CHAPTER 1

INTRODUCTION

1.1 Background of the Study

Insurance, now a days is defined as a social device to accumulate funds to meet the uncertain losses arising the risk. It is believed that for the economic growth of the country, insurance provides strong hand and minds, protections against loss of property and adequate capital to produce more wealth.

Insurance is a type of a legal contract or agreement between the insured and the insurance company in which insured agrees to pay certain amount of money as premium to the insurer against which insurer promises to pay compensation in case of loss due to the reasons mentioned on the contract. Insurance company is a type of company that offers insurance policies to the public, either by selling directly to an individual or through another source such as an employee's benefit plan. An insurance company is usually comprised of multiple insurance agents. An insurance company can specialize in one type of insurance, such as life insurance, health insurance, or auto insurance, or offer multiple types of insurance. Now a days consumers rank life insurance higher than any other investment options because of its ease and convenience in investing, tax benefits, and tax protection.

The performance of an economy depends on the performance of the financial sector of that economy. Financial sector comprise a very important ingredient in any economy. The financial sector of Nepal is gaining strength over the years and its contribution to growth is increasing. In this regard Nepalese insurance industry acts as a crucial role in the economic growth of the economy.

A strong insurance market covers approach for well-organized resource allocation in the course of transfer of risk and enlistment of savings. The Insurance industry occupies a unique place in a nation's economy. The origin of insurance business has been developed from the concept of protecting the interests of people from uncertainty by providing certainty of payment at a given contingency. Unlike life insurance, non-life insurance is not meant for returns but is protection against contingencies such as accidents, illness, fire, burglary etc.

The History of financial system in Nepal began in 1881 with the establishment of Tejarath Adda (The National Treasury Office) in initiation of the then Prime Minister Ranodweep Singh which was used as the government and public bank and Ministry of Finance by Rana rulers. Before this Kumari Chowk Adda was the main treasury office but not organized well. Later, in initiation of Nepalese Ambassador to UK, Nepal Bank Limited as the first commercial bank, was established in 1937 with technical help of British Indian commercial banks. In those days, foreign (mostly Indian) insurance companies met the insurance need of Nepal.

In eve of Rana Regime, Nepal Insurance and Transport Company (named as Nepal Insurance Company later) was established in 1947 by Nepal Bank Ltd. as its subsidiary company. It was the only national insurance concern before establishment of Rastriya Beema Sansthan (RBS) in 1968. After the establishment of RBS, the then main business holder of life portfolio, Life Insurance Corporation of India transferred the business to RBS and closed its office in Nepal in 1972. None the less, non life companies are in operation till to date. In 1968 Rastriya Beema Sansthan (RBS) was established under Company Act, 2024 and was converted into Corporation in the following year under Rastriya Beema Sansthan Act, 1969. This is a government owned organization even now, and has been operating both life and non-life insurance business. Prior to the enactment of Insurance Act, 1968 there was no regulatory body that supervises insurance business in the country. Under the Insurance Act, 1968, Beema Samiti (Insurance Board) was formulated as the insurance supervisory Authority. In 1986, a new experiment was done in Nepalese insurance scenario by licensing a joint venture insurance company to operate both life and non life business. But the real expansion of the insurance industry in Nepal took place during the 1990s following the financial sector reform and liberalization of the economy by the government. The new policy gave emphasis to the involvement and growth of insurance business in the private sector. As a result, many companies came into the scene in the private sector including foreign equity. Even branches of Indian and US companies are working in the field.

According to Economic Survey 2072/73, there are a total of 27 insurance companies in Nepal (Annex I). According to figures of ownership structure of insurance companies, three (3) are working as branches of foreign insurance companies, three (3) on joint investment with foreign companies, 18 on private ownership, and two (2) on Government ownership. Insurance Committee has been carrying out operations as a regulatory agency by systemizing, regulating, developing, and controlling the insurance business.

As the purchasing power of Nepalese people is increasing along with increase in level of education. Knowledge and importance of insurance is also spreading amidst the Nepalese society. This has led to the growing number of insurance companies in Nepal along with the adoption of liberalized economic policies.

1.2 Statement of the Problem

The growth of Nepalese insurance industry had started only after the 2000 AD. As the financial market of Nepal is not being well developed as it should be the development of insurance companies also do not seem satisfactory. Still only nine insurance companies are providing such facilities. In this scenario, there is the need of analysis of the actual financial performance and growth of such companies.

This study attempts to answer the following questions or problems:

1. What is the overall position of life insurance companies?
2. What is the financial position or performance of selected companies?
3. What is the role of selected companies in Nepalese insurance industry?
4. What are the trends of growth of selected companies?

1.3 Objective

The major objective of the study is to analyze financial performance of the insurance companies of Nepal. The specific objectives of the study are mentioned below:

1. To analyze financial performance of selected life insurance companies
2. To Analyze insurance indicators of financial development
3. To provide the suitable recommendations and suggestions.

1.4 Importance of the Study

As risk and uncertainties in an individual and organizational life are increasing day by day with the development, the importance of insurance business is also increasing.

After the realization of financial ups and downs in the world, insurance business has been taken as one of the means of global financial stability. The recent growth of Nepalese insurance industry indicates the importance of insurance business in Nepal.

There has been a gradual increase in number of life insuerers, insured people, insurance agents and surveyors in Nepalese insurance industry. Similarly, the premium collection, resource/liabilities and investment of the industry is also gradually increasing. This has contributed for employment generation and development of the nation as well.

However, there is a gap of research studies that have been done regarding financial performance and development of insurance industry. 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. In this context, this research work is an attempt to evaluate the financial position of the two insurance companies of Nepal.

1.5 Limitation of the Study

The study is based on the following limitations:

a. The Study is based on the data provided by the companies under study and other secondary sources
b. Two Insurance Companies : **Nepal Life Insurance Company Limited and Life Insurance Corporation (Nepal) Limited** are selected for the study
c. The study includes the data from FY 2010/11 to the FY 2014/15.

CHAPTER 2

REVIEW OF LITERATURE

2.1: Introduction

The present chapter depicts upon the existing literature and research related to the present study for the purpose of finding out what had already been explained, and how the present research adds to this dimension. The researcher here has made an attempt to present review of some literatures regarding financial analysis and financial performance life insurance companies in the Nepalese context as well as to some extent as global context. Furthermore this chapter includes two parts:

Theoretical Context
Empirical Study

2.2 Theoretical Context

This section includes the basic concepts regarding insurance and introduction of different products of selected insurance companies. Besides this, it also includes few financial concepts.

2.2.1 Insurance Related Concepts

This section includes short description of mostly used insurance related concepts.

2.2.1.1 Insurance

It is difficult to find single definition of insurance. It can be defined in several ways. Some major definitions of insurance are given below:

Insurance may be defined as a contract between two parties whereby one party (the insurer) agrees to protect the other party (the insured) against a loss (which may arise or may not) when it takes place through the risk insured (in case of property) or pay a fixed amount on the happening of a certain event (death or expiry of the term) in exchange of fixed sum premium. (Panda, G.S. 1985)

"Insurance is the pooling of fortuitous losses by transfer of such risks to insurers, who agree to indemnify insureds for scuh losses, to provide other pecuniary benefits on their occurance, or to render services connected with the risk." (The Commission on Insurance Terminology of the American Risk and Insurance Association)

Risk-transfer mechanism that ensures full or partial financial compensation for the loss or damage caused by event(s) beyond the control of the insured party. Under an insurance contract, a party (the insurer) indemnifies the other party (the insured) against a specified amount of loss, occurring from specified eventualities within a specified period, provided a fee called premium is paid. (Business Dictionary)

2.2.1.2 Types of Insurance

Insurance is broadly classified into two categories. They are

- Life Insurance
- Non-life/General Insurance

In this study we discuss only about life insurance

Life Insurance

According to Insurance Act 2049, "Life Insurance Business" means the business relating to a contract regarding to the life of any person under which he/she or his/her heir in the event of his/her death, will be paid a particular amount in case a specified amount is paid in installment on the basis of his/her age.

According to LIC (Nepal) Ltd, Life insurance is a contract that pledges payment of an amount to the person assured (or his nominee) on the happening of the event insured against.

The contract is valid for payment of the insured amount during:

- The date of maturity, or
- Specified dates at periodic intervals, or
- Unfortunate death, if it occurs earlier.

Among other things, the contract also provides for the payment of premium periodically to the Corporation by the policyholder. Life insurance is universally acknowledged to be an institution, which eliminates 'risk', substituting certainty for uncertainty and comes to the timely aid of the family in the unfortunate event of death of the breadwinner.

By and large, life insurance is civilization's partial solution to the problems caused by death. Life insurance, in short, is concerned with two hazards that stand across the life-path of every person:

- That of dying prematurely leaving a dependent family to fend for itself.
- That of living till old age without visible means of support.

2.2.1.3 Basic Requirements for Insurance

For buying insurance on any one's life the proposer should have insurable interest on the life of the assured. Insurable interest cannot be determined in terms of moral responsibility of one person for the other. It is determined by the monetary loss one will have to bear in case of death of the other. Some examples of insurable interest are given below.

- One's on his own life.
- Husband and Wife on the life of each other.
- Parents and Children on the life of each other.
- Employer on the life of employees.
- A lender on the life of a debtor.
- Business partners on the life of each other equal to the partner's investments in business.

Apart from the insurable interest the proposer should be

a. Legally competent to enter into a contract.
b. Financially capable to pay premium for the "Sum Assured Proposed".
c. And there should not be anything adverse in his 'Health', 'Habit', 'Occupation'

However, insurance can be given by charging extra-premium if there is anything adverse in health, habits and occupation within the permissible parameters.

On fulfilling the above eligibility conditions one has to submit the following requirements for obtaining insurance

a. Proposal form

b. Personal statement of health
c. Age proof
d. Medical report and special medical and pathological reports depending on the sum proposed, personal history and family history.
e. Proof of income if the sum proposed is large.
f. Deposit amount equal to first premium.
g. Previous insurance particulars.
h. Particulars of insurance on the life of husband if the life to be assured happens to be of wife does not have earned income and of parents if he/she is a minor.

2.2.1.4 Ten Things That One Absolutely Need To Know About Life Insurance

By expressing life insurance as one of the pillars of personal finance, deserving of consideration by every household Maurer (2016) presents the following 10 things that everyone need to know about life insurance:

1. **If anyone relies on you financially, you need life insurance.** It's virtually obligatory if you are a spouse or the parent of dependent children. But you may also require life insurance if you are someone's ex-spouse, life partner, a child of dependent parents, the sibling of a dependent adult, an employee, an employer or a business partner. If you are stably retired or financially independent, and no one would suffer financially if you were to be no more, then you don't need life insurance. You may, however, consider using life insurance as a strategic financial tool.

2. **Life insurance does not simply apply a monetary value to someone's life.** Instead, it helps compensate for the inevitable financial consequences that accompany the loss of life. Strategically, it helps those left behind cover the costs of final expenses, outstanding debts and mortgages, planned educational expenses and lost income. But most importantly, in the aftermath of an unexpected death, life insurance can lessen financial burdens at a time when surviving family members are dealing with the loss of a loved one. In addition, life insurance can provide valuable peace of mind for the policy holder. That is why life insurance is vital for the bread winner of a single-income household, but still important for a stay-at-home spouse.

3. **Life insurance is a contract (called a policy).** A policy is a contract between a life insurance company and someone (or occasionally something, like a trust) who has a financial interest in the life and livelihood of someone else. The insurance company pools the premiums of policyholders and pays out claims—called a death benefit—in the event of a death. The difference between the premiums taken in and the claims paid out is the insurance company's profit.

4 **There are four primary players, or roles, in a life insurance policy.** These roles belong to the insurer, the owner, the insured and the beneficiary. The insurer is the insurance company, responsible for paying out claims in the case of a death. The owner of the policy is responsible for premium payments to the insurance company. The insured is the person upon whose life the policy is based. The beneficiary is the person, trust or other entity due to receive the life insurance claim—or death benefit—in the case of the insured's passing.

5. **Life insurance is a risk management tool, not an investment.** While some life insurance policies have an investment feature that can offer a degree of tax privilege, insurance is rarely an optimal investment. There's usually a better, more efficient tool for the financial task you're trying to accomplish.

6. **There are two broad varieties of life insurance about which you should become aware—term and permanent**. Term life is the simplest, the least expensive and the most widely applicable. With term life, a life insurance company bases the policy premium on the probability that the insured will die within a stated term—typically 10, 20 or 30 years. The premiums are guaranteed for the length of the term, after which the policy becomes cost-prohibitive to maintain or you decide to let it lapse.

   Permanent life insurance includes this same probability-of-death calculus, but also includes a savings mechanism. This mechanism, which is often referred to as "cash value," is designed to help the policy exist into perpetuity. Whole life—the original—has an investment component much like bonds or CDs (but backed by the insurance company).

