CHAPTER - I

INTRODUCTION

1.1 Background of the Study

The word “Risk” is a buzzword pronounced by the people from every nook and corner of the world. Generally risk refers to the exposure of peril, possibility of suffering loss or injury, chances of meeting dangerous situation. More specifically, risk denotes the uncertainty of loss. Uncertainty refers to the unknown future outcome or result of an event. ‘Risk’ is a blessing as well as curse for human beings. It is blessing because it gives rise to discussion, hope, planning, accomplishment and progress. It is a curse in so far as it gives rise to dispute fear, defensive tactics, failure and retrogression. Anyway the uncertainty about future is a basic universal fact of human life on earth.

No human activity is free from the risk. Moreover, sophisticated scientific innovations, escalating violence and terrorism have made the risk a glaring critical issue. In this context the idea of risk management and idea of insurance is emerged. Insurance plays the significant role in risk management. Insurance is devised as a financial security against risk.

The wheel of development is accelerated by industrialization and industrialization is possible only with the support of two big institutions-Banking and insurance. The one pillar, banking provides capital and helps in the financial transaction of business in many ways. The another pillar, insurance, offers a high economic relief to different types of industrialist businessmen and individuals. Insurance has become the pillar of alertness, courage and eagerness to develop the life and living standard of common people, industrialists and trades of today’s world. Insurance is a kind of financial mechanism which provides financial security against risk.

Insurance is equally important for common people and businessmen. It is part and parcel of the business houses.

The insurance market, in global perspective, has been an important ingredient for economic development. In advanced countries insurance companies have played a very significant intermediary's role in mobilizing funds through the prudential combination of investment portfolios. However, in developing countries like Nepal, the role of insurance companies is still to be realized as an important vehicle of mobilizing the internal saving through various insurance schemes of life and non-life sectors in the economy. This can be done with proper and optimal combination of risks as an organized method for dealing with pure risks to which an individual, family, firm or other organization are exposed.

Insurance is a social device, which combines the risks of individuals into a group, using funds contributed by members of the group to pay for losses.

Thus the main function of insurance companies is to collect premium and mobilize such collected funds into various sectors of economy with an organized and institutional manner.

1.2 Scenario of Insurance Business in Nepal

Insurance works as a double- edged weapon. On one side it provides financial security against risk and on the other side; it provides capital to the business houses. Nowadays, insurance has been not only a necessary thing but also a part and parcel of business world. In this context, the importance and necessity of insurance business in Nepal cannot be ignored. There is no long history of insurance business in Nepal. The necessity of formal insurance was not realized before the revolution of 2007(B.S.). At that time people's life was mostly depended on agriculture. There were no big industries and the country had no 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 establishes in Biratnagar. At that time some persons traveling in India used to make insurance in Indian insurance companies. Insurance agents of Indian Life Insurance Company used to come to Nepal to make insurance of Nepalese people (Agrawal, 2060:69).

The parental role of the development of insurance in Nepal goes to Nepal Bank limited. Transport of goods and insurance company was established under the control of Nepal Bank limited in 2004(B.S.). The transport of goods and insurance company used to release the goods from the customs of Raksaul - Brigunj imported through Nepal Bank Ltd. and hand over such goods to the go down of the bank or parties after receiving it. The name of this company was changed into Nepal Insurance and Transport in 2016 (B.S.). Again in 2048 (B.S.) the name of this company was change into Nepal Insurance Company Ltd. which is the oldest insurance company in Nepal.

The role of Indian insurance companies in the development of insurance business in Nepal can not be ignored. Life insurance Company of India, Oriental Insurance Company Ltd. and National Insurance Company had remarkable contribution in the field of insurance in Nepal. Some foreign insurance companies viz. Ruby General insurance company Ltd. were remarkable among the insurance companies.

The credit of the development of modern insurance business goes to Rastriya Beema Sansthan which was established in 2004 (B.S.) with carrying two main objectives of mobilizing the internal resources and capital for the economic development of the country and stopping the expenditure burden of the foreign currency. Rastriya Beema Sansthan was granted power to make life and non-life

insurance business. This grand institution has played crucial role in the development of insurance business.

Furthermore, To manage and regulate insurance business in Nepal, the insurance Act 2025(B.S.) and Rastriya Beema Sansthan Act 2025 (B.S.) were enacted. Under the provision of this Act, an insurance board was established under the Ministry of Finance in 2025(B.S.) and it made the provision of permission to be taken for insurance business from this board. In addition to this, the Act made the provision to register the insurance agents, the provision of the qualification and cancellation of the insurers and the to claim over the insured amount by the wished persons or his heir. It also started the supervision and the control of the insurance, companies. In this way, Insurance Act 2025 (B.S.) has created conducive environment to flourish public as well as private insurance business in Nepal. As such, Nepal life and General Insurance Company (2044 B.S.), National Insurance Company Ltd. (2030B.S.) were established. The amendment of the Insurance Act 2025(B.S.) was made in 2049(B.S.) and the insurance Rules were enacted in 2049(B.S.). At Present, the amendment of insurance Act 2049 first 2052 &second2058 2049 and the Rastriya Beema Sansthan act 2025 are in use to regulate manage and control the Insurance Business in Nepal.

Now the government has adopted liberal economic policy, as a result many insurance companies are established. The introduction of these Acts and Rules there are 25 insurance companies functioning in Nepal. There are only two insurance companies that provide both life and non life insurance service, 9 insurance companies are providing only life insurance service and 16insurance companies are providing non life insurance service which are mentioned below:-

Insurance Companies Providing Both Life and Non Life Insurance Services

1. Rastriya Beema Samsthan

Insurance Companies Providing only Life Insurance Services

1. Rastriya Beema Samsthan
2. National Life Insurance Company Limited
3. Nepal life Insurance Company Limited
4. Life Insurance corporation (Nepal) Limited
5. American Life Insurance Company limited
6. Asian Life Insurance Company Limited
7. Gurans Life Insurance Company Limited
8. Surya Life Insurance Company Limited
9. Prime Life Insurance Company Limited

Insurance Company Providing only Non Life Insurance Services

1. Nepal Insurance company Ltd.
2. The Oriental Insurance Company Ltd.
3. National Insurance Company Ltd.
4. Himalyan General Insurance Company Ltd.
5. United Insurance Company (Nepal) Ltd.
6. Premier Insurance Company (Nepal) Ltd.
7. Everest Insurance Company Ltd.
8. Neco Insurance Ltd.
9. Sagarmatha Insurance Company Ltd.
10. Alliance Insurance Company Ltd.
11. NB Insurance Company Ltd
12. Prudential Insurance Company Ltd
13. Shikhar Insurance Company Ltd
14. Lumbini General Insurance Company Ltd
15. NLG Insurance Company Ltd
16. Siddartha Insurance Ltd *(Source: bsib@wlink.com.np)*

Nepalese insurance Business are facing the problems of Lack of sufficient number of industries, limited market of opportunities, low per capita income, lack of knowledge of insurance, lack of profitable investment opportunities poses a serious threat to the insurance business in Nepal. The competition in the insurance business has turned to be more intense. Moreover, increasing violence and terrorism has been threatening the insurance business. The establishment of new industries and factories, growing number of trading companies, awareness of people, government's interest on insurance, provision of compulsory insurance, provision of Insurance board and enactment of laws and rules regarding insurance business are the positive indicator of the good future prospect of insurance business in Nepal. But the provision of reinsurance in Nepal is a critical issue for Nepalese insurance business.

Company's Profile

I) Nepal Insurance Company

1.Established: 2004 8th

2.Service- Non-Life

3.Capital Structure

Shareholder	
Public Organization	50.90%
Nepali Citizen	49.10%
Total Investment	100%

4.Providing following insurance services

i) Fire Insurance

ii) Motor Insurance

iii) Aviation Insurance

iv) Marine cargo Insurance

v) Engineering Insurance

vi) Miscellaneous Insurance

5.Company' Office

i) Head Office

NIC Building, 35 kulvatna Marg- 3453 (Kamaladi)

P.O.Box:3623, Kathmandu, Nepal P.h. 4221353, 4228690,4245565\68 Fax:977-1-4225446

E-mail: nic@wlink.com.np, nic@account.wlink.com.np

ii) Branch Office

Birjung, Shreepur, Biratnagar, Bargachhi, Narayangadh, Mainroad, Nepalgunj, Surkhet Road, Ganeshman chowk, Kashauli, Sangam Pokhara, NewRoad, Birtamod, Bhadrapur Road

iii) Contact Office

Dhangadhi, Main Road, Lahan Atithi ,Sadan chowk

iv) Collection Centre

Itahari, Hetauda, Banepa, Bhairahawa

II) United Insurance Company Limited

1.Established: 1993 Dec 1st

2.Service: Non-life

3 Capital Structure

Shareholders	Ownership
Government Organization	35.24%
Nepali Citizen	21.76%
Foreign Investment (Germany)	3%
General Public	40%
Total Investment	100%

4.Providing Following Insurance Service

i) Fire Insurance

ii) Motor Insurance

iii) Marine Cargo Insurance

iv) Engineering Insurance

v) Miscellaneous Insurance

5.Company's Office

i)Head Office

I.J. Plaza, Tindhara Pathashala, Darbar Marga P.O.Box.9075

Kathmandu Nepal P.h.4246686, Fax: 977-1-1426678

E-mail: uic@gmail.com.np

ii) Branch Office

Biratnagar, Pokhara, Butwal

1.3 Statement of the Problem

The insurance business is multi dimensional business. Insurance has become part and parcel of the contemporary business world. Insurance worked as a double edged weapon. On one hand it provides the financial security against future loss and on the other hand it provides capital to the business houses. By knowing this reality, the number of insurance companies are increasing in Nepal. There are number of constraints that hinders the development of insurance in Nepal. Lack of sufficient number of industries, lack of knowledge of insurance, lack of profitable investment opportunities poses a serious threat to the insurance business in Nepal. The competition in the insurance business has turned to be more intense. More over, increasing violence and terrorism has been threatening the insurance business. Therefore, the insurance companies should be very much cautious about

their business operation. In this context, there is the dearth of study of the financial operation of the insurance business in Nepal.

Profit works as the catalyst to run the business. If there is no profit, nobody will undertake the business. There must be sufficient amount of profit to flourish any business. Business organization must have a stable growth in profit.

The problem of the study lies on the issues related to the appraisal of financial position of united insurance company and Nepal insurance company. It also tries to seek the answers to the following questions:-

- How sound is the operational result in relation to their profitability?
- How well the collected premiums have been utilized?
- What is the comparative position of the insurance companies in terms of liquidity, profitability and efficiency?

1.4 Scope of the Study

The scope of this study is confine to the appraisal of the financial performance of the United insurance company and Nepal insurance company. The study focuses on the financial aspect of these insurance companies.

1.5 Objectives of the Study

Mainly the objective of this study is to examine and evaluate the financial performance of the United Insurance Company and Nepal Insurance Company. The specific objectives of this study are as follows:

- To examine and compare the financial position of these insurance companies through the use of appropriate research tools.
- To study the trend of insurance premium collection and payment of claim and utilization of available resources.

- To identify the financial strengths and weaknesses of the concerned insurance companies and offer a package of suggestions and possible guidelines to improve the insurance business based on the findings of the study.

1.6 Significance of the Study

At present, insurance has been part and parcel of the business organizations. It is equally important to the individual and to the nation as well. Insurance business plays an eminent role in the industrialization of the country. Due to lack of full fledged capital market, the insurance companies do not have sufficient investment opportunities. Insurance companies also have to face intense competition in a limited market territory. In this context, the financial position analysis would analyze the strengths, weaknesses, opportunities and threats of the selected insurance companies. The study, no doubt will also have multi-dimensional importance for various areas which are mentioned below:

- Importance to the management of these insurance companies.
- Importance to the policy makers, academic and professional people.
- Importance to the shareholders, investors, customers, competitors, personnel and other key stakeholders.
- This study helps these insurance companies to identify its hidden weakness regarding financial administration and the necessity of the present study is justified.

1.7 Limitation of the Study

This study is conducted for the partial fulfillment of MBS degree. So it is not a comprehensive research work and it focused to analyze the financial statements of United Insurance Company and Nepal Insurance Company. The following are the constraints of this study:

- Mainly the study is based on the secondary data.

- The study is limited to five years period starting from 2003/4 to 2007/8 AD.
- The study is mostly based on published financial documents like balance sheets, profit and loss accounts, related journals, magazines and books etc.

1.8 Organization of the Study

The whole study is divided into five main chapters:

Chapter-I : Introduction

It presents a brief introduction of the study, it includes background of the study, focus of the study, statement of problem, objectives of the study, significance of the study and limitations of the study.

Chapter-II : Review of Literature

It is review of literature. It includes conceptual framework, review of books and review of previous study, report, thesis, and journal articles related to the topic of the study.

Chapter-III : Research Methodology

It is about research methodology, it includes the whole procedure of this research work i e, research design, sources of data, populations and sample, data processing, method of analysis.

Chapter-IV : Data Presentation and Analysis

It is about presentation, interpretation and analysis of data, it includes position of current assets, financial analysis, statistical analysis and testing of hypothesis.

Chapter-V : Summary, Conclusion and Recommendations

It presents a brief summary of whole research report and its conclusion. It also includes suggestions to the concerned parties and recommendation.

CHAPTER - II

REVIEW OF LITERATURE

2.1 Introduction

Review of literature is basically stocktaking of available literature in the field of research. The textual contains would help the researcher to support the area of research in order to explore the relevant and true facts for the reporting purpose. While conducting the research study, previous studies can not be ignored, as that information would help to check the chance of duplication in the present study. Thus, one can find what research studies have been conducted and what remains to go with.

Therefore, this chapter contains the meeting of insurance, development of insurance and types of insurance, insurance issues in developing countries, review of books, related journals and articles, review of legal documents relating to insurance in Nepal, and related thesis.

2.2 Conceptual Setting

This part is related with the conceptual setting of this study. The conceptual settings reflected the definitions of various terms used.

2.2.1 Meaning of Insurance

The world of today is full of risk. Moreover, development of sophisticated technology and different scientific innovations has changed the human life. It has made the whole world a global village. But it has also increased a great deal of risk. Some sort of risk is beyond the human control. To reduce such type of risk, the idea of insurance is developed. Insurance is a way of reducing uncertainty of future outcome. It provides financial security against risk.

Insurance works as a cooperative device to spread the loss caused by a particular risk over a number of persons who are exposed to it and who agree to ensure themselves against that risk. Insurance gives relief from the risk. It performs the task of paying compensation for financial loss under the insurance, in return of little fixed amount called premium. The insurance company gives the payment of the amount if loss or damage has taken place. Dinsdale stated the meaning of insurance as a means of spreading over the many losses, which would otherwise be borne by the individual. It provides, in effect a pool to which the many contributes, out of which the few who suffer losses are compensated (Dinsdale, 1958:25).

Insurance is defined as a cooperative form of distributing a certain risk over a group of persons who are exposed to it (Ghos & Agrawal, 1959).

Insurance is created by an insure; which is a professional risk bearer, assumes the financial aspect of risk transferred to it by insured. As a device for handling the financial aspect of risk, insurance is feasible because insurance is able to combine the risks of individuals into a group and pay losses with funds collected from its members (Athenian, 1981)

The meaning of insurance given by Bhargava through his article shows the simplest and most general concept of insurance that insurance is a provision made by a group of persons, each single in danger of some losses, the incidence of which can not be foreseen, that when such loss occurs to any of these, it shall be distributed over the whole group. Its elements, therefore, are foresight and cooperation (Bhargava, 2053:15).

