FINANCIAL PERFORMANCE ANALYSIS OF INSURANCE COMPANIES IN NEPAL : HGICL AND NICL

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has been prepared as approved by this Department in the prescribed format of Faculty of Management. This thesis is forwarded for examination.

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VIVA-VOCE SHEET

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and found the thesis to be the original work of the student written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment for

Master's Degree in Business Studies (M.B.S.)

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DECLARATION

I, hereby declare that the work reported in this thesis entitled **"Financial Performance Analysis of Insurance Companies in Nepal : HGICL and NICL"** submitted to the Office of the Dean, Faculty of Management, Tribhuvan University, is my original work. It is done in the form of partial fulfillment of the requirements for the Master of Business Studies (MBS) under the supervision and guidance of Asso. Prof. Dr. Achyut Gyawali, Central Department of Management, T.U., Kirtipur.

April, 2019

…………………………

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ABBREVIATIONS

B.S	Bikram Sambat
C.V.	Co-efficient of Variation
DPS	Dividend Per share
EPS	Earning Per share
HGICL	Himalayan General Insurance Company Limited
NICL	Nepal Insurance Company Limited
P.E. Ratio	Profit Earning Ratio
S.D.	Standard Deviation

CHAPTER I

INTRODUCTION

1.1 General Background

The development process of a country involves the mobilization and development of resources. Development of trade, commerce and industry are the prime requisite for the attainment of the economic, political, and social goals. To fulfill the purpose of planning, financial functions more often dominate the other functions. There is always lack of finance in underdevelopment economic because natural resources are either underutilized or unutilized in productive sectors or even other purposes, i.e.; social welfare and so on, likewise, underdevelopment countries are not deficient in land, water, mineral, forest or power resources through they may be untapped; constituting only potential resources. So in these countries for the rapid development of the economy, there should be proper mobilization of resources. Due to various difficulties or even ignorance of the people, such resources have not been properly utilized; hoarding could be one of the reasons for this. So, banks and other financial institutions play a vital role to encourage thrift and discourage hoarding by mobilizing the resources and removing the habit of hoarding. They pursue rapid economic growth by developing the banking habit among the people, collecting small-scattered fund for further productive purposes and rendering other valuable services to the country. Thus, this gives the individuals an opportunity to borrow fund against future income which may improve the economic wellbeing of the borrower (Khadka and Singh, 2017).

Financial institutions refer to a business concern that is mainly confined to finance for the development of trade, commerce and industry, which are the prime factors of economic development. Insurance is a financial institution, which primarily deals in borrowing and lending. Insurance is a vital part of national economy and a vehicle for the mobilization of economy’s financial resources and extension of credit to the business and service enterprises.

People are surrounded by risks and uncertainties due to modern technical complexities and insurance provides the security against such risks. Insurance is an effective means to save from loss and makes man certain and fearless regarding the risks. Insurance may be viewed as a cooperative device to spread the loss caused by particular risks over a number of persons who are exposed to it and who agree to ensure themselves against that risk. Insurance is a contract by which one party for compensation, called premium, assumes particular risk of the other party and promises to pay to him or his nominee a certain sum of money on a specified contingency. M. N. Mishra defines insurance as "A consisting one party (the insurer) agrees to pay to the other party (the insured) as his beneficiary, a certain sum on a given contingency (the risk) against which is sought." Thus, the concept of insurance was developed to avoid and reduce the risks and uncertainties (Gulati, 2011).

Insurance are also the heart of the financial system. They hold the premium of individuals, government, institutions and business units. They make fund available through their lending and investing activities to borrowers: individuals, business firms and government institutions. In doing so, they assist both the flow of goods and services from the producers to consumers and the financial activities of the government. These facts show that the insurance of the nation is very important to the functioning of its economy.

Proper financial decision making is extremely important in insurance company for its efficiency and profitability. Most of the financial decision of a insurance are concerned with current assets and current liabilities which simply known as working capital management. Working capital plays vital role in the success or failure of business. Working capital is lifeblood and controlling nerve-center of any organization. The excess working capital as well as short capital is harmful for business. So the management of working capital is not simple one, with the minor mistakes on decision about the adequacy of working capital, in a concern may put company into liquidation (Bhalla, 2004).

The aspect of working capital concerned with short term financing decision has received much attention in the literature of finance. Because of the earlier emphasis of financial management was more on long term financial decision, which led to the growth and development of many useful theories concerning these decisions as compared to short term financing decision. However in recent years, it has been realized that the area of working capital intricately interwoven with the success or failure of the enterprises. Today one may come across with such situation where shortage of funds for working capital as well as the uncontrolled over expansion of working capital has caused many businesses to fail and in less serve caused, has situated their growth. This aspect of financial management is equally applicable to the small as well as large scale enterprises. The only difference is that in small firm working capital management may be the factor that decides success or failure where as in longer firms, efficient working capital management can significantly affect the firm's risk, return and share price. But the working capital management of a insurance is different from other type of business. A insurance plays significant role to fulfill the requirement of working capital of other type of business enterprises. It also needs to efficiently manage its own working capital. Investment in working capital of other business enterprises is a part of current assets of insurance company working capital and it can consider collection of premium as a part of current liabilities.

1.1.1 Concept and Development of Insurance in Nepal

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

Insurance company plays the vital role for the economic development of the nation as well as for the worlds economy. Whether the company is developed or non-developed, it is very important to mobilize the fund in different investment sector. For economic development, financial sector play for most role, where they collect funds from customer by paying some percent interest and invest it to large industries and others business sectors by taking some percent interest. The participation of insurance company play even more important role for the economic development, beside the economic sector social, cultural, industrial and technology sector are also should be strong for the development and progress of a country.

Through the history of insurance company it is not very old in Nepal but they have come long way to reach the present position "the concept of the insurance developed in ancient period in Nepal. The system of maintaining "Guthi" can be taken as the beginning point of the development of insurance in Nepal. The income from such Guthi was used to build building and repairing temple and so on but now they are convert into commercial phenomenon."

Insurance is most important in our life which work double-edge weapon. On one side it provides financial security against risk and on the other side; it provides capital to the business house. Now a day's insurance has not been necessary things but also a part and parcel of business world. In the context, the importance and necessity of insurance business in Nepal cannot ignore. There is no longer history of insurance business in Nepal. The necessity of formal insurance was not realized before the revolution of 2007 B.S. At the time people's life was mostly depended on agriculture. There were no big industries and the country had not link with outer world. The sign of modern industrialization could be seen only at the end of Rana rule. Some modern factories like jute mills, matches factories and sugar mills were established in Biratnager. At that time some people traveling to India for life insurance. Insurance agents of Indian insurance company used to come to Nepal to make insurance of Nepalese people. But now days there are almost 27 insurance companies in Nepal. They are some life insurance company and some are non-life insurance company. Among them Nepal life insurance company is a life insurance company.

Insurance may be viewed as cooperative device to spread loss caused by particular risk over number of persons who expose it and who agree to insure themselves against that risk. Insurance has proved itself as a double-edged weapon for socio- economic development of the nation. In one hand, it provides financial security against uncertainties to person, industry and other assets. On the other hand, insurance business collects the scattered financial resources and injects the bulk amount of money in productive sector which helps for the growth of industrialization and commercialization.

1.1.2 A Brief Profile of Sampled Insurance Companies

Nepal Insurance Company Limited

Nepal Insurance Company Limited, a pioneer non life insurance company of Nepal was established on 1947 A.D. by Nepal Bank Limited (the first commercial Bank) and general public with 51% and 49% shares respectively.

At the beginning the name of this company was "Nepal Malchalani Tatha Beema Company" and had changed its name as "Nepal Insurance and Transport Company Ltd." on 1959 AD. Now its name is "Nepal Insurance Company Ltd." since 1991 A.D.

Nepal Insurance Company is the first non-life insurance of Nepal operating with 19 branches all over Nepal with fully computerized offices. This company is established in the year 1947 AD under the leadership of Nepal Bank Ltd., the first commercial bank of Nepal trusted by Reinsurers. Nepal Insurance Company is one of the Nepal's leading insurers in terms of Premium Collection. It has strong market position and long records of successful trading (www.nepalinsurance.com.np, 2018).

Himalayan General Insurance Company Ltd.

Himalayan General Insurance Co. Ltd. commenced operations in December 1993 to write Insurance Policies after obtaining license from the Insurance Board of Nepal to underwrite General Insurance (Non-life). It has issued first fire Insurance policy on 1st November, 1993. It worked with Swire Blanch Asia Ltd., Singapore, through a technical service agreement for the initial five years in order to arrange reinsurance with the world’s best reinsurers.

Spanning a history of over 21 years, it has been providing clients with stability and confidence of security, and our shareholders with consistent returns. Through our customer-driven service packages, personalised service delivery, and technology-focused operations, our clients enjoy value and benefits that are unparalleled in the industry.

While HGIC is widely acknowledged for its market leadership in claims services, it services a large and diverse product range and client base. Our clients span all levels of society – business corporations, development organisations and individual customers.

HGIC is committed to provide cost-effective insurance with efficient claims handling. It strive to deliver superior services to our customers, sustained returns to our stakeholders and progressive development opportunities to our employees (www.hgic.com.np, 2018).

1.2 Statement of the Problems

Insurance companies are financial institution operating for profit motive. It collects funds in the form of premium collection and invests in different sectors. Its investment portfolios are regulating by the insurance board of Nepal (Beema Samitee), under the rules and regulation. Every insurance must invest its 75% of investable fund declared as 'compulsory sectors' and rest 25% in 'other sectors'.

Financial statements of the respective insurers for early years of the study period cannot be collected. So, the financial statement available in the respective annual reports of the “Insurance Committee” is assumed as authentic source, because all financial institutions and investment require working capital and certain current assets to run and operate their organizations. So, most of the financial organizations collect these types of required fund through the return of these investments.

Insurance company is also one kind of the financial institution. It is also involved in financial activities. Insurance company collects fund as premium and make investment. Premium means a certain charged amount, which is paid by the insured to the insurer for bearing risk and uncertainty. Premiums are of two types: Net Premium and Gross Premium. The two premiums are further sub divided into two parts. They are single premium and level premium usually; such investment policy aims at arriving to the optimized or agreed mix of risk return from the investment.

The number of insurance companies are being increased in response to the economic liberalization policies of the government. Other most of the business organization along with insurance companies are facing different problems due to the lack of political stability and unrest. Insurance companies have been facing considerable pressure to lower the lending rates, which affects the profitability adversely. The problem of the study refers the study of strength and weakness of the concerned insurance companies.

Although the study is not compressive as expected, attempts are made to sort out the answer for the following question.

a. What is the financial performance in terms of DPS, EPS, ROE and D/P ratio of the NICL and HGICL?
b. What is the trend of premium collection and payment of claim and utilization of available resources?

1.3 Objectives of Study

The main objective of the study is to study and compare the financial performance of both the companies. Specific objectives are as follows:

a. To examine the financial position in terms of DPS, EPS, ROE and D/P ratio of the NICL and HGICL.
b. To analyze the trend of premium collection and payment of claim and utilization of available resources.

1.4 Significance of the Study

The study evaluates the financial performance of Himalayan General Insurance Company and Nepal Insurance Company. The study highlights financial performance by using ratio analysis, which helps the concerned companies to formulate strategies to face the increasing competition and to achieve the targeted objectives. Insurance is very important in developing countries like Nepal where the average income per family is very low. Most of the families depend upon single person's income. If the earner becomes sick, the family finds nothing to survive on. Life or medical insurance would be good solution in such circumstances. A deep study is needed to find out why insurance business has been unable to attract enough public attention. The research is believed to have multi-dimensional significance, which can be explained below:-

a. The study may be used as pilot work for future research.
b. The findings of this research will be worthwhile to shareholders of the companies.
c. This study intends to give general information regarding insurance policies and financial position of insurance companies.
d. The research would reveal the strengths and weaknesses of two companies and also point out pitfalls and suggest remedies.
e. This study maybe a matter of interest for academicians and students.

1.5 Limitations of Study

The study was conducted with certain limitations. It was mainly concerned with analysis of financial performance of HGICL and NICL. Basically, this study will be subjected to the following limitations:

a. It covered the data of 6 fiscal years only (from 2068/69 to 2073/74).

b. Mainly, the necessary data for the thesis were collected from HGICL and NICL.
c. The thesis was dependent upon availability of limited publications of books, reports and articles regarding insurance business.

1.6 Organization of the Study

This study has been organized under five chapters.

Chapter I: Introduction: This chapter contains the background, history, statement of the problem, objectives of the study, significance of the study and limitations of the study.

Chapter II: Review of related literature: Second chapter is designed for review of literature, which contains conceptual review and past studies.

Chapter III: Research methodology: Third chapter describes research methodology used in the study, which includes nature and source of data, tools used, method of financial analysis and statistical analysis.

Chapter IV: Data presentation and analysis: Fourth chapter is related with presentation and analysis of data in tabular, figure and statistical way. It also includes graphical presentation and analysis of some ratios.

Chapter V: Summary, conclusion and recommendations: This chapter is the concluding part of the research, summary, conclusion and recommendations of the study.

Finally, bibliography and appendices have also been incorporated.

CHAPTER II

REVIEW OF LITERATURE

Review of literature means reviewing research studies or other relevant proposition in the related area of the study so that all the past and previous studies, their conclusion and perspective of deficiency may be known and further researches can be conducted or done. It is an integral mandatory process in research works. It is a crucial part of all dissertations. In other words, it's just like fact are finding based on sound theoretical framework oriented towards discovery of relationship guided by experience, resonating and empirical investigation. It helps to find out already discovered things. Review of relevant literature implies putting new spectacle in old eyes to think in new way by posting the problem with new data and information to see that what results are derived. The primary purpose of literature is to learn and it helps researcher to find out what research studies have been conducted in one's chosen field of study, and what remains to be done. For review study, the researcher uses different books and journal, reviews and abstracts, indexes, reports, and dissertation or research studies published by various institutions, encyclopedia etc. This chapter consists two major parts i.e.:

- Conceptual Framework
- Review of previous studies and research paper

2.1 Conceptual Framework

The conceptual framework includes the various concepts in relation to the insurance business.

2.1.1 Meaning of Insurance

Insurance is a legal contract that protect people from the risk related with life and non-life activity. Insurance protects people from the monetary costs that result from loss of life, loss of property and loss of business etc. It provides a means for personal and organizations to deal with some of the risks faced in everyday life. In other words, it is a process which provides financial security for unemployment and elderness. There are two parties involved in the insurance contract. They are insured and insurer. Insurer is that party who provides insurance coverage, typically through a contract of insurance, insurer is the insurance company. Insured is that party who is insured. In life insurance a person is insured (Gulati, 2011).

Risk and Risk Management

Risk is the main source of loss and insurance is the mechanism of covering such losses. Risk is defined as uncertainty as to loss, poses a problem to individuals in every work of life. Households, business man, employees, travelers, investors, etc., all must face risk and develop ways to handle it in advance and treated as a definite known expense. On the contrary, when there is uncertainty about the occurrence of a cost or loss that risk becomes an important problem to people. Some people are risk averse while some are not. The probability of occurrence of such risk is equally likely. It is therefore, risk averse people are interested to cover such loss through certain mechanism. The easy way of handling risk is insurance. Risk management is the systematic and efficient handling of pure risk. In simple words, risk management is the planning, organizing, directing, co-ordinating and controlling process of risk. In practice, risk management is the device and process of decision making for either personal or organizational risk situation. Risk management is a general management function that seeks to identify, assess and address the cause and effect in uncertain and risk on an organization. The purpose of risk management is to enable an organization to progress toward its goals and objectives in the most direct, efficient and effective part (Smith, and et al., 1995).

Insurance

Insurance is one of the major risk handling methods. Insurance is an economic institution that reduces risk by combining under one management a group of objects. So situated that the aggregate accidental losses to which the group is subject become predicable within narrow limit. Insurance company means the enterprise that is involved in insurance business. Companies are integrated part of the insurance business. It is quite difficult to define satisfactorily. "It may be an economic system of reducing the risk through transfer and pending of losses. A legal method of transforming risk in a contract of indemnity, a business institution providing many jobs in a free enterprise economy, a social device in which the loss of few are paid by many or actuarial system of applied mathematics" (Gulati, 2011).