7. **Life insurance can be extremely expensive, but it can also be surprisingly inexpensive.** If you apply for a bells-and whistles permanent policy, the size of the premiums alone might cause you to need a life insurance benefit right then and there. But most people are pleasantly surprised when they see the relatively low premiums of a plain-vanilla term policy. A healthy, non-smoking, 30-something male, for example, might pay less than $500 per *year* for a 20-year term policy with a million dollar death benefit. Of course, a smoker will likely pay twice as much for any of the above. Someone with health problems could pay triple or more (or simply be declined for coverage).

8. **Determining the optimal life insurance policy for you doesn't have to be complicated.** While we could get really granular with a detailed life insurance needs analysis, it's more important to get set up with something you can comprehend than it is to push off an important decision due to life insurance's intimidating complexity. In the vast majority of situations, a household would be well cared for simply by buying enough life insurance to replicate all or most of the insured's income for a term as long as the household expects to need that income.

9. **Consider using a live person to help in your death planning.** There are many online tools that can help give you an idea of how much money you should pay for the policy you need. But once you get to that point, I would recommend contacting a real, live insurance agent who can walk you through the application and underwriting process. The premiums at a given insurance company are identical whether you apply online, via a toll-free number or with a person. Indeed, a knowledgeable and dedicated insurance broker or agent may help you save money by choosing the best carrier for your particular situation.

10. **Know your options when cancelling an existing life insurance policy so you don't leave money, or coverage, on the table.** If you have a policy that isn't appropriate for you—or you simply no longer need it—it's important to proceed carefully. First, if you realize that you have overpaid for a policy that doesn't meet your needs, but you still need life insurance, don't cancel the wrong policy until the right policy is in place. Who knows, you could learn of

a health complication that is going to lead to you being declined for the new policy. Then you'd be left without any coverage. If you have an existing term policy you no longer need, you can simply cease premium payments and it will go away.

2.2.1.5 Insurance Related Terminologies

"Insurance Policy" means a document mentioning the rights and liabilities relating to the contract of the Insurance.

"Insured" a person or organization holding a Life Insurance and Non-Life Insurance Policy.

"Insurance Agent" means a person other than a salaried employee of an Insurer who has obtained a license pursuant to Section 30, to work on behalf of the Insurer on the basis of commission.

"Surveyor" means a person who has obtained a license pursuant to *Section 30A, to make a financial valuation of the destroyed property and the word includes an adjuster and a person who makes a valuation of losses.

"Insurer" means a corporate body registered pursuant to Section 10 and the word includes the re-insurer.

"Broker" means a person who has obtained license pursuant to Section 30B, to work as an intermediary between an Insurer and Insurer relating to the Insurance Business.

(Insurance Act 2049)

2.2.1.6 Profiles of the Insurance Companies under Study

<u>Nepal Life Insurance Company Limited</u>

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

The company has an authorized capital of Rs. 500 Crore and Paid-up Capital of Rs. 216.75 Crore. As on Falgun 2073 the company has insured 7,83,356 under conventional policies worth Rs.17,133 Crore and 13,60,318 Foreign Expatriate policies worth Rs.76,112 Crore. Out of the total premium collected the company has invested Rs. 4,377 Crore as per guidelines of Bima Samiti. The company has insured itself with well-know reinsurance company "Hannover Re Life Reinsurance Company", Germany.

Vision and Mission

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

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

Insurance Products

Different insurance companies issue or sale different types of products or policies to the people. Here different products/policies of NLIC is presented below.

A. **Endowment**
   a. **Children**
      - Keta-Keti Jeevan Beema
      - Bal Shiksha Beema Yojna

      (Nepal Life Sunischit Bhawishya Tatha Siksha Sawadhik Jeevan Beema)
   b. **Saving**
      - Surakshit Jeevan Beema Yojana
      - Jeevan Sarathi Beema Yojana
      - Rural Endowment Plan
   c. **Protection**
      - Jeevan Laxmi - Triple Benefit Scheme With Bonus
      - Jeevan Jyoti

B. Anticipated

- Jeevan Unnati Plan
- Naulo Dhanbarsha Plan
- Naulo Jeevan Sambriddhi

C. Whole Life

- Jeevan Sahara

D. Term

- Group Insurance Plan
- New Term Life Insurance

Life Insurance Corporation Nepal Limited

Life Insurance Corporation Nepal Limited [LIC (Nepal) Ltd.] is one of the largest capitalized insurance companies of Nepal. A joint venture between Life Insurance Corporation of India (55%) and Vishal Group of Nepal (25%), the insurance company has public participation to the extent of 20%. LIC (Nepal) was established under the Company Act, 2053 and Insurance Act, 2049. It was registered in 2058-4-23 and started its life insurance transactions from 2058-6-1 BS. It has been operating life insurance business by opening the 34 branch offices in main urban area of Nepal. Total paid up capital of the company is Rs 855562500.

Insurance Products

Different products/policies of LIC Nepal is presented below.

- Endowment (Plan no:333)
- Money Back (Plan no: 334, 335, 336, 337 and 339)
- Child Plans (Plan no: 340 & 341)
- Jeevan Anand (Plan no: 342)
- Griha Laxmi (Plan no: 343)
- Bima Kiran (Plan no: 344)
- Jeevan Tarang (Plan no: 345)
- Jeevan Amulya (Plan no: 346)
- Jeevan Aastha (Plan no: 347 and 348)
- Childrens Endowment Plan (Plan no: 349)

- Jeevan Saral (Plan no: 350)
- Jeevan Vidhya (Plan no: 352)

2.2.2 Financial Concepts

Different financial concepts that are relavent to the study are presented below:

2.2.2.1 Competition, Concentration, and Efficiency

Competition in the financial system can be defined as the extent to which financial markets are contestable and the extent to which consumers can choose a wide range of financial services from a variety of providers. Competition is often a desirable feature because it normally leads to increased institutional efficiency, lower costs for clients, and improvements in the quality and range of financial services provided. There are numerous measures of competition, including the total number of financial institutions, changes in market share, ease of entry, price of services, and so forth. In addition, the degree of diversity of the financial system could be an indicator of competition or the lack thereof because the emergence of vibrant non-bank intermediaries and capital markets often have been a source of effective competition for banking systems in many countries. All things remaining equal, an increase in the number of financial institutions or an expansion in available financial market instruments will increase competition by expanding the available sources of financial services that consumers can access. Ease of entry into the system could be judged by looking at the regulatory and policy requirements for licensing, for example, the required minimum paid-up capital.

The sustainable development of a financial system and the degree to which it provides support to real sector activities depend to a large extent on the efficiency with which intermediation occurs. Efficiency refers to the ability of the financial sector to provide high-quality products and services at the lowest cost. Competition and efficiency of the financial system are related to a large extent because more competitive systems invariably turn out to be more efficient (all other things being equal). Quantitative measures of efficiency that could be evaluated include (a) total costs of financial intermediation as percentage of total assets and (b) interest rate spreads (lending minus deposit rates).

Components of intermediation costs include operating costs (staff expenses and other overhead), taxes, loan–loss provisions, net profits, and so forth. Those costs can be derived from the aggregated balance sheet and income statements for financial institutions.

However, interest rate spreads sometimes remain high despite efficiency gains because of the need to build loan–loss provisions or charge a risk premium on lending to high-risk borrowers.

2.2.2.2 Breadth of the Financial System

Data on the financial breadth or penetration often serve as proxies for access of the population to different segments of the financial sector. Well-functioning financial systems should offer a wide range of financial services and products from a diversified set of financial intermediaries and markets. Ideally, there should be a variety of financial instruments that provide alternative rates of return, risk, and maturities to savers, as well as different sources of finance at varying interest rates and maturities. Evaluating the breadth or diversity of the financial system should, therefore, involve identifying the existing financial institutions, the existing markets for financial instruments, and the range of available products and services. The relative composition of the financial system discussed above is a first-cut approach to determining the extent of system diversification. In addition, comparisons between bank and non-bank forms of financial intermediation are useful, for instance, comparisons between banking credit and issues of bonds by the private sector.

Often, significant savings and financing through non-bank forms are indicators of financial diversity because bank deposits and loans constitute the traditional forms of savings and credit in many countries. It is, therefore, useful to compare the extent of financial intermediation through banks with the amount of intermediation through insurance, pensions, collective investment schemes, money markets, and capital markets. In particular, the share of various classes of asset holders—specifically, households, non-financial corporations, banks, and NBFIs—within the total capital market instruments or mutual fund assets can provide valuable information on financial diversification.

To supplement the overall indicators of diversity, assessors should also focus on sectoral indicators of financial development. For instance, the development of the insurance industry could be measured by examining trends in the ratio of gross insurance premiums to GDP, which could be broken down further into life and non-life premiums. Similarly, leasing penetration could be measured by the value of leased assets as a percentage of total domestic investment.

2.2.2.3 Financial Performance

Eshna (2012) has 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 results of a firm's policies 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 groups 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?

These questions can be answered with the help of a financial analysis of a firm. Financial analysis involves the use of financial statements. A financial statement is a collection of data that is organized according to logical and consistent accounting procedures. Its purpose is to convey an understanding of some financial aspects of a business firm. It may show a position of a period of time as in the case of a Balance Sheet, or may reveal a series of activities over a given period of time, as in the case of an Income Statement. Thus, the term ‘financial statements’ generally refers to two basic statements: the Balance Sheet and the Income Statement.

The Balance Sheet shows the financial position (condition) of the firm at a given point of time. It provides a snapshot that may be regarded as a static picture. “Balance sheet is a summary of a firm’s financial position on a given date that shows Total assets = Total liabilities + Owner’s equity.”

The Income Statement (referred to in India as the profit and loss statement) reflects the performance of the firm over a period of time. “Income statement is a summary of a firm’s business revenues and expenses over a specified period, ending with net income or loss for the period.”

However, financial statements do not reveal all the information related to the financial operations of a firm, but they furnish some extremely useful information, which highlights two important factors profitability and financial soundness.

Financial Performance Analysis

Financial performance analysis includes analysis and interpretation of financial statements in such a way that it undertakes full diagnosis of the profitability and financial soundness of the business. The financial analyst program provides vital methodologies of financial analysis.

Areas of Financial Performance Analysis:

Financial analysts often assess the firm's production and productivity performance (total business performance), profitability performance, liquidity performance, working capital performance, fixed assets performance, fund flow performance and social performance. Various financial ratios analysis includes

- Working capital Analysis
- Financial structure Analysis
- Activity Analysis
- Profitability Analysis

Significance of Financial Performance Measurement

The interest of various related groups is affected by the financial performance of a firm. The type of analysis varies according to the specific interest of the party Involved:

- Trade creditors: interested in the liquidity of the firm (appraisal of firm’s liquidity)

- Bond holders: interested in the cash-flow ability of the firm (appraisal of firm’s capital structure, the major sources and uses of funds, profitability over time, and projection of future profitability)
- Investors: interested in present and expected future earnings as well as stability of these earnings (appraisal of firm’s profitability and financial condition)
- Management: interested in internal control, better financial condition and better performance (appraisal of firm’s present financial condition, evaluation of opportunities in relation to this current position, return on investment provided by various assets of the company etc.)

2.2.2.4 Finance Related Terminologies

Paid Up Capital

Paid up capital is that capital of the company which is issued by the company to its shareholders. It is within the limits of the authorized capital and it may be less than or equal to authorized capital. It is widely used as one of the determinants of insurance company's profitability since it indicates the financial strength of the firm. Insurance companies with large paid up capital has higher capability to absorb huge loss and hence are more preferred by customer.

Net worth

Net worth is the amount by which assets exceed liabilities. Net worth is a concept applicable to individuals and businesses as a key measure of how much an entity is worth. A consistent increase in net worth indicates good financial health; conversely, net worth may be depleted by annual operating losses or a substantial decrease in asset values relative to liabilities. In the business context, net worth is also known as book value or shareholders' equity. (Investopedia.com)

Liquidity

Liquidity means convertibility of investment into cash without undue loss of capital. Insurance companies should be able to maintain a level of liquidity sufficient to meet its financial obligations in a timely manner and should be capable of quickly liquidating assets with minimal loss. The principle of liquidity is against the principle of profitability because the idle cash will earn nothing and invested cash will have no liquidity.

2.3 Empirical Study

Khanal (2007) assesses the services trade in developing Asia with reference to Nepal and reveals the fact that with the liberalization of the insurance sector, the private sector is increasingly occupying a major share in the insurance business as one-third of the market now is occupied by privately owned companies. Total premium income has increased rapidly, from less than 0.50 percent of the total non-agricultural GDP in 1994 to 1.86 percent in 2005. Correspondingly, the investable reserve fund is also growing. It is noteworthy that, out of the total investment, more than 80 percent is kept in the form of fixed deposit in commercial banks. There is also steady rise in the employment.