Insurance as a contrast settled between the parties, one is insurance company and another is insured party who insure his properties as well as lives. They have

stated as, it undertakes to indemnity the loss suffered (due to specified cases) by the other party known as the insured in consideration for a sum of money known as premium. Since the amount of the premium is generally small, insurance contract spreads the losses suffered by one person over a large number of persons. Everyone pays a premium, those who suffer a loss are paid a sum of equivalent to loss (loss according to the term of contract) and those who do not suffer loss by the premium paid. The protection against unforeseen events is purchased through a contract of insurance (Shukla & Grewal, 1990: 36).

From the above mention definitions it is clear that the insurance reduces the risk and provides financial security in return of payment of a certain amount. Insurance is a powerful weapon to manage risk.

2.2.2 Development of Insurance

Today's modern form of insurance is not the effort of fortnight. It has crossed a long series of time to develop insurance from ancient practices to modern insurance practices. From the very beginning of society, men have been following the way to share loss and profit, suffering and prosperity mutually with one another. The concept of insurance is originated very early in Greece. 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. But before four century B.C. there was the use of Bottomary Banks under the marine insurance in Greece. Existence of life annuity was found during the period of Roman emperor. At first, church of England used to make religious guild. Later on forming the merchant guild, started to give protections to the members further, later on crafts guild began to work as subsidiary of the merchants guild. In this way the concept of insurance is evolved. The development of modern formal insurance can be described in the following phases.

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 A.D. the first insurance contract, called 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 were banished, then, they settled in different countries of Europe. The name of a street, "Lombard Street" of London was named after the name of Lombard. At that time this street was called the central point of the marine insurance.

"The significant role of Lioyd's institution for the development of insurance cannot 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 Edberd Lioyd in the tower of street of England. Slowly the coffee house was successful to introduce itself as a centre of marine insurance. The Lioyd's 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" (Bailey and Jeffery, 2002:101).

Second Phase: Development of Life Insurance

After the development of marine insurance people used the concept of the Insurance, to provide security to their lives. To talk about the modern life insurance by an associate 16 persons, the first life insurance policy of the world was issued in the name of a person named "William Gybbons" in 1583 AD. It is recorded that insurance policy was issued for one year. One astronomer named 'Admand Heley' submitted a 'Mortal Table' in 1693 AD to the royal security. This

mortal table is useful tool for calculating insured amount. But the first time, life insurance institutions insured amount technology on the basis of data.

"In 1744 AD passing the Life Insurance Act created the foundation of the modern insurance. There after different laws enacted remove the defect that came to it on the basis of experience. With the cause of the difficulties that came to the business, many companies were closed and some of them went and mixing or merging with insurance company. There is no controversy that the Life Insurance Act 1870 was passed to control of the life insurance business for protection o the customers. Before the beginning of the 19th century many life insurance were that already established in the world. We find that the life insurance business in our neighboring country India had 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 Ltd. for non-life insurance were established. During the reign of Elizabeth I, the life insurance used to effect for only one year. After one year, if it was not renewed, the insurance automatically used to be cancelled. But the job of effecting long term insurance, started from 18th century has been increased continuously" (Bailey and Jeffery, 2002:105).

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 marine insurance and then only after about two hundred years, the idea of the life insurance was communicated.

The function of the fire insurance was done in 14^{th} century. The beginning of the fire insurance for the first time can be found in the municipality of the Hamburg in Germany in about 13th century. It is said that after the birth of life insurance the

fire insurance was developed. “In 1666 AD after the fierce fire incident, many buildings were turned into ash in England. It is known from the history of insurance that many people were in difficulties. 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 1680 AD Dr. Nicholas Barbon has started the fire business related with the fire insurance in England. The office of Barbon was called the fire office later named as Phoenix In 1782. Phoenix Insurance Company was established with the development of the fire insurance today many people, industry and businessmen are breathing the air of the safety” (Bailey and Jeffery, 2002:106).

Fourth phase: Practice of Miscellaneous Insurance

After the fire insurance, many other types of insurance have come in use. Thus, by such insurance policies man is trying to be protected form 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, burglar and house breaking insurance from 1903, motor insurance from 1911, and aviation insurance came in practice. Similarly in other insurance, the vocal can consider castle insurance, rain insurance, earthquake insurance, the vocal of the male singer and female singer, model beauty as miscellaneous insurance” (Bailey and Jeffery, 2002:107).

2.2.3 Types of Insurance

Insurance has been the most effective and strongest to save peoples, properly. It makes the security for the payment of the insured amount to those who have made life and non life insurance. Nowadays, insurance has become the pillar of alertness, courage and eagerness to develop the life and living standard of the common people, industrialist and traders of the world. Nowadays, various types of insurance have been practiced, which can be classified in following ways:

A) From the Business Point of View

From the business point of view, the types of insurance are as follows:

Life Insurance

Life Insurance provides a protection for two major contingencies. A man insures his life either to make provision for leaving a certain sum for his dependents when he dies, which may happen he is able to say and accumulated sufficient amount. Life Insurance has several businesses and financial advantage. In Life Insurance it is provided that the insured interest amount is to become payable in the happening of death or in some cases on the attainment of certain age, whichever is earlier. Only the men having and insurance interest in the proposed life can obtain a policy on it. The concept of the life insurance is based on pooling the risks of many to a group, accumulation a fund by contribution form the members of the group and paying from this fund the losses of those who suffer loss.

“Life Insurance is a plan of compulsory saving and there will be all round development of nation from premium paid for that and the Life Insurance plan is helping to control the inflation. Because there are the factor of protection and investment in Life Insurance, It has gained much more popularity. Under this Insurance, if the insured remains alive, he himself, gets a payment of insured amount, if he is dead, his wished person, if its not wished for the wished person is death, the nearest person get the payment under the policy as per law” (Mishra, 1996:36).

Non Life Insurance, other than life and social insurance are called Non Life or General Insurance. The subject matter affected under it is in nature of properly. The Insurance Company provides indemnity to insured. Such compensation should be based on the actual value. This type of insurance includes marine, fire and miscellaneous types of Insurance.

a) Marine Insurance

"Ships sailing on are exposed to various types of risks. They be collided against one another, spring a leak, caught by fire, captured enemies and seized by pirates. The ship and cargo may be lost in such a case and a tremendous loss may be caused to its owners. Such risks if not covered will greatly discourage the international trade, which is mostly sea borne. That is why the Marine Insurance is considered to be the land mind of modern international trade, which is indispensable auxiliary" (Mishra, 1996:36).

b) Fire Insurance

The Insurance done against the risk of fire is known as fire Insurance. Fire Insurance policy may be taken on residential housed or on factories and business premises. "Under Fire Insurance policy, if any property loses by fire the insured amount would pay as indemnity. The properly should be in its full market value, the claim under the fire insurance policy is determined on the basis of present value of the property" (Mishra, 1996 :36).

c) Miscellaneous Insurance

Miscellaneous Insurance business includes the various types of Insurance business such as Aviation Insurance. Motor Insurance, cash transit Insurance, workmen's complementation Insurance, Burglary and house breaking Insurance. Public liability Insurance, cattle Insurance, Medical aid scheme and so on.

d) Social Insurance

In modern age Social Insurance has an important place, the objective of this insurance is to provide the maximum social benefit to the society. This type of Insurance is specially, useful for the worker class and the owners of the factories. This sector possess high risk because the workers work in the mill and factories, from it, the workers, officials and owners also suffers loss. "Social Insurance

provides the economic protection both to the official and owners. The main examples of Social Insurance are workmen's compensation Insurance, sickness Insurance, Pension Insurance, Maternity Insurance and Unemployment Insurance etc. Having regarded to the importance of this Insurance, in every developed country, this insurance has been generally made compulsory. This insurance was started from England. The burden of expenses of government and the owner of the factories has to bear the most of the portion of premium" (Ghosh and Agrawal, 2002:75).

II) From the Risk Point of View

The insurance from risk point of view is classified in the following ways:

a) Personal Insurance

Under this personal insurance, the insurance is made to the subject related to the person's life. There is possibility of risk associated to death accidents and diseases. "The insurance, which is effected against such risks, with the objective of getting financial protection, is called personal insurance. Life insurance, personal accidents insurance and health insurance etc are the example of personal insurance" (Ghosh and Agrawal, 2002:75).

b) Property Insurance

Under this insurance, insurance of the different nature property is affected to compensate the property damaged or lost. This insurance company gives the compensation to the insured. "The insurance company gives only actual compensation to an insured on the basis of fact and event. The examples of property insurance are fire, marine, crop, cattle and burglary insurance" etc. (Ghosh and Agrawal, 2002:75).

c) Liability Insurance

Under this insurance, compensation is given to third person for loss or damage caused by negligence or other reason of the party. “The examples of liability insurance are motor insurance, public liability insurance etc” (Ghosh and Agrawal, 2002:75).

d) Guarantee Insurance

“Under this guarantee insurance, the insurance company gives the guarantee of faithfulness or the honesty of any employee or any other person and it accepts the liability of compensation on financial loss to the insured with the cause to dishonesty and fraud. The examples of guarantee insurance are credit right, fidelity guarantee insurance etc. If any event is found within the policy, then the insured has right to get compensation” (Ghosh and Agrawal, 2002:75).

2.3 Insurance Issues in Developing Countries

As the popularity of Insurance is growing rapidly, its market is expanding not only in developed countries but also in developing countries. For is favorable environment should be created by making essential laws and regulations. Nepal is a developing country it faces many problems. Some articles are to be reviewed about the issuers of developing country, which helps us to know the fact about developing countries. In most of the countries there is insurance legislation in place, however, some countries are in the amending these existing laws. All of the countries have a law or decrease regarding compulsory or third part motor liability. “In most of the countries international insurance is a flourishing area and only in some countries are the roles of actuaries regulated. Some countries had provision for funds to protect insured. There is a real tendency in all the countries to widen the space between the insurance supervisory body and ministry of finance” (Laszlo, 1988:45).

"Many developing country consumers want to buy their Life Insurance in a hard currency country, even when domestic insurers offer quantity life product. At the same time, large foreign companies established on their domestic markets could effects a kind of dumping through the income they achieved on their capital funds and by subsidizing initial operation in developing countries from gain in other countries" (Stephen, 1989:115).

Third world insurers may at this stage not gain much from a market opening in developing countries. "Physical presence of the insurance provider is usually needed to sell cover. But capital and or solvency required in developed counties for the establishment of subsidiaries of branches are usually considered prohibitively high by developing country insures. When it comes to large and targets risk for which cover could be offered cress- border via- brokers" (Marion, 1990:131).

"Insurance industry in developing countries often has a unique position within the socio-economic structure of many countries, in its capacity as one of the few indigenous service industries which is a major employer of the politically influenced middle or educated classes and which is often the biggest institutional investor in the said countries like Malaysia, India, China, Taiwan and South Korea. In such Insurance Companies usually lack of adequate capitalization and the requisite technical skills and professional management needed to serve their clients and markets Insurance and Reinsurance requirement appropriately" (Kamara, 1988:72).

Insurance Business in Nepal does not have long history. But it is a true fact that Insurance business has developed gradually. Insurance business can't flourish in a small insurance market. But Nepal itself, a small country, has small market. This signs of worldwide liberalization in economic sector and the functions of public welfare have appeared in Nepal too.

2.4 Insurance Development in Nepal

The concept of insurance developed in ancient period in Nepal. The system maintaining 'Guthi' can be taken as the starting point for the development of insurance. The income from such guthi was used to built building, temple and repairing etc. So the concept of insurance was emerged with the religious view but not as commercial view.

The modern insurance business is relatively new in Nepal. Indian insurance companies initiated the insurance business from the late 1930 in Nepal. The Indian insurance companies were enjoying monopoly over the insurance business and had a well development business network in Nepal, later in 1948 (2004 B.S).The first Nepalese insurance company, 'Nepal Mal Chalani Ra Beema Company Limited' was established by Nepal Bank Limited. This pioneering insurance company has changed its name into Nepal Insurance and Transport Company Limited in 2016 and Nepal Insurance Company Limited since 2048. The company started to provide only non life insurance. There was not only insurance company to carry out life insurance business until 2024. So, the government realized the necessity for the establishment of insurance company to execute life insurance business. As a result His Majesty's Government established Rastriya Beema Sansthan (Private) Limited in 2024 under the company Act. The government enacted Rastriya Beema Sansthan Act 2025 and Rastriya Beema Sanstha (Private) Limited Changed in to Rastriya Beema Sansthan under the Rastriya Beema Sansthan Act 2025 however, has no alternative either.

2.5 Review of Thesis

There are not sufficient studies concerned with financial analysis of insurance companies available in Nepalese context.

Raut (1995), in his thesis *"The Financial Performances of National Life and General Insurance Limited"* has found that the gap and issued about liquidity,

premium collection and outstanding investment and other financial performance and make a package of recommendations as to improve liquidity position and premium collection to make a settlement of claim in time and to extend its branches to effective investment policy.

Raut found the following major findings from the study:

- Regarding liquidity management, the NLGI is not in sound position.
- The company's outstanding premium is in increasing trend.
- The return on net-worth of NLGI is satisfactory because return on net worth is in increasing trend.
- The trend of earning per share is fluctuating.
- Investment of NLGI is not less than fifty percent of the total assets in every year of the study periods.

The recommendations are as follows:

- The NLGI should maintain the mutual relationship among the policyholders to collect premium on time.
- There should be proper management between the current assets and current liabilities to improve the liquidity position.
- Settlement of claims should be made in time.
- The company should make the effective investment policy.

Sharma (1996), "*A Study on Financial Performance of Rastriya Beema Sansthan and Nepal Life and General Insurance Limited*", concluded by has found various financial indicators of these companies from the analysis. He finds the following major issues.

- Absolute value of premium collection has been increasing but it is in decreasing trend in respect of GDP.

- Net premium to claim ratio is gradually decreasing, claim outstanding and premium outstanding are increasing year by year since the overall liquidity position is weakening.
- Most of the parts of investment portfolio is composed of bulk fixed deposit account and NG securities.

Based on the issues he gives various recommendations to the companies out of which main are as follows:

- They should make an effective program to take larger share in insurance market.
- They should increase their retention capacity.
- They should accelerate the outstanding premium collection speed.
- They should improve overall liquidity position.
- They should make effective investment portfolio.

Acharya (1999), in his thesis *"An Evaluation of Financial Performance of Nepal Insurance Company Limited"* has found the following facts about Nepal Insurance Co. Ltd. His findings are:

- Liquidity management of NICL is in very week position.
- The company is not able to collect its outstanding premium efficiently.
- The Company's Re-Insurance Premium is in increasing trend.
- Profitability position of the Company is in satisfactory level.
- The Company's total assets are in increasing trend.
- Control of Management expenses and Agency commission is in increasing trend.

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

- The Company should improve the liquidity position.

- The Company should activate its agents and development officer.
- Claims should be pain in time.
- Commission and management expenses should be controlled.
- Company should maximize investment return through optimal portfolio management.
- Business portfolio should be diversified.

Adhikari (2000), in his thesis "Financial performances analysis of Nepal Insurance Company Limited" his main objective is to analyze the financial performance of NICO.

The main findings were as follows:

- Regarding the liquidity management, the NICO is in sound position.
- The NICO is unable to control its operating expenses at the minimum level.
- The net profit margin ratio of NICO is deteriorating year by year.
- The company has not adopted fixed policy to dividend payment.
- The NICO has not practiced risk diversified investment principle but adopted traditional investment portfolio.
- No perfect stability in cash inflows and outflows of NICO.