Robert I Mehr and Emerson Commack define insurance in this way. "Insurance may be defined as a device for reducing risk by combing a sufficient number of exposure units to make their individual losses collectively predictable. The predictable loss is then shared proportionately by all units in the combination" (Mehr and et al., 1983).

According to S.B. Ackerman. "Insurance distributes the cost of risk over a large group of individuals subject to same risk in order to reimburse the few who actually suffers from the risk" (Ackerman, 1995).

Mr. John. N. Magee expressed his view in generic term that is "Insurance is regarded as" cooperative risk carrying transfer of specializing risk carriers redistribution of actual loss act. As a business institution, insurance has been defined as a plan which large number of people associate themselves and transfer to the shoulder of all risk that attach to an individual" (Magee John H. 1959). It came to know that insurance is only legal contact between the insurance company and the insured. The legal document is the policy of the insurance. It is defined by Mr. M.N. Mishra as, "Insurance may be defined as a consulting one party (the insurer) agrees to pay the other party, (the insured) or his beneficiary a certain sum upon a given contingency (the risk) against which is sought" (Mishra, 1979).

It is clear that insurance is a mechanism of risk management. So it can be used as a tool of risk management which is often misleading concept “In practice Insurance involves spreading loss over more than one entity within a present period. In fact, insurance distribute the cost of risk over a large group of individuals subjected to the same risk in order to reimburse the few who actually suffer from the risk" (Ackerman, 1995). In conclusion, from the above definition, it is known that insurance is the legal contact of indemnity, is personal in nature and is a contact of utmost good faith done to compensate for uncertain happening of any loss which are insured for certain happening of any loss which are insured for certain period of time and for specified amount to human life and property to the risk of loss or damage from the various sources.

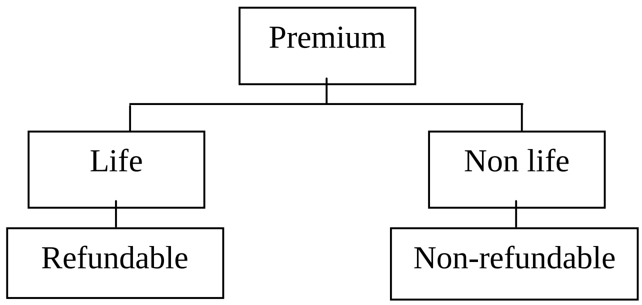
The basic concept of insurance is a method of sharing financial loss of a few from the common fund out of contribution of the many who are equally exposed to the same loss. But the loss must be due to some contingency or unexpected event. In another word insurance is a fund created with contribution paid by insured and manage by an insurance company for the benefit of the current policyholders. Therefore insurance is a kind of social security network, where person contributes to his own as well as another persons security against misfortunes in life.

2.1.2 Premium

Premium is the certain amount of payment which is paid by the insured to the insurer for bearing uncertain risk. Usually, premium is calculated under different method as considering different considering factor. "Premium can be ascertained either by numerical rating system, evaluates each and every item and marks are assigned to them according to their merits and degrees of influencing risk" (Gulati, 2011). Insurer charges the premium differently accordance to the nature of risk. Thus the judgement and personal evaluation plays a vital role in premium calculation. Therefore, various factor of risk influence the premium calculation. The management and ownership are very important factor while risks are evaluated for the purpose of assessing premium rate.

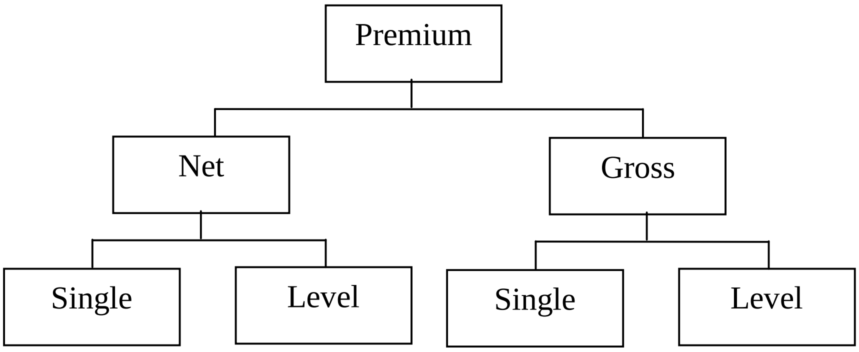
Generally, the insurer charges higher premium for higher risk insurance policy and lower premium for less risk insurance policy. The premium is always directly affected by the nature of risk, other expenses and time period. But "A strong case exists for reviewing the rates of premium and simultaneously to exercise greater control over expenditure to generate a reasonable surplus in their insurance business" (Insurance News and views, Dec., 2002 Nov., 2003). Generally, only premium is one of the main sources of raising fund for insurer. There are different kinds of insurance premium, mainly life and non life premiums. Life insurance or refundable insurance companies have to refund the premium that is collected to insured with bonus but general or non-life insurance doesn't have such burden.

Figure 2.1: Main Type of Insurance Premium



Premium means a certain charged amount which is paid by the insured to the insurer for bearing future risk and uncertainty. Premium is of two types: Net premium and gross premium which are further sub-divided into two parts. They are single premium and level premium. Usually the insurance companies follow only these premium types according to their objectives.

Figure 2.2: Classification of Insurance Premium



Therefore, insurer should obtain sound management for calculating premium amount and collection process. Different insurance companies or insurer may charge different premium to insured under their objectives and goal with accordance to the policies, risk and uncertainty (Sethi and Bhatia, 2017).

2.1.3 Evolution of Insurance

Today's modern form of insurance is not the effort of fortnight. The origin of insurance is lost in antiquity. It has crossed a long series of time to develop insurance from ancient practices to modern insurance practices. It is believed that the philosophy of insurance was practiced with the evolution of the human beings. There are some people who believe that insurance existed in 4500 BC in the ancient civilization of Babylonia, Greek, Rome and India. But single opinion about its evolution is yet to be reached. From the very beginning of the society, man has been following the way to share the profit and the loss, suffering as well as prosperity mutually with one another. There is a word "Yogakshema" in Rigveda, which means security. About three thousand years ago, racial insurance was in existence in the Arya community of India. It is believed that the marine insurance was the first developed form of insurance. During ancient times, international trade was done mainly through sea routes. The sea journey was subject to risk caused by perils of the sea and acts of the enemy. The risks were attached to both the ship and the cargo. At that time, traders used to enter into an agreement among themselves under which the loss caused to any person was compensated by dividing the loss among them. Later, this system was named as "General Average" under which all traders agreed to distribute any loss among them in ratio of their respective interest. Similarly, another system called the "Bottomry Bond" prevailed at that time. Under this system traders were given a specialized type of loan called the "Bottomry Bond" on the condition that they will repay it with interest if the ship reached the destination safely. If the ship did not reach its destination safely and suffered loss, they need not refund the loan. Thus, 'General Average' and 'Bottomry Bond' contained the basic elements of insurance. These system were popular in Babylonia, Greek, Rome and India etc. (Sethi and Bhatia, 2017).

Insurance in the modern sense originated during the 12^{th} Century. Yahoodies were believed to be the main contributors to the development of modern insurance when they were forced to leave France in 1182. They adopted marine insurance as their line of business. The earliest references to insurance, which have so far been traced, appear in the accounts of North Italian merchant bankers who dominated the international trade of Europe at that time. Marine insurance is the oldest form of insurance followed by life insurance and fire insurance. The development of modern formal insurance can be described in the following phases (Khadka and Singh, 2017).

First Phase: Emergence of Marine Insurance

After the emergence of the concept of insurance, it was most commonly used for marine insurance. So, marine insurance is the first modern form of insurance in the history of insurance. In 1300 AD, the first insurance contract called the 'Polizza' was made in Italy. Later on the word 'Policy' was developed from 'Polizza'. The concept of marine insurance was commonly used in Lombard of Italy and Venice in 14th Century. In fact the Lombard of northern Italy had main role in bringing the international extension of marine insurance in England. Later the Jewish of Lombard was banished and then they settled in different countries of Europe. The name of street "Lombard street' of London was named after the name Lombard. At that time this street was called the central point of the marine insurance. The significant role of Lloyd institution for the development of insurance can not be ignored. The underwriters who took the marine risk used to carry out the work of marine insurance, meeting personally in the coffee house of Edward Lloyd in the tower of street of England. Slowly the coffee house was successful to introduce itself as a center of marine insurance. The Lloyd institutions established in 1771, is the first institution to make formal marine insurance. Till now, this institution is the one of the most popular, insurance company in the world.

Second Phase: Development of Life Insurance

After the development of marine insurance, people used the concept of life insurance came into existence. The early development of life insurance was closely linked with that of marine insurance. The first life insurers were marine insurers (underwriters), who started issuing policies on the life of merchants, captain and the crew of the ship, sailing along with the goods. If the ship was captured, the insurer paid the ransom needed to secure of the captain and the sailors.

The first recorded life insurance policy of the world was issued in the name of a person named "William Gybbons" in 1583 AD. It is recorded that the insurance policy was issued for one year. The early contracts took the form of temporary assurance covering for a short period only and were issued by private individuals known as underwriters. These underwriters formed Mutual Assurance Associations. The first registered office of life insurance named "The Hand in Hand Society" was opened in England in the year 1696. The famous "Amicable Society for a Perpetual Assurance Office" started its operation since 1706. Only in 1719, life insurance was undertaken in joint stock form. The companies that came up were "The Royal Exchange Assurance", "London Assurance" and "British Insurance Company".

An astronomer named "Admand Heley" submitted a "Mortality Table" in 1693 AD to the Royal Society. This mortality table was a useful tool for calculating insured amount. But the application of the mortality table in 1755 by Dodson and the introduction of actuarial science revolutionized the whole concept of life insurance. The Equitable Society in 1762 was first to be found on scientific basis.

In 1744 AD, the foundation of the modern insurance was created by passing the Life Insurance Act. Thereafter, different laws were enacted to remove the defect that came to it on it basis of experience. With the cause of the difficulties that came to business, many companies were closed and some of them were mixed or merged with another insurance company. There is no controversy that the Life Insurance Act 1870 was passed to control the operation of the life insurance business for the protection of the customers. Before the beginning of the 19th Century, many life insurance were already established in the world. It is found that the life insurance business in the neighbouring country India started with the establishment of the Mutual Association. In 1971, both the life and the non-life insurance were nationalized in India, as a result, the Life Insurance Corporation for life insurance and general insurance company limited for non-life insurance were established. During the reign of Elizabeth I, the life insurance used to be effective for only one year. After one year, if it was not renewed, the insurance automatically used to be cancelled. But the job of effective long term insurance started from the 18th Century has been increased continuously (Gulati, 2011).

Third Phase: Emergence of Fire Insurance

In the history of insurance the fire insurance comes after the life insurance. However there is some controversy about it. In the opinion of some people, the concept of the fire insurance had come after the many marine insurance and then only after about two hundred years, the idea of the life insurance communicated. The beginning of the fire insurance for the first time can be found in the municipality of the Hamburg in the Germany in about 13th Century. It is said that after the birth of life insurance the fire insurance was developed. During ancient times some European countries collectively established a Guild Organization to compensate the fire affected persons. In Germany during 15th and 16th Centuries some servicing organizations used to collect annual subscription in order to help or compensate for the losses caused by fire.

Fire insurance in the modern sense has a history of just 330 years. In the year 1666 the Great Fire of London continued for several days and destroyed over 13200 houses. This being the most disastrous fire in human history is known as the "Great Fire" and drew the attention of the public for devising insurance protection against such calamities. So the fire insurance was introduced with the main objective of the providing the financial protection to the people to save from the risk and the ruin. In 1668 Dr. Nicholas Barbon opened one man fire insurance company in England and the office of Barbon was called the fire office, later named as Phoenix. Later in 1710, 24 partners established "Sun Fire Office" organization. In 1720 British parliament passed rules containing the provision to control the fire insurance business. In 1782, Phoenix insurance company was established with the development of the fire insurance. Today many people, industry and businessman are breathing the air of the peace. During the year 1861 Fire Insurance Office was established in England with a view to secure from the risk of fire.

The industrial revolution gave impetus to fire insurance. The scope of fire insurance increased immensely and several joint stock companies and corporations were incorporated throughout the world during 19th and 20th Century.

Fourth Phase: Practice of Miscellaneous Insurance

After the fire insurance, many other types of insurance have come in use. Thus, by such insurance policies people are trying to be protected from many types of risks. Under the miscellaneous insurance, fidelity guarantee insurance started from 1848, personal accident insurance from 1880, liability insurance from 1875, public liability insurance from 1877, burglary and house breaking from 1903, motor insurance from 1911 and aviation insurance were came in practice. Similarly in other words it can consider castle insurance, rain insurance, earthquake insurance, the vocal of the male singer, model beauty as miscellaneous insurance (Gulati, 2011).

2.1.4 Importance of Insurance

In modern economic age, insurance business plays a vital role in different sectors of the nation. No one can imagine the smooth operation of economic activities without the provision of insurance. Insurance has become an integral part of modern economic activities. Insurance is such measure in the society which relieves a person from various anxieties. It is important to ensure the different spheres of life which are given below (Khadka and Singh, 2017):

- Important to individual and family
- Important to business
- Important to the community
- Important to government

The importance of insurance to each of the above spheres of life can be explained as below:

2.1.4.1 Importance to Individual and Family

Importance of insurance to individual and family can be explained as below:

a. Economic Protection

Insurance provides safety against economic difficulties to individuals and family. In case of life insurance, if the insured person meets premature death, the dependents will get sum assure from the insurer (insurance company). Insurance also provides protection for old age when the ability to work and earn is reduced. Similarly, insurance provides safeguard during sickness, unemployment, and retirement etc. On the other hand, the loss of properties due to theft, fire, accidents, and other natural calamities is also covered by insurance. Therefore, insurance is an appropriate measure to safe guard the individual as well as the family in case of financial crisis due to uncertainties in the future (Khadka and Singh, 2017).

b. Increase in Self-Respect

Self-respect is directly linked with independence of a person in society. As insurance provides economic support to family, they need not depend on other's help. This will certainly increase the self-respect of a person or his family.

c. Assures Peace of Mind

Insurance removes most tension, fears and anxiety associated with future uncertainties. It results in improvement of the efficiency of people because the carefree person can devote his/her body and soul together for better achievement. Thus insurance provides peace of mind to the people.

d. Eliminates Dependency

In the event of death of the breadwinner or destruction of property, family will suffer a lot. Insurance protects against such uncertainties and provides adequate financial support. The provision definitely helps to eliminate the dependency of people.

2.1.4.2 Importance to Business

Insurance provides many advantages to business. They can be explained as below:

a. Financial Security

Insurance provides protection against the loss of goods and properties in exchange for a fixed premium. It is worth nothing that premium is a very small amount in comparison to the value of property at risk. Business activities can be carried on without hesitation because insurance provides certainty of payment in case of loss.

b. Welfare of Employees

Welfare of employees is one of the contemporary issue in an organization to increase productivity of the organization. Business person/organization can make a provision for the welfare of their employees through life insurance policies covering accidents and sickness of the employees. It can be one of the best sources of morale and motivation for the employees. An employee's attitude toward his or her job, employer, and colleagues will be positive due to the provision of insurance made by organization. It is good sign in an organization to have higher productivity (Gulati, 2011).

c. Promotes Foreign Trade

Foreign trade is essential feature of society today. Relatively foreign trade is more risky than the domestic trade. Goods are transported from distant places by means of the air or water or land transport or combination of these modes. There are different types of risk in transportation like marine perils, chance of explosion, terrorism, storm, tempest etc. Insurance provides protection against such unpredictable risk which definitely promotes the foreign trade (Pandey, 2010).

d. Smooth Operation of Business

Insurance provides financial compensation in case of loss or damage to the properties of business. Insurance for the employees, increase the morale and motivation of employees. Therefore, insurance plays vital role to let the business run smoothly ever in the situation of unfavourable events.