Ghimire and Kumar (2014) assesses the financial performance and soundness of Life insurance companies in Nepal on the basis of CARAMEL (Capital adequacy, Assets quality, Reinsurance and Actuarial issues, management soundness, Earnings and profitability and liquidity)parameters during 2007/08 to 2011/2012. The financial status of the life insurance companies from different six aspects gives the mix results. Past trend of capital adequacy ratio was not good but after July 2013, all LICs have increased their paid up capital at least Rs. 500 million so that the ratio obviously getting better these days. Assets quality, in term of receivables, the situation is in improving way. Reinsurance and actuarial base, Risk Retention Ratio is improving from 80% to 97% and the net technical reserves ratio also matched its reserves with net premium.

Management soundness of insurers had been improving as both were in upward direction. Earnings and profitability point of view, Return on Equity was in decreasing trend which may discourage the investors to hold the share. There is ray of hope since expenses ratio, investment income to investment assets ratio, liquidity position also in improving direction.

Ahmed, Ahmed and Usman (2011) examines 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) compares 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 area has been indentified for the improvement of both insures such as capital adequacy, liquidity, operating expenses.

Khanal (2007) in his research paper "A Case Study of the Banking and Insurance Sector in Nepal", reviews the development of the banking and insurance sectors in Nepal and the effect of reforms and commitments linked to these sectors since the 1980s. According to him, three fourth of foreign equity participation is permissible in the banking sector. The insurance sector is almost fully liberalized with 100 per cent foreign equity participation on a case by case basis. The liberalization of banking and insurance has helped to diversify the banking sector resulting in financial deepening. The contribution of finance and real estate sector to employment reached 11.46 per cent of total employment in 2005, from 9.29 per cent in 1990. A rapid increase in total financial assets of the financial institutions also took place during the period 1990 to 2005. Despite these positive developments, the financial sector is experiencing serious difficulties. He further highlights that the cost of capital is still high and the financial system relatively inefficient, as the gap between deposit and lending rate indicates. Access to financial services in rural areas also remains a major problem. At the same time, Nepal is in a process of further opening up banking and insurance in meeting WTO obligations.

Liargovas & Skandalis (2008) in their research paper "Factors affecting Firms Financial performance: the case of Greece" have tried to empirically implement a comprehensive analytical framework of financial performance in the case of Geek industrial firms during the period 1997-2004. The paper has examined the impact of key determinants of firm's financial performance. The study has revealed that leverage, export activity, location, size and the index for management competence significantly affect firm performance in Greece. The results have indicated that large, young and exporting firms which have a competitive management team, an optimal debt-equity ratio and use their liquidity to finance their investments are the profitable firms in Greece.

Joshi (2007) in his research paper "Financial Analysis On The Context Of Nepalese Commercial Banks" has compared the financial analysis in the context of Nepalese commercial banks. He concludes that lending condition of banks is in decreasing trend. Strong banks are holding good customers and discoursing low rates and less amounted loans. Instead of that they are initiated towards remittance, bank guarantees and other commission generating activities. While other banks are showing aggressive and are spontaneously increasing loan loss provision. Deposits in the banks are also decreasing while some banks are holding enough funds.

Upreti (2011) in her research work “A Premium Collection, Investment Pattern and Returns of Nepal Life Insurance Company Ltd.” concludes that the company's premium collection is in increasing trend. The total premium collection of the company was Rs. 4.65 crore in the fiscal year 061/62, it has been increased to Rs.134.75 crore in last year of the study period i.e. 065/66, which is 34.56% increased. Similarly she further say that company has preferred bank fixed deposits as the first priority followed by government securities and others. Bank fixed deposit contribute more that 73% of investment in fiscal year 065/66. It's second priority was on the government saving bonds which was 13% in the fiscal year 065/66. The company had invest 3% in equity share, 6% in debenture's and other investment areas are policy loans, staff loans, agent loans and short term investment which was 5% in approximately. The study further has revealed the fact that the average net rate of investment return of NLIC is only 7.89 % in the fiscal year 065/66. The company has been able to declare increase bonus rate to the policy holders. The company has provided 20% bonus share declared last year from its profit.

Rai (2012) in his research paper "A Study On The Situation Of Life Insurance Market In Nepal And It's Promotion" concludes that total premium incomes of the different companies have been increasing every year that has contributed to increase the national GDP. In comparison to National GDP, the contribution of life insurance premium is 0.74% in fiscal year 2066/67. He further mentions that the life insurance market in the fiscal year 2066/67 stood at Rs.3648.71 crore. This shows an increase of Rs.995.09 crore than previous year. These investments have been helping the nation for the development of infrastructure. He again says that lack of awareness about insurance, poor economic condition of the people, are responsible for insurance market not being able to grow as it has aimed. Out of total population of the nation only 5 to 7% people have purchased life insurance policies. The another reasons of not purchasing life insurance policies are a procedural delay and more legal formalities of the companies. The paper highlights the importance of insurance industry by mentioning that in Nepal, there are 1462 people are employed in different insurance companies that has helped to increase their living standard.

Financial stability of the country depends on the level of financial performance of the bank and financial institutions. Insurance companies are also one of the major part of financial institutions. So, till date several research studies have been conducted to study the financial performance of insurance companies. Many studies have been carried out on banking sector, but having a part of financial system; insurance sector has been given less priority by researchers, regulators and insurers themselves. Furthermore, regarding financial performance of life insurance companies, very few research studies have been conducted in Nepal. So, in this context, comparative study of two life insurance companies done in this research work will be very fruitful for the future researchers, policy makers, regulatory authority as well as insurance experts and academicians.

CHAPTER 3

RESEARCH METHODOLOGY

3.1 Introduction:

Research methodology is the major part of any research work. It classifies the way the researcher is following to the pattern of the study. It includes research design, sources of data collection, processing and tabulating procedure, sample size and so on. To meet the objective of this research work, the methodology consists the following elements.

3.2 Research Design:

This study is based on secondary data. The research design follows descriptive type of research and analytical framework. Data collected from different sources are presented systematically. And other information with adequate interpretations are presented using descriptive method and tools such as: financial ratios, tabulation, percentage, average, charts etc. The main purpose of the study is to analyze financial performance of NLIC and LIC, Nepal. The research is so designed that the analysis and interpretation of the secondary data relates to the evaluation of past behavior of the companies regarding different financial aspects and insurance indicators.

3.3 Population and Sample Size:

Till now nine life insurance companies are registered in Nepal. Due to limited time and lack of availability of financial data only two companies are taken under this study. Those two sample companies are:

- Nepal Life Insurance Co. Ltd.
- Life Insurance Corporation (Nepal) Ltd.

3.4 Nature and Sources of Data:

Secondary data have been used to achieve the objective of the study. Under secondary sources annual report of the concerned insurance companies, previous study, data of Rastriya Bima Samiti, websites of insurance companies and unpublished record etc. is used.

3.5 Method of Analysis

Financial tools and empirical models are to be used in the process of research and study. In this study main focus is given to ratio analysis as it is taken as the powerful tool of financial analysis to pin out the economic and financial position of business unit through which it can be x-rayed. However few statistical tools like average, standard deviation and coefficient of variation are also used.

3.5.1 Financial Ratios

A ratio is an arithmetical relationship between two figures. It is a comparison of one number to another—mathematically. It is like a simple division problem. It can be expressed as a decimal value or percent value. Financial ratios involve the comparison of various figures from the financial statements in order to gain information about a company's performance. It is the interpretation, rather than the calculation. Financial ratios show the relationships between variables used to measure the firm's performance in terms of profitability, liquidity, asset utilization, market valuation and so on. Generally, such ratios are regarded as one of the most common tools of managerial decision making.

The financial ratios used to measure the financial performance of selected companies are given below:

Current Ratio

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

Expense Ratio

$$\text{Expense Ratio} = \frac{\text{Management Expenses}}{\text{Net Premium}} \times 100$$

Return on Equity Ratio

$$\text{Return on equity ratio} = \frac{\text{Net Profit}}{\text{Total Equity}} \times 100$$

Return on Assets Ratio

$$\text{Return on assets ratio} = \frac{\text{Net Profit}}{\text{Total Assets}} \times 100$$

Net Profit To Life Insurance Fund Ratio

$$\text{Net profit to life insurance fund ratio} = \frac{\text{Net Profit}}{\text{Life Insurance Fund}} \times 100$$

Asset Per Employee Ratio

$$\text{Assets per Employee Ratio} = \frac{\text{Total Assets}}{\text{No. of Employee}} \times 100$$

Price Earnings Ratio

$$\text{Price Earnings Ratio} = \frac{\text{Market Price Per Share}}{\text{Earnings Per Share}}$$

Earning Yield Ratio

$$\text{Earning Yield Ratio} = \frac{\text{Earnings Per Share}}{\text{Market Price Per Share}}$$

Besides above mentioned financial ratios few insurance indicators which are commonly used are also used to analyze the performance of the selected companies. Such indicators are mentioned below:

- No. of Agents
- No. of Staffs
- No. of Branches
- No. of Total Policies
- Paid Up Capital

3.5.2 Statistical Tools

Statistical tools are the measures or the instruments to analyze the collected data from different sources. In statistics, there are numerous statistical tools to analyze data of various natures. In this study, the researcher has used the following statistical tools to analyze the data.

3.5.2.1 Average (Mean)

Average or mean is the most widely used measure of central tendency. Arithmetic mean of the given data set is the ratio of sum of all values to the total number of values. It is usually denoted by $\overline{X}$ (read as x bar).

"An average is a single value related from a group of values to represent them in someway, a value, which is supposed to stand for whole group of which it is part, as typical of all the values in the group. There are various types of averages. Arithmetic mean (A.M. simple and weighted), median, mode, geometric mean, harmonic mean, are the major types of averages. The most popular and widely used measure representing the entire data by one value is the A.M. The value of the A.M. is obtained by adding together all the items and by dividing this total by the number of items or observations." (Gupta, 1990)

Mathematically,

Arithmetic Mean (A.M.) is given by, $\overline{X} = \frac{X}{n}$

Where,

$\overline{X}$ = Arithmetic Mean

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

n = Number of observations

3.5.2.2 Standard Deviation (S.D.)

S.D. is the most commonly used measures of dispersion. It is absolute measures of dispersion It is defined as the positive square root of the average of the square of the deviations of the given observation from their arithmetic mean. S.D. is denoted by the symbol (σ),read as sigma: a Greek letter. The standard Deviation (σ) measures the absolute dispersion. The greater the standard deviation, greater will be the magnitude of the deviation of the values from their mean. A small standard deviation means a high degree of uniformity of the observations as well as homogeneity of a series and vice versa.

Mathematically,

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{1}{n} \quad (X - \bar{X})^2}$$

3.5.2.3 Coefficient of Variation (CV)

The coefficient of variation is used to measure the spread of data in the given series. It describes the amount of variability relative to the mean. As coefficient of variation is unitless, we can use it instead of the standard deviation to compare the spread of data sets that have different units or different means. The coefficient of variation (CV) is a relative measure. To compare the variability between two or more series, CV is taken as an appropriate statistical tool.

Mathematically,

$$\text{Coefficient of Variation (CV)} = \frac{\sigma}{\bar{X}} \times 100$$

CHAPTER 4

DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

This part is devoted to the analysis and presentation of data which are secondary in nature. The secondary data are obtained mostly from concerned insurance companies and previous research studies. The available data is tabulated and presented into graphs, charts and analyzed by using some statistical tools to reach at some findings.

However, various statistical and financial tools are used to evaluate the performance of insurance business of companies under study. This section is divided into following two parts:

- General Analysis of Insurance Industry
- Financial Performance of LIC and NLIC

4.2 General Analysis of Insurance Industry

In general, insurance industry is expanding in comparison to previous years. As the growth of knowledge among people regarding insurance is increasing insurance industry is also growing slowly. It includes following components:

4.2.1 Total Earnings through Insurance Premium

Total earnings through insurance premium are in increasing trend. Following table depicts the total earnings through insurance premium. As sown in table below, a total of Rs. 17,66 million was earned through life and non-life Insurance businesses in FY 2010/11. In its subsequent years, total insurance premium continued to grow due to the development of insurance industry. Insurance industry earned Rs. 3629 million premium in FY 2014/15. The premium amount has increased by 19.25 percent in FY 2014/15 as compared to that of FY 2013/14.

