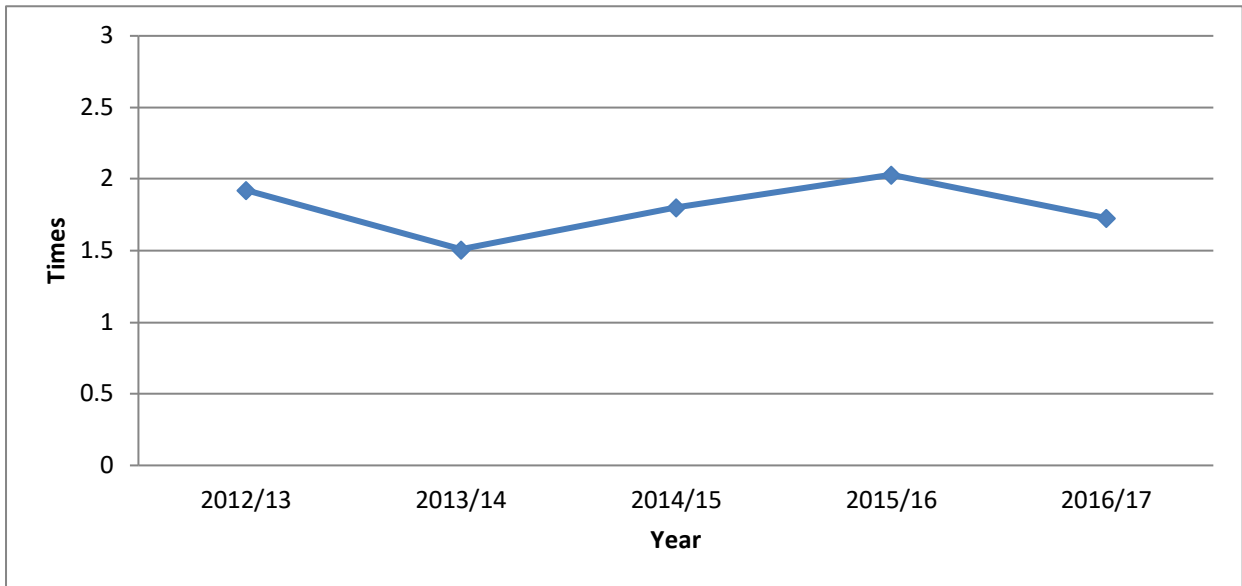
.

Figure 2

Net Premium to Total Capital Ratio

4.1.2 Capital to Total Assets Ratio

The second measure of capital adequacy is the ratio of capital to total assets. Generally size of a company is measured by its amount or value of sales or by the value assets of the company. Funds generated in any company need to be invested in assets which assure revenue generation for the company. In insurance companies, apart from capital, funds mainly flow in as collection of premium. These funds are invested in various securities both short term and long term and are also held in the form of land and buildings and real estate assets. Hence the ratio of total assets as a proportion to the capital funds is considered as an important indicator of financial soundness. Unlike manufacturing and other trading businesses, the proportion of owned capital in the asset base need not be substantial. A lower ratio however is considered good because, a greater assets base is always good for a company and indicates its strength. However, too low a capital base is also not desirable. Since no standard was fixed for the ratio, the study considered a ratio of around 0.1 as satisfactory and a ratio between 0.1 and 0.2 as good.

Table – 4

Capital to Total Assets ratios (Times)

Insurance company	FY					Mean	S.D.	C.V. (%)
	2012/13	2013/14	2014/15	2015/16	2016/17			
Shikhar insurance	0.15	0.22	0.19	0.19	0.24	0.20	0.03	16.58

(Note: Appendix-II)

Table - 4 reports capital adequacy ratio in terms of capital to total assets for the selected private sector general insurance company. Capital adequacy ratio of Shikhar Insurance Company Ltd., ranged from 0.15 to 0.24. The results showed fluctuating ratios over the study period. It went up above 0.24 during 2016-17 due to increase in the amount of total capital. The ratio of the company showed that capital adequacy of this company, was less than or around 0.2, during five years which means the company had the required adequacy in terms of assets base during the study period.

Capital per Total Assets analysis, the ratio indicates the proportion of capital in the total assets portfolio of the companies, growth in the assets of the business and how efficiently the capital has been invested to create assets. Lower ratio may be preferred to higher one, as higher ratio indicates high reliance on capital & inefficient use of capital to create assets where as lower ratio indicates the greater assets base of the company.
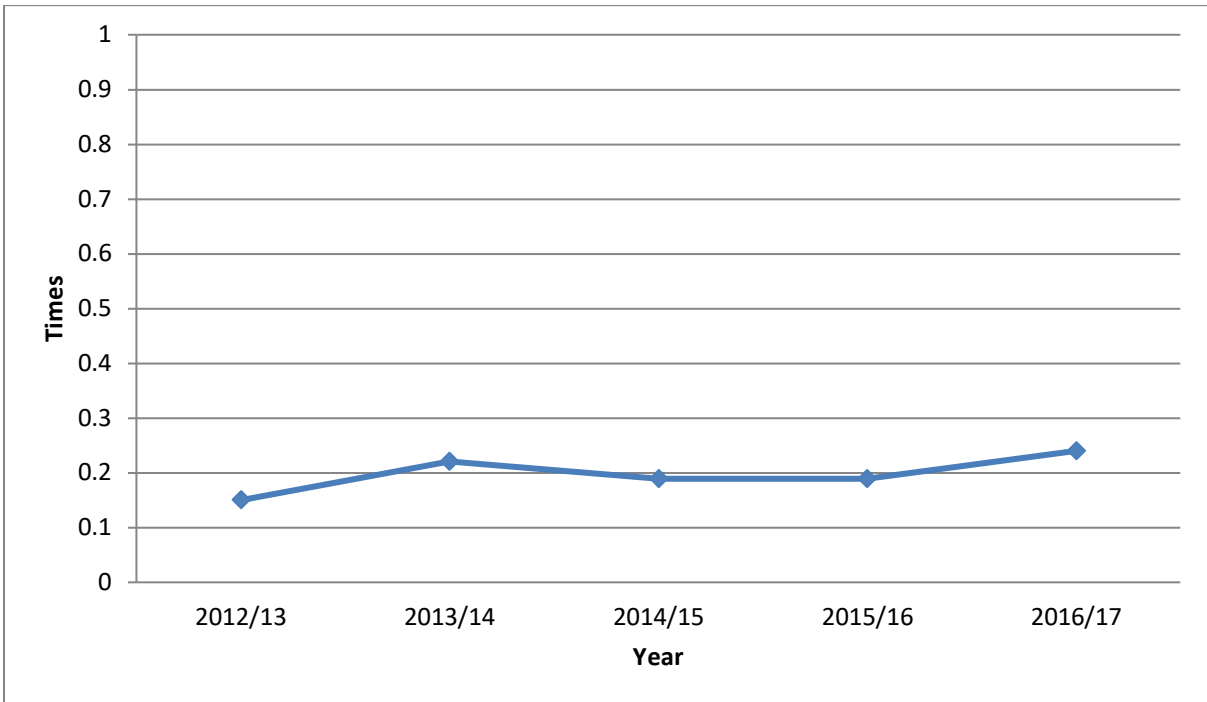
Figure 3

Capital to Total Assets Ratio

4.2 Asset Quality

While the previous section dealt with the assessment of the quantum of capital and its adequacy to meet liabilities and risks arising out of claims, the quality of the capital fund is more determined as to how this capital is represented in the form of assets. Capital adequacy is the quantity aspect, whereas assessing assets quality is another important aspect in financial analysis and is also considered as an important indicator of financial soundness of a general insurance company.