2.1.4.3 Importance to Community

Provision of insurance provides the following benefits to community:

a. Safeguard of Wealth

Insurance company organizes different programs in order to bring favourable changes in the behaviour and feeling of people living in society. It helps to overcome social evils, riots, violent demonstration etc. in community. As a result of individual and business of private as well as public property is increased (Pandey, 2010).

b. Help in Maintaining Standard of Living

Social insurance provides sufficient fund for the maintenance of living standard of person by way of unemployment insurance, accident insurance etc. The living standard of people in community will not be affected.

c. Creates Employment Opportunities

Insurance companies need personnel of different skills, experience and academic qualifications. So people get job in insurance companies. On the other hand, they increase employment opportunities indirectly by promoting business in the country.

d. Reduces Inflation

The term 'inflation' means increase in the price level of good or services. Inflation is a concept in which every citizen is not only aware of but also painfully experiencing. In order to control the inflation, volume of money in the market should be reduced.

Insurance company takes the money from the people in the form of premium, which reduces the volume of money in the market. Insurance companies invest the fund collected in the form of premium in the productive sectors, which certainly increase the quantity of goods or services. Thus when supply increase; business helps to control the inflation, which is desirable for the smooth economic development of the country (Gulati, 2011).

2.1.4.4 Importance to Government

The government is responsible for maintaining law and order in the country. Government always wants the people be happy and healthy and prosperous. Insurance assists government by providing peace of mind to the individual and family, by providing financial security to the individual and business firms in the country. Insurance companies help to generate employment and help to solve the unemployment problem to some extent (Dahal and Manandhar, 2003).

2.1.5 Function of Insurance

Insurance business has become an important part for the economic development of every nation. Prime functions of insurance is to provide financial security against the uncertain event. In addition, it performs various other function as well. The function of insurance can be divided into 3 categories (Khadka, 2065).

2.1.5.1 Primary Function

Primary functions of insurance companies are as follows:

a. Provides Certainty

Risk arises due to uncertainty. It cannot be predicted before hand like where and when it happens, how it happens, what amount of loss will be and so on. Insurance company promises to compensate the losses to the insured property caused by uncertainties. Thus the insurance company turns the loss of uncertainties into certainty by premium from persons or institutions (Khadka and Singh, 2017).

b. Provides Protection

Another primary function of insurance is to provide protection. People and their properties are surrounded by risks and may surer loss due to uncertainties. Insurance provides protection against such risk. It is worth nothing that insurance does not prevent the happening of uncertain events but promises to pay defined sum in case of loss. By means of insurance, people always feel protected against financial losses caused by uncertain events. Thus insurance provides protection taking the burden of compensation for the loss that may take place at any time.

c. Distribution of Risk

Insurance can be defined as the co-operative scheme of distributing risk among their persons who are exposed to it. In ancient period, risk used to be distributed among insured at the time of insurance contract because premium is determined at the time of contract.

2.1.5.2 Secondary Function

An insurance company performs the following secondary functions:

a. Prevention of Loss

Insurance provides protection and certainty against the uncertain events to human life and property. In reality it helps to minimize the loss but it does not stop risk or losses. To make people aware of insurance, insurance company conducts various training programs. There are certain organizations in the society like health organization, police office, educational institutions etc. that are engaged in the prevention of losses to human life and properties. Insurance company joins hand with these institutions to perform the research, publication, training and to increase public awareness. Thus, it helps to prevent losses (Chandra, 2006).

b. Provides Capital

Insurance company collects small amount of money in the form of premium from various persons and organizations. Thus there is capital formation. Insurance company invests the capital and utilizes it in different productive sector of the country. Insurance company may invest in corporate bonds, government bonds, share etc. It is helpful for economic development of the country. In addition, it also invests the funds in health organizations, educational institutions and other public activities in the society.

c. Improves Efficiency

Insurance eliminates the worries of losses and risks by providing security against the losses. When people are free from the tension, they can devote their time for better achievement. As a consequence, efficiency of people will be high in their work.

d. Economic Progress

Insurance provides security against losses and damages. It helps to create better working environment. It provides initiative to work hard. New industries and trades are started in the country, which improves the economic progress in the country.

2.1.5.3 Other Function

An insurance company also performs other functions as below (Gulati, 2011):

a. Provides Services

Insurance company provides life and non life services to the concerned party in the country and the foreign country.

b. Investment

Insurance company will invest the funds in the securities issued by government and other non-governmental organizations in the country.

c. Reinsurance

It is the way of transferring risk from one insurer to another. Insurance company also performs the reinsurance business accepting the certain parts of risk from another insurance company.

2.2 Review of Previous Studies

2.2.1 Review of Article/Journal

Insurance companies play a vital role for the economic development of the country. Therefore many journal, booklet, medical publish the news about the role, function and activities of insurance companies everyday. So some review about insurance companies published by many journal and publication are as follows.

"Insurance plays the important role in the trade and commerce. It is absolutely true that expect risks are unpredictable. These risks are to be insured to protect exporters. Various forms of insurance have been inexistence for hundreds of years, just as many of the terms used today are the same as they were many years ago" (Shrestha, 2014).

Insurance is the major part of economic development of a country. Sound external economic environment is a must for the development of the insurance sector. Insurance in Nepal is still a native business. Its market is not matured. A regulation mechanism calls for important. Insurance regulation and supervision were fundamental requirements for the sound development of insurance activities. And those insurance activities, properly supervised, played an outstanding role in the process of the economic growth of every country. Supervision helps to check an outflow of foreign exchange, which could result from excessive resources to foreign insurance and re-insurance facilities. A sound national insurance and re-insurance market is an essential characteristic of economic growth. The average insurance depth (premium income as a percentage of the GDP) of the developed countries is about 4% to 6%. In Nepal, the insurance depth is only 1.40%. The figures reveal a wide gap between the development of Nepalese insurance markets and the demand and need for cover (Bhattarai, 2015).

“Nepalese insurance companies continued to face a growing magnitude of the problem in the collection of outstanding premium from the period of the company’s establishment to the present years” (Shrestha, 2015).

“Kiran Nepal has mentioned the current market of insurance industry in Nepal. The articles are the complete study of potentials of insurance in Nepal and problems facing by the insurance companies of Nepal. It reveals that there is keen competition in general insurance business. There are 13 general insurance companies in the small country like Nepal. So they have competition with each other to capture others market without creating their own market and going to other sectors of insurance behind the traditional functioning. But the 99% of life insurance market remains untouched. The life insurance companies are far from each to the majority public. There is future potential in the life insurance in Nepal.”

The government properties including corporation is insured to government company is priority basis. It is difficult to pursue in such corporation and government offices, so the environment is not very positive. Only lip service is from government, the economic growth of the country is very slow. People can not afford to pay insurance premium. The sense for insurance unawareness and unconscious mass is very high. Thus insurance business is very-very challenging. On has to create the market. Tremendous market potentiality and opportunity is felt due to the unexplored market. Only the clue is to known and click on the right product and place with reasonable price to the right person. After the formation of Nepal insurers Association, the companies can plead their problems jointly to the government to forward for the interest and benefit of insurance. This platform should be taken as an opportunity (Shrestha, 2072).

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

2.2.2 Review of Theses

In course of preparing this study, some relevant studies conducted by former researcher have been reviewed. To support this study, some of the studies are traced below.

Adhikari (2014) had submitted a thesis on the topic *"Financial Performance of Asian Life Insurance Company Ltd"* with the aim to analyze the financial performance of ALIC.

The major findings were as follows:

1. Regarding the liquidity management, the ALIC was in sound position.
2. ALIC was unable to control its operating expenses at the minimum level.
3. The net profit margin ratio of ALIC was deteriorating year by year.
4. The company had not adopted fixed diversified investment principle but adopted traditional portfolio.
5. The ALIC had not practiced risk diversified investment principle but adopted traditional investment portfolio.
6. There was no perfect stability in cash inflows and outflows of ALIC

The recommendations were as follows:

The insurance company should sell the insurance policy mostly on cash and may extend credit only to those customers who have proven credit worthiness and financially strong as a result there will be no bad debts loss.

1. Settlement of claims should be made in time.
2. The company should extend its business area.
3. ALIC should diversify its business portfolio.
4. The company should expand its fixed assets.

A study conducted by Raut (2014) entitled *"The Financial Performance of National Life and General Insurance company limited"* had found the gap and issues about liquidity, premium collection and outstanding investment and other position and premium collection to make a settlement of claim in time and to extend its branches to effective investment policy. This study had given emphasis to the financial tools (mainly with ratios) and had ignored the importance of statistical tools.

1. Regarding liquidity management, NLGI was not in a sound position.
2. The company's outstanding premium has an increasing trend.
3. The return on net worth of NLGI was satisfactory because the return on net worth had an increasing trend.
4. The trend of earning per share was fluctuating.
5. Investment of NLGI was not less than 50% of the total assets in every year of the study period.

The recommendations were as follows:

1. NLGI should maintain the mutual relationship among the policy holder's to collect premium on time.
2. There should be proper management between the current assets and current liabilities to improve the liquidity position.
3. Settlement of the claims should be made in time.
4. The company should make an effective investment policy.

A study by Gelal (2015) entitled *"A Comparative Financial Analysis of Asian Life Insurance Company Limited and National Life and General Insurance Company Limited"* had analyzed the financial performance of the two insurance companies. This study was descriptive and analytical too. He had analyzed the financial position, liquidity position, profitability condition, and the market situation of NLIC and NLGI. In this study, he had recommended that the insurance premium fund should be invested in different sectors rather than government bonds in order to enhance the life standard of people and thereby increase the insurance premium and expand insurance activities in the rural area by the establishment of branches or appointment of agents. He had advised ALIC to minimize the risk level by reducing participation and increasing equality proportion even though, it is a risk oriented institution.

A study of Pathak (2016) on *"Evaluating Financial Performance of Asian Life Insurance Company and Nepal Life Insurance Company Ltd."* Found out the following findings:

1. NLIC and ALIC have not been following better policy to keep their liquidity position.

2. Cash position to meet their current liabilities of ALIC is poor than NLIC.
3. The net profit margin of NLIC shows an increasing trend whereas ALIC's trend is fluctuating.
4. EPS of ALIC is higher than EPS of NLIC.
5. P.E. ratio of NLIC is better than ALIC.

In his study, he has recommended the following measures:

1. Both the companies should decrease their current assets and increase their cash balance.
2. NLIC is suggested to increase the total revenue and gross profit for its sustainability and to meet the different sector than the Government of Nepal board in order to enhance the life standard of poor people thereby increasing the insurance premium, advertisement and publicity should be increased to make the people aware about the insurance.
3. For the development of insurance business, the insurance companies should have social responsibility oriented rather than premium oriented.

Acharya (2016) has carried out a thesis on *"An Evaluation of Financial Performance of ALIC,"* found out the following facts about ALIC during his research period.

1. Liquidity management of ALIC is very weak.
2. The company is not able to collect its outstanding premium efficiently.
3. The company's re-insurance premium is in an increasing trend.
4. Profitability position of the company is in a satisfactory level.
5. Control of management expense and agency commission has an increasing trend.

Based on the finding of the study, the researcher has given various recommendations to the study. Some of them are as follows:

1. The company should improve its liquidity position.
2. The company should activate its agents and development officers.
3. Claims should be paid on time.
4. Commission and management expenses should be controlled.
5. The company should maximize investment return through optimal portfolio management.
6. Business portfolio should be diversified.

2.3 Research Gap

This research is basically based on practical study and gives more emphasis to realistic approach. In addition, this thesis uses hypothesis as an analytical tool which the former research did not include. The facts and figures of both NICL and HGICL have changed since the last thesis was prepared. This thesis focuses on the financial strength and weaknesses of NICL and HGICL using different financial ratios analysis. Keeping this in mind, this thesis is prepared with the help of up-to-date data and information. So, this study will be favourable for the growth of fruit being productive in any to those interested person, scholars, civil society, businessmen and government for academically as well as policy perspectives.

CHAPTER III

RESEARCH METHODOLOGY

Research methodology is a process of arriving to the solution of problem through planned and systematic dealing with collection, analysis and interpretation of the facts and figures. It is a way to systematically solve the research problem. It refers to the various sequential steps that are to be adopted by a researcher during the course of studying the problem with certain objectives. For the purpose of achieving this objective the following methodology has been employed which includes research design, population and sampling, sources and collection of data, analytical tools and techniques.

3.1 Research Design

Research is a systematic search for the knowledge. In order to make any type of research systematic, which fulfill the objectives of the study, which guides the study and propound the ways for research viability.

In fact, the research design is the conceptual structure within which research is conducted. It constitutes the blue print for collection, measurement and analysis of data. The research design of the study is descriptive as well as analytical. This information is used to analyze and evaluate the financial analysis of insurance companies.

3.2 Period Covered

The study has covered a time period of six years from FY 2068/69 to 2073/74. Data are taken from both the companies and the analysis is basically made on the basis of 6 years' audited data for the purpose of analysis.

3.3 Population and Sample

There are altogether twenty seven insurance companies in Nepal. Out of them, eighteen are non-life, eight are life and one is life and non-life both. Since the study is focused on non-life insurance companies, all eighteen non-life insurance companies are considered as population of the study. Since the study cannot cover all insurance companies due to time and resource constraints, only two insurance companies Nepal Insurance Company (NICL) and Himalayan General Insurance Company (HGICL) are taken as sample using convenience sampling method. Since both NICL and HGICL are leading life and non-life insurance companies of Nepal respectively and they have more than 15 years period of operation, it is important to notice the strength and weaknesses of both matured insurance companies which may be the guidelines for other newly established insurance companies.

3.4 Nature and Sources of Data

The study is based on both secondary and primary data, which are collected from respective annual reports especially from profit and loss accounts, balance sheet, web sites and other publications of the insurance company. Likewise, some other related information has been gathered from different studies and reports.

3.5 Tools Used

Data collected from various sources are tabulated and presented in proper tables and formats. Such tables and formats are interpreted and explained as necessary. The analyses of data are done through financial and statistical tools.

3.6 Analysis of Data

The data are presented in analytical and descriptive way. The data supplied by the concerned insurance companies have been recognized in the tabular form. Then they are tabulated, analyzed and presented using tools for analysis. Interpretation and explanation will be made wherever necessary with the help of ratio analysis, cash flows statements, and trend analysis. To clarify the significance of the collected data, appropriate statistical tools are used. Similarly, conclusion and recommendations are also drawn from the detailed analysis.

3.6.1 Tools of Analysis

The analysis of financial performance of HGICL and NICL is made through the use of two important tools. The first important tool is a financial tool, which includes ratio analysis and cash flow statement. The second important tool is statistical tool which includes standard deviation and coefficient of variation. The brief introduction about the above mentioned tools are given in the following paragraphs.

3.6.1.1 Ratio Analysis

Simply, an arithmetical relationship between two figures is known as ratio. The ratio analysis is adopted to make rational decision of financial variability of the companies.

a. Liquidity Ratio

Liquidity ratio is to measure the ability of a firm to meet its short-term obligation. It reflects the short-term financial strength of firm. Liquidity ratio can be divided into two sub-groups: current ratio and quick ratio. For the purpose of the study, it takes only the current ratio, which is calculated by dividing current assets by current liabilities.

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

b. Turnover Ratio

These ratios are important to judge how well facilities at the disposal of the concern are being used or to measure the effectiveness with which the concern uses its resources at its disposal. Higher the turnover ratios, better the efficiency financial performance of HGICL and NICL.

i. Total Assets Turnover Ratio

Total assets turnover ratio shows the proportion of net premium to total assets of HGICL and NICL. This ratio is calculated by dividing the net premium by the value of total assets.

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

ii. Fixed Assets Turnover Ratio

It indicates the proportion of net premium to fixed assets. It is analyzed to measure how efficiency the capital employed in fixed assets has been utilized to generate net premium. It is calculated as under.

$$\text{Fixed Assets Turnover Ratio X} \frac{\text{Net Premium}}{\text{Fixed Assets}}$$

iii. Current Assets Turnover Ratio

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

$$\text{Current Assets Turnover Ratio X} \frac{\text{Net Premium}}{\text{Current Assets}}$$

c. Profitability Ratios

The profitability of HGICL and NICL can be tested by its profitability ratios. Higher profitability ratio is favourable. The following are the important ratios of HGICL and NICL.

i. Gross Operating Profit Margin

The ratio is calculated by dividing gross operating profit by gross total revenue.

$$\text{Gross Operating Profit Margin X} \frac{\text{Gross Operating Profit}}{\text{Total Revenue}}$$

ii. Net Profit Margin

The ratio is very useful to the proprietors and prospective investors because it reveals the overall profitability of the concern.

$$\text{Net Profit Margin X} \frac{\text{Net Profit}}{\text{Total Revenue (Sales)}}$$

iii. Return on Assets

This ratio measures the profitability with respect to total assets. This ratio is calculated by dividing net profit by total assets.