Table: 4.2.1

Total Earnings through Insurance Premium

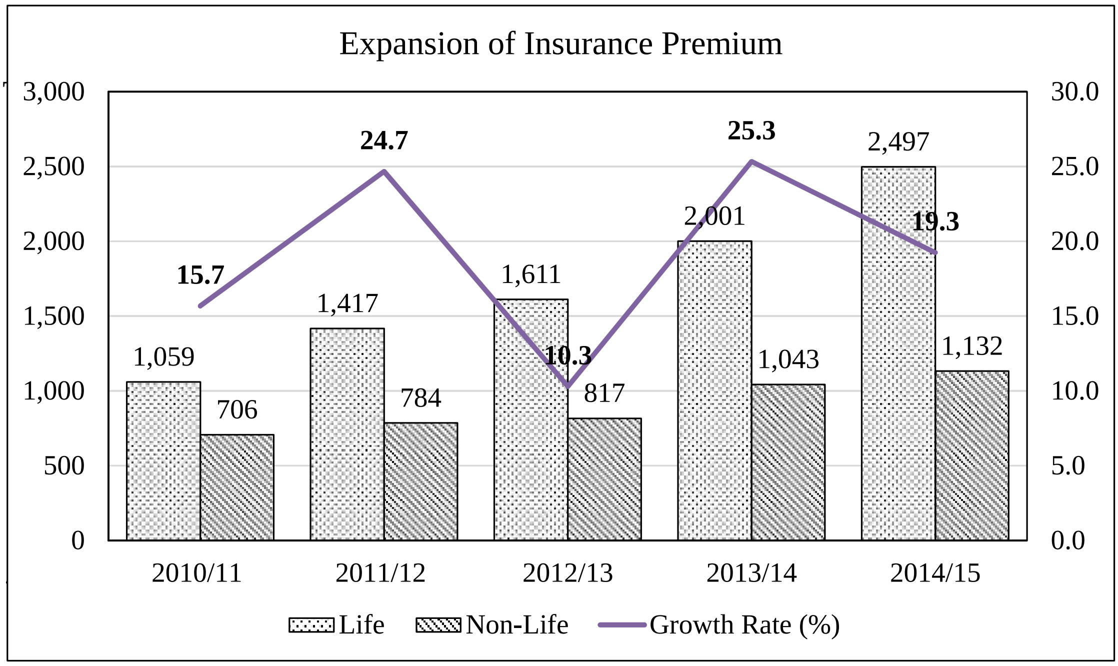
(In Rs. Ten Million)

Fiscal Year	Life	Non-Life	Total	Growth Rate (%)
2010/11	1,059	706	1,766	15.7
2011/12	1,417	784	2,201	24.7
2012/13	1,611	817	2,428	10.3
2013/14	2,001	1,043	3,043	25.3
2014/15	2,497	1,132	3,629	19.3

Source: Economic Survey 2072/73

Following figure shows the expansion trend of insurance premium in Nepal. Except FY 2012/13, growth rate of insurance premium is more than 15 per cent, which is little bit satisfactory one.

Figure 4.2.1



4.2.2 Contribution of Insurance Premiums to GDP

Every sector contributes to the GDP of a country. Insurance sector also contributes to GDP mainly through generation of premium. The contribution of insurance premiums to GDP was recorded at 1.29 percent, 1.44 percent and 1.45 percent for FY 2010/11, FY 2011/12 and FY 2012/13 respectively as shown in table below. It stood at 1.71 percent in FY 2014/15.

Table: 4.2.2

Contribution of Insurance Premiums to GDP

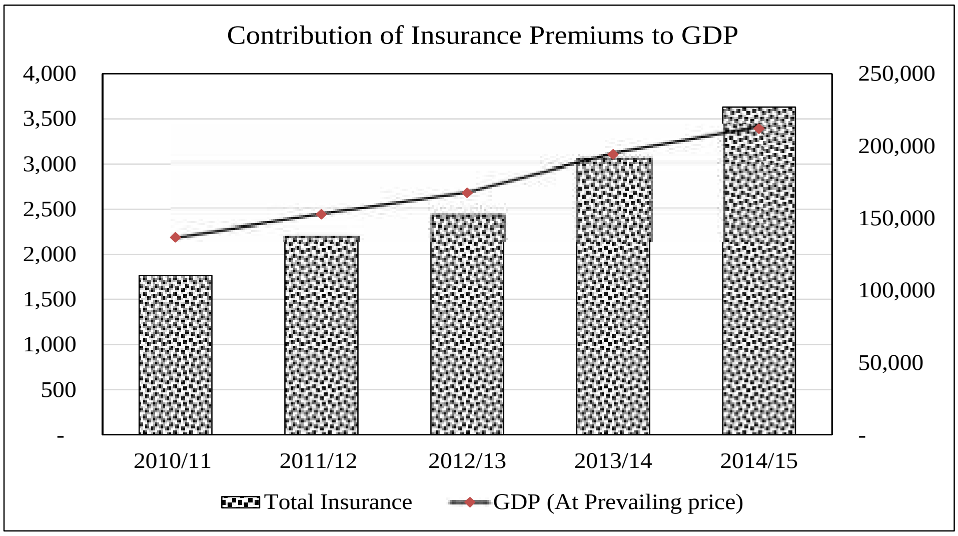
(In Rs. Ten Million)

Fiscal Year	Total Insurance	GDP (At Prevailing price)	Total Insurance Premium compared to GDP (%)
2010/11	1,766	136,690	1.29
2011/12	2,201	152,730	1.44
2012/13	2,428	167,500	1.45
2013/14	3,043	194,160	1.57
2014/15	3,629	212,047	1.71

Source: Economic Survey 2072/73

Contribution of insurance premium to GDP is shown in figure below. The GDP line in figure below indicates the increasing trend of contribution of insurance premium to GDP.

Figure 4.2.2



4.2.3 Contribution of LIC and NLIC to Total Insurance Premium

Like that of total insurance premium the life insurance premium of NLIC and LIC is also in increasing trend as shown in table below:

Table: 4.2.3

Contribution of LIC and NLIC to Total Insurance Premium

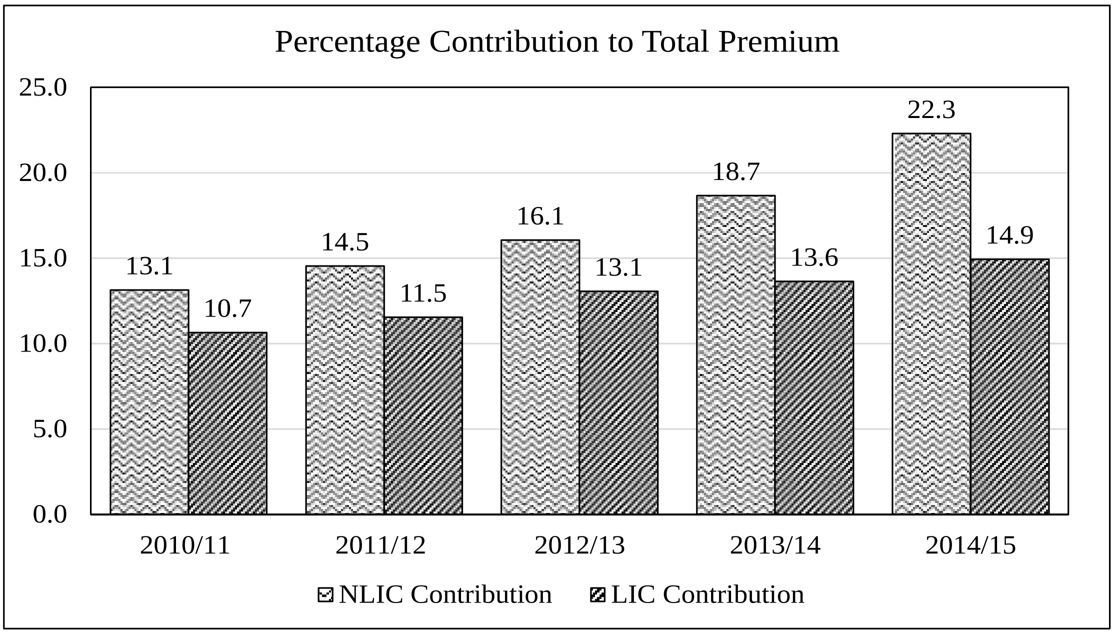
(In Rs. Ten Million)

Fiscal Year	Total	NLIC Premium	NLIC Contribution	LIC Premium	LIC Contribution
2010/11	1,766	232	13.1	188	10.7
2011/12	2,201	320	14.5	254	11.5
2012/13	2,428	390	16.1	317	13.1
2013/14	3,043	568	18.7	415	13.6
2014/15	3,629	809	22.3	542	14.9

Above table shows that contribution of NLIC to total insurance premium is greater than that of LIC. The trend of NLIC contribution seems increasing faster than that of LIC. In FY 2014/15 the contribution of NLIC and LIC premium stood at 22.3 and 14.9 per cent respectively.

The growth trend of percentage contribution of NLIC and LIC to total insurance premium is shown in the figure below.

Figure: 4.2.3



In the above figure, percentage contribution of NLIC and LIC to total insurance premium is in increasing trend. Such contribution of NLIC is increasing at faster rate than that of LIC.

4.3 Financial Performance of LIC and NLIC

Performance is the function of the ability of an organization to gain and manage the resources in several different ways to develop competitive advantage. Company performance is the measurement for what had been achieved by company which shows good condition for certain period of time. The information regarding company performance can also motivate the managers to make the best decision.

Financial performance is used to measure firm's overall financial health over a given period of time. It is also used to compare similar firms across the same industry or to compare industries or sectors in aggregation. This study is concerned with the analysis of financial performance of life insurance companies: NLIC and LIC.

In this study, different financial ratios are used to measure the financial performance. By using following ratios financial performance of NLIC and LIC is X-rayed.

4.3.1 Earnings and Profitability

To study the earnings and profitability of selected insurance companies ratios like return on assets, return on equity, net profit to life insurance fund are analyzed.

4.3.1.1 Return on Assets Ratio

Return on Assets ratio measures the percentage of net profit on total assets employed to the firm. This ratio is obtained by dividing the net profit by total assets.

The analysis of return on assets ratio of the companies under study is shown in the following table.

Table: 4.3.1.1

Return on Assets Ratio

(Rs. in Ten Million)

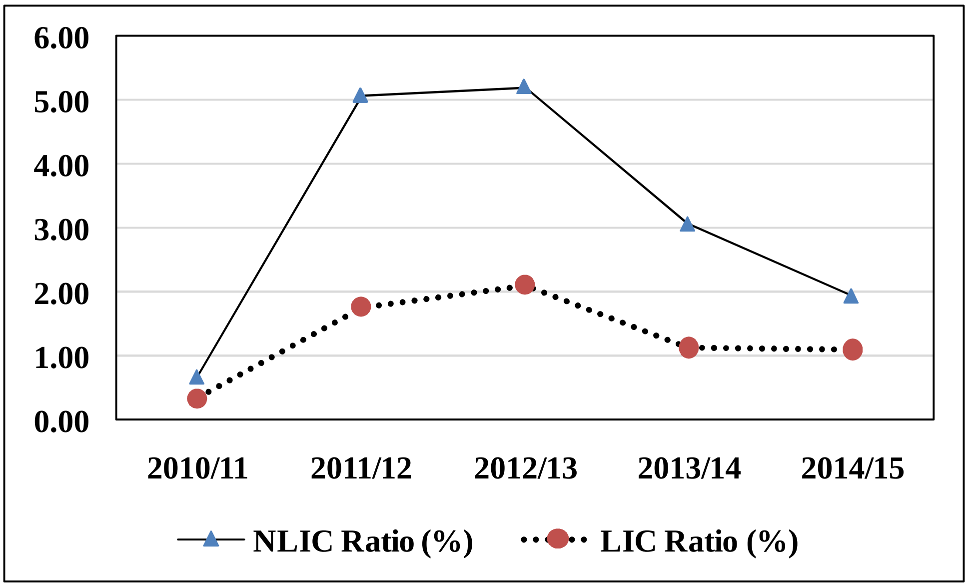
Year	NLIC			LIC		
	Net Profit	Total Assets	Ratio (%)	Net Profit	Total Assets	Ratio (%)
2010/11	6.64	965.35	0.69	2.51	721.39	0.35
2011/12	62.57	1233.59	5.07	17.18	976.02	1.76
2012/13	77.46	1487.41	5.21	27.73	1320.25	2.10
2013/14	61.41	2001.94	3.07	19.48	1731.05	1.13
2014/15	52.76	2708.6	1.95	24.9	2256.72	1.10
Mean			3.20			1.29
SD			1.76			0.60
CV			55%			47%

The above table shows that the return on assets ratio of NLIC is 3.20 percent on average. Similarly, average return on assets ratio of LIC is 1.29 percent. The highest ratio of NLIC is 5.21 percent in FY 2012/13, while the minimum ratio is 0.69% in FY 2010/11. Coefficient of variation (CV) of NLIC is greater than LIC. It shows that the ratios of NLIC are more scattered than that of LIC in the study period.