The recommendations were as follows:

- The NICO 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 debt losses cost of credit management.
- Settlement of claims should be made in time.
- The company should extend its business area.
- The NICO should diversify its business portfolio.

- The company should expand its fixed assets.
- The NICO should diversify its business portfolio.

Sharma (2003), in his thesis *"A Study on Financial Performance of Rastriya Beema Sansthan and Nepal Life and General Insurance Limited"* attempted to find out the various financial indicators of these companies. The analysis concerned with financial performance of the company. He found the following major issues in his study.

- Absolute value of premium collection has been increasing but it is in decreasing trend in respect of GDP.
- Net Premium to claim ratio is gradually decreasing, claim outstanding and premium outstanding are increasing year by year since the overall liquidity position is weakening.
- Most of the parts of investment portfolio are composed of bulk fixed deposit account and NG securities.

K.C. (2008), in her thesis, *"A Study on Financial Performance of Some Listed Insurance Companies"*, her main objectives is to analyze the financial performance of some listed insurance companies. The main findings were as follows.

- Market Value is the important factor to the company. The market value of share is the function of various financial and economic variables as well as internal and external factors. Besides earning and dividend, the company's financial and investment policy, product development, market expansion policy, and competition etc. would largely determine the value of its shares. Therefore, investors should also consider these variables while making the investment decision.

- For the purpose of improving the outstanding premium collection, insurance companies should sell the insurance policy mostly on cash and may extend credit only to those customer who have proven credit worthiness and financially strong.
- The agent of the company should help to the company for outstanding premium collection. The company should make regular meetings with agents and request them to co-operate in making the clients to pay the outstanding premium The company should select those agents who are more trust worthy toward the company, because the role of the agent is more important for insurance business for the collection of outstanding premium as well as overall development of the company.
- This analysis clearly shows the insignificant relationship between market price and influencing other variables. It means the shareholders are making investment without considering the company's financial performance and positions. It shows that the investors are not rational. Thus it is better for the investors to understand the market and study the financial position and performance of the insurance companies before making investment.
- Increase in company size with expanding fixed assets is desirable. These companies should utilize its funds to expand fixed assets, which can help the company be financially more stronger. Only the financially strong company attracts the potential customers and increases its business. It makes shareholders as well as other relative parties' confidence toward the company.
- The study shows that its business in some convenient areas of the country and it seems necessary to establish branches in other areas which enhance insured convenience as well as companies' business opportunities. For that purpose, they should appoint a large number of agents in different places. Radio and Television advertisement, talk programmes, seminars, handouts

and pampleting may be used as promotional devices for the sake of promoting its Insurance market.

- In an efficient market the basic goal is to make the market aware about the performance of companies. So certain steps, which can bring the clear picture of their financial performance in the investors' mind is necessary. So, the flow of information should be made available to the investors to take correct decision.
- The present trading system adopted by NEPSE, should be modernized so that distant investors can trade with each other through modern technology. It increases the velocity of the market and lessens the costs and risks associated with physical delivery.
- It is also recommended to the concerned body to carry out further research on Financial and market analysis of insurance companies for the betterment the companies.
- To grab the present and future potential business opportunities in the market, these companies should establish research and development department. So that the company would be able to get the more profitable opportunities in the market.

Dhakal (2007), in her thesis, *"Financial Performance of Nepalese Insurance Companies"*, attempted to find out the various financial indicator of these companies. (Nepal Life Insurance Company Limited, Life Insurance Corporation Nepal Limited, Himalayan General Insurance Company Limited and Neco Insurance Company Limited)The following are the major findings of the study

This study has reflected that the investment pattern of HGI, NL&GI and NECO insurance. Since the insurance directly related to premium collection and investment aspects, there will be the ultimate bearer of the soundness and weakness of their functioning as financial institution. They have also barrier from

government rules and regulation and through other relevant side these corrective action needs to introduced.

Some recommendations have been made for improvement of the investment portfolio of sample insurance company. These recommendations have been summarizing below:-

The entire insurer should follow the investment policy and improve its management Insurance companies are found investing in NG securities & Debentures, Bank & Finance Co. fixed deposit account, Shares and Miscellaneous but, they are not found investing in real estate, hydro power etc. so, insurance companies are suggested to search for new area of profitable investment like hydro-power, housing companies etc.

Insurance companies are also suggested to invest in profitable sector to earn profit. All insurance companies seem to be risk avoiding while making their investment. Therefore, they are making secured investment with lower rate of return. Thus, they are suggested to change their investment policy. They must introduce the portfolio management system to increase their earning from investment without increasing the degree of risk by diversification of risk.

ROA is found unsatisfactory so, insurance companies are suggested to improve earning of the company by utilizing the ideal assets in profitable portfolio.

Life insurance companies are poor performance in profitability ratios in comparison with non life insurance companies, so it is suggested to increase profitability by investing the fund in productive sector.

From the entire analysis mentioned above findings seems that non life insurance is more fluctuation of investment and net income trend too. So, the entire insurer should try to remove that type of fluctuation on respective aspect.

The insurance act and regulation should be clear enough to guide the investment-related matter to a direction. The regulatory limits relating the investment should be promptly changed according to the change in over all macro economic and money capital market condition.

The rules and regulation relating the investment aspect of life and non-life insurance must be differentiating according to the differentiating nature of the future use of the invested funds, occurrence of the invertible funds, and the invisibility of such funds.

2.7 Research Gap

Since the above mentioned studies offer limited findings, more extensive testing , and adjustment of necessary variables are needed in ordered to be more conclusive about the financial performance of insurance companies. Presently, this study aims to attempt to study about financial performance of insurance companies. The present study is based on five year data of insurance companies, which tries to achieve its objectives by analyzing secondary source of data. Thus, the earlier studies on these issues need to be updated and validated because of the many changes taking place in Nepalese insurance market. The current study is a supplement to overcome the weakness and limitation of previous studies.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Introduction

The rational behind the study is to evaluate and assess the financial analysis of the two insurance companies viz. Nepal Insurance Company Ltd. and United Insurance Company Ltd. Thus, this chapter includes those methods & techniques used for finding out aforesaid purpose.

Research Methodology refers to the various sequential steps (along with the rational of each step) to be adopted by a researcher in studying a problem with certain objectives in view. It is a way to systematically solve the research problem. It may be understood as a science of studying how search is done scientifically. It includes the various steps that are generally adopted by a researcher in studying his/her research problem along with the logic behind them. It would be appropriate to mention here that research project are not meaningful to any one unless they are in sequential order which will be determined by the particular problem at hand. Therefore, this study aims at analyzing and interpreting the purpose of comparative financial analysis or appraisal of two Insurance Companies. This chapter focuses and deals with the following aspects of methodology:-

- Research design
- Population and Sample
- Sources of data
- Data collection Procedure
- Data Processing
- Method of data analysis

3.2 Research Design

Research design is the task of defining the research problem.' In other words, "A research design is the arrangement of condition, for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure." In fact, the research design is the conceptual structure within which the research is conducted.

General objectives of this research study is to examine and evaluate the financial aspect of insurance companies especially that of United Insurance Company (Nepal) Limited and Nepal Insurance Company Limited. In order to achieve the objective, both descriptive and analytical research design has been followed. The study focuses on the examination of relationship between those variables that influence financial decisions of the sampled Insurance Companies. It is an ex-post facto research.

3.3 Population and Sample

The population for this study comprises Twenty-five insurance companies operating in the country. All the insurance companies perform the functions of insurance under the Insurance Act 2049 B.S which had been amendment at 2052 & 2059. The sample consists of two non- life insurance companies namely NICL and UICL out of 25 insurance companies. These units represent 12.5 % of the total population and are comparable to each other in various aspects.

3.4 Sources of Data

This study is based on secondary data. However, necessary suggestions are also taken from various experts both inside and outside the insurance companies whenever required. The necessary data such as, published balance sheet, profit and loss account and other related statement of accounts as well as the annual reports

of the respective insurance companies is obtained from the head office of the concerned insurance companies. Likewise, other related and necessary information are also obtained from the publication and Web-site of Security Exchange Centre, Beema Samiti and other publications used for the purpose are books & booklets, magazine, journal, newspapers, school of thoughts etc.

3.5 Data Collection Procedure

The problem of the study lies on the issues related to the comparative strengths and weakness of the insurance companies. As a consequence of liberal policy adopted by the government financial institutions have been emerging in the country. The sampled insurance companies have been facing threats from such institutions. Therefore, the study has been conducted to examine and evaluate the financial analysis of the sample units. This study is also intended to find the weakness and strengths so that appropriated suggestions can be provided to enhance the performance of the companies in coming days.

For the purpose, various data is required. With the view of obtaining the data, researcher made several visits of the sampled insurance companies. For the reference materials, the researcher visited Shanker Dev Campus and Central Department of Management, T.U. and Beema Samiti. Many visits in management department and various sections of central library, T.U. led the researcher to be successful in conducting this study.

3.6 Data Processing

Data obtained from the various sources can not be directly used in their original from. Further, they need to be verified and simplified for the purpose of analysis. Data information, figures and facts so obtained need to be checked, rechecked, edited and tabulated for computation.

According to the nature of data, they have been inserted in meaningful tables, which have shown in annexes. Homogeneous data have been sorted in one table and similarly various table have been prepared in understandable manner, odd data excluded from the table. Using financial and statistical tools, data have been analyzed and interpreted.

3.7 Methods of Data Analysis

Financial statement can provide various information useful for the parties directly or indirectly involved in the business. For the purpose of study, the data collected and obtained are scanned and tabulated under various heads. Selection of suitable tools and proper analysis makes data effective. The researcher has used two sorts of tools to achieve the results. Here is the brief discussion of both the tools, which are used to analyze and interpret the financial performance of two insurance companies i.e. NICL and UICL.

- Financial Tools
- Statistical Tools

3.7.1 Financial Tools

Financial tools are those which are used for the analysis and interpretation of financial data. These tools can be used to get the precise knowledge of a business, which in turn, are fruitful in exploring the strengths and weakness of the financial policies and strategies. For the sake of analysis following various financial tools have been used to meet the purpose of study.

3.7.1.1 Ratio Analysis

Ratio analysis helps to summarize the large quantities of financial data and to make quantitative judgement about the firm's financial performance. Ratio is the expression of one figure in terms of another. It is the expression of relationship between the mutually independent figures. In financial analysis, Ratio is used as

an index or yardstick for evaluating the financial position and performance of firm. Ratio analysis is very much powerful & widely used tools of financial analysis. The systematic use of ratios helps to interpret the financial statements so that the strengths and weakness of a firm as well as its historical performance and current financial condition can be determined. It helps the analysis to make quantitative judgement about the financial position and performance of the firm. Therefore, it helps in making decisions since it helps to establish relationship among various ratios and interpret thereon. Specially, on the basis of comparison between two or more firms or inter firm comparison and comparison between present and past ratios for the same firm give enormous and fruitful results to examine the financial performance.

The obsolete accounting figure reported in the financial statement does not provide a meaningful understanding of the performance and financial position of the firm. An accounting figure conveys meaning when it is related to some other relevant information. Therefore, the ratio is the relationship between two accounting figures expressed mathematically. It helps to summarize large quantitative statement about the firm's financial positions. The point to note is that a ratio reflecting a quantitative relationship helps to form a qualitative judgement. However, a single ratio itself does not indicate favorable or unfavorable conditions. It should be compared with some standard.

A ratio is simply a number expressed in terms of another number and it expresses the quantitative relation between any two variables. Ratio can be calculated between any two items of financial statements. It means there are the numbers of items. But under the ratio analysis technique, it is not practical to work out all the ratios. Hence only the required ratios, have been worked out.

There are numerous ratios to analyze and interpret the financial form once of the enterprise of firm. However, for our purpose, only important and relevant ratios are used to check the financial health of two insurance companies in Nepal, which are given below:-

3.7.1.1.1 Liquidity Ratios

Liquidity ratios are used to judge the company's ability to meet short-term obligation. These ratios give insights into the present cash solvency of the firm and its ability to remain solvent in the event of adversities. It is the comparison between short-term obligation and the short-term resources available to meet their short-term obligation, which are likely to mature in the short period. The following ratios are developed and used for the purpose to find the liquidity positions of the two insurance companies.

i) Current Ratio

It indicates the current short-term solvency position of a firm. Current ratio is the relationship between current assets and current liabilities. It is calculated by dividing the current liabilities by current assets, which is expressed as follows.

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

Current assets refers to those assets which are convertible in cash within a year or so. This includes, cash and bank balance, investment in treasury bills, money at short call or placement, loans and advances, bills purchased and discounted, overdraft, other short term loans, , bills for collection, customers acceptance liabilities, prepayment expenses, and other receivables. Similarly, current liabilities refer to those obligations maturing with in a year. It includes current account deposits, saving account deposits, Margin deposits, call deposits, bills payable, bank overdraft, previous, accured expenses etc.

A high ratio indicates better position. However, a high ratio of current assets to current liabilities may be indicator of slack management practice, as it might signal excessive inventories for the current requirements and poor credit management in terms of over-expanded account receivable.

Current ratio is a measure of firm's solvency. It indicates the availability of the current assets in rupees for every one rupee of current liability. As a conventional rule, a current ratio of 2 to 1 is considered satisfactory. However, this rule should not be blindly followed, as it is the test of quantity not quality. In spite of its shortcoming, it is a crude and quick measure of the firm's liquidity.

Current assets mean cash and those assets which can be convertible into cash within a year. In this study, cash and bank balance, outstanding premium, does from insurer, prepaid expenses, sundry debtors, stock and supplies, investment in H.M.G. securities and others expect share of other company are taken into consideration under the current assets of Nepal Insurance Company Limited. Current Liabilities include, all obligations maturing within a year. Sundry creditors, outstanding claims dues to reinsure, provision for doubtful debt, provision for taxation, provision for dividend, other provisions and miscellaneous current liabilities of Insurance companies. Thus, current ratio is a measure of short- term solvency of the firm.

ii) Cash to Current Liabilities Ratio

Cash to current liabilities ratio shows the ability of the insurance companies to meet the short-term obligations. The ratio is obtained by dividing cash by total current liabilities as follows:-

$$\text{Cash to Current Liabilities Ratio} = \frac{\text{Cash}}{\text{Total Current Liabilities}}$$

3.7.1.1.2 Long-Term Solvency Ratio

Shareholders & debenture holders are mainly concerned with the long-term financial prospects, while bankers & other short-term creditors are interested in the current debt paying ability of a business. The funds needed are financed of through the owner's capital or borrowed capital or both. The owner's capital collected by issuing new share or retains some earning from profit. The financial structure of an enterprise comprises equity & debts. The long-term funds of financing are debenture borrowing, preference capital & common share capital. Share capital includes reserve, surplus & retained earning. There should be appropriate mix of debt & owner equity in financing the firm's assets. The debt is risky from the point of view of enterprises because the debt holders are creditors. The firm has legal obligation to pay fixed rate of interest to debt holder irrespective of the return generated by the firm. The debt increases the risk of solvency of the firm as involves interest irrespective of profitability when the firm's earning rate is higher than the interest rate on invested funds employment of debt is advantageous to shareholders & vice versa. Therefore, there should be appropriate proportion of debt & equity in financing the firm's assets.