On the asset side of balance sheet, we explore the structure of assets and focus on the existence of potentially impaired assets, as well as on the degree of credit control the insurance companies exercises.

Asset backing becomes essential when claims need to be met, since assets should be sufficiently liquid to meet the liabilities. At the same time, the available assets should also be judiciously invested in such forms so as to earn returns to the company, which would determine the profitability. It is a decision involving a trade-off between liquidity and profitability, the management of which is considered an important indicator to financial soundness.

As stated earlier the capital and premium collected, form the inflow of funds which need to be used for meeting claims as and when it arises. This would mean, holding the funds in a highly liquid form, namely cash would be preferable. But insurance companies use the funds for earning returns from investing the same in various assets instead of keeping them idle.

Quality of an asset is characterised by its marketability, implying the quickness with which it can be sold away at a fair price, bereft of any major fluctuation and without suffering any major loss and so on. An investment is made with an intention to earn some returns by way of profits and by gain in value. Of course, all the assets need not satisfy all the criteria of marketability, liquidity, profitability and less risk. Many of these features need to be traded off, like profitability and liquidity, profitability and risk. An assessment of these aspects forms part of the financial soundness.

The proportion of the two set of assets namely the market quoted equities and bonds which are easily marketable and the assets in the form of real estates and unquoted equities which are less liquid is expected to reveal the nature of asset quality. Two ratios have been used, one which assesses the proportion of equities to total and the other, the proportion of real estate and unquoted equities and debtor to total assets. In this study is calculated and analysed with regard to the selected private sector general insurance company.

4.2.1 Equity to Total Assets Ratio

Firstly, assets quality ratio is calculated in terms of equity to total assets ratio which shows the proportion of assets invested in marketable equities which gives return to the company. Higher ratio is preferable to lower ones as higher ratio indicates that the company has invested in market quoted equities which will increase the earning of the company and shows the quality of the total assets.

Table – 5

Equity to Total Assets ratios (Times)

Insurance company	FY					Mean	S.D.	C.V. (%)
	2012/13	2013/14	2014/15	2015/16	2016/17			
Shikhar insurance	0.001	0.012	0.026	0.020	0.039	0.02	0.01	73.70

(Note: Appendix-III)

Table 5 gives the ratio of equities to total assets for selected private sector general insurance i.e. Shikhar Insurance Company Ltd for the years from 2012/13 to 2015/16. Equity to Total Assets ratio of Shikhar Insurance Company Ltd., ranged from 0.001 to 0.039 where C.V. is 73.70 which means ratios are inconsistent and fluctuating during the study period. However, the ratio is in increasing trend which will have the positive impact in profitability as market quoted or marketable equities will give return to the company. It means that the investment in market quoted equities will generate revenue to the company which will increase the profit of the company so as the financial performance too. The same can be represented by the following figure.
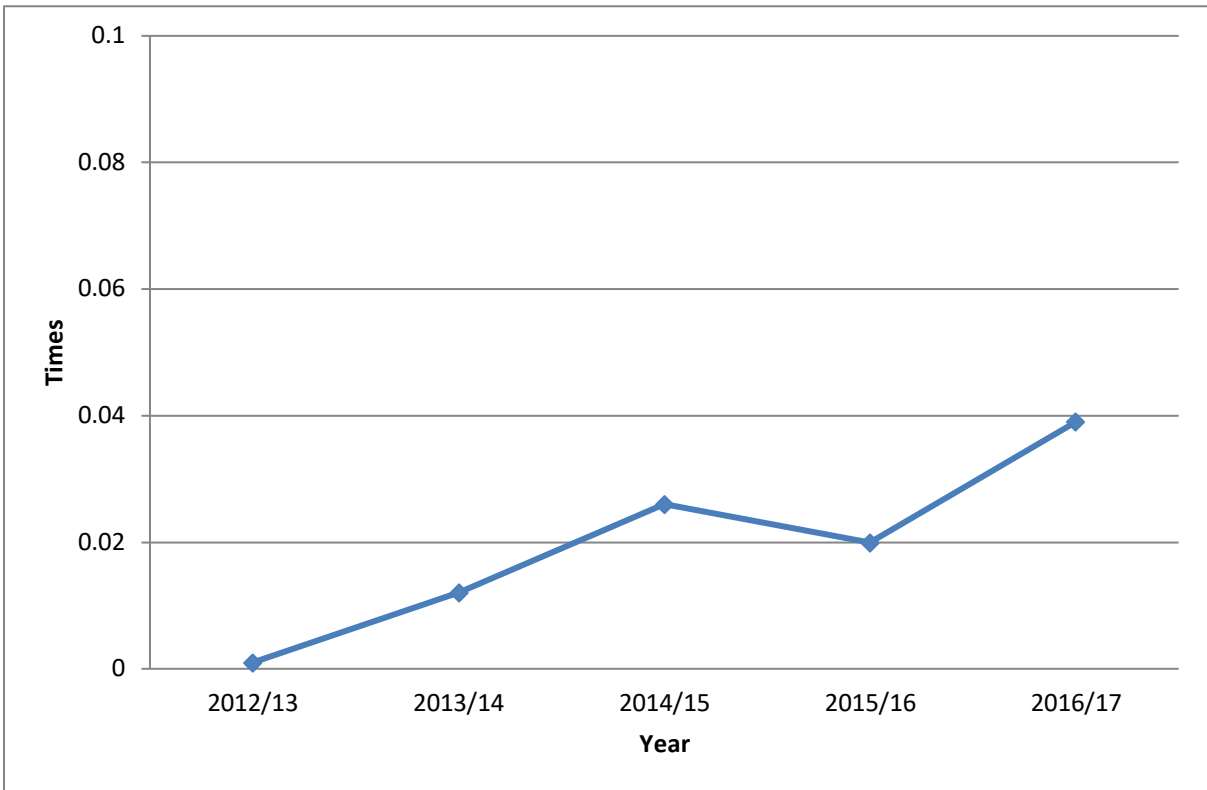
Figure 4

Equity to Total Assets Ratio

4.2.2 {Real State + Unquote Equities + Debtors} to Total Assets Ratios

This ratio measures the asset quality of the company. Real estate, unquoted equities and debtors are those assets which are less marketable and less liquid represent low quality of assets. This ratio measures the how much proportion of the low quality assets is there in total assets. Because the low quality assets generate low revenue to the company will certainly should be less in proportion. Thus, lower ratio is preferable to higher ones as lower ratio represents the lower proportion of the low quality assets over the total assets which is good significance to the financial performance of the company. This ratio is calculated by dividing sum of real estate, unquoted equities and debtors to total assets of the company.