Trend of return on assets of NLIC and LIC is shown in the figure below.

Figure 4.3.1.1

Return on Assets Ratio



The above figure shows that in the initial three years of study return on assets ratio of both the companies are in increasing trend but thereafter the ratio seems decreasing.

4.3.1.2 Return on Equity Ratio

Return on equity ratio helps to analyze about how efficiently a company is managing the equity that shareholders have contributed to the company. It shows the percentage of net profit on total equity. It is measured by dividing the net profit by total equity amount.

Comparative analysis of return on equity ratio of the NLIC and LIC is presented in the table below.

Table: 4.3.1.2

Return on Equity Ratio

(Rs. in Ten Million)

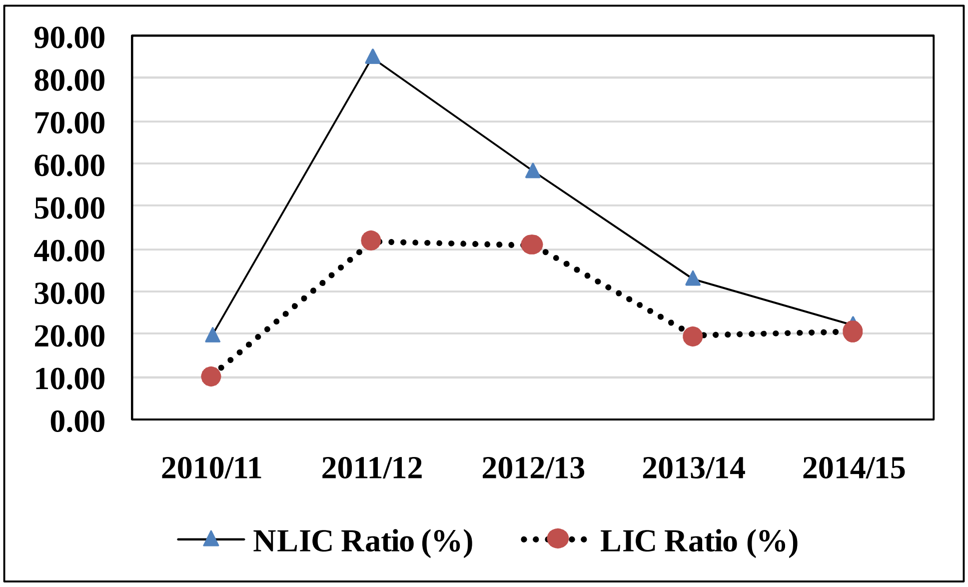
Year	NLIC			LIC		
	Net Profit	**Total Equity**	**Ratio (%)**	**Net Profit**	**Total Equitty**	**Ratio (%)**
2010/11	6.64	33.54	19.80	2.51	24.5	10.24
2011/12	62.57	73.47	85.16	17.18	40.86	42.05
2012/13	77.46	132.69	58.38	27.73	67.39	41.15
2013/14	61.41	185.43	33.12	19.48	98.95	19.69
2014/15	52.76	235.9	22.37	24.9	120.22	20.71
Mean			43.76			26.77
SD			24.79			12.65
CV			57%			47%

The above table shows that the return on equity ratio of NLIC is 43.76 percent on an average. Similarly, average return on equity ratio of LIC is 26.77 percent. The highest ratio of NLIC is 85.16 percent in FY 2011/12, while the minimum ratio is 19.80 % in FY 2010/11. Similarly, the highest ratio of LIC is 42.05 percent in FY 2011/12, while the minimum ratio is 10.24 % in FY 2010/11. Coefficient of variation (CV) of NLIC is greater than LIC. It shows that the ratios of NLIC are more scattered than that of LIC in the study period.

Trend of return on equity of NLIC and LIC is shown in the figure below.

Figure: 4.3.1.2

Return on Equity Ratio



The above figure shows that in the initial year return on equity ratio of both the companies are in increasing trend but thereafter the ratio seems decreasing. Return on equity of NLIC is greater than that of LIC.

4.3.1.3 Net Profit to Life Insurance Fund Ratio

Net Profit to Life Insurance Fund Ratio measures the percentage of net profit on life insurance fund employed to the firm. As the companies under study have not separated the profit from their life insurance fund, this ratio is very significant to understand the percentage of net profit. It is obtained by dividing the net profit by life insurance.

Comparative analysis of Net Profit to Life Insurance Fund ratio of the companies under study is shown in the following table.

Table: 4.3.1.3

Net Profit to Life Insurance Fund Ratio

(Rs. in 10 Million)

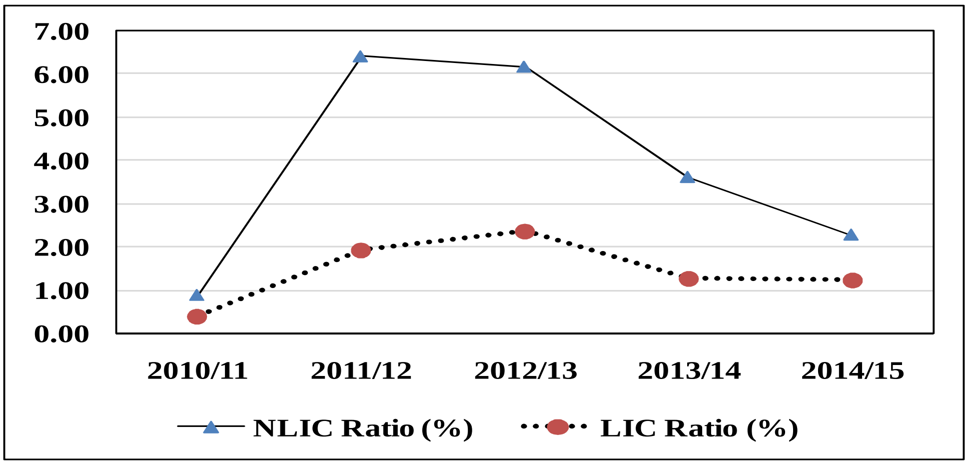
Year	NLIC			LIC		
	Net Profit	LIF	Ratio (%)	Net Profit	LIF	Ratio (%)
2010/11	6.64	765.34	0.87	2.51	665.15	0.38
2011/12	62.57	978.25	6.40	17.18	890.63	1.93
2012/13	77.46	1,257.95	6.16	27.73	1,177.56	2.35
2013/14	61.41	1,705.08	3.60	19.48	1,550.52	1.26
2014/15	52.76	2,329.10	2.27	24.90	2,024.84	1.23
Mean			3.86			1.43
SD			2.16			0.68
CV			56%			47%

The above table shows that the net profit to life insurance fund ratio of NLIC is 3.86 percent on an average. Similarly, average net profit to life insurance fund ratio of LIC is 1.43 percent. The highest ratio of NLIC is 6.16 percent in FY 2012/13, while the minimum ratio is 0.87 % in FY 2010/11. Similarly, the highest ratio of LIC is 2.35 percent in FY 2012/13, while the minimum ratio is 0.38 % in FY 2010/11. Coefficient of variation (CV) of NLIC is greater than LIC. It shows that the ratios of NLIC are more scattered than that of LIC in the study period.

Trend of net profit to life insurance fund of NLIC and LIC is shown in the figure below.

Figure: 4.3.1.3

Net Profit to Life Insurance Fund Ratio



The above figure shows that in the initial year net profit to life insurance fund ratio of both the companies are in increasing trend. But after FY 2010/11 the ratio of NLIC seems continuously decreasing. Such decreasing trend of LIC is found only after FY 2012/13. Net profit to life insurance fund of LIC is greater than that of LIC during the study period.

4.3.2 Liquidity Ratio

Liquidity refers to the ability of a firm to meet its obligations in the short run, usually one year. Liquidity ratios are generally based on the relationship between current assets and current liabilities. For example, if current ratio is 1.5, it means that for every Rs. In current liabilities, the company has Rs. 1.50 in current assets. Generally, a high current ratio is considered to be a sign of financial strength.

The important liquidity ratios are: current ratio, acid test ratio and cash ratio. In this study we have used only current ratio.

4.3.2.1 Current Ratio

Current ratio shows the percentage of current assets on current liabilities. It is measured by dividing the current assets by current liabilities.

Comparative analysis of current ratio of the NLIC and LIC is presented in the table below.

Table: 4.3.2.1

Current Ratio

(Rs. in 10 Million)

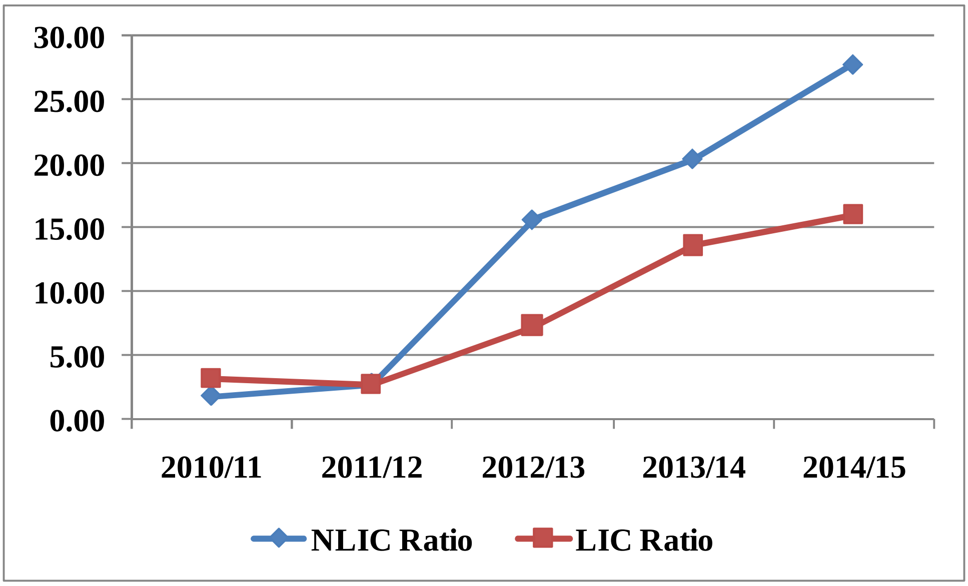
Year	NLIC			LIC		
	Current Assets	Current Liabilities	Ratio	Current Assets	Current Liabilities	Ratio
2010/11	256.99	143.24	1.79	135.97	42.87	3.17
2011/12	329.8	119.32	2.76	173.62	63.12	2.75
2012/13	485.17	31.05	15.63	465.29	63.5	7.33
2013/14	917.74	44.96	20.41	861.35	63.5	13.56
2014/15	1814.39	65.2	27.83	1493.99	93.58	15.96
Mean			13.68			8.56
SD			10.10			5.37
CV			74%			63%

The above table shows that the current ratio of NLIC is 13.68 on an average. Similarly, average current ratio of LIC is 8.56. The highest ratio of NLIC is 27.83 percent in FY 2014/15, while the minimum ratio is 1.79 in FY 2010/11. Similarly, the highest ratio of LIC is 15.96 in FY 2014/15, while the minimum ratio is 2.75 in FY 2011/12. Coefficient of variation (CV) of NLIC is greater than LIC. It shows that the ratios of NLIC are more scattered than that of LIC in the study period.

Trend of current ratio of NLIC and LIC is shown in the figure below.

Figure: 4.3.2.1

Current Ratio



The above figure shows that current ratios of both the companies are in increasing trend except FY 2011/12 of LIC. Rate of growth of current ratio of NLIC is higher than that of LIC during the study period except initial year.

4.3.3 Expense Ratio

Expense ratio is used to analyze the management efficiency of the company. It measures about how economically and cost effectively the company is performing its core activities. It is calculated dividing the management expenses by net premium. As per the insurance regulation 1993, insurers should keep their management expenditure less than 30% of their net premium.

Comparative analysis of expense ratio of the NLIC and LIC is presented in the table below.