The long-term solvency ratios are calculated to measure the degree of financial risk & the firm's ability of using debt for the benefit of shareholders. In case of United Insurance Company Limited & Nepal Insurance Company Limited, the following long term solvency ratios are calculated & analyzed in this part of study:-

i. Debt to Equity Ratio
ii. Debt to Total Assets Ratio
iii. Net worth to Total Assets Ratio

i)Debt to Equity Ratio

Debt to equity ratios shows the relationship between borrowed fund & owners capital to measure long-term solvency of firm. In other word this ratio is employed as a principle tools for analyzing the composition of capital structure. It measures the relative claims of creditors & owners against the firm's assets. The debt to equity ratio of both insurance companies is given below.

$$\text{Debt to Equity Ratio} = \frac{\text{Total Debt}}{\text{Net Worth}}$$

Note:

Total Debt = Long term liabilities + current liabilities.

(In case of this study, there is no long term liabilities.

Therefore, Debt is the total current Liabilities)

Shareholders Equity = Share Capital + Shareholder's Reserve + Other Reserve + Profit & Loss (Credit Balance)

The ratio of total debt equity varies according to the nature of business & volatility of cash flows. A comparison of a debt ratio for a given company with the similar companies gives a general indication of the credit worthiness & financial risk of the firm.

ii)**Debt to Total Assets Ratio**

The Debt to Total Assets Ratio expresses the relationship between Total Debt and Total Assets. It measures to what extent the total assets of the company if financed through debt. In other words, it shows to what extent the total debt has been utilized in relation to total liabilities & capital invested in total assets of the firm. In general, it measures the claims of the creditor against the total assets. In this

study total debt represents the total of current liabilities because there is no use of long-term debt to finance the assets of the insurance companies.

The Debt to Total Assets Ratio is calculated as follows:-

$$\text{Debt to Total Assets Ratio} = \frac{\text{Total Debt}}{\text{Total Assets}}$$

iii)Net worth to total Assets Ratio

Net worth is also termed as shareholders equity. This ratio highlights the relationship between shareholder equity & total assets by measuring the extent to which the assets is financed through equity. In other word, it shows to what extent the net worth has been utilized in relation to total liabilities & capital invested in total assets of the firm. In general it measures the claims of owner against the total assets.

The Net Worth to Total Assets Ratio is calculated as follows:

$$\text{Net Worth to Total Assets Ratio} = \frac{\text{Net Worth}}{\text{Total Assets}}$$

3.7.1.3 Turnover Ratio

The turnover ratio measures the efficiency of the management in utilizing its assets. These ratios are also known as utilization ratio because they indicate the speed with which assets are being converted to turnover. Turnover ratio shows the relationship between sales (Premium Earning) and various assets. A proper balance between premium (sales) and assets generally reflects that the assets are managed well. The following ratios are used to evaluate the assets utilization of the insurance companies.

i. Total Assets Turnover Ratio
ii. Fixed Assets Turnover Ratio
iii. Current Assets Turnover Ratio

i) Total Assets Turnover Ratio

Assets are used to generate insurance premium. Therefore insurance companies should manage their assets efficiently to maximize net premium. The relationship between total assets and premium is called total assets turnover so far this study is concerned. The financial performance of NICL & UICL can be measured with the help of this ratio. The total assets turnover is calculated diving net premium by total assets.

$$\text{Total Assets Turnover Ratio} = \frac{\text{Premium Earned}}{\text{Total Assets}}$$

ii) Fixed Assets Turnover Ratio

The firms require the fixed assets for the purpose of generation net premium therefore the efficiency of fixed assets should be judged in relation to premium earning. This ratio measures the efficiency with which the firm is utilizing its investment in fixed assets. It also indicates the adequacy of net premium in relation to the investment in fixed assets. Generally the higher ratio indicates favorable conditions of the company and lower ratio indicates unfavorable condition of the company. This ratio can be calculated as follows:-

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

iii) Current Assets Turnover Ratio

The current turnover ratio is another tools which can be used to evaluate the financial performance of the company. The relationship between total current assets and net premium earned by the company is called current assets turnover ratio. This ratio measures how effectively and efficiently the current assets are utilized to generate net premium. The company should utilize its current assets to

generate more premiums. In other words, the ratio measures the profitability of funds invested in current assets of the companies.

$$\text{Current Assets Turnover Ratio} = \frac{\text{Premium Earned}}{\text{Total Current Assets}}$$

3.7.1.4 Profitability Ratios

The Profitability ratios are calculated to enlighten the ultimate results of business activities of the two insurance companies under study. The future of business concern depends upon the profit. The expansion, growth, contribution towards the social overheads for the welfare of the society and return to shareholders is possible only when the business firm can earn adequate return. The profitability position of insurance companies can be tested by its profitability ratio. Higher profitability ratio is favorable.

The following ratios are used to evaluate the profitability of the insurance companies:

i. Gross Profit Margin Ratio
ii. Net Profit Margin Ratio
iii. Operating Expenses Ratio
iv. Return on Total Assets Ratio
v. Return on Net Worth
vi. Earning per share
vii. Dividend per share
viii. Dividend Payout Ratio
ix. Price Earning Ratio
x. Earning Yield

i) Gross Profit Margin Ratio

Gross profit margin ratio indicates the percentage of profit after cost of production. It also indicates the efficiency of operation of the firm. This is the ratio calculated in relation to total revenue (Total Operating Income) as follows:

$$\text{Gross Profit Margin Ratio} = \frac{\text{Gross Operating Profit}}{\text{Total Operating Income}} \times 100$$

ii) Net Profit Margin Ratio

This ratio is overall measurement of the firm's ability to turn each rupee premium into net profit. If the net profit margin is inadequate the firm will fail to achieve satisfactory return on owners equity. It also indicates the firm's capacity to withstand in adverse economic conditions. A firm with a high net margin would be profit an advantageous position to survive. The ratio is calculated in relation to total revenue(Total Operating Income) as follows.

$$\text{Net Profit Margin Ratio} = \frac{\text{Net Profit After Tax}}{\text{Total Operating Income}} \times 100$$

iii) Operating Expenses Ratio

Expenses are an important factor that determines the management efficiency. If the expenses can be reduced, profit will be increased and vice-versa. This ratio is calculated in relation to total revenue (Total Operating Income) as follows:

$$\text{Operating Expenses Ratio} = \frac{\text{Total Operating Expenses}}{\text{Total Operating Income}} \times 100$$

iv) Return on Total Assets Ratio

Return on total assets ratio is the indicator of the earning capacity of the company. This ratio reflects the overall efficiency of assets used in the company. This ratio

is helpful tool for making capital budgeting decision. Return on total assets ratio is calculated by using following formula:

$$\text{Return on Total Assets Ratio} = \frac{\text{Net Profit After Tax (NPAT)}}{\text{Total Assets}} \times 100$$

v) Return on Net Worth Ratio

Return on net worth Ratio of the insurance Companies is calculated as follows:

$$\text{Return on Net Worth Ratio} = \frac{\text{Net Profit After Tax (NPAT)}}{\text{Net Worth}} \times 100$$

vi) Earning Per Share

Earning Per Share shows the amount of money earned by one share. It is calculated as follows:

$$\text{Earning Per Share (EPS)} = \frac{\text{Net Profit}}{\text{No. of Existing Equity Share}} \times 100$$

vii) Dividend Per Share

The dividend per share (DPS) is the net distributed profit belonging to the shareholders dividend by the no. of ordinary shares outstanding. It is a tool of measuring the financial performance of the company. DPS can be calculated by following formula:

$$\text{Dividend Per Share} = \frac{\text{Amount Provided to Equity Share Holders}}{\text{Number of Existing Equity Shareholders}}$$

viii) Dividend Payout Ratio

The dividend payout ratio shows how much percent of earning are paid dividend and how much are retained in business to carry out investment opportunities in the

market. The DRP is obtained by dividing the amount of dividend distributed to equity holders by total earning available to equity holders.

$$\text{Dividend Payout Ratio (DPR)} = \frac{\text{Dividend Per Share}}{\text{Earning Per Share}}$$

ix) Price Earning Ratio

Price Earning Ratio of the Insurance Company is calculated as follows:

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

x) Earning Yield

Earning Yield Ratio of the insurance company is calculated as follows:

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

3.7.1.1.5 Analysis of Premium

Insurance premium is the life blood of insurance company. Therefore, to succeed, the insurance companies should be able to increase premium earning. In other words insurance company may flourish only with the significant increase in premium earning. The analysis of premium is very crucial to get meaningful inference on financial performance of insurance companies.

i) Analysis of Yearly Changes in Premium Earning

In this analysis the yearly percentage change in insurance premium is calculated as follows:

$$\text{Yearly \% Change in Premium} = \frac{\text{Beginning Year's Premium} - \text{Ending Year's Premium}}{\text{Beginning Year's Premium}}$$

ii) Total claim to Net Premium Ratio

This ratio is measured to judge that how much net premium is paid for claim. More claim means less surplus from net premium and low claims means high surplus from the under writing of insurance policy. Total claim to Net Premium Ratio is calculated as follows:

$$\text{Total Claim to Net Premium Ratio} = \frac{\text{Total Claim}}{\text{Net Premium}} \times 100$$

3.7.2 Statistical Tools

The financial performance analysis of the insurance companies is analyzed with the help of statistical tools. The statistical tools used in this study are as following:

3.7.2.1 Time Series Analysis

The time series analysis will help to analysis the data in relation with time. It reflects the dynamic phase of movement of a phenomenon over a period of time. The time series analysis will also help to forecast the numerical value of the variables for future based on past data. There are various methods of time series analysis variables but only least square method of trend analysis will be used to the study purpose.

This method of least square is used to fit a straight line trend to forecast the trend value for future. The straight line trend is represented by the equation.

$$Yc = a+bx$$

Where,

Y = Trend value of Y variables

Y = Variables which is assumed to depend upon time

a = Y Intercept or computed trend figure of the Y variables when Y = 0

b = Slope of the trend line or the amount of change in Y variable that is associated with a change of one unit in X variable.

X = The variable which represents time(i.e. year, month, day etc.)

The following two simultaneous equation to be solved to find out the value of a & b.

$$\sum Y = Na + b\sum x$$

$$\sum XY = a\sum + b\sum x2$$

Where,

'N' represents numbers of years.

When $\sum x = 0$

Then, $a = \frac{\sum y}{N}$

$$b = \frac{\sum xy}{\sum x^2}$$

3.7.2.2 Test of Hypothesis

A Hypothesis is an assumption that we make about the population parameter. It is an assumption or a statement about population, which may be true or false. The test of hypothesis is a process of testing of significance regarding the parameter of the population on the basis of the sample drawn from the population. In testing hypothesis, we examine, on the basis of a statistic computed from the sample drawn, whether the sample drawn belongs to the parent population with certain specified characteristics. The computed value of the statistic may differ from the hypothetical value of the parameter due to sampling fluctuations. If the difference is small, we consider that it has not arisen due to sampling fluctuations but it is

due to some other reasons. Hence the difference is considered to be significant and the hypothesis is rejected. Thus the test of hypothesis is disclosing the fact whether the difference between the computed statistic and hypothetical parameter is significant.

Test of Significance of difference between two means the steps in testing the significance of the difference between two means for large sample (n≥30) are as follows:

Step-1: Formulate Null Hypothesis (Ho) and alternative hypothesis (H1) Null Hypothesis, Ho:μ1=μ2 (i.e. there is no significant difference between the average condition of the Nepal Insurance Company Ltd. & United Insurance Company Ltd.)

Alternative Hypothesis, H1:μ1≠μ2 (i.e. there is significant difference between the average condition of the Nepal Insurance Company Ltd. & United Insurance Company Ltd.)

Step-2: Test Statistics under Null Hypothesis is given by,

$$T = \frac{\bar{X}_1 - \bar{X}_2}{\sqrt{S^2\left(\frac{1}{n_1}+\frac{1}{n_2}\right)}}$$

Where, n1≥30, n2≥30, $\bar{X}_1$ = Mean of the variable of NICL

$\bar{X}_2$ = Mean of the variable of UICL

S = Standard Deviation which is calculated as follows:

$$S2= \frac{1}{n_1+n_2-2}\left\{\sum(X_1-\bar{X}_1)^2+\sum(X_2-\bar{X}_2)^2\right\}$$

$$\bar{X}_1 = \frac{\sum X_1}{n_1} \text{ , } \bar{X}_2 = \frac{\sum X_2}{n_2}$$

Step-3: Select the level of significance 5% level of significance, unless otherwise stated and refer to find the tabulated value at (n1+n2- 2) degrees of freedom.

Step-4: Make decision by comparing computed and tabulated values of /t/. If the computed value of /t/ is less than its tabulated value /t/, the Null Hypothesis /Ho/ is accepted otherwise /Ho/is rejected.

The following Hypothesis will be tested in this study:-

i. There is significant difference in Average Current Ratio between NICL & UICL.

ii. There is significant difference in Total Assets Turnover Ratio between NICL & UICL.

iii. There is significant difference in Debt to Equity Ratio between NICL & UICL.

iv. There is significant difference in Net Profit Margin Ratio between NICL & UICL.

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This chapter deals with the analysis and interpretation of data following the research methodology dealt in the third chapter. In the course of analysis, data gathered from the various sources have been inserted in the tabular form according to their homogeneous nature. The various tables prepared for the analysis purpose have been shown in the annexes. Using financial and statistical tools, the data have been analyzed. The result of this analysis has been interpreted keeping in mind the conventional standard with respect to ratio analysis and other factors while using other tools.

For the purpose of assessing financial analysis of the selected insurance companies this chapter has been divided into three sections. In the first section the financial variables are analyzed with the help of financial ratios. The statistical tools are applied for the analysis of financial variable in the last section.

4.2 Analysis of Financial Ratios

Ratio analysis is the powerful tool of financial analysis. A ratio is defined as "The indicated quotient of two mathematical expressions" and as "the relationship between the two or more things". In financial analysis a ratios is used as an index or yardstick for evaluating the financial position and performance of a firm. The relationship between two accounting figure expressed mathematically, is known as financial ratio. A ratio analysis helps to make qualitative judgement about the firms, which can be computed from the information of financial statement. These ratios can be grouped into various classes according to financial activities to be

evaluated. The ratio selected for the comparative study of Nepal insurance Company and United insurance Company are as follows:-

4.2.1 Liquidity Ratio

The Liquidity ratio is used to judge the firm's ability to meet short term obligations. These ratios give insights about the cash solvency of the firms and its ability to remain solvent in the event of adversities. It is the comparison between the short-term obligations and short-term resources available to meet these obligations.

To find out the ability o insurance company to meet their short-term obligations which are like it to mature in the short period. These ratios are calculated. The following are developed under the liquidity ratio to identify the liquidity positions.

4.2.1.1 Current Ratio

Current ratio matches the total current assets of the firm to its current liabilities, current assets normally include cash in hand, cash at bank, marketable securities, other short-term high quality investments, bills receivables, prepaid expenses, work in progress, sundry debtors and inventories. While current liabilities are composed of sundry creditors, bills payable, outstanding and accrued expenses, income tax payable. It can be computed current assets divided by current liabilities. Generally this ratio should be 2:1.

The following table shows the current ratio of Nepal Insurance Company Ltd and United Insurance Company Ltd.