Table – 6

{Real State + Unquoted Equities + Debtors} to Total Assets ratios

Insurance company	FY					Mean	S.D.	C.V. (%)
	2012/13	2013/14	2014/15	2015/16	2016/17			
Shikhar insurance	0.56	0.47	0.42	0.35	0.29	0.42	0.10	24.37

(Note: Appendix-IV)

Table - 6 depicts the ratio of {Real State + Unquoted Equities + Debtors} to Total Assets ratios of Shikhar insurance company for the years from 2012/13 to 2015/16. The above table shows the ratios are not consistent over the study period ranging from the minimum of 0.29 in 2016/17 to the maximum of 0.56 in 2012/13. The ratio is in decreasing trend. The mean of the ratios is 0.42 and the C.V. between them is 24.37 percent which shows the ratios are near consistent over the study period. The same can be represented by the following figures.
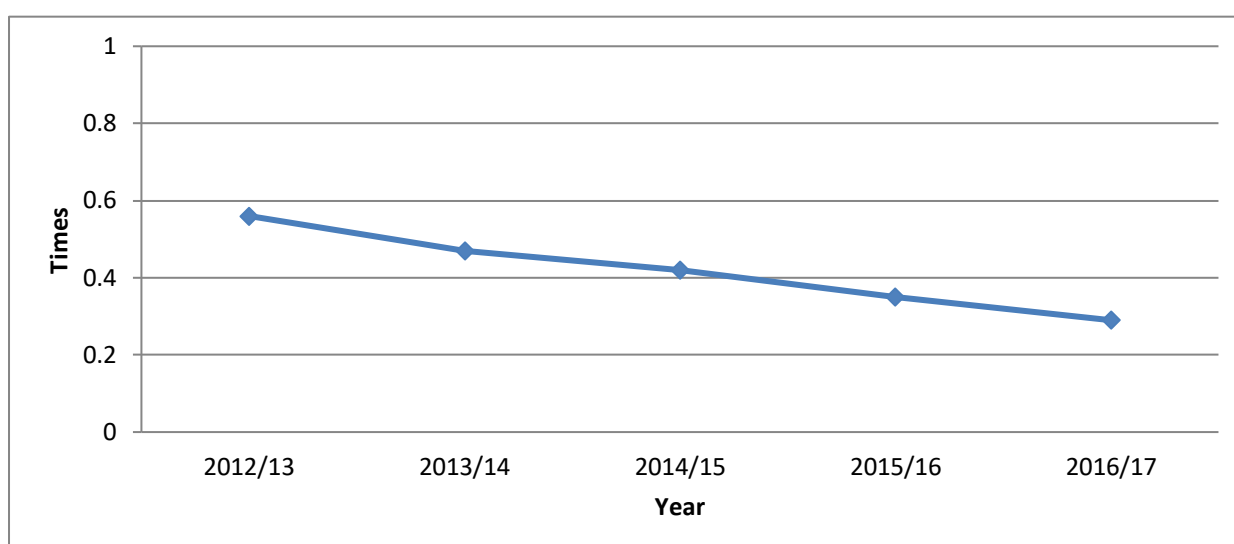

Figure 5

{Real State + Unquote Equities + Debtors} to Total Assets Ratio

4.3 Reinsurance and Actuarial Issues

This section examines ratios that seek an understanding of the nature of and trends in the transition between the business that an insurer accepts from its customers and the business that it actually retains on its books as exposure. Reinsurance use by direct companies is influenced largely by their desire to protect their capital from extreme events and also, most often, to ensure that reported profits are not unduly volatile. Companies can choose, in theory, between retaining risk and allocating capital to cover that risk, or transferring the risk to a reinsurance company.

The risk retention ratio reflects the overall underwriting strategy of the insurer and depicts what proportion of risk is passed onto the reinsurers. Overall, insurer's capital and reinsurance cover need to be capable of covering a possible severe risk scenario. If the insurer relies on reinsurance to a substantial degree, it is critical that the financial condition of its reinsurers is examined. At the industry level, this ratio indicates the risk bearing capacity of the country's insurance sector; however, some international comparison needs to be taken into account wherein some countries impose a cap to reinsure a pre-determined percentage of business with a state-owned reinsurance company, (Das et al., July 2003).

The risk-hedging strategy in the insurance sector can be exclusively dealt by the risk-retention ratio, expressed as a ratio of net premiums to gross premiums, and is applied for both life and non-life insurance businesses. The   ratio reflects the overall underwriting strategy of the insurer and shows the portion of risk passed on to the reinsurers.

Higher ratio may be preferred to lower ones, as a higher risk-retention ratio indicates that the non-life insurers are more prone at retaining the risks at their own destiny rather than passing on a considerable proportion of the risks to the reinsurers.

Table – 7

Retention ratios (Times)

Insurance company	FY					Mean	S.D.	C.V. (%)
	2012/13	2013/14	2014/15	2015/16	2016/17			
Shikhar insurance	0.37	0.43	0.48	0.52	0.52	0.46	0.06	13.86

(Note: Appendix-V)