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

iv. Return on Net Worth

This ratio measures the rate of return on the shareholders' investment. It is calculated as under;

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

Net worth includes paid up capital of shareholders' general reserves, ordinary reserves and retained earning.

v. Earning Per Share (EPS)

The earning per share measures the profit available to the equity shareholders on per share basis i.e. the amount that they can get on every share held. It is calculated by dividing the profit available to shareholders by the number of shares outstanding.

$$\text{Earning Per Share X} \frac{\text{Net Profit}}{\text{No.of Existing Equity Share}}$$

vi. Dividend Per Share (DPS)

Dividend per share is the net distributed profit to the shareholders divided by the numbers of ordinary shares outstanding. It is calculated as under.

$$\text{Dividend Per Share X} \frac{\text{Dividend to Equity Shareholders}}{\text{No.of Existing Equity Share}}$$

vii. Dividend Payout Ratio (DPR)

$$\text{Dividend Payout Ratio X} \frac{\text{DPS}}{\text{EPS}}$$

This ratio indicates as to what proportion of EPS has been used for paying dividend and what has been retained for ploughing back.

d. Other Financial Ratios

The special ratios have not been including above ratios. Such uncovered indicators are analyzed with the help of following ratios to make the study more meaningful. They are as:

i. Management Expenses to Gross Premium Ratio

$$\text{Management Expenses to Gross Premium Ratio X} \frac{\text{Management Expense}}{\text{Gross Premium}}$$

ii. Agency Commission to Gross Premium Ratio

$$\text{Agency Comission to Gross Premium Ratio X} \frac{\text{Agency Commission}}{\text{Gross Premium}}$$

iii. Analysis of Premium

Net Premium Ratio=Net Premium/Gross Premium

Net Claim Ratio=Net Claim/Net Premium Ratio

Reinsurance Premium Ratio= Reinsurance Premium/Gross Premium

iv. Analysis of Investment

Investment on Nepal Government Securities Ratio= Investment on Nepal Government Securities/Total investment

Investment on Fixed Deposit Ratio = Investment on Fixed Deposit/Total Investment

3.6.2 Standard Deviation

The standard deviation is commonly used to measure the risk. It shows the deviation of actual mean with average mean. It can find the standard deviation from the following formula.

$$\text{Standard Deviation } (\sigma) \text{ X} \sqrt{\frac{x^2}{N} \text{ Z } \left(\frac{x}{N}\right)^2}$$

Where,

∃ = Standard Deviation

X = Net Premium

N = Number of Years

The standard deviation is used to analyse the financial performance of the companies. The standard deviation of net premium on different premium is calculated and analyzed under the study.

3.6.3 Mean

Calculation of Mean, $\overline{X} \text{ X} \Sigma \frac{x}{N}$

3.6.4 Co-efficient of Variation

The corresponding relative measure of dispersion is known as the co-efficient of variation. It is used in such problems, where it wants to compare the variability of two or more variables or conversely less consistent or less uniform. It is denoted by C.V. and obtained as follows.

$$\text{Co Zefficient of Variation (C.V.)} \; X \frac{\pm}{\overline{X}} \, | \, 100\%$$

Where, ∃ =Standard Deviation

$\overline{X}$ = Mean of Net Premium

3.6.5 Research Hypothesis

Hypothesis is a quantitative statement about the population parameter. In other words it is an assumption that is made about the population parameter and then its validity is tested. In order to fulfill the objective of research study, following hypothesis is formulated for testing.

H_0= There is no significant difference in financial performance between NICL and HGICL.

H_1= There is significant difference in financial performance between NICL and HGICL.

CHAPTER IV

PRESENTATION AND ANALYSIS OF DATA

In this chapter, it is focused on the analysis of financial performance of HGICL and NICL. considered. It is various variables which are more important to reflect the financial performance of these companies. Financial performance cannot be isolated but should be focused in totality of what these companies are performing. In order to analyze and interpret how far the company is performing, necessary data are presented in this chapter. Those data are necessary to analyze for measuring the financial performance of the companies. The financial performance covers the variables such as premium, claim, fixed assets, current assets, current liabilities, investment, shareholders equity, total income and expenditure, net profit, dividend paid and so on. Only the important variables that are sensitive and pertinent are taken into account. The financial and graphical tools are employed in this chapter to measure the financial performance of the companies for this study.

4.1 Liquidity Ratios

A single ratio should be compared with the standard so that the conventional ratio 2:1 is considered to be satisfactory. This principal rule may be more suitable to manufacturing companies but cannot be applied to service providing companies because there is no need to maintain the inventory.

Table 4.1

Current Ratio of HGICL (in times)

Rs. In Lakh

Fiscal Year	Current Assets (Rs)	Current Liabilities (Rs)	Current Ratio (times)
2068/69	24.37	20.38	1.20
2069/70	36.16	44.55	0.81
2070/71	35.64	36.39	0.98
2071/72	44.79	34.02	1.32
2072/73	45.28	33.63	1.35
2073/74	74.31	84.71	0.88
Average Current Ratio			1.09

Source: Annual Reports of HGICL

Table 4.2

Current Ratio of NICL (in times)

Rs. In Lakh

Fiscal Year	Current Assets (Rs)	Current Liabilities (Rs)	Current Ratio (times)
2068/69	36.68	25.97	1.41
2069/70	49.08	33.68	1.46
2070/71	51.72	44.20	1.17
2071/72	80.20	50.80	1.58
2072/73	66.08	70.94	0.93
2073/74	76.26	60.47	1.26
Average Current Ratio			1.30

Source: Annual Reports of NICL

Here, current assets are the total sum of advances, deposits, cash, bank balances and short-term investments and current liabilities are the total sum of liabilities for claim, agency commission and other liabilities. Table 4.1 shows the liquidity position of HGICL. The average ratio is 1.09, which is less than that of NICL. In F.Y 2069/70, and 2070/71 the current liabilities seems more than that of current assets, that's the reason for the current ratio being low.

The table 4.2 shows that the liquidity position of NICL is satisfactory. The average ratio of 5 years under the study period is 1.30 times. The highest ratio is 1.58: 1 in F. Y. 2071/72 and lowest is 0.93: 1 in F. Y. 2072/73. This table shows that in four years, the company has able to meet its short term obligation with current assets. The reason behind the decrease in current ratio in F. Y. 2068/69 is due to decrement in short term investment. Based on the analysis, it is concluded that the capacity of the company to meet its current liabilities is satisfactory and for comparison Nepal Insurance has maintain good current ratio than Himalayan General Insurance Company.

4.1.1 Turnover Ratios

Turnover ratios are one of the tools measuring the financial performance of HGICL and NICL, which is used to test the efficiency of utilized assets. Various turnover ratios can be concluded as:

4.1.1.1 Total Assets Turnover Ratio

Assets are used to generate premium and by generating premium, profit can be increased. It is the relationship between net profit and total assets. The assets turnover ratios of HGICL and NICL for the year under the study period are given below:

Table 4.3

Assets Turnover Ratio of HGICL (in times)

Rs. In Lakh

Fiscal Year	Net Premium (Rs)	Total Assets (Rs)	Assets Turnover Ratio (times)
2068/69	184.30	84.17	2.19
2069/70	215.97	127	1.70
2070/71	267.06	110.14	2.42
2071/72	326.77	130	2.51
2072/73	375.79	146.510	2.56
2073/74	452.05	227.70	1.99
Average Assets Turnover Ratio			2.23 times

Source: Annual Reports of HGICL

Table 4.4

Assets Turnover Ratio of NICL (in times)

Rs. In Lakh

Fiscal Year	Net Premium (Rs)	Total Assets (Rs)	Assets Turnover Ratio (times)
2068/69	153.96	74.98	2.05
2069/70	211.963	89.66	2.36
2070/71	266.51	108.32	2.46
2071/72	253.81	120	2.12
2072/73	324.01	151.34	2.14
2073/74	362.19	156.75	2.31
Average Assets Turnover Ratio			2.24 times

Source: Annual Reports of NICL

Here, Total assets are the sum of fixed assets, investment, other assets, debtors, cash and bank balances.

The table 4.3 shows the assets turnover ratio of HGICL for six years, the average assets turnover ratio is 2.23 times which means 2.23 times of premium were generated in every rupee invested in total assets over the study period.

The table 4.4 shows the assets turnover ratio of NICL for six years, the average assets turnover ratio is 2.24 times, which means 2.24 times of premium were generated in every rupee invested in total assets over the study period.

Table 4.3 and 4.4 reveal that the assets turnover ratios of both the companies are good, it can be concluded that these companies are able to utilize its available assets to generate satisfactory level of net premium over the years of study.

4.1.1.2 Fixed Assets Turnover Ratio

Fixed assets turnover ratio is analyzed to measure how efficiently the capital employed in fixed assets has been utilized to generate net premium. Higher the ratio the favorable the financial position and lower ratio can be said as weak financial position of the company.

The fixed assets turnover ratio is analyzed considering relevant data of 6 years during the study period from 2068/69 to 2073/74.

Table 4.5

Fixed Assets Turnover Ratio of HGICL

Rs. In Lakh

Fiscal Year	Net Premium (Rs)	Fixed Assets (Rs)	Fixed Assets Turnover Ratio (times)
2068/69	184.30	4.78	38.56
2069/70	215.97	8.93	24.18
2070/71	267.06	7.20	37.09
2071/72	326.77	12.63	25.87
2072/73	375.79	9.84	38.19
2073/74	452.05	42.59	10.61
Average Fixed Assets Turnover Ratio			29.08 times

Source: Annual Reports of HGICL

Table 4.6

Fixed Assets Turnover Ratio of NICL

Rs. In Lakh

Fiscal Year	Net Premium (Rs)	Fixed Assets (Rs)	Fixed Assets Turnover Ratio (times)
2068/69	153.96	4.8	32.08
2069/70	211.93	11.29	18.77
2070/71	266.51	9.28	28.72
2071/72	253.81	17.53	14.48
2072/73	324.01	16.01	20.24
2073/74	362.19	15.59	23.23
Average Fixed Assets Turnover Ratio			22.92 times

Source: Annual Reports of NICL

The table 4.5 shows the fixed assets turnover ratio of HGICL and table 4.6 of NICL is 22.92 times whereas HGICL is 29.08 times which means in average every one rupee invested in fixed assets is able to generate Rs. 22.92 net premium by NICL and Rs. 29.08 times by HGICL over the study period. The highest fixed assets turnover ratio of NICL is Rs. 32.08 in F. Y. 2068/69 and lowest fixed assets turnover ratio is Rs. 14.48 in F.Y. 2071/72 whereas highest fixed assets turnover ratio of HGICL is Rs. 38.56 in F.Y. 2068/69 and lowest fixed asset ratio of HGICL is 10.61 in F.Y. 2073/74.

These tables show the good results of fixed assets turnover ratio of both the company but for the comparison HGICL's fixed assets turnover ratio is better than NICL.

4.1.1.3 Current Assets Turnover Ratio

Current assets turnover ratio is analyzed to measure how efficiently the capital employed in current assets has been utilized to generate net premium. Generally higher the ratio is favorable for the company.

Table 4.7

Current Assets Turnover Ratio of HGICL

Rs. In Lakh

Fiscal Year	Net Premium (Rs)	Current Assets (Rs)	Current Assets Turnover Ratio (times)
2068/69	184.30	24.37	7.56
2069/70	215.97	36.16	5.97
2070/71	267.06	35.64	7.49
2071/72	326.77	44.79	7.30
2072/73	375.19	45.28	8.30
2073/74	452.05	74.31	6.08
Average Current Assets Turnover Ratio			7.12 times

Source: Annual Reports of HGICL

Table 4.8

Current Assets Turnover Ratio of NICL

Rs. In Lakh

Fiscal Year	Net Premium (Rs)	Current Assets (Rs)	Current Assets Turnover Ratio (times)
2068/69	153.96	36.68	4.20
2069/70	211.96	49.08	4.32
2070/71	266.51	51.72	5.15
2071/72	253.81	80.20	3.16
2072/73	324.01	66.08	4.90
2073/74	362.19	76.26	4.75
Average Current Assets Turnover Ratio			4.41 times

Source: Annual Reports of NICL

The average current assets turnover ratio of 6 years during the study period of HGICL is 7.12 times and NICL is 4.41 times. It indicates that every one-rupee capital invested in current assets had generated Rs. 7.12 by HGICL and Rs. 4.41 of premium by NICL.

For comparison, the current asset turnover ratio of HGICL was far better than current asset turnover ratio of NICL as seen from the above table.

4.1.2 Profitability Ratios

The profitability is another measurement to evaluate the financial performance of the company. Profit must be earned to sustain, expand, grow, and to contribute to the social overhead for the welfare of the society. It is the operating efficiency of the firm and its ability to ensure adequate return to shareholders which ultimately depends on the profit earned by it. The profitability ratios under this study are tabulated and analyzed as under:

4.1.2.1 Gross Operating Profit Margin

The gross operating profit comes after deducting the amount of operating expenses from the total revenue. The operating expenses is the sum of management expenses, claim paid, agency commission, service charge paid to the Beema Samiti. Similarly, the total revenue comprises of the net premium received, income from investment, dividend income and other miscellaneous income. The gross operating profit margin is a percentage of operating profit on total revenue. High operating profit margin indicates the relatively lower operating expenditure incurred during the period and vice versa.

Table 4.9

Gross Operating Profit Margin of HGICL

Rs. In Thousand

Fiscal Year	Total Revenue (Rs)	Gross Profit (Rs)	Gross Profit Margin Ratio (%)
2068/69	14160	10442	73.74
2069/70	15482	11665	75.35
2070/71	15650	10974	70.12
2071/72	22389	16398	73.24
2072/73	24500	17223	70.30
2073/74	21963	15527	70.70
Average Gross Operating Profit Margin Ratio			72.24

Source: Annual Reports of HGICL

Table 4.10

Gross Operating Profit Margin of NICL

Rs. In Thousand

Fiscal Year	Total Revenue (Rs)	Gross Profit (Rs)	Gross Profit Margin Ratio (%)
2068/69	9529	7655	80.33
2069/70	13430	10658	79.36
2070/71	18709	11954	63.89
2071/72	14025	8045	57.36
2072/73	17189	10262	59.70
2073/74	27305	9698	35.52
Average Gross Operating Profit Margin Ratio			62.69

Source: Annual Reports of NICL

Here, Gross profit is taken as the sum of net profit before tax and special tax. From the table 4.9, the highest gross profit margin of HGICL was 75.35% in F. Y. 2069/70 and lowest was 70.12% in F. Y. 2070/71 however, the average gross operating profit margin was 72.24%.

From the table 4.10, it can be seen the highest gross profit margin of NICL was 80.33% in year 2068/69 and the lowest gross profit margin i.e. 35.52% in year 2073/74. The average gross operating profit margin was 62.69%.

Even the total revenue increases the gross profit margin decreases because of fluctuation in gross profit in the study period. From the trend of gross profit under the study period, it can be concluded that the performance of NICL is not satisfactory as well as profit margin of HGICL.

4.1.2.2 Net Profit Margin

The higher ratio is an indication of the higher overall efficiency of the business and better utilization of total resources. Poor financial planning and low efficiency is the indication of lower ratio.