Table 4.1

Current Ratio of NICL and UICL

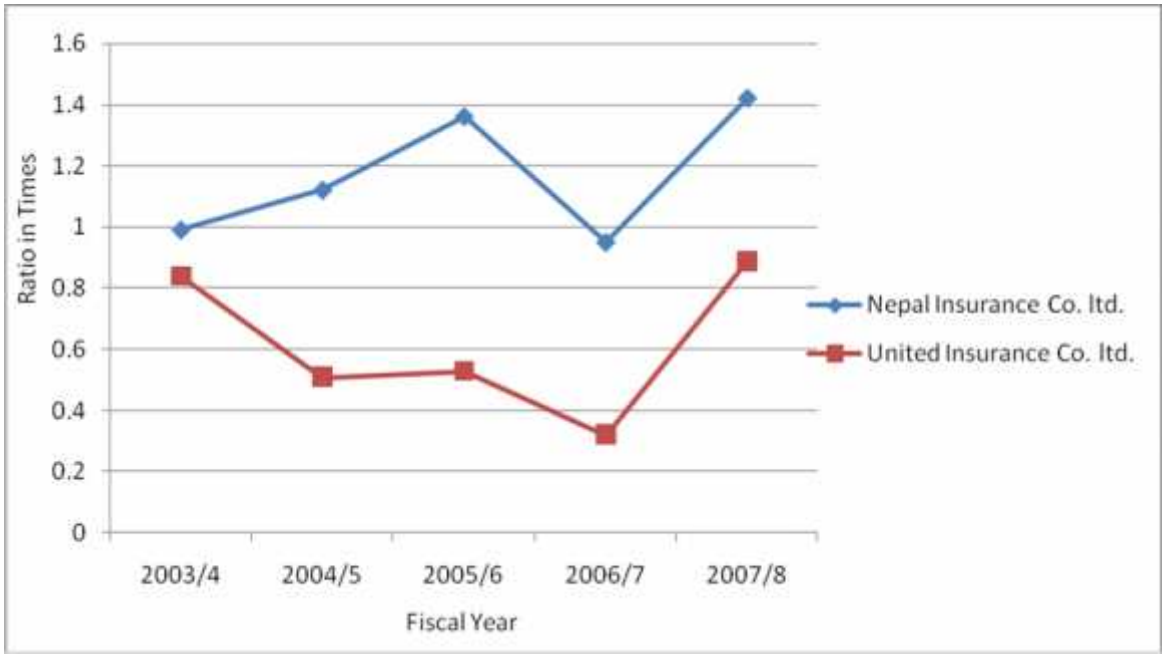
(in million)

Fiscal Year	Nepal Insurance Co. ltd.			United Insurance Co. ltd.		
	Current Assets	Current Liabilities	Ratio (in times)	Current Assets	Current Liabilities	Ratio (in times)
2003/4	290.36	294	0.99	31.6	37.5	0.84
2004/5	268.42	239.59	1.12	31.7	61.9	0.51
2005/6	311.42	229.16	1.36	26.8	50.5	0.53
2006/7	285.44	299.08	0.95	41.94	132.43	0.32
2007/8	377.78	266.71	1.42	100.74	113.57	0.89
Average Ratio = 1.168				Average Ratio = 0.618		
Weighted Average Ratio = $\frac{1.168+0.618}{2}$ = 0.893						

Sources: Annual Report of NICL & UICL

Figure 4.1

Current Ratio Graph of NICL & UICL



Source: Table 4.1

The current assets to current liabilities relationship of both insurance companies for 5 year are presented in Table 4.1. The higher the ratio, supposedly, the greater the ability to meet its short-term obligations. The ratio will be regarded as a crude measure of liquidity, however it doesn't take into account the liquidity of the individual components of the current assets. The table 4.1 shows that the average current ratio of NICL and UICL, for the period of five years is about 1.168 times and 0.618 times respectively. The current ratio of NICL is, 0.99,1.12, 1.36, 0.95, 1.42, 1.168 times in fiscal year 2003/4, 2004/5, 2005/6, 2006/7, 2007/8 respectively. UICL has current ratio of 0.84,0.51, 0.53, 0.32, & 0.89 times in fiscal year 2003/4, 2004/5, 2005/6, 2006/7, 2007/8 respectively. The weighted average ratio as both companies is 0.893 times.

The current ratio of NICL and UICL for five year period in below the role of thumb.i.e2:1 on the basis of 2:1 norms, ratios for all the years are unsatisfactory.

If it is supposed that the weighted average (i.e. 0.893 times) current ratio of industry average, the current ratio of NICL is higher than industry average and UICL's is lower than industry average during the study period. Therefore, ratios of both companies are unsatisfactory, so it can be said that liquidity position of NICL and UICL is not better.

4.2.1.2 Cash to Current Liabilities Ratio

Cash to current liabilities ratio shows the ability of the insurance companies to meet the short- term obligations. The ratio is obtained by dividing cash by total current liabilities. The cash to current liabilities ratio of NICL and UICL is presented the following table:

Table 4.2

Cash to Current Liabilities Ratio of NICL & UICL

(in million)

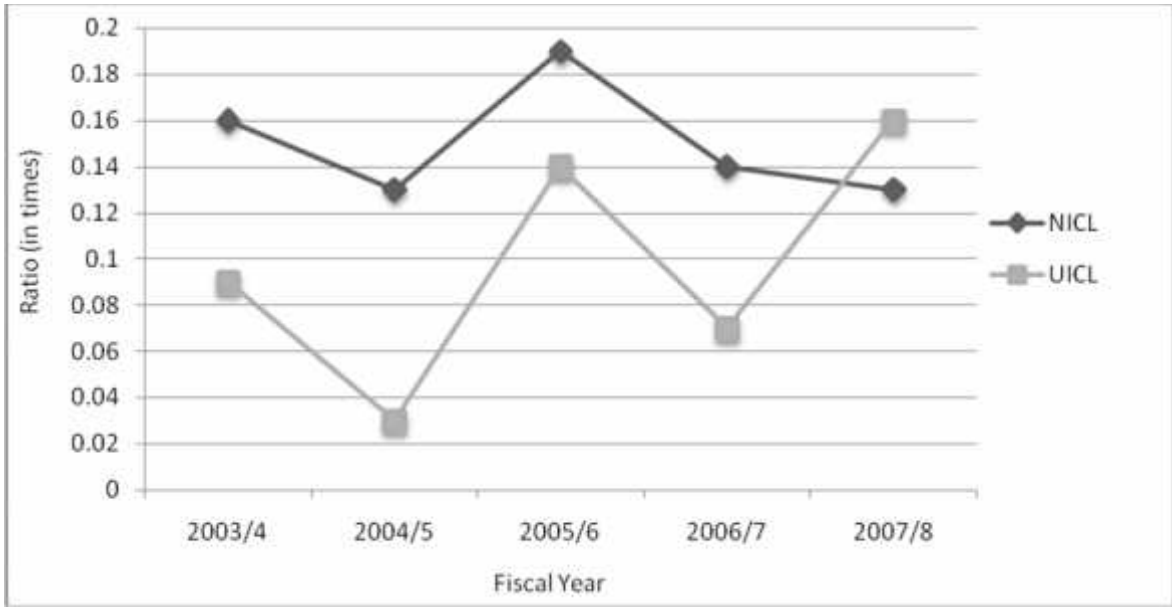
Fiscal Year	Nepal Insurance Co. ltd.			United Insurance Co. ltd.		
	Cash	Current Liabilities	Ratio (in times)	Cash	Current Liabilities	Ratio (in times)
2003/4	48.42	294	0.16	3.37	37.5	0.09
2004/5	31.5	239.59	0.13	1.91	61.9	0.03
2005/6	44	229.16	0.19	7.24	50.5	0.14
2006/7	43.62	299.08	0.14	9.37	132.43	0.07
2007/8	36	266.71	0.13	18.84	113.57	0.16
Average Ratio = 0.15				Average Ratio = 0.098		

$$\text{Weighted Average Ratio} = \frac{0.15 + 0.098}{2} = 0.124$$

Source: Annual Report of NICL & UICL

Figure 4.2

Cash to Current Liabilities Ratio Graph of NICL & UICL



Source: Table 4.2

As shown in table 4.2 cash to current liabilities ratios of NICL are 0.16, 0.13, 0.19, 0.14 & 0.13 in the fiscal year 2003/4, 2004/5, 2005/6, 2006/7, 2007/8 respectively where as this ratio of UICL are 0.09, 0.03, 0.1, 0.07 & 0.2 in the fiscal year 2003/4, 2004/5, 2005/6, 2006/7, 2007/8 respectively. These ratios show that both the companies have less cash balance to meet short term obligations. The average cash to current ratio of NICL is 0.15 times where as this ratio of UICL is 0.098 times. The average cash to current liabilities ratio of NICL is higher than the weighted average cash to current liabilities ratio but UICL has lower average cash to current liabilities ratio.

The lowest cash to current liabilities ratio of NICL is 0.13 times (in 2004/5 & 2007/8) where as the same ratio of UICL was 0.03 time (2004/5) NICL increased this ratio up to 0.19 time (in 2005/6) and the same ratio is 0.16 times (in 2007/8).The ratio of both companies are fluctuating comparatively, NICL is in better position than UICL in respect to cash current liabilities ratio.

4.2.2 Long-Term Solvency Ratio

AS described in Research Methodology chapters, long term solvency ratios are calculated to measure the degree of financial risk and the company's ability of using debt for the benefit of the shareholders of both the company with this ratios are calculated and analyzed in this part of the study.

4.2.2.1 Debt to Equity Ratio

Debt to equity shows the relationship between borrowed fund and owner's capital to measure the long-term solvency of the selected insurance companies. NICL & UICL have not been using long term debt to finance its assets during the study period. Hence Total Debt refers to the total of current liabilities. The following table shows debt to shareholders equity ratio of NICL & UICL.

Table 4.3

Total Debt to Equity Ratio of NICL & UICL

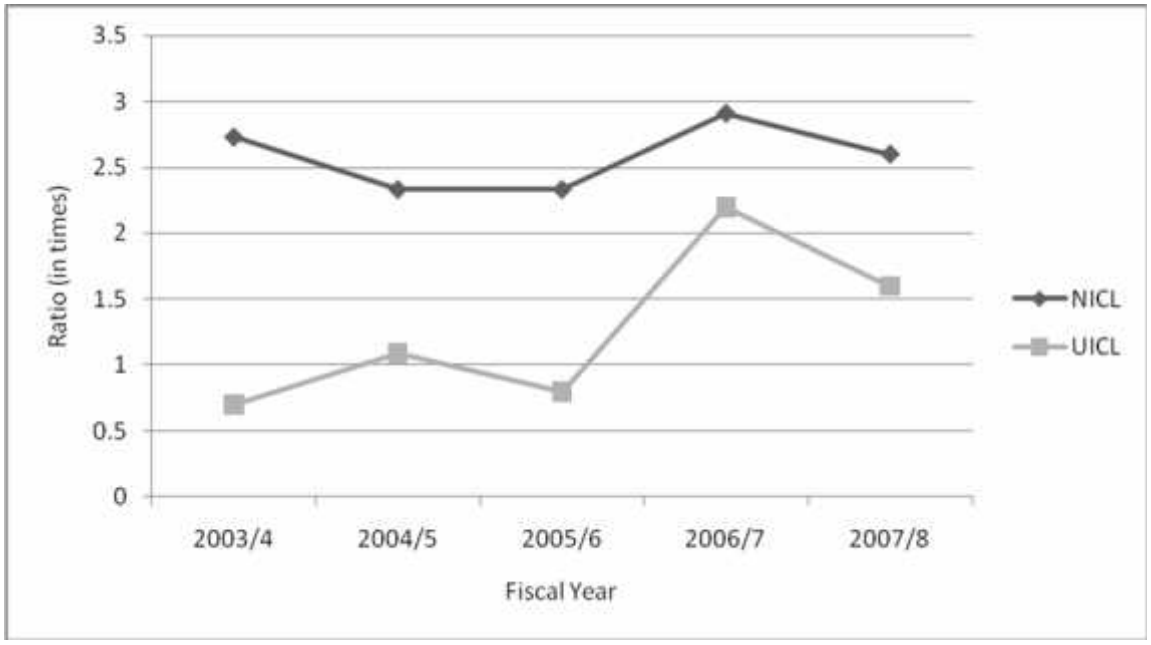
(in million)

Fiscal Year	Nepal Insurance Co. ltd.			United Insurance Co. ltd.		
	Total Debt	Shareholders Equity	Ratio	Total Debt	Shareholders Equity	Ratio
2003/4	294	78.9	3.73	37.5	56.6	0.7
2004/5	239.59	102.68	2.33	61.9	56.6	1.05
2005/6	229.16	102.68	2.33	50.5	60	0.8
2006/7	299.08	102.68	2.91	132.43	60	2.2
2007/8	266.71	102.68	2.6	113.57	72	1.6
Average Ratio = 2.78				Average Ratio = 1.278		
Weighted Average Ratio = $\frac{2.78 + 1.2787}{2}$ = 2.029						

Sources: Annual Report of NICL & UICL

Figure 4.3

Total Debt to Equity Ratio Graph of NICL & UICL



Source: Table 4.3

According to table 4.3 the average debt to equity ratio of NICL & UICL is 278% (2.78) and127.8% (1.278) respectively. The ratio of NICL is fluctuated by a minimum and maximum of about 233% (2004/5 & 2005/6) to 373% and the ratio of UICL of about 70% (2003/4) to 22% (2006/7). The ratio of both company are fluctuated. Finally both companies are risk in term of debt to equity ratio.

4.2.2.2 Debt to Total Assets Ratio

This ratio expresses the relationship between total debt & total assets. Debt to total assets ratio of NICL and UICL for five years is presented in table-4.4:-

Table 4.4

Debt to Total Assets Ratio of NICL & UICL

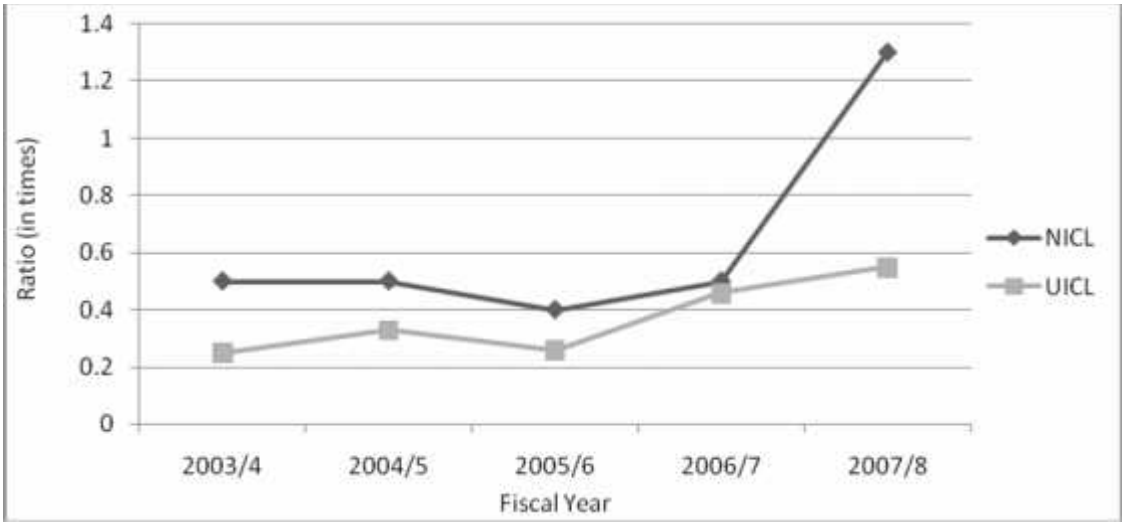
(in million)

Fiscal Year	Nepal Insurance Co. ltd.			United Insurance Co. ltd.		
	Total Debt	Total Assets	Ratio	Total Debt	Total Assets	Ratio
2003/4	294	503	0.5	37.5	152	0.25
2004/5	239	475	0.5	61.9	184	0.33
2005/6	229	472	0.4	50.5	194	0.26
2006/7	299	578	0.5	132.43	286	0.46
2007/8	266	205	1.3	113.57	207	0.55
Average Ratio = 0.64				Average Ratio = 0.37		
Weighted Average Ratio = $\frac{0.64 + 0.37}{2}$ = 0.505						

Sources: Annual Report of NICL & UICL

Figure 4.4

Debt to Total Assets Ratio Graph of NICL & UICL



Source: Table 4.4

Table 4.4 indicates that the ratio of NICL fluctuates from about 40% (2005/6) to 130% (in 2007/8) and the same ratio of UICL fluctuates from about 25% (2003/4) to 55% (2007/8) respectively. The average ratio is 64% & 37% of NICL & UICL respectively. The weighted average ratio is 60.5%.Debt to total assets of UICL is highly fluctuating that of NICL.