Table - 5 shows risk retention ratio in terms of Net Premium to Gross Premium for the selected private sector general insurance company. Risk retention ratio of Shikhar Insurance Company Ltd., ranged from 0.37 to 0.52. The results showed increasing ratios over the study period. It went up to 0.52 during 2016-17 due to increase in the amount of Premium. The ratio of the company showed that the risk retention of this company was high which means the company relies considerably on self for risk-mitigation had the required adequacy in terms of assets base during the study period. Higher ratio may be preferred to lower ones, as a higher risk-retention ratio indicates that the non-life insurers are more prone at retaining the risks at their own destiny rather than passing on a considerable proportion of the risks to the reinsurers.
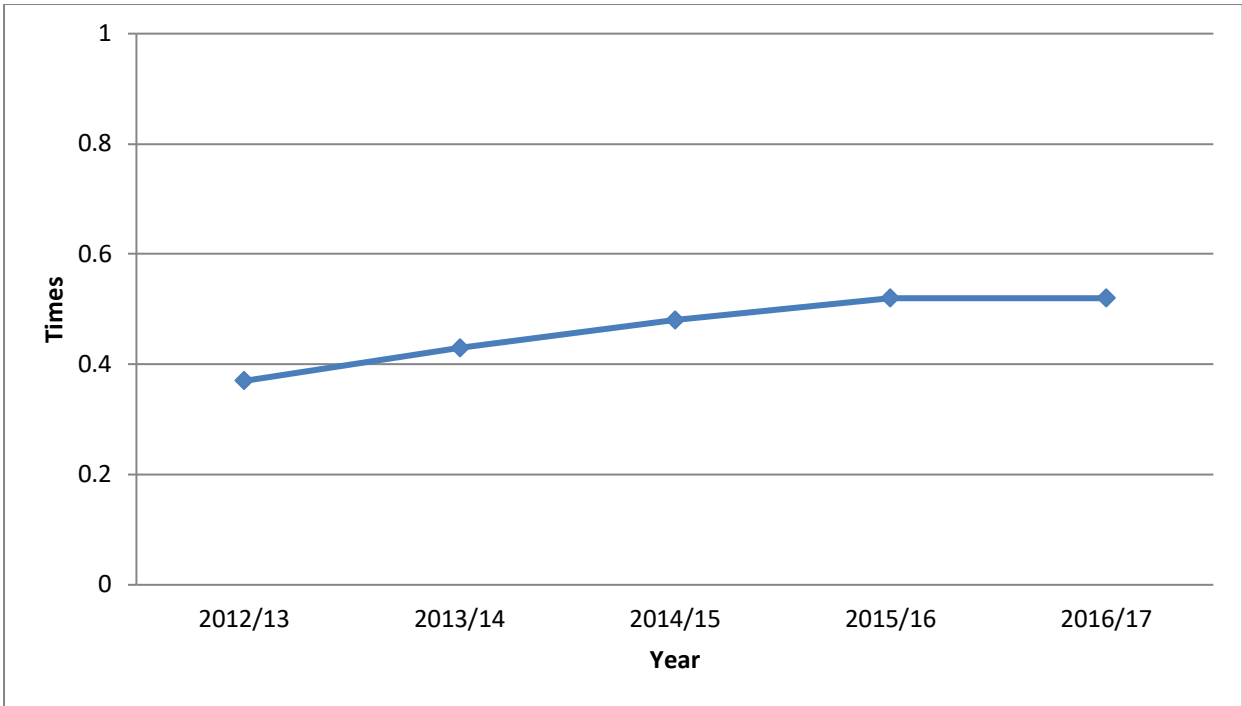
Figure 6

Retention Ratio

4.4 Management Soundness

The efficient management shall reflect in operative expenses and gross premium affecting overall operating efficiency of the insurance concerns, reflecting management soundness.

Sound management is crucial for financial stability and soundness of the non-life insurers. The management efficiency and soundness in fact is outcome of operational efficiency of the company. It also indicates the cost efficiency of the business, which ultimately reflects the efficiency of decisions regarding proper utilization of funds. Based on the encouraged set of FSIs as proposed by the researchers, the ratio of 'Operating expenses to gross premiums' also referred to as the 'Management Expense ratio' has been considered in the present study.

Moreover, lower ratios may be preferred to higher ones, as lower ratios indicate the efficiency of the non-life insurers in controlling costs and enhancement of profit margins. Lower ratio is expected to be good signal for health of insurance business.

Table – 8

Management Efficiency ratio (Times)

Insurance company	FY					Mean	S.D.	C.V. (%)
	2012/13	2013/14	2014/15	2015/16	2016/17			
Shikhar insurance	11.51	11.67	11.36	9.87	10.88	11.06	0.73	6.58

(Note: Appendix-VII)

Table - 6 shows the Management Efficiency Ratio is in decreasing trend ranging from 11.51 to 10.88 during the study period. The Ratio during the subsequent years where average ratio shows 11.06 and standard deviation is 0.73 and C.V is 6.58 percent which shows consistency in Management Expenses, however there is slight decrement in ratios starting from 2013/14. So the study shows that the company is trying to reduce its management expenses remain consistent so not to incur management expenses which are good significance to the management efficiency of the company.
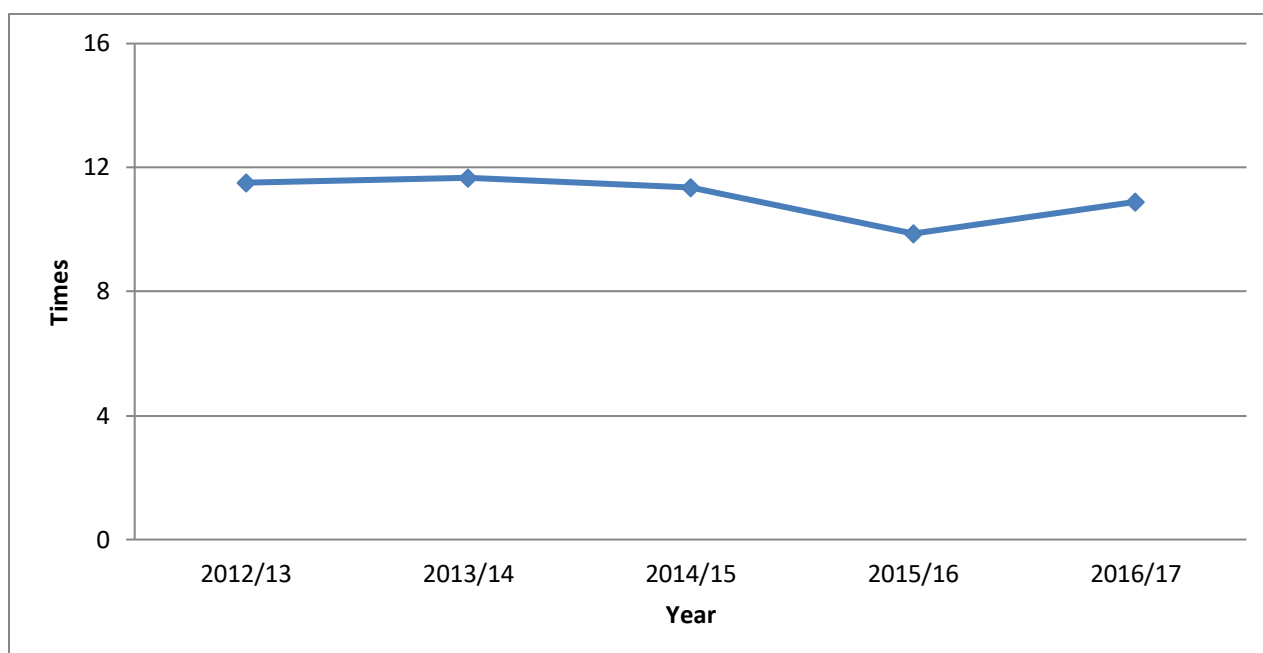

Figure 7

Management Efficiency ratio

4.5 Earnings and Profitability

Earnings are the key and arguably the only long-term source of capital base for an insurance company. Low profitability may signal fundamental problems of the insurer and hence considered as a leading indicator for solvency problems. Therefore, considerable attention is given to this area so that all indicators of earnings and profitability are included in this area. For non life insurers, the loss ratio is an important indication of whether their pricing policy is correct, while the expense ratio adds the aspect of operating costs into analysis. The combined ratio, defined as the sum of the loss ratio and expense ratio, is a basic, commonly used measure of profitability. This indicator measures the performance of the underwriting operation but does take into account the investment income. Return on equity then indicates the overall level of profitability which is calculated by dividing net profit after tax by net worth. Higher the return on equity the more profitable the insurers has become and the possibility of enhanced dividend to shareholders.