Table 4.11

Net Profit Margin of HGICL

Rs. In Thousand

Fiscal Year	Total Revenue (Rs)	Net Profit (Rs)	Net Profit Margin Ratio (%)
2068/69	14160	7986	56.40
2069/70	15482	9091	58.72
2070/71	15650	7650	48.88
2071/72	22389	11523	51.47
2072/73	24500	11958	48.81
2073/74	21963	11011	50.13
Average Net Profit Margin Ratio			52.40

Source: Annual Reports of HGICL

Table 4.12

Net Profit Margin of NICL

Rs. In Thousand

Fiscal Year	Total Revenue (Rs)	Net Profit (Rs)	Net Profit Margin Ratio (%)
2068/69	9529	5909	62.01
2069/70	13430	8205	61.09
2070/71	18709	8620	46.07
2071/72	14025	5966	42.54
2072/73	17189	7536	43.84
2073/74	27305	14005	51.29
Average Net Profit Margin Ratio			51.14

Source: Annual Reports of NICL

From the table 4.11 and 4.12, HGICL and NICL show that the total revenue was increasing through the base year and net profit fluctuated in different year. The highest net profit ratio of NICL was 62.01% in year 2068/69 and lowest net profit ratio was 42.54% in year 2071/72 whereas of HGICL the highest net profit ratio was 58.72%in the year 2069/70 and lowest profit was 48.81% in year 2072/73. The average net profit margin of NICL was 51.14% and average net profit of HGICL was 52.40%, it shows that net profit margin of HGICL was greater than NICL.

The table 4.11 and 4.12 reveal that total revenue is not used satisfactorily; since the net profit fluctuates the net profit margin fluctuates. It is because net profit does not increase compatibly in comparison to total revenue, it is noticed that equal expenses are made along with high revenue.

4.1.2.3 Return on Net Worth

Net worth is the sum of paid up capital of equity shares, various reserves and surpluses of the company and accumulated P/L account. It is also known as shareholder's funds. The return on net worth is obtained merely by dividing the net profit by net worth. Net worth indicates how well the company has used the resources of the owners.

Table 4.13

Return on Net Worth of HGICL

Rs. In Thousand

Fiscal Year	Net Profit (Rs)	Net Worth (Rs)	Net Worth Ratio (%)
2068/69	7986	42195	18.93
2069/70	9091	48516	18.74
2070/71	7650	54726	13.98
2071/72	11523	60527	19.04
2072/73	11958	75159	15.91
2073/74	11011	104519	10.53
Average Net Worth Ratio			16.19

Source: Annual Reports of HGICL

Table 4.14

Return on Net Worth of NICL

Rs. In Thousand

Fiscal Year	Net Profit (Rs)	Net Worth (Rs)	Net Worth Ratio (%)
2068/69	5909	49013	12.06
2069/70	8205	55987	14.66
2070/71	8620	64129	13.44
2071/72	5966	69375	8.60
2072/73	7536	80368	9.38
2073/74	14005	96278	14.55
Average Net Worth Ratio			12.12

Source: Annual Reports of NICL

The table 4.13 and 4.14 show the ratio of net worth of HGICL and NICL. The average net worth of NICL throughout the study period was 12.12 % and the average net worth of HGICL was 16.19 %. The maximum net worth ratio of NICL was 14.66% in F.Y.2069/70 and that of HGICL was 19.04% in the year 2071/72. The minimum net worth ratio of NICL is 8.60% in FY. 2071/72 and that of HGICL is 10.53% in FY 2073/74.

Comparing the average net worth, the average return of HGICL was higher than NICL.

4.1.2.4 Earning Per Share (EPS)

EPS is computed by dividing the Net Profit by total existing number of shares. This evaluates how the company generates net earning to its equity shareholders. Generally higher level of EPS indicates favorable condition of the company.

Table 4.15

Earning Per Share of HGICL

Fiscal Year	Earning Per Share	Difference with Average
2068/69	26.62	-6.28
2069/70	30.30	-2.60
2070/71	25.50	-7.40
2071/72	38.41	5.51
2072/73	39.86	6.96
2073/74	36.70	3.80
Average EPS		32.90%

Source: Annual Reports of HGICL

The earning per share of HGICL was 32.90% the EPS was in the fluctuating trend.

Table 4.16

Earning Per Share of NICL

Fiscal Year	Earning Per Share	Difference with Average
2068/69	19.69	-8.22
2069/70	27.35	-0.56
2070/71	28.73	0.82
2071/72	19.88	-8.03
2072/73	25.12	-2.79
2073/74	46.68	18.77
Average EPS		27.91%

Source: Annual Reports of NICL

The table 4.16 reveals that the EPS of the company indicated increasing trend till 2070/71 and fell down in 2071/72 then again started to rise. The EPS fluctuated over the study period. The company should be steady-to keep the EPS constantly increasing in coming year without much fluctuation.

4.1.2.5 Dividend Per Share (DPS)

DPS is the amount providing to shareholders from profit of earnings. DPS is calculated by deducting retention amount of the company from net profit. The higher the DPS would lead the shareholders happy. From the year 2071/72 dividend was not given to increase the paid up capital of the company.

Table 4.17

Dividend Per Share of HGICL

Fiscal Year	Dividend Per Share (%)	Difference with Average
2068/69	15	7.5
2069/70	15	7.5
2070/71	15	7.5
2071/72	-	-
2072/73	-	-
2073/74	-	-
Average DPS		7.5%

Source: Annual Reports of HGICL

The average dividend paid of HGICL throughout the study period was 7.5 percent. The percentage of payment of dividend was not raised. It should be in increasing trend but does not changes throughout the study period, which was also not satisfactory from the investor's point of view.

Table 4.18

Dividend Per Share of NICL

Fiscal Year	Dividend Per Share (%)	Difference with Average
2068/69	10	4.41
2069/70	13	7.41
2070/71	10.53	4.94
2071/72	-	-
2072/73	-	-
2073/74	-	-
Average DPS		5.59%

Source: Annual Reports of NICL

The average dividend paid throughout the study period was 5.59% of NICL; the dividend provided was also fluctuated.

4.1.2.6 Dividend Payout Ratio (DPR)

The dividend payout ratio shows how much portion of earning is paid as dividend and how much is retained in business to carry out investment opportunities available in the market. The D/P Ratio is obtained by dividing the amount of divided distributed to equity holders by total earnings available to the equity holders. By another way this ratio can be obtained by dividing dividend per share by earning per share.

Table 4.19

Dividend Payout Ratio of HGICL

Fiscal Year	Earning Per Share (%)	Dividend Per Share (%)	Dividend Payout Ratio (%)
2068/69	26.62	15	56.35
2069/70	30.30	15	49.50
2070/71	25.50	15	58.82
2071/72	38.41	-	-
2072/73	39.86	-	-
2073/74	36.70	-	-

Source: Annual Reports of HGICL

Table 4.20

Dividend Payout Ratio of NICL

Fiscal Year	Earning Per Share (%)	Dividend Per Share (%)	Dividend Payout Ratio (%)
2068/69	19.69	10	50.79
2069/70	27.35	13	47.53
2070/71	28.73	10.53	36.65
2071/72	19.88	-	-
2072/73	25.12	-	-
2073/74	46.68	-	-

Source: Annual Reports of NICL

From table 4.19, HGICL indicates that the company has adopted a policy of paying fixed amount of dividend rather than fixed payout ratio. It is favorable payment policy which may have positive effect on shareholders attitude.

The table 4.20 shows that the dividend payout did not follow any constant ratio of both the companies. It was much fluctuated during the study period. The dividend payout ratio of NICL in declining, trend.

4.1.3 Other Financial Ratios

The insurance business is not a service type not business neither trading nor manufacturing. So compatible ratios relating only to insurance business can be calculated as follows:

4.1.3.1 Management Expenses to Gross Premium Ratio

The relationship between management expenses and gross premium is called management ratio. This ratio measures how much of gross premium has paid as management expenses. It is analyzed that this ratio is to evaluate the financial performance of the company taking the relevant data of 6 years period under study.

Table 4.21

Management Expenses to Gross Premium Ratio of HGICL

Rs. In. Lakh

Fiscal year	Gross Premium (Rs)	Management Expenses (Rs)	Management Exp. to Gross Premium Ratio (%)
2068/69	1116	125	11.20
2069/70	1268	142	11.20
2070/71	1543	155	10.05
2071/72	1546	165	10.67
2072/73	1495	212	14.18
2073/74	2026	195	9.62
Average Management Expenses to Gross Premium Ratio			11.15%

Source: Annual Reports of HGICL

Table 4.22

Management Expenses to Gross Premium Ratio of NICL

Rs. In. Lakh

Fiscal year	Gross Premium (Rs)	Management Expenses (Rs)	Management Exp. to Gross Premium Ratio (%)
2068/69	461.40	98.87	21.43
2069/70	692.35	123.38	17.82
2070/71	1024.83	143.69	14.02
2071/72	998.49	155.29	15.55
2072/73	1174.50	165.28	14.07
2073/74	1914.39	178.09	9.30
Average Management Expenses to Gross Premium Ratio			15.37%

Source: Annual Reports of NICL

From the table 4.21 and 4.22, it can be seen that the highest management ratio of NICL, in the F.Y. 2068/69, 21.43% was expensed as management ratio from gross premium and lowest management ratio was 9.30% made in the F.Y 2073/74. That year Rs. 178.09 lakhs was expensed from gross premium of 1914.39 lakhs.

While the management ratio expense of HGICL was highest in the year 2072/73 i.e. 14.18%, the lowest was in F.Y 2073/74 i.e. 9.62%.

The average management ratio of NICL was 15.37% and that of HGICL was 11.15%. The average management expense of NICL was higher than the average management ratio of HGICL. The control over management expense of HGICL was good than NICL.

4.1.3.2 Agency Commission to Gross Premium Ratio

The relationship between agency commission paid and gross premium is called agency commission ratio. This ratio is calculated on a percentage basis to measure how much percentage of gross premiums has been paid to agent as their commission.

Table 4.23

Agency Commission to Gross Premium Ratio of HGICL

Rs. In. Lakh

Fiscal Year	Gross Premium (Rs)	Agency Commission (Rs)	Agency Commission to Gross Premium Ratio (%)
2068/69	1116	87.32	7.82
2069/70	1268	92.09	7.26
2070/71	1543	85.00	5.51
2071/72	1546	85.49	5.53
2072/73	1495	87.66	5.86
2073/74	2026	106.70	5.27
Average Different Ratio			6.21

Source: Annual Reports of HGICL

Table 4.24

Agency Commission to Gross Premium Ratio of NICL

Rs. In. Lakh

Fiscal year	Gross Premium (Rs)	Agency Commission (Rs)	Agency Commission to Gross Premium Ratio (%)
2068/69	461.40	53.74	11.65
2069/70	692.35	84.61	12.22
2070/71	1024.83	97.13	9.48
2071/72	998.49	75.16	7.53
2072/73	1174.50	83.46	7.11
2073/74	1914.39	105.98	5.54
Average Different Ratio			8.92%

Source: Annual Reports of NICL

Since, agents are the backbone of the insurance company. It should be noted that agency commission may be neither low nor very high. Low level of commission may be the cause of frustration for agents to perform their function and excess commission can be deteriorate the profitability condition of the company. Optimum level of agency commission is always desirable. Here, in average 8.92% of the gross premium was paid as agency commission by NICL and 6.21% was paid by HGICL. NICL pays higher percentage of agency commission than the HGICL.

4.1.3.3 Net Claim to Net Premium Ratio

Net claim to net premium ratio is measured to judge how much net premium is paid for claim. More claim results less surplus from underwriting of insurance policy and vice-versa. The financial position of the company can be analyzed with the help of Net claim and Net premium ratio by taking relevant data from F. Y. 2069 to 2074.

Table 4.25

Net Claim to Net Premium Ratio of HGICL

Rs. In Lakh

Fiscal Year	Net Premium (Rs)	Net Claim (Rs)	Ratio%
2068/69	184.30	70.42	38.21
2069/70	215.97	87.92	40.71
2070/71	267.06	108.91	40.78
2071/72	326.77	88.93	27.21
2072/73	375.79	161.39	42.95
2073/74	452.05	214.82	47.52
Average Different Ratio			39.56

Source: Annual Reports of HGICL

Table 4.26

Net Claim to Net Premium Ratio of NICL

Rs. In Lakh

Fiscal Year	Net Premium (Rs)	Net Claim (Rs)	Ratio%
2068/69	153.96	45.78	29.73
2069/70	211.96	71.16	33.57
2070/71	266.51	101.92	38.24
2071/72	253.81	130.25	51.32
2072/73	324.01	156.93	48.43
2073/74	362.19	130.29	35.97
Average Different Ratio			39.54

Source: Annual Reports of NICL

From the table 4.25 and 4.26, it is clear that the HGICL paid 39.56 percent of average claim of net premium, NICL paid 39.54 percent as net claim under this study period. Here increasing rate of claim is higher than that of increasing rate of net premium. The excess claim will deteriorate the profitability of company. The proper evaluation of risk exposition should be made before issuing the insurance policy to its customer.

4.1.4 Per Staff Net Premium Ratio

This ratio calculates the generation of premium-contributed average by each staff. This ratio is calculated by net premium of the year dividing by working number of staff in a year. This ratio may give the situation of overstaffing.

Table 4.27

Per Staff Net Premium Ratio of HGICL

Rs. In Lakh

Fiscal year	Net Premium (Rs)	Number of Staff	Ratio (%)
2068/69	184.30	46	400.65
2069/70	215.97	47	459.51
2070/71	267.06	47	568.21
2071/72	326.77	48	680.77
2072/73	375.79	49	766.92
2073/74	452.05	50	904.10
Average Different Ratio			630.03%

Source: Annual Reports of HGICL

Table 4.28

Per Staff Net Premium Ratio of NICL

Rs. In Lakh

Fiscal Year	Net Premium (Rs)	Number of Staff	Ratio (%)
2068/69	153.96	51	301.88
2069/70	211.96	52	407.62
2070/71	266.51	53	502.85
2071/72	253.81	57	445.28
2072/73	324.01	63	514.30
2073/74	362.19	71	510.13
Average Different Ratio			446.01%

Source: Annual Reports of NICL

Per staff net premium ratio of NICL was 446.01% and HGICL was 630.03%.

Here premium generation of NICL against the number of staff is lower than that of HGICL.

4.2 Calculation of Standard Deviation and Co-efficient of Variation

4.2.1 Calculation of Standard Deviation and Co-efficient of Variation on Net Premium of Himalayan General Insurance Company Ltd

Let net premium be denoted by X

Table 4.29

Calculation of Standard Deviation and Co-efficient of Variation on Net Premium of Himalayan General Insurance Company Ltd

Fiscal Year	X (Net Premium)	X^2
2068/69	184.30	33966.49
2069/70	215.97	46643.04
2070/71	267.06	71321.04
2071/72	326.77	106778.63
2072/73	375.79	141218.12
2073/74	452.05	204349.20
N=6	X=1821.94	X^2=604276.52

Standard Deviation (∃)= $\sqrt{\frac{X^2}{N} \, Z \, \frac{X}{N}^{2}}$

Putting the value of the given formula,

$= \sqrt{\frac{604276.52}{6} \, Z \, \frac{1821.94}{6}^{2}}$

$= \sqrt{100712.75 \, Z 92207.37}$

$= \sqrt{8505.38}$

= 92.22

Calculation of Mean,

$\overline{X} \, X \, \frac{X}{N}$

Putting the value in the given formula.

$\overline{X} \, X \frac{1821.94}{6}$

$\overline{X}$ X303.66

Calculation of Co-efficient of variation (C.V)

Co-efficient of Variation (C.V.)= $\frac{\sigma}{\bar{X}} \times 100\%$

$= \frac{92.22}{303.66} \times 100\%$

= 30.37%

Here,

Standard deviation of HGICL (σ)=92.22

Mean of HGICL ($\bar{X}$)= 303.66

Co-efficient of variation of HGICL (C.V)= 30.37%

The standard deviation of HGICL was 92.22, which measured the risk. It shows the deviation of actual mean with average mean. The standard deviation measured the absolute dispersion of variability of a distribution. The difference of average mean and actual mean of NICL was less than of HGICL.