4.2.2.3 Net Worth to Total Assets Ratio

Net worth is also termed as shareholders equity. This ratio highlights the relationship between shareholders equity (Net worth) and total assets. Net worth to total assets ratio of NICL & UICL.

Table 4.5

Net Worth to Total Assets Ratio of NICL & UICL

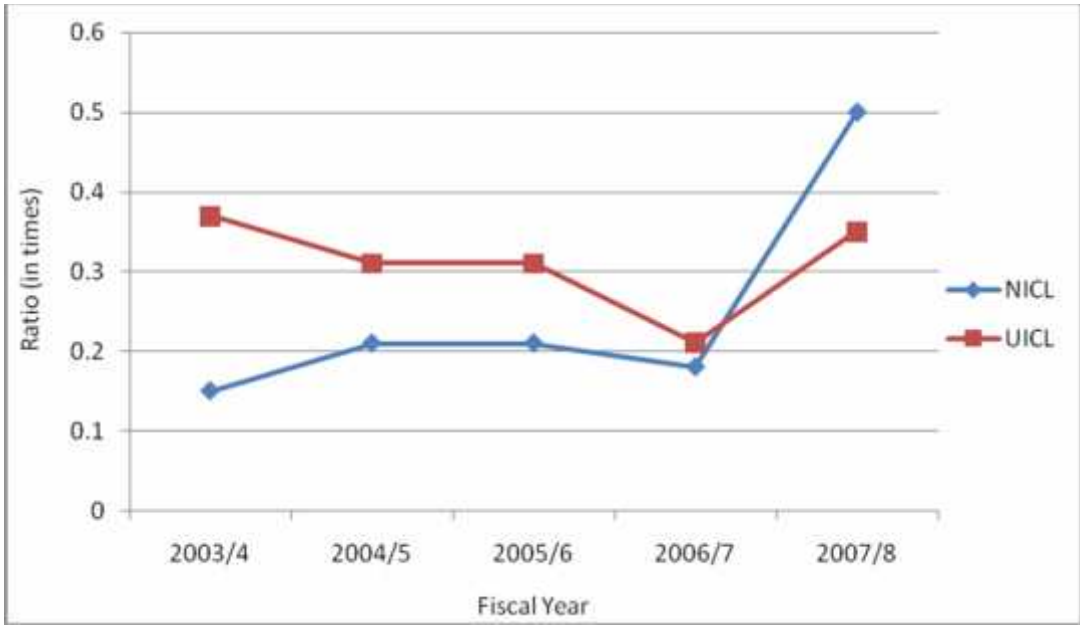
(in million)

Fiscal Year	Nepal Insurance Co. ltd.			United Insurance Co. ltd.		
	Net Worth	Total Assets	Ratio	Net Worth	Total Assets	Ratio
2003/4	78.9	503	0.15	56.6	152	0.37
2004/5	102.68	475	0.21	56.6	184	0.31
2005/6	102.68	472	0.21	60	194	0.31
2006/7	102.68	578	0.18	60	286	0.21
2007/8	102.68	205	0.50	72	207	0.35
Average Ratio = 0.25				Average Ratio = 0.28		
Weighted Average Ratio = $\frac{0.25 + 0.31}{2}$ = 0.28						

Sources: Annual Report of NICL & UICL

Figure 4.5

Net Worth to Total Assets Ratio Graph of NICL & UICL



Source: Table 4.5

According to the table 4.5 the average Net worth to total assets ratio of NICL and UICL is 25% and 31% respectively for the years period of study. It means that financed by equity and rest by debt where as UICL financed 31% on average from equity and rest from debt financing.

The ratio NICL ranged the lowest 15% (2003/4) and the highest 0.50% (2007/8) where as the same ratio of UICL ranged the lowest 21% (2006/7) and the highest 37% (2003/4), leading the high fluctuating rate than that of NICL.

4.2.3 Turnover Ratio

As described in the research methodology chapter, turnover ratio measures the efficiency of the management utilizing its asset. This ratio is known as utilization ratio. Under Turnover ratio, the following ratios of the NICL & UICL are calculated:-

4.2.3.1 Total Assets Turnover Ratio

A huge amount of money is invested in various types of assets to generate sales revenue (i.e. insurance premium). Therefore insurance companies should manage their assets efficiency to maximize net premium. The relationship between total assets and net premium is called total assets turnover ratio as far as this study is concerned. The Total Assets Turnover Ratio of NICL and UICL for five years period is presented in table 4.6.

Table 4.6

Total Assets Turnover Ratio of NICL & UICL

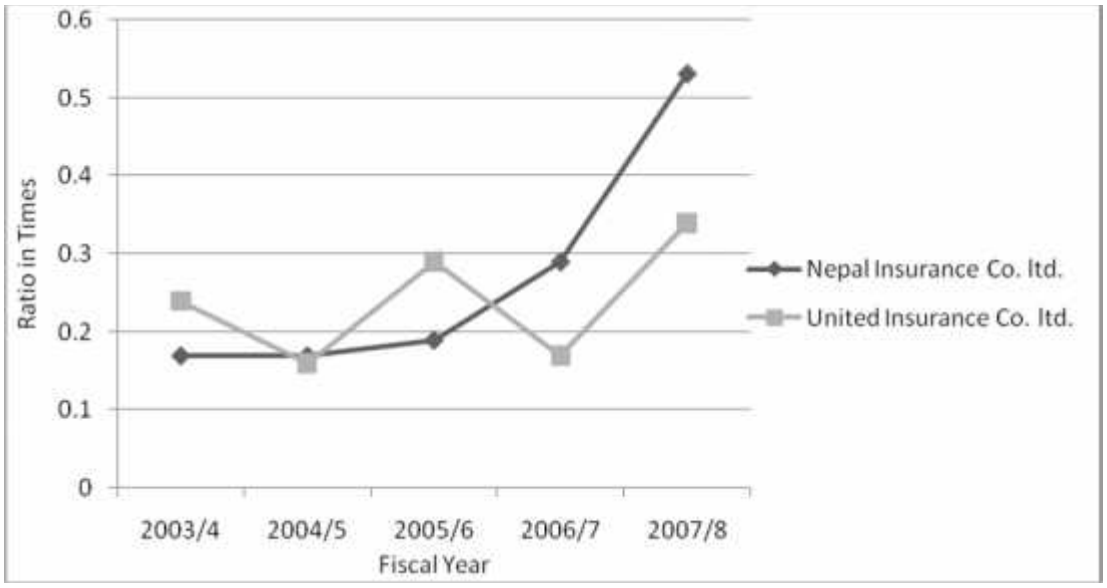
(in million)

Fiscal Year	Nepal Insurance Co. ltd.			United Insurance Co. ltd.		
	Net Premium Earned	Total Assets	Ratio (in times)	Net Premium Earned	Total Assets	Ratio (in times)
2003/4	88	503	0.17	36	152	0.24
2004/5	79.7	475	0.17	29	184	0.16
2005/6	93.9	472	0.19	57	194	0.29
2006/7	168	578	0.29	48	286	0.17
2007/8	109.3	205	0.53	70	207	0.34
Average Ratio = 0.27				Average Ratio = 0.24		
Weighted Average Ratio = $\frac{0.27+0.24}{2}$ = 0.255						

Sources: Annual Report of NICL & UICL

Figure 4.6

Total Assets Turnover Ratio Graph of NICL & UICL



Source: Table 4.6

As shown in table 4.6, Total Assets Turnover Ratio of NICL are 0.17, 0.17, 0.19, 0.29, & 0.53 times in the fiscal year 2003/4, 2004/5, 2005/6, 2006/7 & 2007/8 respectively. The same ratio of UICL are 0.24, 0.16, 0.29, 0.17 & 0.34 in the fiscal year 2003/4, 2004/5, 2005/6, 2006/7 & 2007/8 respectively. The highest and lowest ratio of NICL is 0.53 (2007/8) and 0.17 times (2003/4 & 2004/5) respectively and the same ratio of UICL is 0.34 times (2007/8) and 0.16 times (2004/5) respectively. The weighted average ratio is 0.27 times & 0.24 times of NICL & UICL respectively.

The implication of the average Total Assets Turnover Ratio of NICL is 0.27 times that means that every one rupee is required to generate the net premium of Rs 0.27. Here both companies are unable to maintain a satisfactory level of Total Assets Turnover Ratio. But in comparison NICL has better Total Assets Turnover Ratio than UICL. Total Assets Turnover Ratio of both companies is in increasing trend.

4.2.3.2 Fixed Assets Turnover Ratio

Insurance companies require the fixed assets for the purpose of generating premium. Therefore, the efficiency of fixed assets should be judged in relation to net premium earned.

The following table shows the fixed assets turnover ratio of NICL & UICL.

Table 4.7

Fixed Assets Turnover Ratio of NICL & UICL

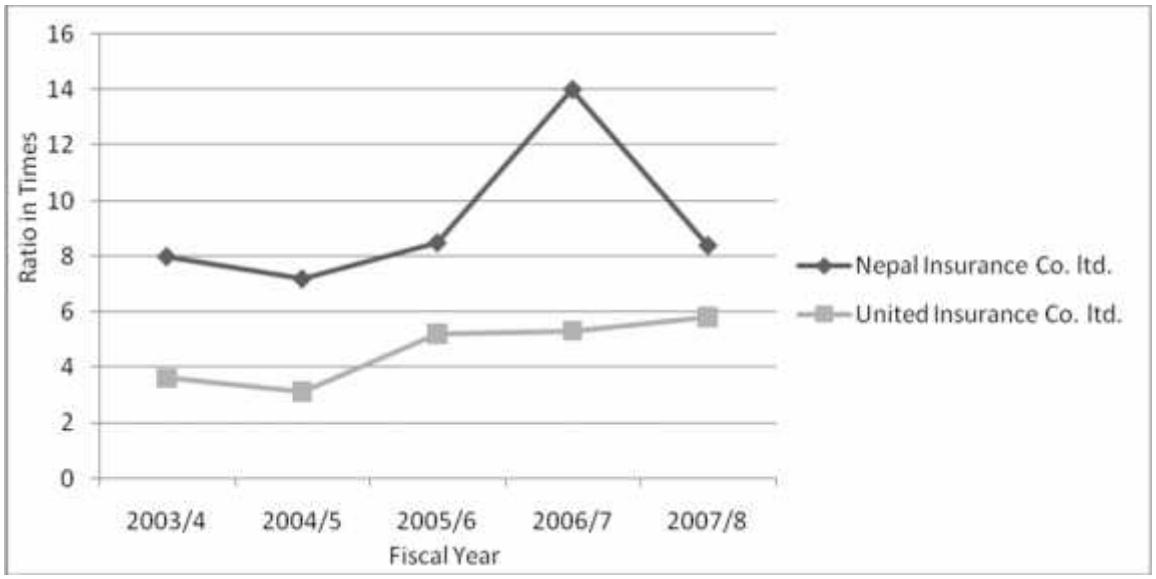
(in million)

Fiscal Year	Nepal Insurance Co. ltd.			United Insurance Co. ltd.		
	Premium Earned	Net Fixed Assets	Ratio (in times)	Premium Earned	Net Fixed Assets	Ratio (in times)
2003/4	88	11	8	36	10	3.6
2004/5	79.7	11	7.2	29	9.3	3.1
2005/6	93.9	11	8.5	57	11	5.2
2006/7	168	12	14	48	9	5.3
2007/8	109.3	13	8.4	70	12	5.8
Average Ratio = 9.22				Average Ratio = 6.91		
Weighted Average Ratio = $\frac{9.22+4.6}{2}$ = 6.91						

Source: Annual Report of NICL & UICL

Figure 4.7

Fixed Assets Turnover Ratio Graph of NICL & UICL



Source: Table 4.7

Table 4.7 shows that average Fixed Assets Turnover Ratio for five years ratio period of NICL & UICL is 9.22 & 4.6 times respectively. This means that on an average Rs 9.22 (NICL) & (UICL) revenue is generated by the company through the investment of one rupee in fixed assets.

Both the companies have fluctuating fixed assets turnover ratio during the study period. The highest ratio of NICL is 14 times (2006/7) where as the same of UICL is 5.8 times (2007/8) and the lowest ratio of NICL is 7.2 times (2004/5) where as the same ratio of UICL is 3.1 times (2005/6) during the period of study.

The weighted average ratio is 6.91 times. UICL is not able to meet the weighted average ratio during the study period. But NICL is only able to meet that level in fiscal year 2006/7. This shows that both companies Fixed Assets Turnover Ratio is unsatisfactory.