4.5.1. Loss Ratio

The loss ratio also termed as claim ratio is the ratio indicates the percentage of claims paid or payable on account of insurance claims as well as the benefits promised by the general insurers out of their net premium incomes. It is calculated by dividing claims incurred by net premium earned. Hence, lower loss ratios may be preferred to higher ones. If the ratio is high, it indicates that lesser amount is available for expenses recovery and thereby has negative impact on profitability of the companies and vice versa. Since there may be the argument that the amount of claims incurred cannot be minimized as the portion include perils insured. However, insurers differ to a good extent in terms of this ratio, highlighting the scope for efficient underwriting.

Table-9 shows the loss ratio of Shikhar Insurance Company which is presented as follows.

Table – 9

Loss ratio (Times)

Insurance company	FY					Mean	S.D.	C.V. (%)
	2012/13	2013/14	2014/15	2015/16	2016/17			
Shikhar insurance	0.41	0.42	0.40	0.37	0.46	0.41	0.03	7.76

(Note: Appendix-VII)

Table – 9 depicts the loss ratio of private sector insurance company i.e. Shikhar Insurance Company Ltd., which was near consistent during the study period ranging from 0.41 to 0.46. The average loss ratio was 0.41 and standard deviation was 0.03 which means about 40 percent of the premium collection amount is paid as claim during the study period. Though premium amount increased subsequently during the year, same increment was found in claim amount.
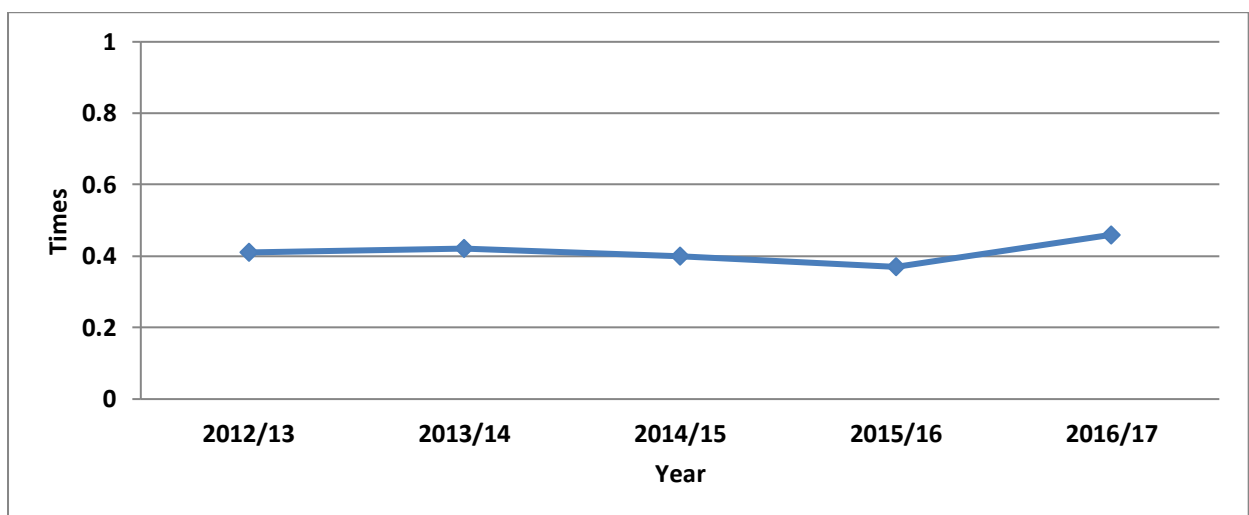

Figure 8

Loss Ratio

4.5.2 Expense Ratio

In any business incurrence of operational expenses or management expenses are necessary for proper maintenance and better operational performance and to insurance business it is no way and exception. However, excessive and inflated expenses tell upon the profitability of insurance company. The expense ratio in the insurance industry is the measure profitability calculated by dividing the expenses associated with acquiring, underwriting and servicing premiums by the net premiums earned by the company. The expense ratio signifies an insurance company's efficiency before factoring in claims on its policies and investment gains or losses.

Table – 10

Expense ratio (Times)

Insurance company	FY					Mean	S.D.	C.V. (%)
	2012/13	2013/14	2014/15	2015/16	2016/17			
Shikhar insurance	0.20	0.20	0.17	0.20	0.18	0.19	0.01	7.45

(Note: Appendix-VIII)

Table - 10 depicts the expense ratio of private sector insurance company i.e. Shikhar Insurance Company Ltd., which is consistent during the study period ranging from 0.20 to 0.18. The average expense ratio was 0.19 and standard deviation was 0.01 and C.V. is 7.45 percent which means the expenses and the premium collection during the study period was consistent. Though premium amount increased subsequently during the year, same increment was found in expenses. But it is slightly decreasing in 2016/17. It is good significance to the company as it increase the profit of the company and better the financial performance. It is also represented in the following figure.
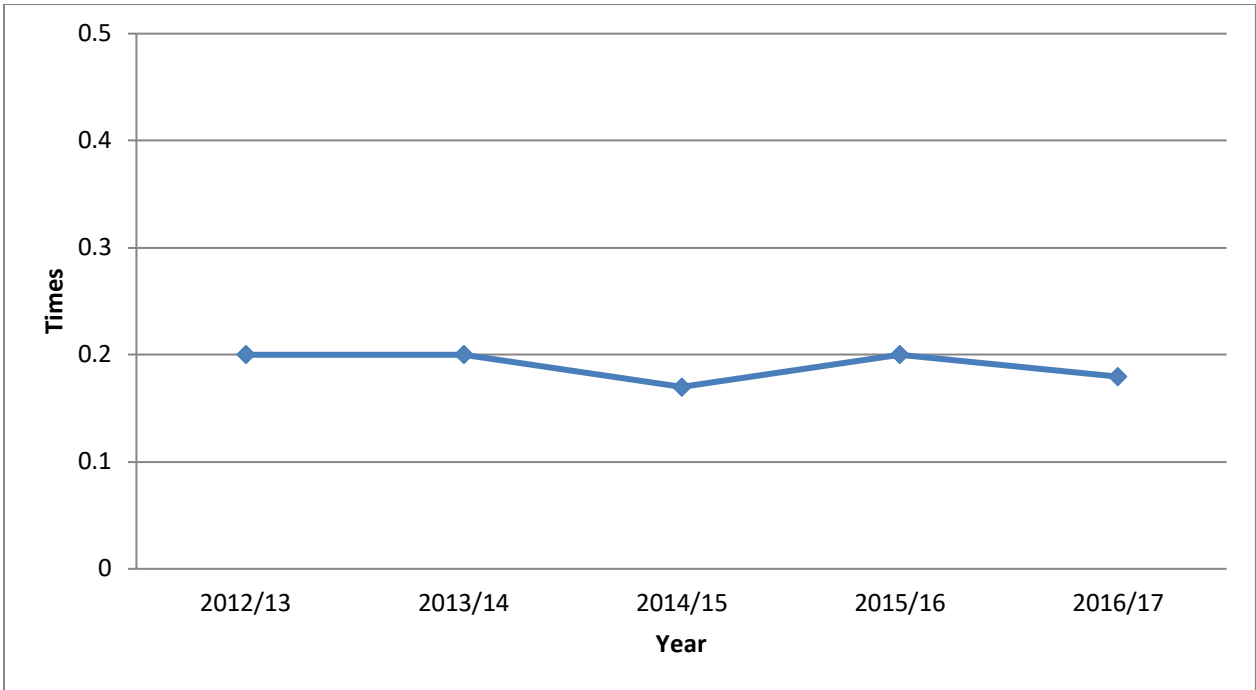
Figure 9