Table: 4.3.3

Expense Ratio

(Rs. in 10 Million)

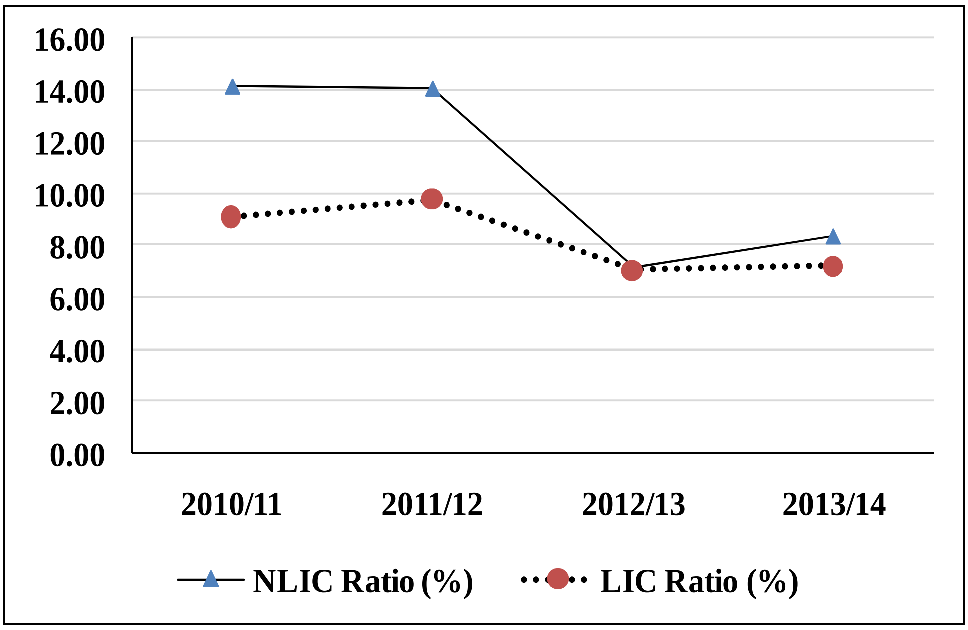
Year	NLIC			LIC		
	Mgmt Exp.	Net Premium	Ratio (%)	Mgmt Exp.	Net Premium	Ratio (%)
2010/11	31.89	225.53	14.14	17.12	187.56	9.13
2011/12	43.31	308.05	14.06	24.84	253.76	9.79
2012/13	26.99	377.87	7.14	22.18	313.69	7.07
2013/14	46.60	555.80	8.38	29.62	411.30	7.20
2014/15	85.63	797.35	10.74	37.37	530.78	7.04
Mean			10.89			8.05
SD			2.86			1.17
CV			26%			15%

The above table shows that the expense ratio of NLIC is 10.89 on an average. Similarly, average expense ratio of LIC is 8.08. The highest ratio of NLIC is 14.14 percent in FY 2010/11, while the minimum ratio is 7.14 in FY 2012/13. Similarly, the highest ratio of LIC is 9.79 in FY 20114/12, while the minimum ratio is 7.04 in FY 2014/15. Coefficient of variation (CV) of NLIC is greater than LIC. It shows that the ratios of NLIC are more scattered than that of LIC in the study period.

Trend of current ratio of NLIC and LIC is shown in the figure below.

Figure: 4.3.3

Expense Ratio



The above figure shows that expense ratio NLIC is decreasing continuously upto FY 2012/13 and thereafter it is increasing. But the trend of LIC is different. In comparison the FY 2011/12 expense ratio of LIC is low in succeeding years. But it has increased in FY 2014/15. Expenditure ratio of NLIC is greater than that of LIC.

4.3.4 Assets per Employee Ratio

Assets per employee ratio measures about how much asset is handled by per employee. Higher assets per employee ratio indicates that the company is more efficient. It is calculated dividing total assets by no. of employee.

Comparative analysis of assets per employee ratio of the NLIC and LIC is presented in the table below.

Table: 4.3.4

Assets per Employee Ratio

(Rs. In 10 million)

Year	NLIC			LIC		
	Total Assets	**No. of Employee**	**Ratio**	**Total Assets**	**No. of Employee**	**Ratio**
2010/11	965.35	193.00	5.00	721.39	91.00	7.93
2011/12	1,233.59	217.00	5.68	976.02	97.00	10.06
2012/13	1,487.41	259.00	5.74	1,320.25	110.00	12.00
2013/14	2,001.94	289.00	6.93	1,731.05	128.00	13.52
2014/15	2,708.60	316.00	8.57	2,256.72	133.00	16.97
Mean			6.39			12.10
SD			1.26			3.08
CV			20%			25%

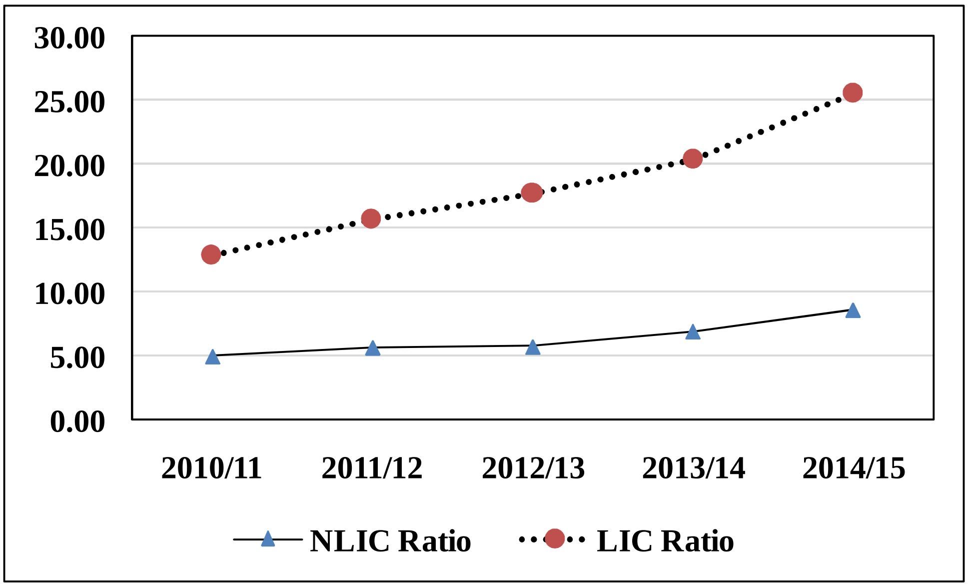
The above table shows that the asset per employee ratio of NLIC is 6.39 on an average. Similarly, an average asset per employee ratio of LIC is 12.10. The highest ratio of NLIC is 8.57 in FY 2014/15, while the minimum ratio is 5 in FY 2010/11. Similarly, the highest ratio of LIC is 16.97 in FY 2014/15, while the minimum ratio is 7.93 in FY 2010/11. Coefficient of variation (CV) of LIC is greater than NLIC. It shows that the ratios of LIC are more scattered than that of NLIC in the study period. But the variance value of both the companies is minimal one, i.e., less than 30 percent. It shows consistency in the ratio.

Trend of assets per employee ratio of NLIC and LIC is shown in the figure below.

Figure: 4.3.4

Assets per Employee Ratio

(Rs. In Ten Million)



The above figure shows that assets per employee ratio of both the companies is in increasing trend in the study period. But the rate of growth of LIC ratio is higher than that of NLIC.

4.3.5 Company Expenditure Analysis

Insurance companies have to make different type of expenditures. Such expenditures can be categorized as management expenditure, agent expenditure and employee expenditure. This part briefly analyzes the share of management expenditure and agent expenditure to total premium and share of employee expenditure to total management expenditure.

Comparative analysis of share of expenditures to total premium and management expenditure of NLIC and LIC is presented in the table below.

Table: 4.3.5

Share of Expenditures

(in percentage)

Year	NLIC			LIC		
	ME/TP	**AE/TP**	**EE/ME**	**ME/TP**	**AE/TP**	**EE/ME**
2010/11	13.74	18.63	15.29	9.13	12.18	17.00
2011/12	13.53	16.80	17.27	9.79	12.81	15.00
2012/13	6.92	11.52	35.70	7.00	12.00	20.00
2013/14	8.21	14.68	27.61	7.13	12.78	27.00
2014/15	10.58	17.68	26.27	6.90	12.74	22.00
Mean	10.60	15.86	24.43	7.99	12.50	20.20
SD	2.75	2.53	7.42	1.22	0.34	4.17
CV	26%	16%	30%	15%	3%	21%

Source: Annual Reports of LIC and NLIC

Note:

ME = Management Expenditure

AE = Agent Expenditure

EE = Employee Expenditure

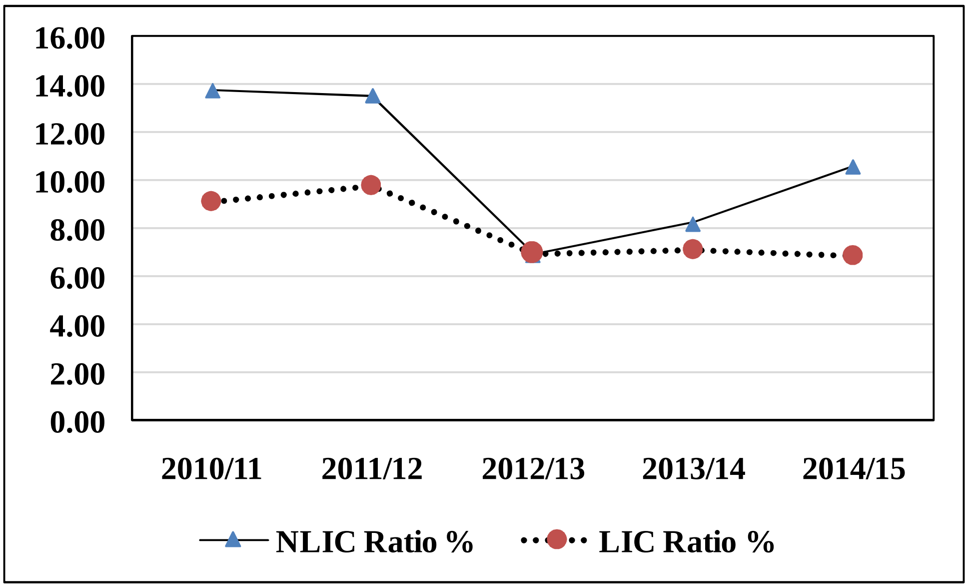
TP = Total Premium

The above table shows that on an average the management expenditure to total premium ratio of NLIC and LIC is 10.60 and 7.99 percent respectively. Similarly, agent expenditure to total premium ratio of NLIC is 15.86 percent on an average. But the same ratio of LIC is 12.50 percent on an average during the study period. Likewise, on an average, employee expenditure to management expenditure ratio of NLIC and LIC is 24.43 and 20.20 percent respectively. Coefficient of variation (CV) of all the ratios is below 30 percent. It indicates that there is less variation in expenditure during the study period. In comparison to NLIC there is very minimal variation (3 percent only) in agent expenditure to total premium ratio of LIC.

Trend of above mentioned ratios of NLIC and LIC is shown in the figures below.

Figure: 4.3.5.1

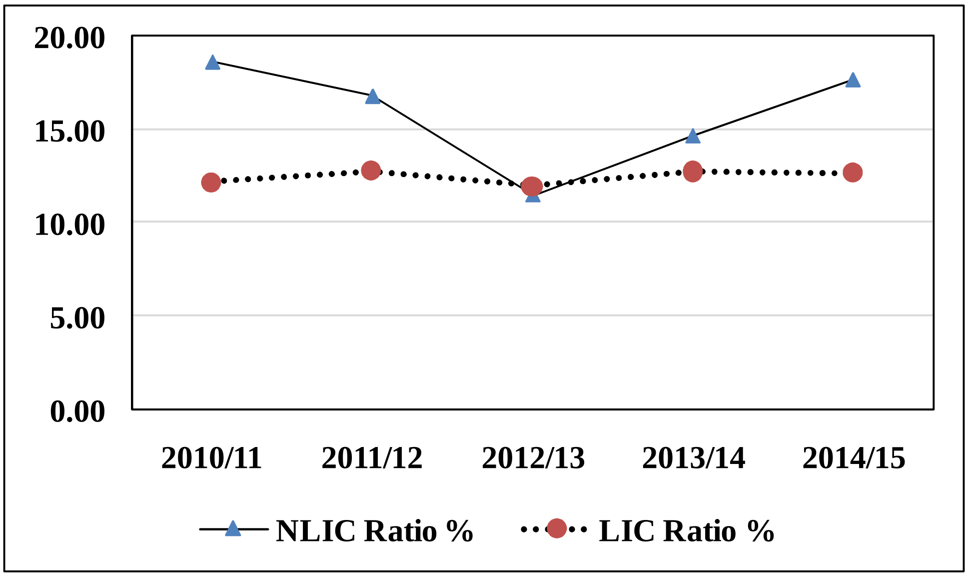
Management Expenditure to Total Premium Ratio



The above figure shows that management expenditure to total premium ratio of NLIC is in decreasing trend upto FY 2012/13 and thereafter it has been found increasing. But the same ratio of LIC is found increasing in the beginning two years and thereafter it is continuously decreasing.