4.2.2 Calculation of Standard Deviation and Co-efficient of Variation on Net Premium of Nepal Insurance Co. Ltd

Let net premium be denoted by X

Table 4.30

Calculation of Standard Deviation and Co-efficient of Variation on Net Premium of Nepal Insurance Co. Ltd

Fiscal year	X (Net Premium)	X^2
2068/69	153.96	23703.68
2069/70	211.96	44928.31
2070/71	266.51	71027.58
2071/72	253.81	64419.52
2072/73	324.01	104982.48
2073/74	362.19	131181.60
N=6	X=1572.44	X^2=440243.17

Standard Deviation (σ)= $\sqrt{\frac{\sum X^2}{N} - \left(\frac{\sum X}{N}\right)^2}$

Putting the value in the given formula,

$\sigma = \sqrt{\frac{440243.17}{6} - \left(\frac{1572.44}{6}\right)^2}$

$= \sqrt{73373.86 - 68682.43}$

$= \sqrt{4691.43}$

= 68.49

Calculation of Mean,

$$\bar{X}\ X\ \frac{X}{N}$$

Putting the value in the given formula,

$$\bar{X}\ X \frac{1572.44}{6}$$

$$\bar{X}\ X 262.07$$

Calculation of Co-efficient of variation (C.V.)

Co-efficient of Variation (C.V.)= $\frac{\exists}{\bar{X}} | 100\%$

$$= \frac{68.49}{262.07} | 100\%$$

= 26.13%

Here,

Standard deviation of NICL (∃) = 68.49

Mean of NICL ($\bar{X}$)= 262.07%

Co-efficient of Variation of NICL (C.V.)=26.13%

The Standard deviation of NICL was 68.49, which measured the risk of premium. It shows the deviation of actual mean with average mean. The standard deviation measured above was the absolute dispersion of variability of a distribution, which were 68.49.

The series for which co-efficient of variation was 26.13%, which could be said to be more variable of consistent or more uniform than HGICL.

4.3 Comparative Cash Flow Statement of HGICL and NICL for the Year 2073/74

S.N.	Particular	HGICL	NICL
1	**Cash from Operating Activities:**		
	Net Profit	21483623	14005637
	Depreciation	2105399	1800756
	Interest, Dividend on Investment, other income	(6219108)	(7362814)
	Cash flow from operating activities	17369914	8443579
2	**Cash flow from change in current assets and liabilities:**		
	(Increase) Decrease in advances, deposits, receivables	(6656552)	(2054954)
	Increase (Decrease) in liabilities	(998715)	6688248
	Other asset (Increase) Decrease	(28154027)	1904342
	Increase (Decrease) in unexpired risk reserve	(757943)	(17072586)
	Increase (Decrease) claim payable	-	12077173
	(Increase) Decrease in reinsurance receivable	(757943)	(112222)
	Increase {Decrease) in reinsurance payable	15254310	-
	Increase (Decrease) in commission payable	(969536)	-
	Cash flow from change in assets and liabilities	(22282463)	1430001
3	Cash flow from Investment activities:		
	(Increase) Decrease in investment on Bank/Finance	-	(11889234)
	(Increase) Decrease in investment in share	(19400000)	-
	Interest, dividend on investment	7221760	7362814
	Purchase of Fixed Assets	(36176198)	(1528188)
	Sale of Fixed Assets	1314131	148122
	Cash flow from Investment activities	(47040307)	(5906486)
4	Cash flow from financing activities:		
	Provision for dividend	(129427)	-
	Loan (Decrease) Increase	53967200	-
	Interest paid	(1002652)	-
	Cash flow from financing activities	52835121	-
	Increase (Decrease) in cash balance (1+2+3+4)	882265	3967094
	Beginning cash/bank balance	1799571	4398700
		2681836	8365794
	Ending Bank/Cash Balance	2681836	8365794

The cash flow from operating activity of NICL showed Rs, 8443579, cash flow from change in assets and liabilities showed Rs. 1430001, cash flow from investing activity showed a negative figure of Rs. 5906486, the total change in cash was Rs. 3967094, the beginning cash flow was Rs. 4398700 and the ending cash balance was Rs. 8365794.

The cash flow from operating activity of HGICL showed Rs. 17369914, cash flow from change in assets and liabilities showed Rs. 22282463, cash flow from investment activity showed a negative figure of Rs. 47040307, cashflow from financing activity was Rs. 52835121, the total change in cash was Rs. 882265, the beginning cash flow was Rs. 1799571 and the ending cash balance was Rs. 2681836.

4.4 Graphical Presentation of Ratios

Graphical Presentation of Ratios are shown below:

4.4.1 Analysis of Premium Ratio

The table and figure shows analysis of Premium Ratio on Net Premium, Gross Premium with Average Premium Ratio.

Table 4.31

Net Premium Ratio to Gross Premium Ratio of HGICL

Rs. In Lakh

Fiscal Year	Net Premium (Rs)	Gross Premium (Rs)	Ratio %
2068/69	184.30	1116	16.51
2069/70	215.97	1268	17.03
2070/71	267.06	1543	17.31
2071/72	326.77	1546	21.14
2072/73	375.79	1495	25.14
2073/74	452.05	2026	22.31
Average Premium Ratio			19.91 %

Source: Annual Reports of HGICL

Table 4.31 reveals that on average 19.91% of gross premium is received as net premium on gross premium. The ratio has been increasing from F.Y. 2068/69 to F.Y. 2072/73 till 22% and starts to decrease in F.Y. 2073/74 by 2.4%, These ratios can be shown in diagram.

Figure 4.1

Net Premium Ratio to Gross Premium Ratio of HGICL

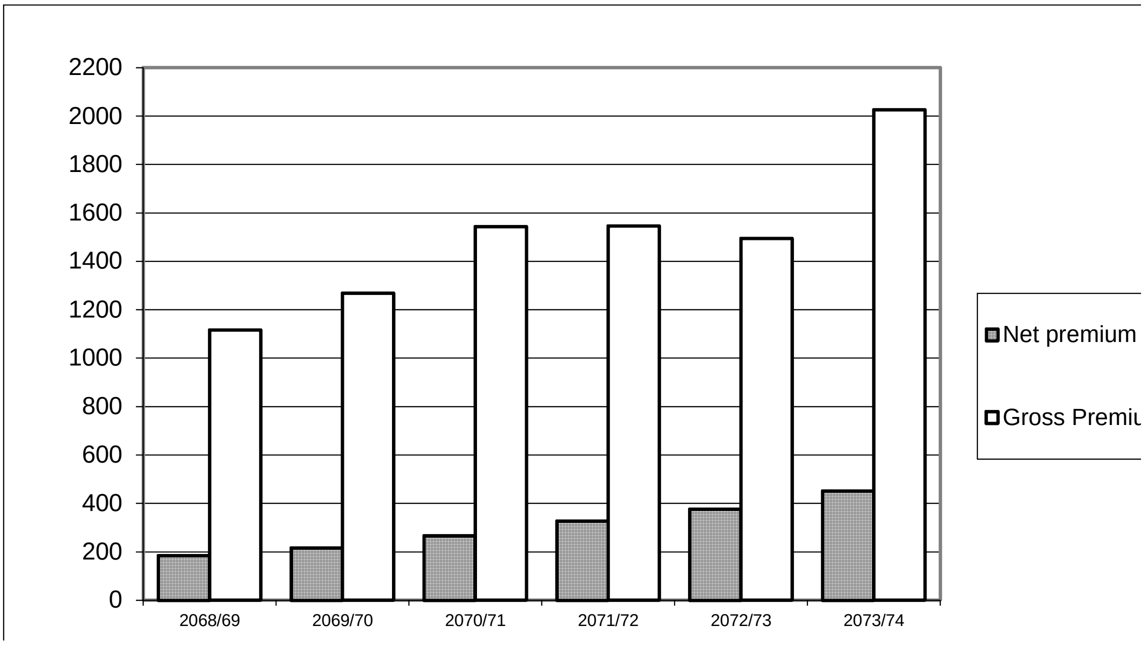


Table 4.32

Net Premium Ratio to Gross Premium Ratio of NICL

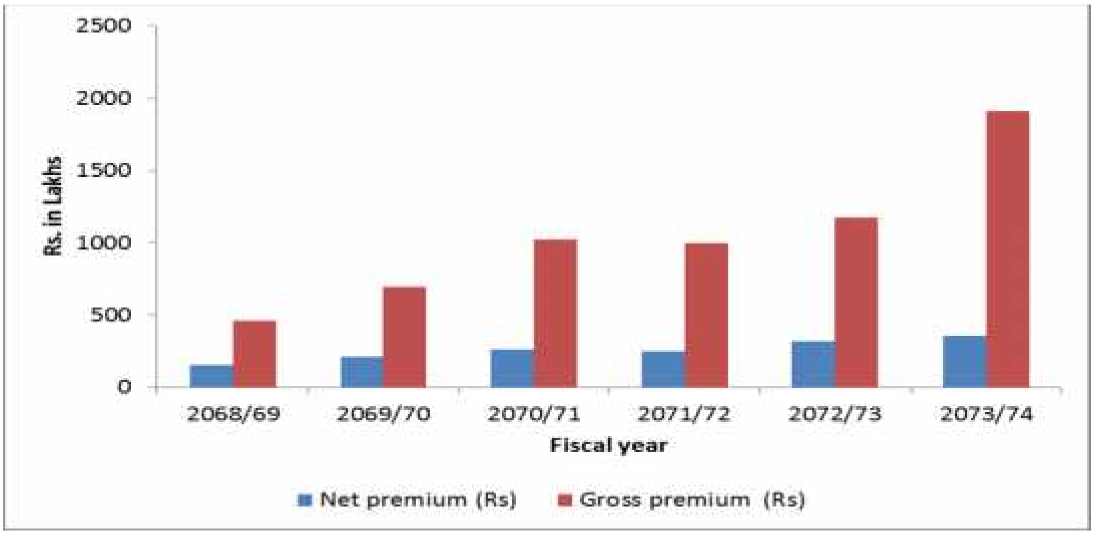
Fiscal Year	Net Premium (Rs)	Gross Premium (Rs)	Ratio %
2068/69	153.96	461.40	33.37
2069/70	211.96	692.35	30.62
2070/71	266.51	1024.83	26.01
2071/72	253.81	998.49	25.42
2072/73	324.01	1174.50	27.59
2073/74	362.19	1914.39	18.92
Average Premium Ratio			26.99

Source: Annual Reports of NICL

Table 4.32 reveals that on average 26.99% of Gross premium is received as net premium on gross premium. The ratio has been decreasing from F.Y. 2069/70 to F.Y. 2071/72 till 25% and starts to increase in F.Y. 2072/73 to 2.17% but declines in 2073/74 to 18.92%. These ratios can be shown in diagram.

Figure 4.2

Net Premium Ratio to Gross Premium Ratio of NICL



The net premium generation of NICL from gross premium seems diminishing however at F.Y. 2068/69 it has increased by 2% than last year therefore NICL could increase this ratio from next year.

4.4.2 Portfolio Premium Generation Facultative Wise

Portfolio premium received in different fiscal year with different faculty is shown in the table. The premium generated by fire insurance policy, marine insurance policy, miscellaneous insurance (including motor insurance policy and engineering policy) is shown in table as well as in figure form.

4.4.2.1 Facultative Wise Premium Generation of HGICL

Here fire, marine, miscellaneous (including motor) premium of HGICL collected through out the year are in the following table.

Table 4.33

Facultative Wise Premium Generation of HGICL

Rs. In Lakh

F.Y. / Portfolio	2068/69	2069/70	2070/71	2071/72	2072/73	2073/74
Fire	25.36	24.38	26.04	35.50	41.57	47.68
Marine	2.72	4.58	4.86	7.60	5.63	7.24
Misc.	38.48	42.83	45.64	59.60	68.44	79.63
Total	66.56	71.79	76.54	102.70	115.64	134.55

Source: Annual Reports of HGICL

The fire premium started from 25.36 lakh at 2068/69 then decreased to 24.38 lakh in year 2069/70 but from 2070/71 till end year of the study period it kept increasing. Likewise, marine premium started from 2.72 lakh and increased till 2071/72 but in 2072/73 it decreases to 5.63 lakh then increased in 2073/74. Miscellaneous premium starts from 38.48 lakh and kept on increasing till last year.

Figure 4.3

Facultative Wise Premium Generation of HGICL

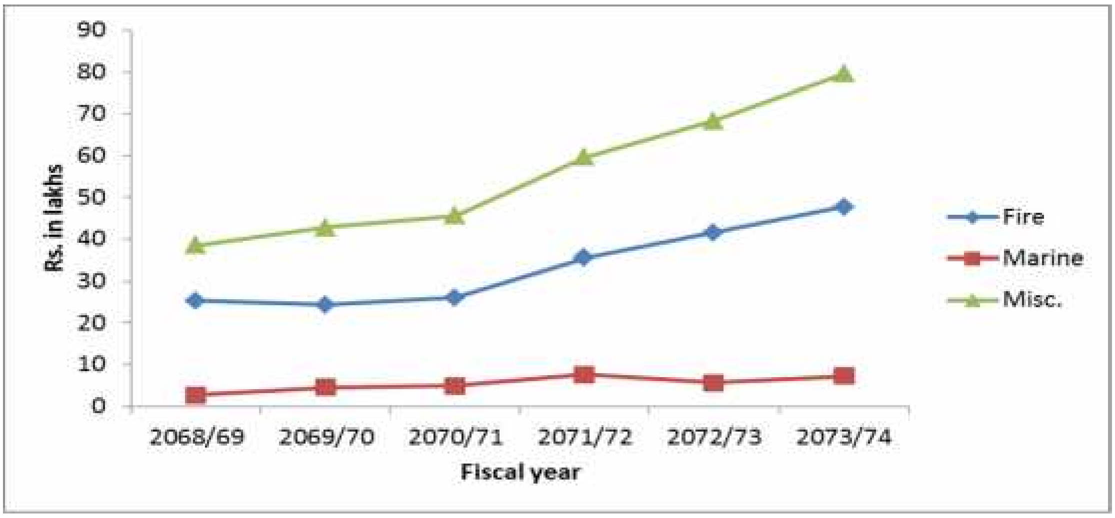


Table 4.33 shows the best increment figure in miscellaneous premium generation because it does not decline through the study period.

4.4.2.2 Facultative Wise Premium Generation of NICL

Here fire, marine and miscellaneous (including motor) premiums collected through out the year are shown in the following table where it can be seen the clear increment and decrement of premium generation of NICL.

Table 4.34

Facultative Wise Premium Generation of NICL

Rs. In Lakh

F.Y. / Portfolio	2068/69	2069/70	2070/71	2071/72	2072/73	2073/74
Fire	12.13	29.4	30.62	21.44	25.45	28.12
Marine	2.18	3.2	2.5	2.00	2.73	3.94
Misc.	31.82	36.61	69.26	76.39	89.28	159.86
Total	46.13	69.21	102.38	99.83	117.46	191.92

Source: Annual Reports of NICL

Here, the fire premium generation seemed to increase from 12.13 lakhs at F.Y. 2068/69 till 30.62 lakhs at F.Y. 2070/71 then declines to 21.44 lakhs at F.Y. 2071/72 and again starts to increase. Likewise, Marine Portfolio's profit also seemed to increase till F.Y. 2069/70 and starts to decline to 2.5 lakhs at F.Y. 2071/72 and again starts to increase from 2072/73. Misc. premium keeps in increasing from the beginning till the end of the study period.

This figure can also be presented in graphics.