Expense Ratio

4.5.3 Combined Ratio

Combined ratio and is used as a measure of insurers underwriting performance and the ratio is the sum of claim or loss ratio and expense ratio. It presents the outlook of insurers efficiency in underwriting operations. The combined ratio must be lower than the net premium collected within the accounting period. The ratio defines for every rupee of earned premium, how much amount is utilized for paying claims and operating expenses. If the ratio is below 100 percent there are signs of profitability up to amount less by 100 percent but on the other hand if it is above 100 percent, it means that underwriting has been loss making to the extent it is in excess of 100 percent. Lower ratio is preferred to higher ones as lower the ratio higher the profitability and vice versa.

Table –11

Combined ratio (Times)

Insurance company	FY					Mean	S.D.	C.V. (%)
	2012/13	2013/14	2014/15	2015/16	2016/17			
Shikhar insurance	0.61	0.62	0.58	0.58	0.64	0.61	0.03	4.84

(Note: Appendix-IX)

Table - 11 reflected combined ratio of Shikhar Insurance Company with ratio ranging from 0.58 in 2014/15 and 2015/16 to 0.64 in 2016/17 of the study-period. The mean of the ratios is 0.61 and the C.V. is 4.84 percent which means the combined ratio of the company is consistent over the study period.
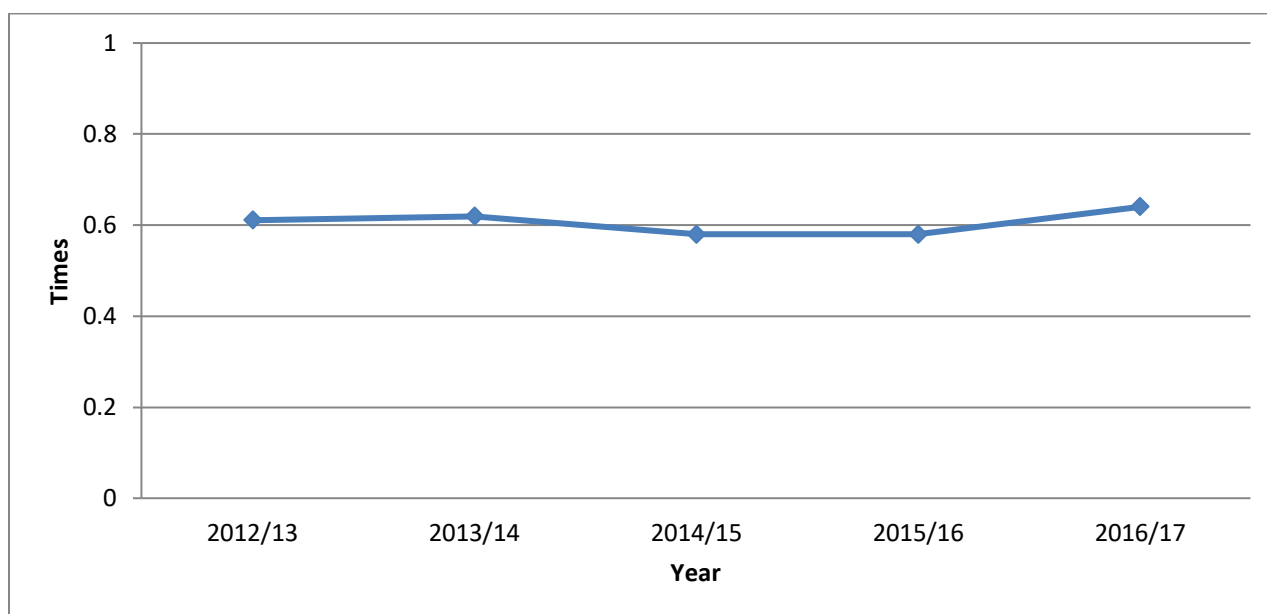

Figure 10

Combined Ratio

4.5.4 Return on Equity

Return on equity of a company measures the ability of the management of a company to generate adequate returns for the capital invested by the owners of a company. The return on equity (RoE) gives an indication about the monetary benefits provided to equity shareholders against the net worth of the business, and is in line with the wealth maximisation objectives of the firm. It is a true measure of the efficiency of the management since it shows what the earning capacity of equity shareholders funds is. Higher the ratio, the better it is, in such a case equity shareholders may be given a higher dividend. Earning capacity of one company can also be compared with others with the help of this ratio. The ratio may also be used for declaration of dividend and creation of reserves for future growth.

Table – 12

Return on equity (Times)

Insurance company	FY					Mean	S.D.	C.V. (%)
	2012/13	2013/14	2014/15	2015/16	2016/17			
Shikhar insurance	0.23	0.22	0.28	0.22	0.20	0.23	0.03	11.96

(Note: Appendix-X)

Table 12 shows the ratio of Return on Equity of Shikhar Insurance Company Ltd ranging from 0.23 in 2012/13 to 0.20 in 2016/17. The mean of the ratio is 0.23 and C.V is 11.96 percent which means consistency over the study period. The ratio is higher in 2014/15 with ratio of 0.28 but then ratio is decreasing in 2015/16 to 2016/17 by 0.22 percent and 0.20 percent respectively.
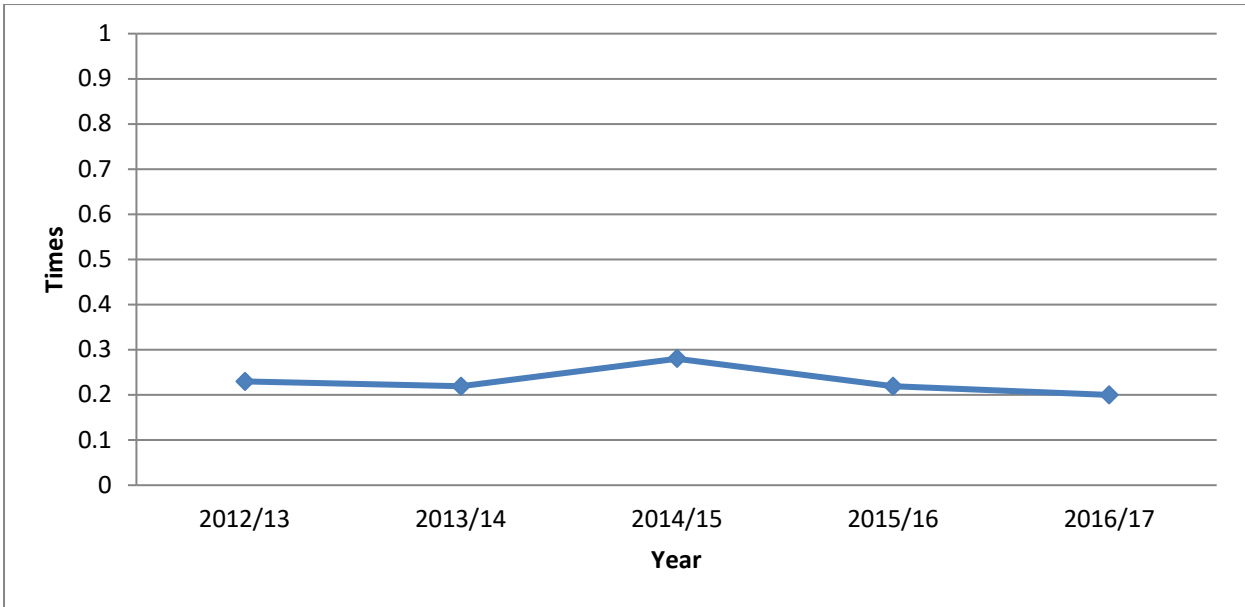
Figure 11
Return on Equity