4.2.3.3 Current Assets Turnover Ratio

Current Assets Turnover Ratio is obtained by dividing premium earned by current assets of the insurance companies. The Current Assets Turnover Ratio of NICL & UICL is presented in table 4.8

Table 4.8

Current Assets Turnover Ratio of NICL & UICL

(in million)

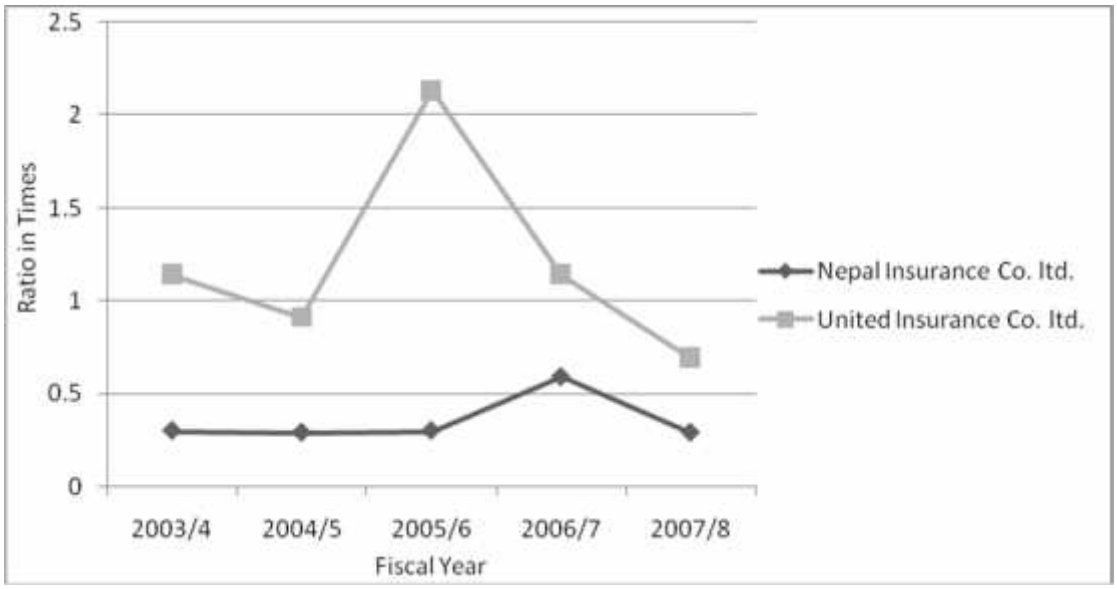
Fiscal Year	Nepal Insurance Co. ltd.			United Insurance Co. ltd.		
	Premium Earned	Total Current Asset	Ratio (in times)	Premium Earned	Total Current Assets	Ratio (in times)
2003/4	88	290.36	0.30	36	31.6	1.14
2004/5	79.7	268.42	0.29	29	31.7	0.91
2005/6	93.9	311.42	0.30	57	26.8	2.13
2006/7	168	285.44	0.59	48	41.94	1.14
2007/8	109.3	377.78	0.29	70	100.74	0.69
Average Ratio =0.354				Average Ratio =1.202		

'Weighted Average Ratio = $\frac{0.354+1.202}{2}$ = 0.778

Source: Annual Report of NICL & UICL

Figure 4.8

Current Assets Turnover Ratio Graph of NICL & UICL



Source: Table 4.8

Table 4.8 reveals that the Average Current Assets Turnover Ratio during the study period for NICL & UICL is 0.354 times and 1.202 times respectively. The weighted average Ratio of both companies is 0.778 times. The ratios of both insurance companies are fluctuating trend. The highest ratio of NICL & UICL is 0.59 times (2006/7) & 2.13 times (2005/6) respectively and the lowest ratio of NICL & UICL is 0.29 times (2004/5, 2006/7) & 0.69 times (2007/8) respectively. UICL is able to meet weighted average ratio except in fiscal year 2007/8 but NICL is not able to meet the weighted average ratio in almost all year during the study period.

This shows that in comparison UICL has better Current ratio that that of NICL during the five years study period. Above calculation shows that both companies

are not able to utilize its current assets more efficiently in order to generate net premium. The major responsible factor for this is the limited insurance transaction of the insurance companies.

4.2.4 Profitability Ratio

Profit is one of the key important factor that determines a firm's survival. Likewise insurance companies cannot flourish unless they can generate substantial amount of profit. The profitability ratio is used to measure the operating performance of the insurance companies. Under this ratio, the following ratios have been calculated to asses the profitability of NICL & UICL.

4.2.4.1 Gross Profit Margin

Gross profit Margin Ratio indicates the percentage of profit after cost of production. It also indicates the efficiency of operation of the firm. It can be obtained by dividing the gross profit by Total Revenue (i.e. Premium Earned) of the insurance companies.

Table 4.9

Gross Profit Margin Ratio of NICL and UICL

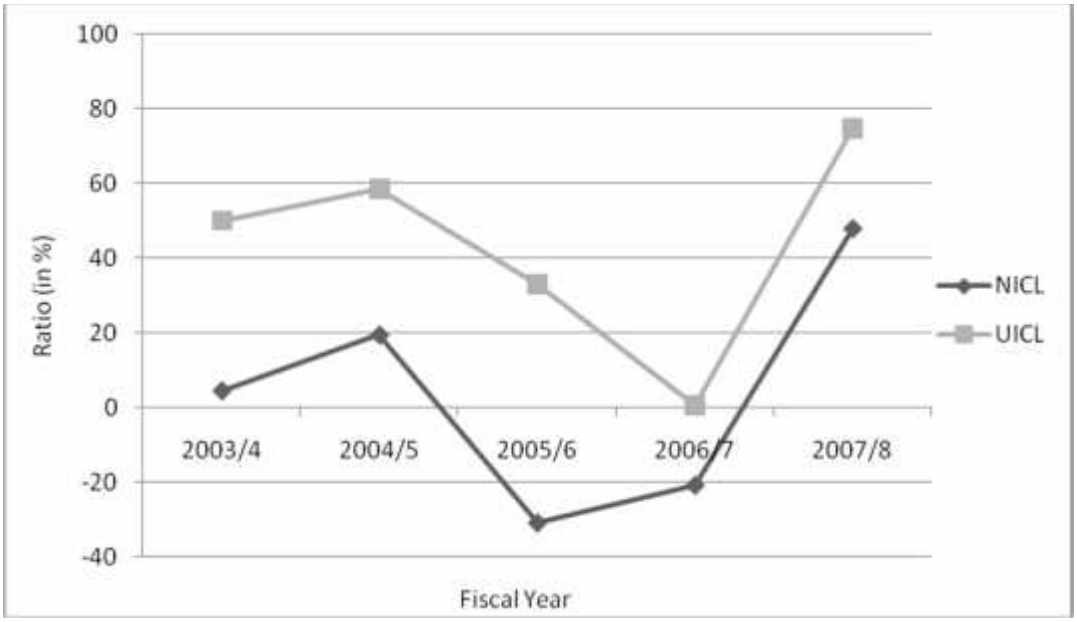
(in million)

Fiscal Year	Nepal Insurance Co. ltd.			United Insurance Co. ltd.		
	Gross Profit	Operating Income	Ratio (in %)	Gross Profit	Operating Income	Ratio (in %)
2003/4	1.6	35.3	4.53	4.1	8.2	50
2004/5	7.2	37	19.46	5.9	10.1	58.42
2005/6	(9.14)	29.63	(30.85)	3.6	10.9	33.03
2006/7	(7.9)	38	(20.79)	(0.004)	8.58	0.466
2007/8	8.9	16.9	47.93	14.8	19.8	74.75
Average Ratio = (33.37)				Average Ratio = 43.33		
Weighted Average Ratio = $\frac{(33.37) + 43.33}{2}$ = 4.98						

Source: Annual Report of NICL & UICL

Figure 4.9

Gross Profit Margin Ratio Graph of NICL & UICL



Source: Table 4.9

Table 4.9 shows that the gross profit margin of NICL ranged about (207.90) to 47.93% where as UICL gross profit ranged about .466 to 74.75% leading to average 33.37% NICL & 43.33% UICL for the study period. Gross profit Margin Ratio of both companies are fluctuating but in comparison NICL has higher fluctuating rate and negative return. UICL is able to meet the weighted average ratio (4.9816) in almost all fiscal years except in 2006/7. But NICL has negative weighted average ratio. This shows that UICL is in better position in respect with Gross Profit Margin Ratio.

4.2.4.2 Net Profit Margin

This ratio is the over all measure of the insurance company's ability to turn each rupee premium into net profit. A firm with a high net profit margin would be an advantageous position to survive. This ratio is calculated by dividing Net Profit

after tax by total revenue (i.e operating income) times 100. The following table shows the net profit margin ratio of NICL & UICL for the five years period:

Table 4.10

Net Profit Margin Ratio of NICL and UICL

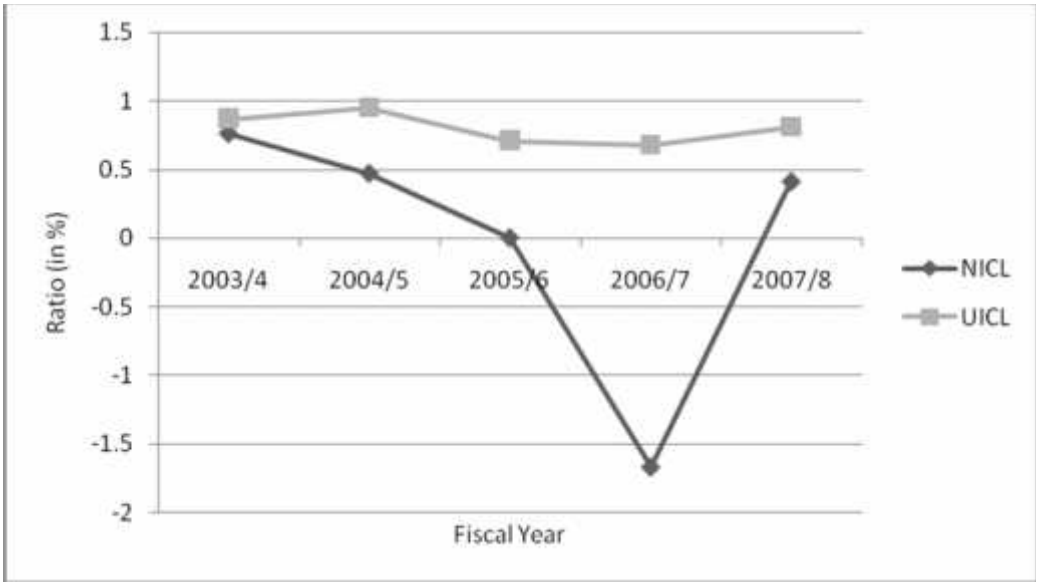
(in million)

Fiscal Year	Nepal Insurance Co. ltd.			United Insurance Co. ltd.		
	Net Profit	Operating Income	Ratio (in %)	Net Profit	Operating Income	Ratio (in %)
2003/4	26.8	35.3	0.76	7.1	8.2	0.87
2004/5	17.3	37	0.47	9.6	10.1	0.95
2005/6	0.02	29.63	0.0007	8.6	10.9	0.79
2006/7	(63.6)	38	(1.67)	5.86	8.58	0.68
2007/8	6.9	16.9	0.41	14.8	19.8	74.75
Average Ratio = (0.0059)				Average Ratio = 0.82		
Weighted Average Ratio = $\frac{(0.059) + 0.82}{2}$ = 0.41155						

Sources: Annual Report of NICL & UICL

Figure 4.10

Net Profit Margin Ratio Graph of NICL & UICL



Source: Table 4.10

Table 4.10 shows the net profit margin of NICL & UICL. The average ratio of NICL is 0.0059 where as the same ratio of UICL is 82% for the study period. The weighted average ratio is 41.15%. The highest ratio of NICL is 76% in fiscal year 2003/4 and the lowest ratio is (167%) in fiscal year 2006/7 and the highest ratio of UICL is 95% in fiscal year 2004/5 and the lowest ratio is 68% in fiscal year 2006/7 during the study period.

The net profit margin ratio of the both companies are fluctuating. The ratio is higher in the beginning and it is lower and negative in the ending of the study period incase of NICL but in the UICL the ratio is satisfactory during the study period. UICL is able to maintain a higher net profit margin ratio than weighted average ratio in almost all fiscal years but NICL is not able to maintain weighted average ratio during the study period.

The fluctuating net profit margin ratio is the clear indication of decreased efficiency and profitability position of the both companies. There is a trend of net profit margin ratio. It is decreased from 47% (2004/5) to (167%) (2006/7) in case of NICL. But incase of UICL, there a sign of increase in net profit margin ratio. Hence comparatively UICL is in better position than NICL. In regard with Net Profit Margin Ratio since UICL is able to maintain a higher ratio than NICL.

4.2.4.3 Operating Expenses Ratio

This ratio expresses the relationship between operating expenses and total revenue. Operating expenses ratio of Nepal Insurance Company Limited and United Insurance Company Limited for five years study period is presented in table 4.11.

Table 4.11

Operating Expenses Ratio of NICL &UICL

(in million)

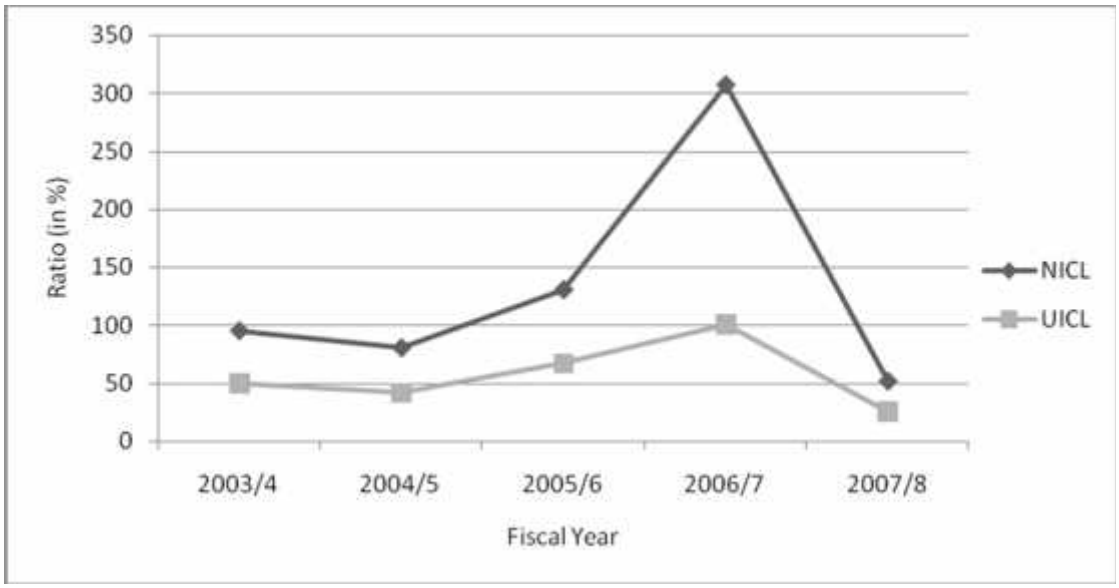
Fiscal Year	Nepal Insurance Co. ltd.			United Insurance Co. ltd.		
	Operating Expenses	Total Revenue	Ratio (in %)	Operating Expenses	Total Revenue	Ratio (in %)
2003/4	33.7	35.3	95.46	4.1	8.2	50
2004/5	29.9	37	80.81	4.2	10.1	41.58
2005/6	38.77	20.63	130.85	7.3	10.9	66.91
2006/7	117	38	307	8.62	8.58	100.47
2007/8	8.8	16.9	52.07	5	19.8	25.25
Average Ratio = 133.24%				Average Ratio = 56.854%		

Weighted Average Ratio = $\frac{133.24\% + 56.854\%}{2}$ = 95.04%

Sources: Annual Report of NICL & UICL

Figure 4.11

Operating Expenses Ratio Graph of NICL & UICL



Source: Table-4.11

Table 4.11 shows that the average operating expenses ratio of NICL & UICL, 132.24% and 95.045% respectively. The operating expenses ratio of NICL is 95.46%, 80.81%, 130.85%, 307% & 52.07% for fiscal year 2003/4, 2004/5, 2005/6, 2006/7 & 2007/8. This ratio of UICL is 50%, 41.58%, 66.97%, 100.47% & 25.25% for fiscal year 2003/4, 2004/5, 2005/6, 2006/7 & 2007/8. It is increasing at increasing rate of NICL but decrease in 2007/8 same of UICL.

NICL is able to decreases its operating expenses ratio from 367% to 52.07% & UICL also able to decrease from 100.47% to 25.25%. This shows that UICL has better and effective management in controlling and regulating operating expenses than that of NICL.

4.2.4.2 Return on Total Assets Ratio (ROTA)

Return on total assets ratio in the indicator of the earning capacity of the insurance companies. This ratio reflects the over all efficiency of assets used in the insurance companies.

The following table shows the return on total assets rate of NICL & UICL for the five years period.