Figure: 4.3.5.2

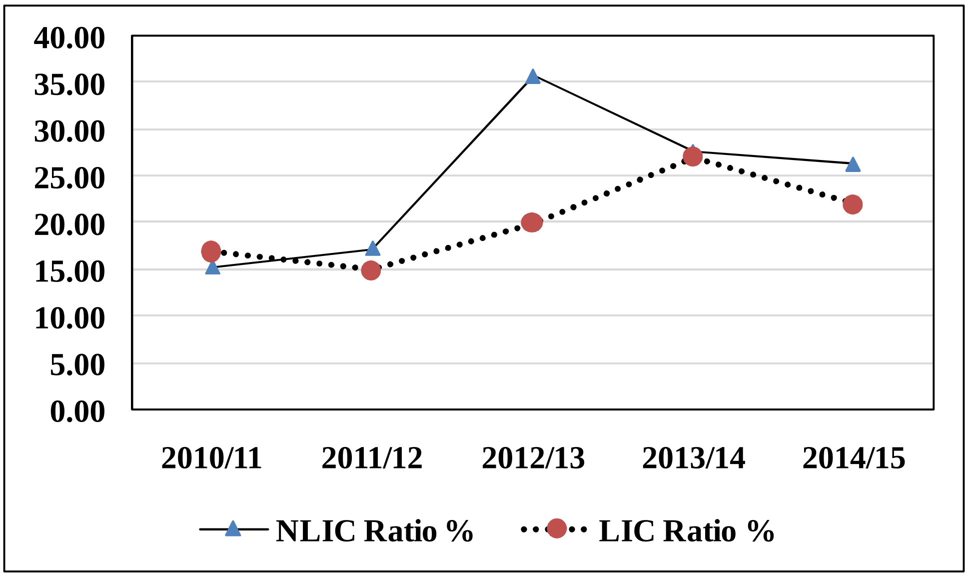
Agent Expenditure to Total Premium Ratio



The above figure shows that agent expenditure to total premium ratio of NLIC is in decreasing trend upto FY 2012/13 and thereafter it has been found increasing. But the same ratio of LIC is found almost consistent. It indicates that there is wide fluctuation of agent expenditure of NLIC in comparison to LIC.

Figure: 4.3.5.3

Employee Expenditure to Management Expenditure Ratio



The above figure shows that employee expenditure to management expenditure ratio of NLIC is in increasing trend upto FY 2012/13 and thereafter it has been found decreasing. But the rate of growth of NLIC ratio is higher than that of LIC.

4.3.6 O/s Claim Amount to Paid Claim Ratio

As per the life insurance contract, customers of life insurance business, i.e., insured can claim insured amount after or before maturity of the insurance policy. After fulfilling certain procedures insurance companies pay the claims. Here we briefly analyze the ratio of outstanding claim to paid claim of selected companies.

Comparative analysis of O/s Claim Amount to Paid Claim ratio of the NLIC and LIC is presented in the table below.

Table: 4.3.6

O/s Claim Amount / Paid Claim Ratio

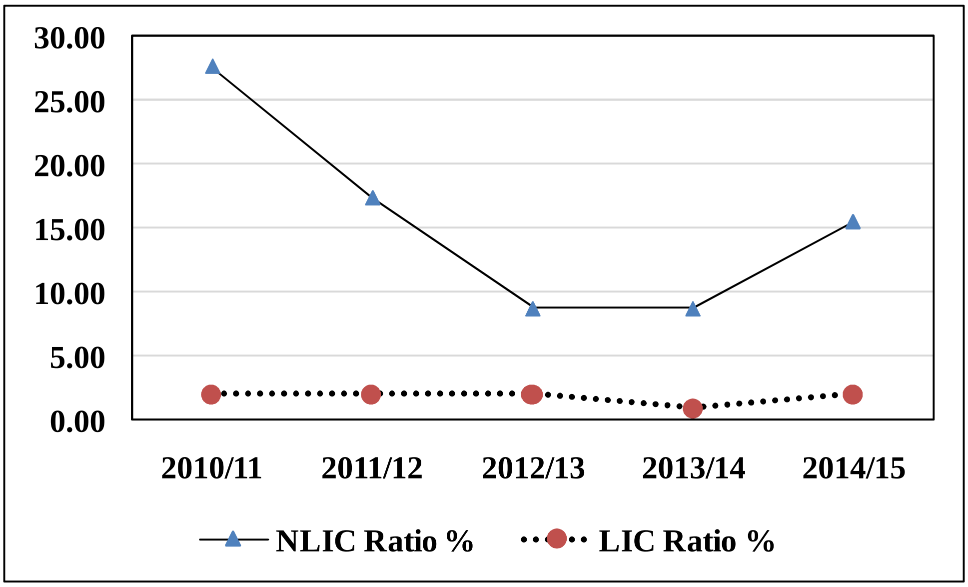
Year	O/s Claim Amount / Paid claim (%)	
	NLIC	LIC
2010/11	27.63	2.00
2011/12	17.39	2.00
2012/13	8.75	2.00
2013/14	8.75	1.00
2014/15	15.54	2.00
Mean	15.61	1.80
SD	6.95	0.40
CV	45%	22%

The above table shows that O/s claim amount to paid claim ratio of NLIC and LIC on an average is 15.61 and 1.80 respectively. The highest ratio of NLIC is 27.63 in FY 2010/11, while the minimum ratio is 8.75 in FY 2012/13 and FY 2013/14. Similarly, the highest ratio of LIC is only two in all fiscal years except FY 2013/14, in which the ratio is only one. Coefficient of variation (CV) of NLIC is greater (twice) than LIC. It shows that the ratios of NLIC are more scattered than that of LIC in the study period.

Trend of O/s claim amount to paid claim ratio of NLIC and LIC is shown in the figure below.

Figure: 4.3.6

O/s Claim Amount / Paid claim



The above figure shows that O/s claim amount to paid claim ratio of NLIC is in decreasing trend upto FY 2012/13 and thereafter it remained constant in FY 2013/14 and again has been found increasing. But the same ratio of LIC is found constant in the study period except slight decrease in FY 2013/14. Similarly, the figure further shows that O/s claim amount to paid claim ratio of NLIC is higher than that of LIC.

4.3.7 Market Based Indicators/Ratios

Market based indicators or ratios reflect the financial market's assessment of a company's performance. In this study book value per share, earning per share, dividend per share, market price per share, price earning ratio and earning yield ratios are used. Such indicators also helps to study the financial development of the companies.

Comparative analysis of market based indicators of the NLIC and LIC is presented in the table below.

Table: 4.3.7

Market Based Ratios

Market Based Indicators/Ratios								
	2010/11	2011/12	2012/13	2013/14	2014/15	Mean	SD	CV (%)
Particulars	**LIC**							
BVPS	98.00	167.00	166.00	150.00	141.00	144.40	25.19	17
EPS	10.00	69.00	68.00	30.00	29.00	41.20	23.40	57
DPS	NA	65.26	65.79	31.58	26.32	47.24	18.38	39
MPPS	415.00	870.00	1,320.0	4,095.0	2,799.0	1,899.8	1,358.58	72
PE Ratio	41.00	13.00	19.00	138.00	96.00	61.40	48.21	79
EYR	2.41	7.93	5.15	0.73	1.04	3.45	2.73	79
NLIC								
BVPS	89.44	195.93	208.14	171.10	136.04	160.13	43.09	27
EPS	NA	166.85	121.51	56.67	30.42	93.86	53.62	57
DPS	NA	126.32	98.50	68.00	26.32	79.79	37.13	47
MPPS	566.00	785.00	1,425.0	4,351.0	2,886.0	2,002.6	1,426.56	71
PE Ratio	NA	4.70	11.73	76.78	94.87	47.02	39.41	84
EYR	0.00	21.25	8.53	1.30	1.05	6.43	8.01	125

Source: Annual Reports of LIC and NLIC

Note:

BVPS = Book value per share (in Rs)

EPS = Earning per share (in Rs)

DPS = Dividend per share (in Rs)

MPPS = Market price per share (in Rs)

PE Ratio = Price Earning Ratio (Ratio)

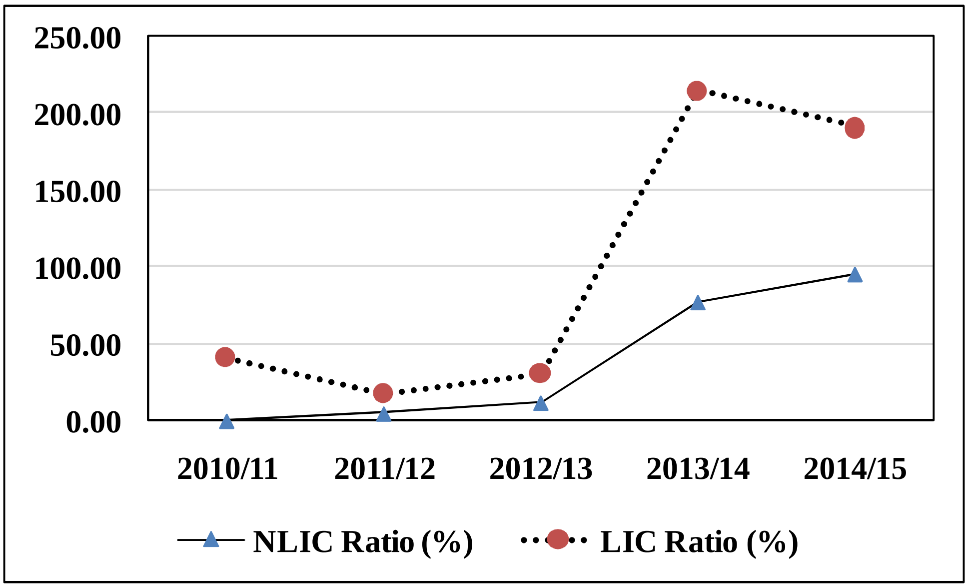
EYR = Earning Yield Ratio (Ratio)

The above table shows that the BVPS, EPS, DPS, MPPS, PE Ratio, EYR of LIC on an average is Rs. 144.40, Rs. 41.20, Rs 47.24, Rs. 1899.8, 61.40 and 3.45 respectively. Similarly, the BVPS, EPS, DPS, MPPS, PE Ratio, EYR of NLIC on an average is Rs. 160.13, Rs 93.86, Rs. 79.79, 2002.6, 47.02 and 6.43 respectively. Coefficient of variation (CV) of BVPS, DPS, PE Ratio and EYR of NLIC is greater than LIC. It shows that the ratios of NLIC are more scattered than that of LIC in the study period. But the variance EYR of NLIC is very high.

Trend of price earning ratio and earning yield ratio of NLIC and LIC is shown in the figures below.

Figure: 4.3.7.1

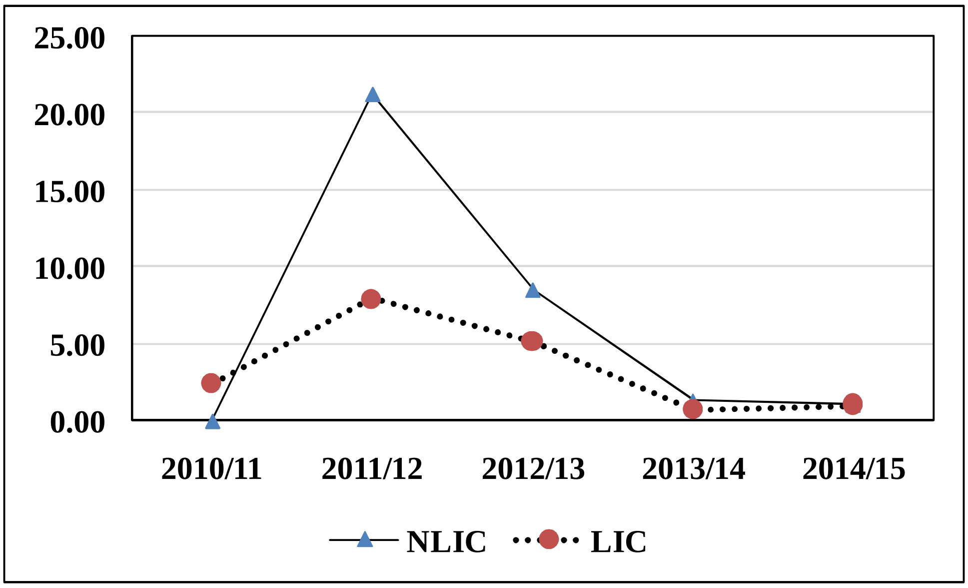
Price Earning Ratio



The above figure shows that price earning ratio of NLIC is in increasing trend from the initial year. But that of LIC is found fluctuating. In comparison to FY 2013/14 it has decreased in FY 2014/15. But the ratio of LIC is higher than that of NLIC.

Figure: 4.3.7.2

Earning Yield Ratio



The above figure shows that earning yield ratio of NLIC is in decreasing trend after FY2011/12. Though the ratio of LIC is also found decreasing after FY 2011/12 it has slightly increased in FY 2014/15. But in general the ratio of NLIC is higher than that of LIC.