4.6 Liquidity

Liquidity is the sixth component of the CARAMEL framework that is used to evaluate the financial soundness of insurance companies. The term 'Liquidity' ensures adequate cash/bank balances and highly liquid investments of the insurers to efficiently meet any short-term obligations and immediate claims of the policyholders. Hence, the insurers need to plan their liquidity carefully since the frequency, severity and timing of insurance claims or benefits are uncertain. The 'current ratio' determines a firm's short-term assets - liabilities position to indicate whether the firm can efficiently service its short-term claims. The claims can either be in the form of death claims, surrender claims or any short-term benefits desired to be paid to the policyholders according to the terms of the contract. Higher ratios may be preferred to lower ones, as higher ratios reflects the insurer's ability to efficiently service its short term obligations of the policyholders.

Table – 13

Liquidity ratio (Times)

Insurance company	FY					Mean	S.D.	C.V. (%)
	2012/13	2013/14	2014/15	2015/16	2016/17			
Shikhar insurance	2.00	3.06	3.05	6.84	6.60	4.31	2.24	52.04

(Note: Appendix-X)

Table - 13 provides evidence about the superior liquidity performance of Shikhar Insurance Company Limited which gradually increased during the study period starting from 2.00 times in 2012/13 to 6.60 times in 2016/17. The average liquidity position is 4.31 times, the standard deviation is 2.24 and coefficient of variance is 52.04 percent for the study period. The liquidity ratio is volatile and inconsistent during the study period. The average 4.31 times is considered as high liquidity where, liquidity and profitability are always conflicting each other since holding more liquid assets hamper the profitability but increase the firms creditability and solvency. The table shows that company is able to handle short term obligations and immediate claims of policy holders efficiently.
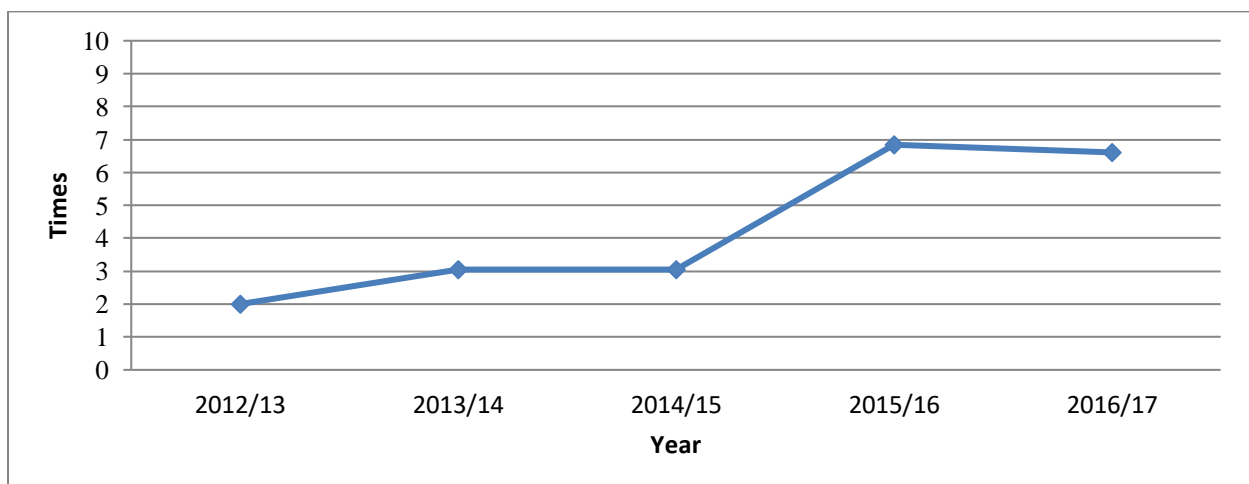

Figure 12

Liquidity Ratio

CHAPTER V

SUMMARY, CONCULSION & RECOMMENDATION

This chapter includes two aspects of the study. First aspect of the study focuses on summarizing the fact-findings of the study and making concluding remarks upon them. While the second aspect of the study focus on making some useful suggestions and recommendations based on findings of the study.

5.1 Summary

It is obvious that the world is surrounded by risks and uncertainties in the 21st century of modernization and globalization. Especially in developing countries like Nepal, safety and security are one of the key issues. Insurance is a means to minimize future uncertainties and losses. In other words, insurance can refer to a financial institute that safeguards the future economic losses. It creates the hope and provides motivation to any business.

Mainly there are two types of insurance. They are Life insurance and Non life insurance. In this study, we are focused on non life insurance. Non-life insurance is also called general insurance. Any insurance other than life insurance is known as non-life insurance. Devastating earthquake in April and compulsory third party insurance has increase the volume of business of general insurance companies. This study tries to access the financial performance of private sector non-life insurance companies in Nepal with a reference to Shikhar insurance company limited.

The financial performance of Shikhar insurance company limited is analyzed using CARAMEL model where CARAMEL refers to capital adequacy, asset quality, reinsurance and actuarial issues, management efficiency, earning and profitability, and liquidity. Based on CARAMEL model the financial performance of Shikhar insurance company has obtained.

The research work should have reached the destiny where we satisfy with the queries of research problems which were specified in the statement of the problem in the introductory chapter. To conduct the research work, mainly the secondary sources such as documents published by concerned insurance company has been used. Before presenting and analyzing the data, there was also need to review of related books, prior research on the topic. Obviously, it helped to construct conceptual framework and to analyze and interpret the secondary data according to objective set forth previously. Then the research work was analyzed and interpreted by financial tools such as capital adequacy ratio, , leverage ratio, earning per share, profitability ratio and dividend per share as well as statistical tools such as mean, standard deviation, CV.