Figure 4.4

Facultative Wise Premium Generation of NICL

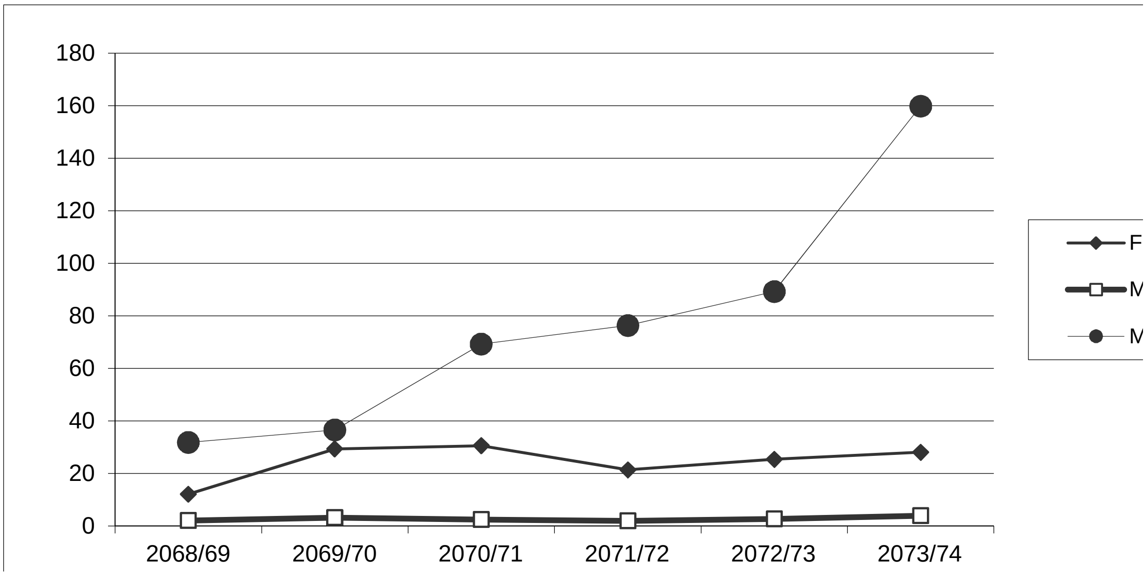


Table 4.34 and figure 4.4 show a good result of premium generation facultative wise. The best increment can be seen in misc. premium generation because it does not decline through the study period.

4.4.3 EPS and DPS with Per Share Book Value of HGICL and NICL

The table and figure shows the earning per share (EPS) and dividend per share (DPS) with the per share book value.

EPS and DPS with Per Share Book Value of HGICL

The table 4.35 shows that the EPS, DPS and per share book value of HGICL. The DPS was not provided to shareholders in the year 2071/72, 2072/73 and 2073/74. EPS seemed to fluctuate in the presented 3 years. DPS did not fluctuate because the company did not fix the dividend policy. Per share book value started from 130.86 thousand and kept on increasing till 271.61 thousand at the year 2073/74.

Table 4.35

EPS and DPS with Per Share Book Value of HGICL

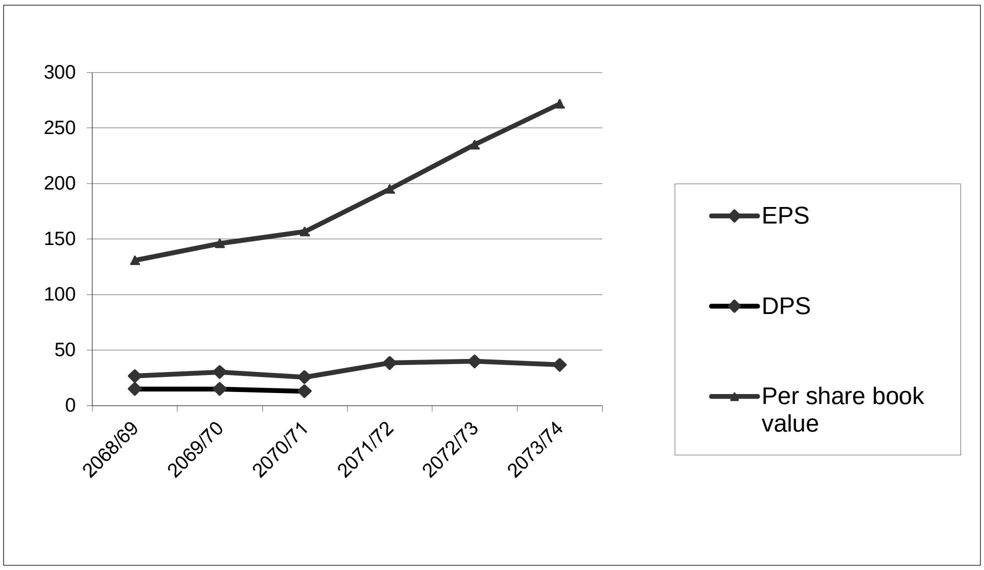
Rs. In Thousand

Fiscal Year	EPS (%)	DPS (%)	Per Share Book Value
2068/69	26.62	15	130.86
2069/70	30.30	15	146.14
2070/71	25.50	15	156.64
2071/72	38.41	-	195.05
2072/73	39.86	-	234.91
2073/74	36.70	-	271.61

Source: Annual Reports of HGICL

Figure 4.5

EPS and DPS with Per Share Book Value of HGICL



In the figure 4.5 of HGICL, it can be clearly seen that the per share book value was raised, DPS was fixed at the same point and the EPS fluctuated.

Table 4.36

EPS and DPS with Per Share Book Value of NICL

Rs. In Thousand

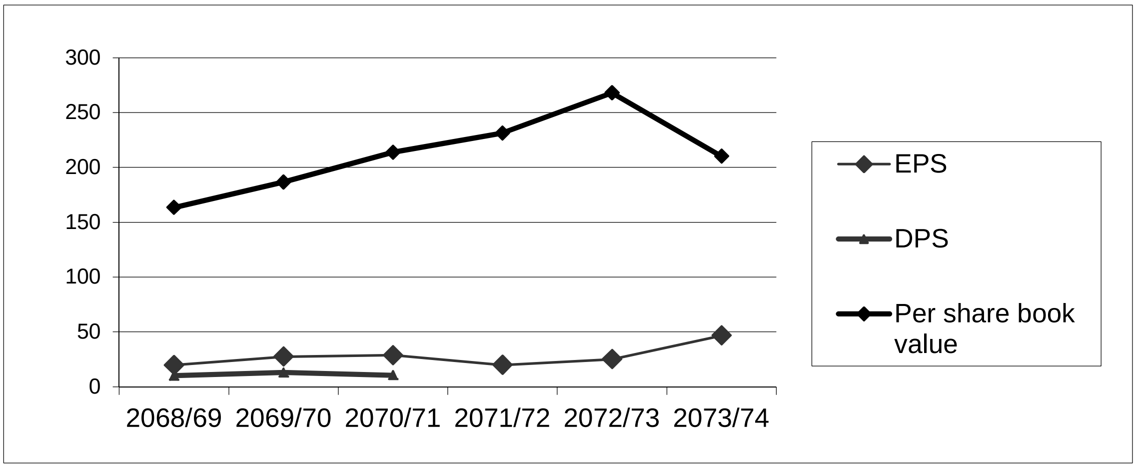
Fiscal Year	EPS (%)	DPS (%)	Per Share Book Value
2068/69	19.69	10	163.38
2069/70	27.35	13	186.62
2070/71	28.73	10.53	213.76
2071/72	19.88	-	231.25
2072/73	25.12	-	267.89
2073/74	46.68	-	210.00

Source: Annual Reports of NICL

The table 4.36 shows that the EPS, DPS and per share book value of NICL. EPS seemed to be fluctuating through the study period. The highest EPS was earned in F.Y. 2073/74 and the lowest EPS was earned in 2068/69 i.e. 19.69%. The DPS was not provided to its shareholders in the year 2071/72 and 2072/73 and decreasing on 2073/74. DPS also seemed to be fluctuating in the presented 3 years. Per share book value started from 163.38 thousand and kept on increasing through out the study period.

Figure 4.6

EPS and DPS with Per Share Book Value of NICL



It can be clearly seen in the figure that the per share book value raised but DPS and EPS fluctuated.

4.4.4 Income of Reinsurance Commission of HGICL

Here, reinsurance commission income received from different companies are shown facultative wise.

Table 4.37

Income of Reinsurance Commission of HGICL

Rs. In Lakh

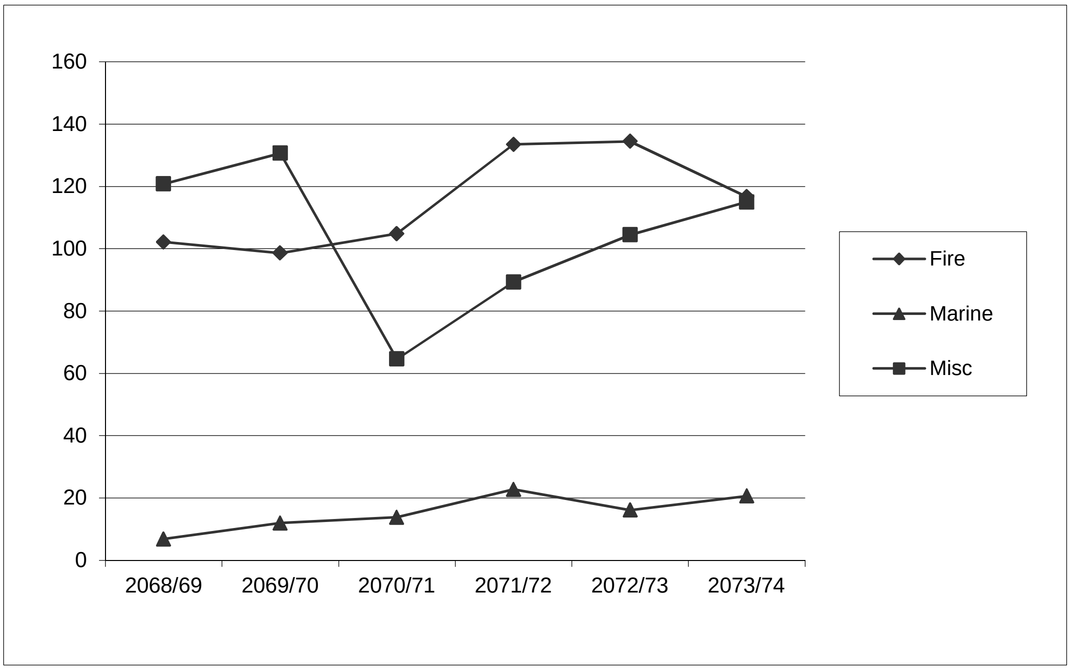
F.Y. / Portfolio	2068/69	2069/70	2070/71	2071/72	2072/73	2073/74
Fire	102.15	98.61	104.82	133.50	134.45	116.71
Marine	6.86	11.97	13.86	22.76	16.14	20.68
Misc	120.80	130.66	64.62	89.31	104.46	115.01
Total	229.81	241.24	183.30	245.57	255.05	252.40

Source: Annual Report of HGICL

The table 4.37 shows the fluctuating trend of all the income received from commission.

Figure 4.7

Income of Reinsurance Commission of HGICL



4.4.5 Income of Reinsurance Commission of NICL

Here in the table reinsurance commission income received by NICL is shown in different year's facultative wise. The reinsurance commission is received when the company reinsures the received business.

Table 4.38

Income of Reinsurance Commission of NICL

Rs. In Lakh

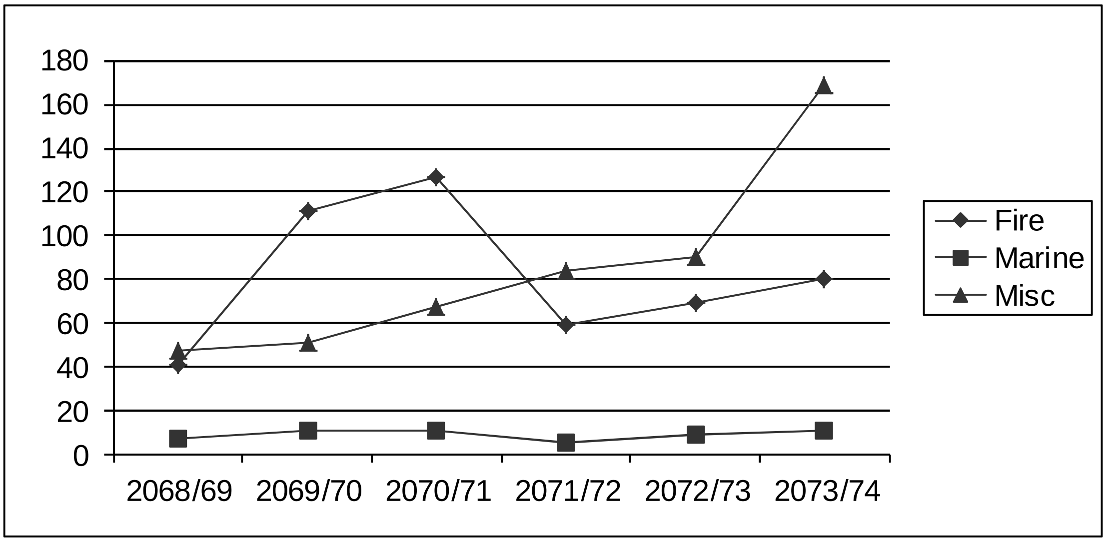
F.Y. / Portfolio	2068/69	2069/70	2070/71	2071/72	2072/73	2073/74
Fire	41.28	111.28	127.08	59.02	69.33	80.4
Marine	7.72	11.23	11.1	5.47	8.98	11.18
Misc	47.39	50.81	67.93	84.26	90.69	168.38
Total	96.39	173.32	206.11	148.75	169	259.96

Source: Annual Reports of NICL

The table 4.38 shows the fluctuating trend of fire and marine and miscellaneous commission received whereas miscellaneous commission income shows the increasing trend of income commission received.

Figure 4.8

Income of Reinsurance Commission of NICL



4.5 Classification of Management Expenses Portfolio Wise of HGICL and NICL

In insurance, management expense is made according to the premium generation. Only certain premium generation in each faculty can be expensed as management expenses. The table 4.39 and 4.40 show the management expense allocated faculty wise in different years for HGICL and NICL.

Table 4.39

Classification of Management Expenses Portfolio Wise of HGICL

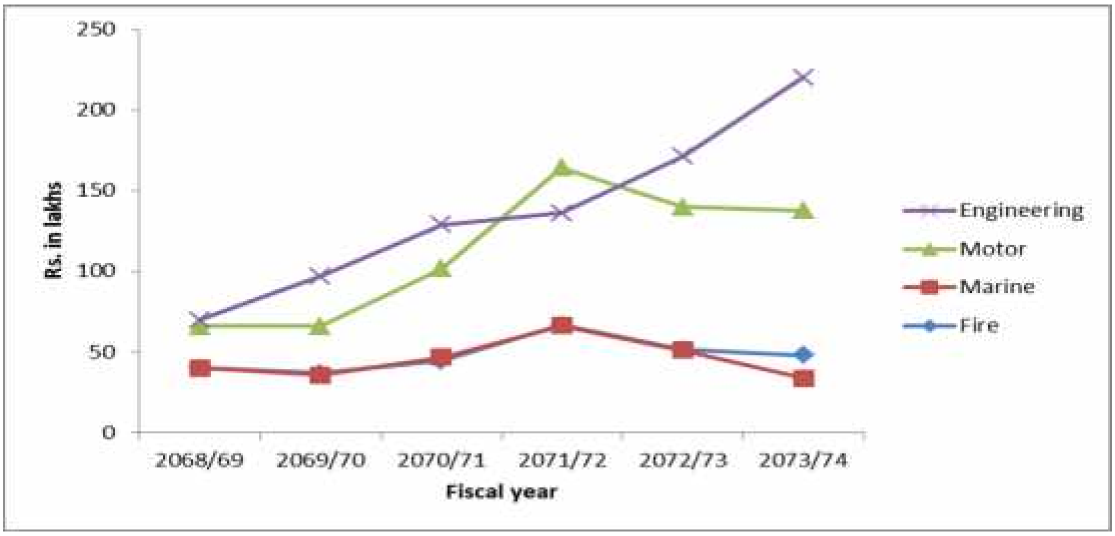
Rs. In Lakh

F.Y. / Portfolio	2068/69	2069/70	2070/71	2071/72	2072/73	2073/74
Fire	40.05	36.74	44.51	66.36	51.41	47.73
Marine	-0.11	-1.21	2.20	-0.09	-0.47	-14.05
Motor	25.96	30.49	54.84	98.03	88.90	103.86
Engineering	3.84	30.70	27.30	-28.26	31.44	82.70
Misc.	19.17	24.75	34.50	44.30	30.32	42.59

Source: Annual Reports of HGICL

Figure 4.9

Classification of Management Expenses Portfolio Wise of HGICL



The table 4.40 shows the management expense allocated faculty wise in different years for NICL