4.3.8 General Insurance Indicators of LIC and NLIC

This part includes the general administrative information regarding agents, branches and insurance policies. NLIC is providing insurance service through 104 branches, 316 staffs and 63580 agents till FY 2014/15. Whereas LIC is operating through 32 branches, 133 staffs and 32972 agents till FY 2014/15 as shown in the table below.

Table: 4.3.8

General Insurance Indicators

LIC					
Particulars	2010/11	2011/12	2012/13	2013/14	2014/15
No. of Agents	22189	25142	26441	29438	32972
No.of Staffs	91	97	110	128	133
No. of Branches	15	15	27	31	32
No. of total policies	285455	344553	321683	405817	518546
NLIC					
No. of Agents	25598	33649	38368	49964	63580
No.of Staffs	193	217	259	289	316
No. of Branches	23	23	82	97	104
No. of total policies	467200	597882	764689	921093	1020595

Source: Annual Reports of LIC and NLIC

After FY 2012/13 there is significant increase in branches of NLIC in comparison to LIC. There was not vast difference in number of agents in FY 2010/11 between two companies. But number of agents of NLIC has almost doubled in FY 2014/15. Insurance Policy is the major source of earning of insurance companies. The volume of such policies determines the level of earnings to the companies. The total no. of policies of LIC and NLIC has stood greater than five and ten lakh respectively. Growth rate of policies of NLIC is greater than that of LIC. Spread of branches, growth of number of agents and staffs as well as policies help to strengthen the financial development of the country. In this regard, NLIC is playing greater role.

4.3.9 Paid up Capital

Paid-up capital is created by selling a company's shares on the primary market. It is a reflection of the financial strength and liquidity status of the company. A company's paid-up capital represents the extent to which it depends on equity financing to fund its operations.

Comparative analysis of paid up capital of the NLIC and LIC is presented in the table below.

Table: 4.3.7

Paid Up Capital of NLIC and LIC

(in Rs.)

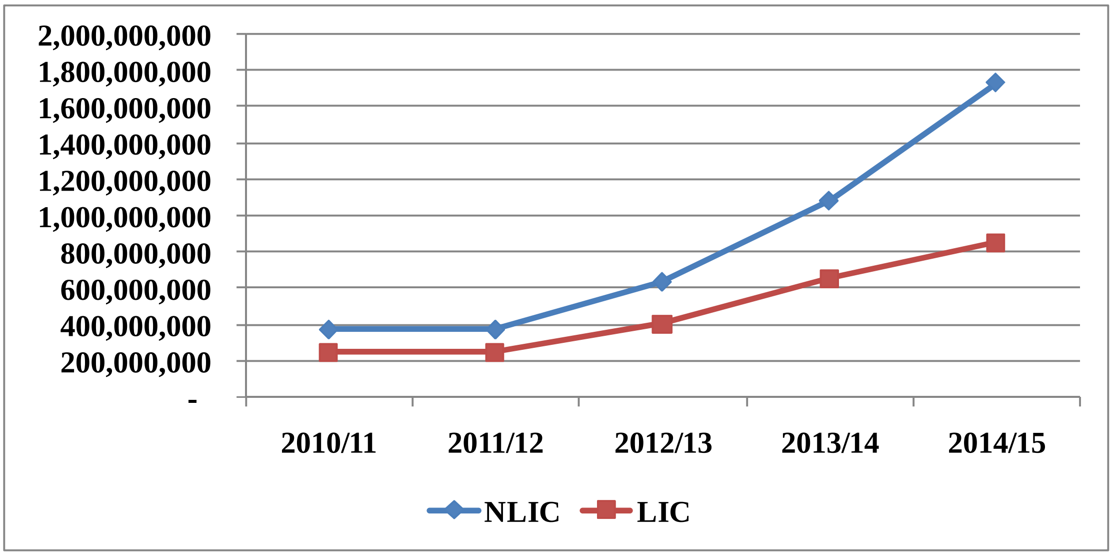
Fiscal Year	NLIC	LIC
2010/11	375,000,000	250,000,000
2011/12	375,000,000	250,000,000
2012/13	637,500,000	405000000
2013/14	1,083,750,000	658,125,000
2014/15	1,734,000,000	855,562,500

The above table shows that paid up capital of NLIC and LIC in FY 2010/11 and 2011/12 was Rs. 375,000,000 and 250,000,000 respectively. From FY 2012/13 paid up capital of both the companies increased and reached to Rs. 1,734,000,000 and 855,562,500 respectively in FY 2014/15.

Trend of paid up capital of NLIC and LIC is shown in the figures below.

Figure: 4.3.9

Paid Up Capital of NLIC and LIC



The above figure shows that paid up capital of NLIC and LIC is in increasing trend during the study period. But the growth rate of paid up capital of NLIC is higher than that of LIC in succeeding years. Increase in paid up capital indicates good financial health of the companies.

4.4 Major Findings

On the basis of above presented data analysis this research work has found following facts:

- In general financial performance of NLIC is far better than that of LIC.
- The return on assets ratio of NLIC and LIC is 3.20 and 1.29 percent on an average respectively. In the initial three years of study return on assets ratio of both the companies are in increasing trend but thereafter the ratio seems decreasing.
- The return on equity ratio of NLIC is 43.76 percent on an average. Similarly, average return on equity ratio of LIC is 26.77 percent.
- Net profit to life insurance fund ratio of NLIC is 3.86 percent on an average. Similarly, average net profit to life insurance fund ratio of LIC is 1.43 percent.
- Current ratio of NLIC and LIC is 13.68 and 8.56 on an average respectively. Rate of growth of current ratio of NLIC is higher than that of LIC during the study period except initial year.
- Expense ratio of NLIC is 10.89 on an average. Similarly, average expense ratio of LIC is 8.08.
- The asset per employee ratio of NLIC and LIC is Rs. 6.39 and Rs. 12.10 billion on an average. But the variance value of both the companies is minimal one, i.e., less than 30 percent. It shows consistency in the ratio.
- The BVPS, EPS, DPS, MPPS, PE Ratio, EYR of LIC on an average is Rs. 144.40, Rs. 41.20, Rs 47.24, Rs. 1899.8, 61.40 and 3.45 respectively. Similarly, the BVPS, EPS, DPS, MPPS, PE Ratio, EYR of NLIC on an average is Rs. 160.13, Rs 93.86, Rs. 79.79, 2002.6, 47.02 and 6.43 respectively.
- On an average the management expenditure to total premium ratio of NLIC and LIC is 10.60 and 7.99 respectively. Similarly, agent expenditure to total premium ratio of NLIC is 15.86 and that of LIC is 12.50. Likewise, on an average, employee expenditure to management expenditure ratio of NLIC and LIC is 24.43 and 20.20 respectively.

- In comparison to NLIC there is very minimal variation (3 percent only) in agent expenditure to total premium ratio of LIC.
- O/s claim amount to paid claim ratio of NLIC and LIC on an average is 15.61 and 1.80 respectively. Coefficient of variation (CV) of the ratio of NLIC is greater (twice) than LIC
- Price earning ratio of NLIC is in increasing trend from the initial year. But that of LIC is found fluctuating.
- Earning yield ratio of NLIC is in decreasing trend after FY2011/12. Though the ratio of LIC is also found decreasing after FY 2011/12 it has slightly increased in FY 2014/15.
- The total no. of policies of LIC and NLIC has stood greater than five and ten lakh respectively. Growth rate of policies of NLIC is greater than that of LIC. At present NLIC is operating through 104 branches and LIC is operating through 32 branches.
- Paid up capital of NLIC and LIC in FY 2010/11 and 2011/12 was Rs. 375,000,000 and 250,000,000 respectively. From FY 2012/13 paid up capital of both the companies increased and reached to Rs. 1,734,000,000 and 855,562,500 respectively in FY 2014/15.

CHAPTER 5

SUMMARY, CONCLUSION AND RECOMMENDAATION

5.1 Introduction

This chapter includes summary and conclusions as well as recommendations of the research work. After summarizing and concluding the research, recommendations are suggested for the life insurance companies under study.

5.2 Summary

Insurance business is very important for modern age. It is the backbone in managing the risk of the country. By offering different products to business and individuals it gives financial security. With liberalization insurance business is growing in Nepal. The need and importance of life insurance is realized by many people these days. This has led to growth of life insurance business in Nepal.

The researcher in this work has identified the research problems and set objectives to solve those problems. The stated problems are concerned with the financial performance of insurance companies of Nepal. Due to limited time period and finance the research study has taken Nepal Life Insurance Co. Ltd. and Life Insurance Corporation (Nepal) Ltd. as the sample for the study. The study has analyzed financial performance and insurance indicators that support for financial development of selected life insurance companies.

The study is based on the past five year data (FY 2010/11 to 2014/15) of selected insurance companies. The data is collected from annual reports of insurance companies and other secondary sources. This study is proposed on the basis of few literatures related to Nepalese as well as Indian insurance companies. As far as possible the study has tried to use financial tools (financial ratios) and statistical tools like mean, standard deviation and coefficient of variation.

5.3 Conclusions

After the enactment of new Insurance Act in 2049, number of insurance companies in Nepalese economy has been increased. Many experts take this as the golden period in the insurance business history of Nepal. Year by year the public awareness regarding life insurance is growing and the expansion of life insurance business is also taking place. To maintain financial stability of the country the stability of insurance companies has to be maintained. In this context, this research work has attempted to analyze the financial performance of two insurance companies NLIC and LIC Nepal for the period of past 2010-2015.

Financial performance of the company can be measured in many ways. But in this study financial ratios like return on equity, return on assets, assets per employee, expense ratio, current ratio, net profit to life insurance fund, management expenses to total premium, earning per share, etc. are used to analyze financial performance of the company. Similarly, other insurance indicators that can support for financial development of the country like growth of insurance companies in terms of no. of total policies, total branches, no. of staffs, paid up capital etc. are also used.

As per the insurance regulation 1993, insurers should keep their management expenditure less than 30% of their net premium. In this study both the companies have kept their expense ratio within limit. But expense ratio of NLIC is slightly greater than that of LIC. In comparison to LIC, O/s claim amount to paid claim ratio of NLIC is poor one. Likewise paid up capital of NLIC is highest among the life insurance companies of Nepal. Similarly,

Growth rate of insurance policies of NLIC is greater than that of LIC. Speed of branch expansion of NLIC is high in comparison to LIC. Size and growth of branch might have also contributed for better financial performance of NLIC.

In terms of market based indicators like BVPS, EPS, DPS, MPPS, PE Ratio and EYR, NLIC has strong position in comparison to LIC. It has increased attraction of customers towards NLIC.

Except asset per employee, expense ratio, agent expenditure to total premium, employee expenditure to management expenditure and, management expenditure to total premium, other financial ratios like return on assets, return on equity, net profit to life insurance fund of NLIC are far more better than LIC. It means regarding earnings and profitability, NLIC seems superior to LIC. Thus, in general financial performance of NLIC is far better than that of LIC.

5.4 Recommendations

On the basis of the data analysis and the findings of the study, following recommendations are made to overcome weaknesses and inefficiency of the concerned body.

- Return on assets ratio of both the companies in recent years are decreasing. So, companies should try to increase this ratio.
- Earning yield ratio of NLIC and LIC is not found satisfactory. So, proper attention should be given for this. Though the expense ratio is not too high companies should try to reduce these ratios further.
- LIC should further increase the paid up capital. Its earning and profitability ratios are yet to be improved in comparison to NLIC.
- Both the companies should lunch attractive schemes to attract general people for life insurance, so that life insurance fund could be increased.
- Insurance Committee should be made more effective for monitoring the various activities of the insurance companies and increase GDP contribution.
- As insurance companies stop the flow of capital outside the country and contribute for the financial development of the country, government should support for creating suitable insurance business environment.
- Further research can be done regarding financial performance of insurance companies using other financial tools like CAMEL method, CARAMELS method and so on.

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ANNEX- I

Table: 1

Ownership Structure of Insurance Companies

Ownership	Non-Life	Life	Reinsurance	Total
Government	1	1	-	2
Private	13	5	-	18
Foreign	2	1	-	3
Joint	1	2	1	4
Total	17	9	1	27

Source: Economic Survey 2072/73

Table: 2

Life Insurance Companies

S.N.	Company Estd.	Year
1	Rastriya Beema Sansthan	1968
2	National Life Insurance Co Ltd.	1986
3	Nepal Life Insurance Co. Ltd.	2001
4	Life Insurance Corporation (Nepal) Ltd.	2001
5	Met Life ALICO	2001
6	Asian Life Insurance Co. Ltd.	2008
7	Surya Life Insurance Co. Ltd.	2008
8	Guras Life Insurance Co. Ltd.	2008
9	Prime Life Insurance Co. Ltd.	2008

Source: Economic Survey 2072/73