In this way, the researcher analyzed and presented the data in the 4th chapter, which was the main body of the research work. On the basis of data analysis and presentation, the researcher extracted some major findings. It has been explained along with the data analysis and presentation. So, on the basis of major findings the researcher reached in the conclusions keeping in the previously set objectives in mind. Ultimately, the researcher will recommend on the research problem to its stakeholders.

To know the real performance of insurance, the researcher observed and analyzed the performance analysis of private sector insurance company for five years period. It is hoped that the performance analysis of the non-life insurance company will give a rational result and represent the overall insurance scenario in terms of performance analysis.

5.2 Conclusion

In this study, the financial performance of private non-life insurance company has been analysed using CARAMEL model. The financial performance of non-life insurance company for the period of 2012/13-2016-17 has been analyzed in terms of Capital Adequacy, Asset Quality, Reinsurance and Actuarial issues, Management Efficiency, Profitability and Liquidity.

Capital is considered as a cushion to protect insured and promote the stability and efficiency of the firm. It also indicates whether the insurance company has enough capital to absorb losses arising from claims.

In terms of Capital Adequacy ratio two ratios have been used. They are Net premium to total capital ratio and total capital to total assets ratio. Capital Adequacy ratio in terms of Net premium to capital ratio, in this ratio there is consistency in the ratio with 10.88 percent C. V with 1.80 times mean. This ratio shows that the premium has increased significantly with the increment of capital. It means the company has maintained its capital adequacy as it has generated business as the level of capital.

Capital Adequacy ratio in terms of total capital to total assets ratio, in this ratio there is near uniformity with 16.58 percent C.V and 0.20 times in average. This ratio shows that the capital has increased with the increment of total Assets. It means that the asset base of the company is satisfactory for the study period though the ratio is slightly higher in 2016/17 A.D.

Quality of assets rather than total assets holds by insurers determines the financial health of the firm. If firm has large portion of low quality of assets that requires greater surplus fund. To measure the quality of assets two ratios have been used. One is equities to total assets ratio and the second is real estate + unquoted equities + debtors to total assets ratio. First equities to total assets ratio is in increasing trend ranging from 0.001 to 0.039 times during study period with 0.02 and C.V is 73.70 percent. This means that the company is increasing its investment in marketable equities in subsequent years which will give return to the company and increase its earning and profitability. On the contrary, the second used ratio i.e. unquoted equities +real estate +debtors to total assets ratio, this ratio shows the low quality assets in total assets. Lower ratio is preferable to higher ones. The ratio is in decreasing trend starting from 0.56 in 2012/13 to 0.29 in 2016/17. This is also good significance to the company as the low quality assets are decreasing which are not in use to generate revenue to the company.

Reinsurance and Actuarial issues or in other words Risk Retention ratio is measure to calculate how much of the risk is being carried out by the insurer rather than being passed to the reinsurers. It is calculated by net premium by gross premium. The calculation shows the average of 0.46 and seems quite consistent with 13.86 percent. The ratio is in increasing trend as it increases from 0.37 to 0.52 in 2012/13 to 2016/17 respectively. It means that company has taking more risk over the time.

Sound management is essential for financial stability of insurer. The management efficiency and soundness in fact is outcome of operational efficiency of the companies. In this study management efficiency is calculated by dividing operating expenses by gross premium. The study shows that average ratio of 11.06 times and shows the consistency with 6.58 percent. The ratio is slightly decreased in 2015/16 and 2016/17. It means that the company's management efficiency is satisfactory. The company is managing its expenses. As earning and profitability of company is directly significant with the expenses. So, lower ratio is preferred than higher one.

Earnings are the key and arguably the only source of long term capital. Low profitability may signal fundamental problems of the insurer and may consider a leading indicator for solvency problems. In this study Earning and profitability of firm is described by four ratios. First ratio is Loss ratio or claim ratio which is calculated by net claim divided by net premium. The loss ratio indicates the percentage of claims paid or payable on account of insurance claims as well as the benefits promised by the general insurers out of their net premium incomes. Hence, lower loss ratios may be preferred to higher ones as it indicates better profitability position for the insurers. The study shows that claim ratio mean is 0.41 with C.V is 7.45 percent. The ratio shows consistency which is not good for the performance of the company.

Earning and profitability in terms of expense ratio shows how economic and cost effective way the firm is performing its core activities. The ratio is calculated dividing the expenses by net premium. Expense ratio average is 0.19 and C.V is 7.45 percent which shows uniformity in expense ratio. Though company's ratio is less than 30 percent of net premium it will be better to decrease the ratio if possible in future so it will increase the earning and profitability of the company.

Earning and profitability in terms of combined ratio, which is the sum of claim ratio and expense ratio. The study shows the average of 0.61 and C.V is 4.84 percent which shows the consistency of the ratio over the study periods.

The fourth ratio in measuring earning and profitability of the company is Return on Equity which is calculated by profit after tax by net worth. This ratio describes how effectively management has been using the shareholders' fund. ROE ratio shows the average of 0.23 and C.V is 11.96 percent. The ratio is quite consistent over the study period. Higher ratio is preferable to lower ratio as higher ratio indicates the higher return to the shareholders.

Liquidity of the company is measured by liquidity ratio which is calculated by Liquid assets by currents liabilities. In the study liquidity ratio of the company shows the average of 4.31 and C.V is 52.04 percent. The ratio is inconsistent over the period of the study. The ratio is in increment trend. The ratio has increased drastically in the year 2015/16 and 2016/17.

5.3 Recommendation

Based on the summary and conclusion, the following recommendations can be made as suggestions to overcome the weakness and for more effectiveness in existing financial performance of Shikhar insurance company are forwarded: -

❖ Since the capital of the company is crucial to run a business fluently and to mitigate the future claims or losses. The company has enough capital as recommended by the Insurance Board. It is recommended to increase the business generation as the capital increment.

❖ The company is taking more risk in terms of risk retention ratio. The company has relied on self for future risk rather than the reinsurers. The company is suggested to balance the risk taking by self and risk transfer to reinsurers for future. Company is also suggested to increase the ratio in future and investing the money received from premium instead of paying toward reinsurers.

❖ The management efficiency of the company in ratio shows consistency. Which means that the company's gross premium i.e. income has increase and operating expenses of the company has also increased accordingly. It is suggested that the company should pay more attention in management expenses to lower the management efficiency ratio for increment in profitability.

❖ The claim ratio has also shown consistency which is not good sign for good financial performance. Company should pay more attention to lower the claim ratio in future for better performance. The expense and combined ratio also should be in decreasing trend which will eventually better the financial performance of the company.

❖ The ROE of the company is also consistent over the study period which is not good sign for the financial performance. The company needs to increase the ROE ratio so that shareholders of the company remain happy and hold their shares.

❖ The liquidity position of the company is higher in last two years of study period. Though the liquidity position is strong of the company it can meet its future claims easily and timely but holding high liquidity also hamper in profitability of the company as high liquidity means idle of liquid assets which is one of the source of revenue generation. So it is recommended to hold the liquidity position to the level of requirement only.

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