Table 4.40

Classification of Management Expenses Portfolio Wise of NICL

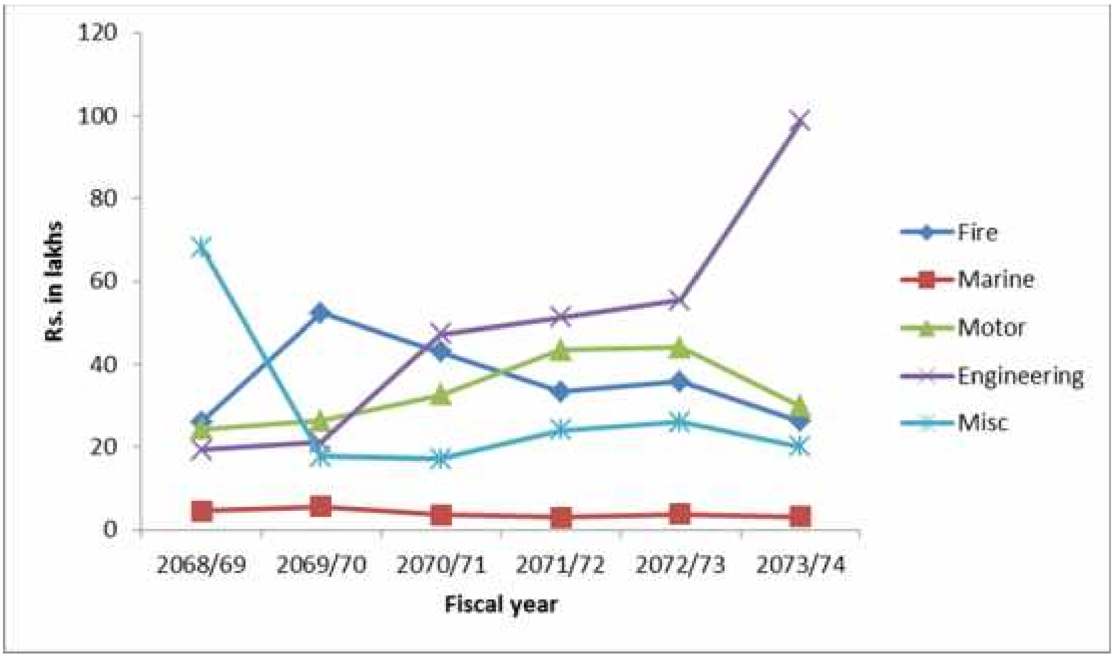
Rs. in lakhs

F.Y. / Portfolio	2068/69	2069/70	2070/71	2071/72	2072/73	2073/74
Fire	25.99	52.41	42.94	33.34	35.77	26.16
Marine	4.68	5.70	3.62	3.12	3.85	3.20
Motor	24.32	26.35	32.66	43.51	44.13	29.89
Engineering	19.23	21.19	47.27	51.33	55.44	98.73
Misc	68.20	17.71	17.18	23.97	26.07	20.09

Source: Annual Reports of NICL

Figure 4.10

Classification of Management Expenses Portfolio Wise of NICL



In the table 4.40 and figure 4.10, management expense was fluctuating in different years. These expenses were made according to the premium generation facultative wise. The table 4.39 and figure 4.9 show that the management expenses of HGICL shows more fluctuation than NICL. From overall analysis it has been concluded that there are differences in financial performance of both the companies i.e. Null Hypothesis is rejected.

4.6 Major Findings of the Study

Based on the analysis and interpretation of results, following major findings have been drawn:

1. Current ratio of HGICL is ranged from 0.81 in 2069/70 to 1.35 in 2072/73 during the study period which shows HGICL has been applying aggressive liquidity management. The average ratio is 1.09, which is less than that of NICL. The average ratio of NICL under the study period is 1.30 times. It shows, both companies are applying aggressive liquidity.
2. Assets turnover ratio of HGICL for six years, the average assets turnover ratio is 2.23 times which means 2.23 times of premium were generated in every rupee invested in total assets over the study period. Similarly, assets turnover ratio of NICL for six years, the average asset turnover ratio is 2.24 times,

which means 2.24 times of premium were generated in every rupee invested in total assets over the study period. This results shows these companies are able to utilize its available assets to generate satisfactory level of net premium over the years of study.

3. The fixed assets turnover ratio of NICL is 22.92 times whereas HGICL is 29.08 times which means in average every one rupee invested in fixed assets is able to generate Rs. 22.92 net premium by NICL and Rs. 29.08 times by HGICL over the study period. It shows the optimum utilization of fixed assets of both companies. For the comparison HGICL's fixed assets turnover ratio is better than NICL. It shows the utilization of fixed assets in HGICL is better than NICL.
4. The average current assets turnover ratio of 6 years during the study period of HGICL is 7.12 times and NICL is 4.41 times. It indicates that every one-rupee capital invested in current assets had generated Rs. 7.12 by HGICL and Rs. 4.41 of premium by NICL. For comparison, the current asset turnover ratio of HGICL was far better than current asset turnover ratio of NICL. It can be concluded that in comparison, the current asset utilization of HGICL was far better than current asset turnover ratio of NICL.
5. The highest gross profit margin of HGICL was 75.35% in F/Y 2069/70 and lowest was 70.12% in F. Y. 2070/71 however, the average gross profit margin was 72.24%. Similarly, highest gross profit margin of NICL was 80.33% in year 2068/69 and the lowest gross profit margin i.e. 35.52% in year 2073/74. The average gross profit margin was 62.69%. Hence, it can be concluded that the performance of NICL is not satisfactory as well as profit margin of HGICL is weak.
6. The average net profit margin of NICL was 51.34% and average net profit of HGICL was 52.40% it shows that net profit margin of HGICL was greater than NICL. It is because net profit does not increase compatibly in comparison to total revenue, it is noticed that equal expenses are made along with high revenue.
7. The average net worth of NICL throughout the study period was 12.12% and the average net worth of HGICL was 16.19%. Comparing the average net worth, the average return of HGICL was higher than NICL because it has higher net profit in relation to net worth.

8. The dividend payout ratio of NICL is in declining trend and HGICL indicates that the company has adopted a policy of paying fixed amount of dividend. It can be concluded that HGICL indicates that the company has adopted a policy of paying fixed amount of dividend.
9. The average management ratio of NICL was 15.37% and that of HGICL was 11.15%. The average management expense of NICL was higher than the average management ratio of HGICL. The control over management expense of HGICL was good than NICL.
10. In average 8.92% of the gross premium was paid as agency commission by NICL and 6.21% was paid by HGICL. It shows, NICL pays higher percentage of agency commission than the HGICL.
11. HGICL paid 39.56% of average claim of net premium, NICL paid 39.54 percent as net claim under this study period. Here increasing rate of claim is higher than that of increasing rate of net premium. The excess claim will deteriorate the profitability of company.
12. Per staff income of NICL was 447.01% and HGICL was 630.03%. Here premium generation of NICL against the number of staff is lower than of HGICL.
13. HGICL, it can clearly seen that the per share book value was raised, DPS was fixed at the same point and the EPS fluctuated. Similarly, EPS of NICL seemed to be fluctuating through the study period. The highest EPS was earned in F.Y. 2073/74 and the lowest EPS was earned in 2068/69. It can clearly say the per share book value raised but DPS and EPS fluctuated. From book value per share, it can be concluded that HGICL has better performance than NICL.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The concept of insurance was developed to avoid/reduce the risks and uncertainties in the life of humans. Insurance company constitutes one of the most important components of financial structures. It plays a dual role in the economy to safeguard the insured against the risk of loss. and the capital in productive sectors in the form of premium.

Insurance is an institution, which accepts the premium for specific probable events and pays the loss. Insurance has provided itself a device that could be a safeguard against such uncertainties and unfortunate happenings. The history of modern insurance company began from 2004 (1947 AD) with the establishment of a company named 'Nepal Maal Chalani Tatha Bima Company Ltd.' Later on it was renamed as Nepal Insurance and Transport Co. in 2016 B.S.

Insurance provides financial security against uncertainties to individuals, industry and other assets. On the other hand, insurance business collects the scattered financial resources and injects bulk amounts of money in productive sectors, which helps for the growth of industrialization and commercialization.

The main problem in which this research is concentrated is the comparative Financial Analysis of HGICL and NICL and their strengths, weaknesses and efficiencies regarding liquidity, profitability, earning, capital structure, capital adequacy and growth has also been analyzed.

The data supplied by the concerned insurance companies were recognized and refined in the tabular form. Then, they were presented and analyzed using tools for analysis. Interpretation and explanation were made wherever necessary with the help of ratio analysis, cash flow statements and trend analysis.

5.2 Conclusion

The financial and statistical tools were employed in this report to measure the financial performance of both the companies. After analyzing the financial analysis of HGICL and NICL, the following conclusions are made:

1. The ratio analysis shows that the liquidity position of NICL was satisfactory. The average ratio of 6 years under the study period as revealed by NICL was 1.30 times and that of HGICL was 1.09 times. Based on such analysis, it is concluded that the capacity of the company to meet its current liabilities is good. But while comparing, it is found that NICL's liquidity is rather good than that of HGICL.
2. It can also conclude that both the companies were able to utilize their available assets to generate satisfactory level of net premium over the years of study. While comparing, HGICL's fixed assets turnover ratio was better.
3. While comparing the current asset turnover ratio of both the companies, HGICL was far better than NICL.
4. The profitability ratios under this study were tabulated. It can conclude that the performance of NICL was not satisfactory as that of HGICL since the Gross Profit margin of both the companies declined.
5. The average net profit margin of NICL was 51.34% and the average net profit of HGICL was 52.40%, which shows that the net profit margin of HGICL is greater than that of NICL.
6. Net worth indicates how well the company has used the resources of the owners. The average return of HGICL was greater than that of NICL.
7. Generally, higher level of EPS indicates favorable condition of the company. The EPS of both the companies was not bad but HGICL shows a higher average ratio.
8. DPS is the amount provided to shareholders from the profit of earnings. DPS of HGICL was higher than that of NICL.
9. The Dividend Payout Ratio (DPR) shows what portion of earning is paid as divided. The DPR of HGICL was higher than that of NICL.
10. Management ratio of NICL was higher than that of HGICL.

11. Agency commission was paid more by HGICL than NICL.
12. Total Net claim was paid more by HGICL in comparisons to NICL.
13. Net premium ratio to gross premium ratio of NICL was higher than that of HGICL.
14. HGICL paid more average claim, which was less than that of NICL.
15. Per staff income generation of HGICL was more than that of NICL.
16. The standard deviation, mean and C.V. of HGICL was higher than that of NICL.

5.3 Recommendations

By analyzing the financial statement of Himalayan General Insurance Company Limited (HGICL) and Nepal Insurance Company Limited (NICL), it seems that some ratios of the company are very good, while some ratios are not quite satisfactory. Based on the analysis, following recommendations can be advanced to overcome the weakness and inefficiency and to improve the present performance of these companies:

1. The utilization of current ratio of both the companies was very good. So the companies are suggested to maintain such current assets and current liabilities.
2. Total assets turnover ratios of both the companies are satisfactory. It is recommended that the companies should not increase the total assets because it may deteriorate the company.
3. Current assets turnover ratio of NICL was less. So, NICL is suggested that it should reduce the current assets or should try to increase the net premium.
4. From the trend of the Gross Profit under the study period, it can conclude that the performance of NICL and HGICL was not satisfactory since the Gross Profit Margin declined.
5. The total revenue of both the companies was not used satisfactorily since the net profit margin fluctuates. It is because the net profit does not increase compatibly in comparison to the total revenue. Equal expenses are made along with high revenue so both the companies are suggested to reduce the expenses.

6. The average net worth of HGICL was greater than that of NICL. The only way in which NICL can increase the net worth is by reducing the costs.
7. EPS and DPS should be increased by NICL. For this, NICL should try to increase the net profit.
8. NICL should reduce the management expenses, which seemed to reduce as it seems that it is higher than that of HGICL.
9. Net Claim of HGICL was higher than that of NICL. It is recommended that NICL should choose only selected businesses.
10. Per staff income of NICL was low. The management is suggested that it should decrease the staff if possible.

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Website of NICL: www.nepalinsurance.com.np

Website of HGICL: www.hgicl.com.np.

APPENDIX A

Balance Sheet of HGICL from the Year 2068/69 to 2073/74

Rs. In Thousand

Fiscal Year / Particular	2068/69	2069/70	2070/71	2071/72	2072/73	2073/74
Capital + Liabilities						
Authorized Capital	80000	160000	160000	160000	160000	160000
Issued Capital	30000	60000	60000	60000	60000	60000
Paid Up Capital	30000	30000	30000	30000	30000	30000
General Reserve	8374	16745	19875	22507	28486	30000
Insurance Fund	9267	13536	15604	166644	19219	23035
Net Profit	874	245	875	6007	11986	21483
Liabilities of Claim	2840	2928	3485	7972	4564	3806
Reinsurance Payable	15278	13219	16687	20880	23189	38443
Commission Payable	1627	3194	2867	2913	3671	2701
Others Liabilities	15912	30270	28079	23139	25395	78234
Assets						
Fixed Assets	4786	7205	9580	12637	9840	42596
Investment	55015	67290	69800	72690	91390	110790
Other Assets	21504	34232	37621	40943	43482	71636
Cash and Bank Balance	2689	1411	2822	3793	1977	2681

Source: Annual Reports of HGICL.

APPENDIX B

Balance Sheet of NICL from the Year 2068/69 to 2073/74

Fiscal Year / Particular	2068/69	2069/70	2070/71	2071/72	2072/73	2073/74
Capital + Liabilities						
Authorized Capital	100000	100000	100000	100000	200000	200000
Issued Capital	60000	60000	60000	60000	100000	100000
Paid Up Capital	30000	30000	30000	30000	30000	30000
Insurance Fund	10696	14799	19108	22091	25859	30000
Net Profit	184	208	1360	4343	8111	17977
Unexpired risk Fund	9878	10978	13659	12939	16396	18300
Liabilities of Claim	13810	20465	28539	36508	58908	41832
Commission Payable	352730	506	517	576	410	298
Other s Liabilities	11806	12704	15138	13715	11658	18347
Assets						
Fixed Assets	4802	11289	9287	17532	16018	15598
Investment	56706	60635	72308	67882	86087	97976
Share Investment	-	-	3737	4101	4164	4164
Other Assets	6263	8877	12104	13041	11222	13277
Cash and Bank Balance	1560	4656	5802	618	4398	8365
Receivable from Reinsurance	5684	4204	5083	16999	29450	17372

Source: Annual Reports of NICL.

APPENDIX C

LIST OF INSURANCE COMPANIES

S.N	Insurance Company	Category	Registration (A.D)
1	Rastriya Beema Sansthan	L/NL	1968
2	National Life Insurance Company Ltd.	L	1988
3	Nepal Life Insurance Company Ltd.	L	2001
4	Life Insurance Corporation (Nepal) Ltd.	L	2001
5	American Life Insurance Company Ltd.	L	2001
6	Asian Life Insurance Company Ltd.	L	2008
7	Gurans Life Insurance Company Ltd.	L	2008
8	Surya Life Insurance Company Ltd.	L	2008
9	Prime Life Insurance Company Ltd.	L	2008
10	Nepal Insurance Company Limited	NL	1947
11	The Oriental Insurance Company Ltd.	NL	1967
12	National Insurance Company Ltd.	NL	1974
13	Himalayan General Insurance Company Ltd.	NL	1993
14	United Insurance Company (Nepal) Ltd.	NL	1993
15	Premier Insurance Company (Nepal) Ltd.	NL	1994
16	Everest Insurance Company Ltd.	NL	1994
17	Neco Insurance Company Ltd.	NL	1996
18	Sagarmatha Insurance Company Ltd.	NL	1996
19	Prabhu Insurance Company Ltd.	NL	1996
20	NB Insurance Company Ltd.	NL	2001
21	Prudential Insurance Company Ltd.	NL	2002
22	Shikhar Insurance Company Ltd.	NL	2004
23	Lumbini General Insurance Company Ltd.	NL	2005
24	NLG Insurance Company Ltd.	NL	2005
25	Siddhartha Insurance Company Ltd.	NL	2006
26	Rastriya Beema Company Ltd.	NL	1968
27	Nepal Re-Insurance Company Ltd.	NL	2014

Source: Rastriya Beema Samiti, 2018.