Table 4.12

Return on Total Assets Ratio of NICL & UICL

(in million)

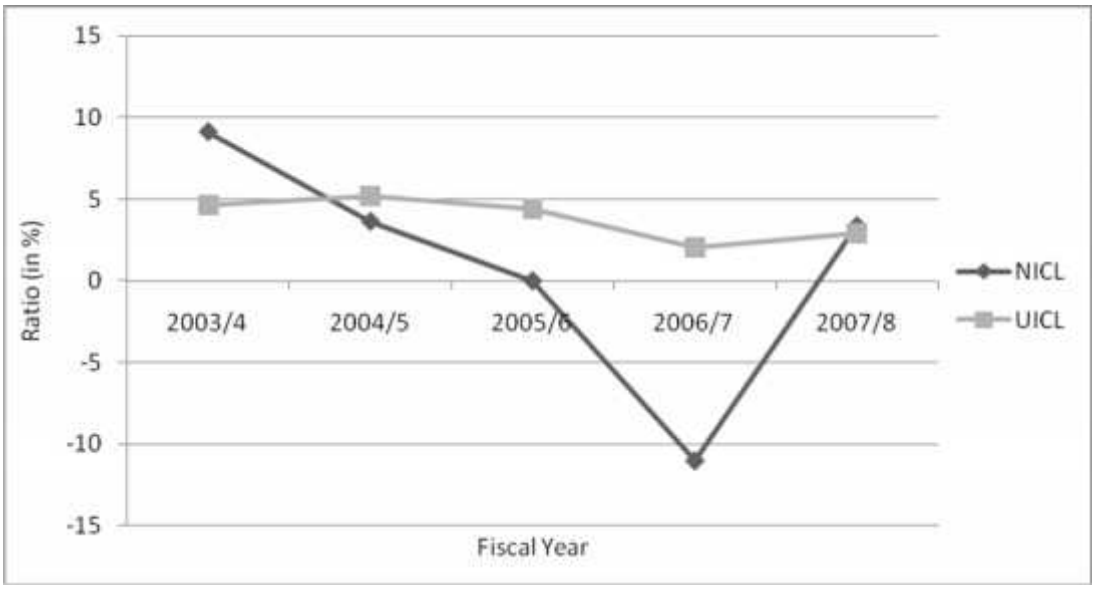
Fiscal Year	Nepal Insurance Co. ltd.			United Insurance Co. ltd.		
	NPAT	Total Assets	Ratio (in %)	NPAT	Total Assets	Ratio (in %)
2003/4	26.8	294	9.12	7.1	152	4.67
2004/5	17.3	475	3.64	9.6	184	5.22
2005/6	0.02	472	0.0042	8.6	194	4.43
2006/7	(63.6)	578	(11)	5.86	286	2.05
2007/8	6.9	205	3.37	16.09	207	2.94
Average Ratio = 1.03%				Average Ratio = 3.862%		

$$\text{Weighted Average Ratio} = \frac{1.03 + 3.862}{2} = 2.446\%$$

Sources: Annual Report of NICL & UICL

Figure 4.12

Return on Total Assets Graph of NICL &UICL



Source: Table 4.12

Table 4.12 shows that the ROA ratio of NICL is decreasing a year by year and negative in 2006/7 after positive. Incase of UICL this ratio is highest in 2004/5 after that decreasing too. The average ratio of NICL and UICL is 1.03% & 3.862%. UICL is able to maintain weighted average ratio in all year but NICL is able to maintain this ratio in almost all year except in fiscal year 2006/7. This ratio shows that UICL is in better position in regard to return on total assets ratio than NICL.

4.2.4.5 Return on Net Worth

Return on net worth ratio of NICL & UICL for the period of 5 years is presented in the following table:

Table 4.13

Return on Net Worth Ratio of NICL & UICL

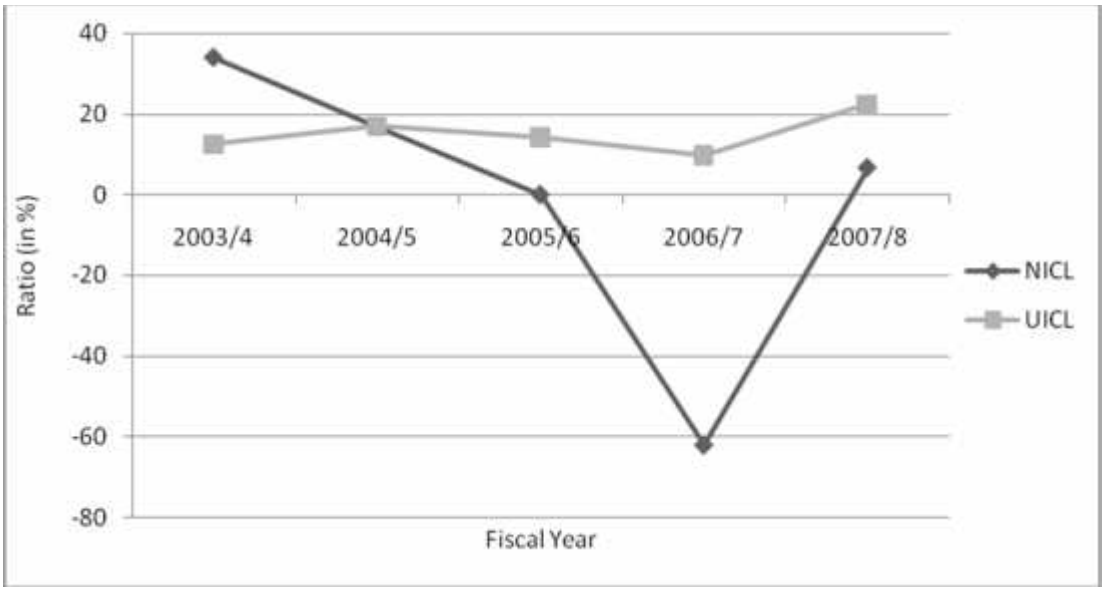
(in million)

Fiscal Year	Nepal Insurance Co. ltd.			United Insurance Co. ltd.		
	NPAT	Net Worth	Ratio (in %)	NPAT	Net Worth	Ratio (in %)
2003/4	26.8	78.9	33.37	7.1	36.6	12.51
2004/5	17.30	102.68	16.85	9.6	56.6	16.96
2005/6	0.025	102.68	0.0019	8.6	60	14.33
2006/7	(63.6)	102.68	(61.94)	5.86	60	9.77
2007/8	6.9	102.64	6.72	16.09	72	22.35
Average Ratio = (0.8762)				Average Ratio = 15.19		
Weighted Average Ratio = $\frac{(0.8762)+15.19}{2}$ = 7.1569						

Sources: Annual Report of NICL & UICL

Figure 4.13

Return on Net Worth Graph of NICL & UICL



Source: Table 4.13

According to table 4.13 the average ratio of NICL and UICL is (0.8762) and 15.19% respectively. The weighted average ratio is 7.1569%. NICL is not able to

maintain the weighted average ratio but UICL is able to maintain this ratio in almost all years except in fiscal year 2006/7. Return on Net Worth Ratio is fluctuating both of insurance companies But UICL is in better position in comparison to NICL.

4.2.4.6 Earning Per Share

Earning per share shows the amount of money earned by one share. The following table shows the earning per share of NICL & UICL.

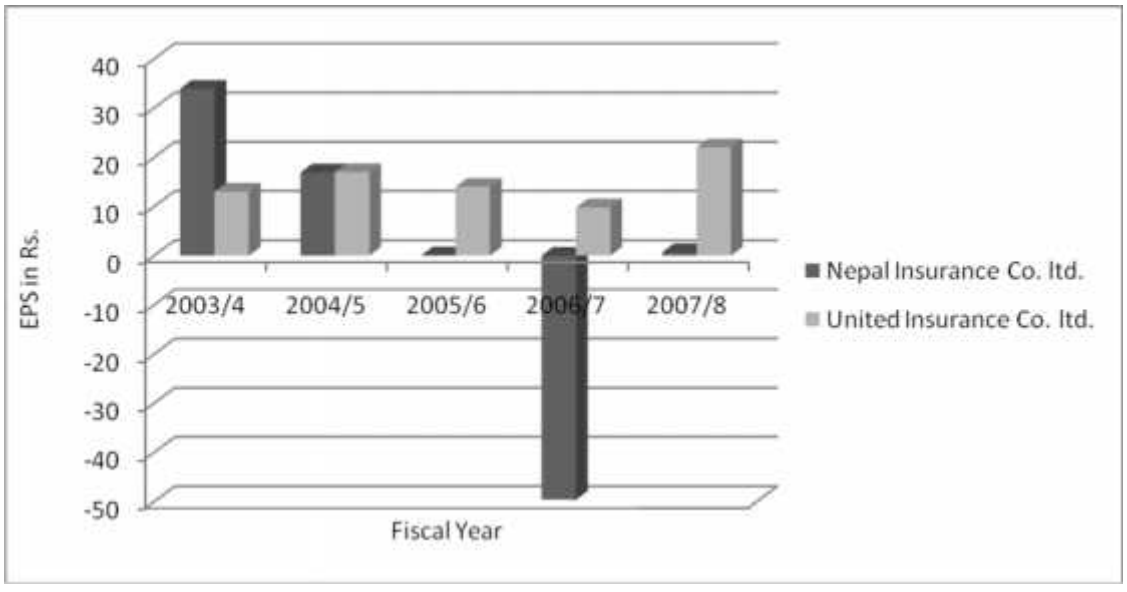
Table 4.14

Earning Per Share of NICL & UICL

Fiscal Year	Nepal Insurance Co. ltd.		United Insurance Co. ltd.	
	EPS (Rs)	% Changed	EPS (Rs)	% Changed
2003/4	33.93	__	13	__
2004/5	16.91	-50.16	17	-0.31
2005/6	0.02	-99.88	14	-0.18
2006/7	(49.61)	-2481.50	9.8	-0.3
2007/8	0.67	-101.35	22	0.55
Average 0.348			**Average 15.16**	

Figure 4.14

Earning Per share of NICL & UICL



Source: Table 4.14

Table 4.14 shows that the earning per share of NICL & UICL in highly fluctuating. The average earning per share of NICL & UICL is Rs 0.348 & Rs 15.16 respectively. There is highest increase in EPS of NICL (Rs33.93) in fiscal year 2003/4 and than it is decreasing. But incase of UICL, the highest EPS is Rs 17in fiscal year 2004/5 than it is decreasing.

The fluctuating and decreasing EPS shows the unfavorable earning position of both on the companies. But in comparison, UICL has better EPS than that of NICL.

4.2.4.7 Dividend Per Share

The Dividend Per Share (DPS) is the net distributed profit belonging to the shareholders divided by the number of ordinary shares outstanding. It is a tool of measuring the financial performance of the insurance companies. The following table shows the Dividend Per Share (DPS) of NICL & UICL for the 5 years period.

Table 4.15

Dividend Per Share of NICL & UICL

Fiscal Year	Nepal Insurance Co. ltd.		United Insurance Co. ltd.	
	DPS (Rs)	% Changed	DPS (Rs)	% Changed
2003/4	40	-	0	-
2004/5	10	-7.5	0	-
2005/6	-	-	0	-
2006/7	-	-	10.20	-
2007/8	-	-	0	-
Average 25			**Average 10.2**	

Table 4.15 shows that the dividend per share of NICL is the Rs 40 & Rs 10 in the fiscal year 2003/4 & 2004/5 respectively. NICL did not pay dividend thereafter. Incase of UICL, It had paid dividend only in 2006/7 Rs 10.20.

Both insurance companies are not able to paid dividend annually because of unfavorable position of Earnings.

4.2.4.8 Dividend Payout Ratio

The dividend payout ratio shows how much portion of the earning have been paid & dividend to the shareholders of the insurance companies. It is obtained by dividing the DPS by EPS.

The following table shows the dividend payout ratio of NICL & UICL for the 5 years period. Dividend Payout Ratio of NICL & UICL

Table 4.16

Dividend Payout Ratio of NICL & UICL

Fiscal Year	Nepal Insurance Co. ltd.		United Insurance Co. ltd.	
	DPR (%)	% Changed	DPR (%)	% Changed
2003/4	117.85	-	-	-
2004/5	59.14	-49.83	-	-
2005/6	-	-	-	-
2006/7	-	-	104.08	-
2007/8	-	-	-	

Table 4.16 shows that dividend payout ratio of both companies. Both companies are not able to pay dividend. Incase of NICL, paid dividend only in fiscal year 2003/4 & 2004/5 which is declining or not consistent. The same of the UICL paid dividend on only in fiscal year 2006/7.

From the above analysis, it is clear that both the insurance companies dividend payout ratio is affected by the liquidity position, unstable earning, lack of retained Earning. Both companies dividend payout track is affected and unsatisfactory.

4.2.4.9 Price Earning Ratio

Price earning ratio is calculated by dividing Market value per share by Earning Per share. The Price earning ratio of NICL and UICL for the study period is presented below.

Table 4.17

P/E Ratio of NICL & UICL

Fiscal Year	Nepal Insurance Co. ltd.		United Insurance Co. ltd.	
	P/E Ratio (times)	% Changed	P/E Ratio (times)	% Changed
2003/4	13.26	-	15.62	-
2004/5	26.61	+13.35	12.70	-18.69
2005/6	20000	+750.60	14.64	+15.28
2006/7	-	-	20	+36.61
2007/8	640.30	-	9.5	-52.5
Average 5170.0425			Average 12.292	

Table 4.17 shows the Price Earning Ratio of NICL & UICL. Both companies P/E ratio is fluctuating. There is highest increase in this ratio of NICL in fiscal year 2005/6 (i.e. 750.60%). The average P/E ratio of the NICL is 5170.0425 times during the study period.

Incase of UICL, the average P/E Ratio is 12.292 times. The highest and lowest P/E ratio is 15.62 times & 9.5 times in fiscal year 2003/4 & 2007/8 respectively. There is highest decrease in P/E in fiscal year 2004/5 and it is decreased by (18.69%) in fiscal year 2001.

P/E ratio of NICL is increasing trend at the beginning but at end it is decreasing during the study period. Likewise, P/E ratio of UICL is fluctuating. In comparison, the P/E ratio of NICL is found strong than that of UICL because it has higher average P/E ratio during the study period.

4.2.4.10 Earning Yield

Earning Yield Ratio of the insurance companies is calculated by dividing Earning Per Share (EPS) by Market Value Per Share (MPS).

The following table shows the Earning Yield of NICL & UICL for the period of five years.

Table 4.18

Earning Yield of NICL & UICL

Fiscal Year	Nepal Insurance Co. ltd.		United Insurance Co. ltd.	
	Earning Yield %	% Changed	Earning Yield %	% Changed
2003/4	7.54	-	6.40	-
2004/5	3.76	-50.13	7.87	22.97
2005/6	0.005	-99.86	6.83	-13.21
2006/7	17.05	34.0900	5	-26.79
2007/8	0.16	99.06	10.48	109.6
Average 5.703			**Average 7.316**	

Table 4.18 shows the Earning Yield of NICL & UICL. Incase of NICL there is decreasing trend of earning yield except in fiscal year 2006/7. It is decreasing from 7.544% in fiscal year 2003/4 to 0.005% in fiscal year 2005/6.On an average, the earning yield of NICL is 5.703 during the study period.

Incase of UICL, the earning yield rates is fluctuating. The average earning yield ratio is 7.316, which is greater than that of NICL. In comparison, UICL has better

earning yield than that of NICL because it has higher average earning yield ratio during the study period.

4.2.5 Analysis of Premium Earning of NICL & UICL

Insurance business is service oriented business. Various types of insurance policies are its products (outputs) and premium earned from selling these insurance policies is the main source of income. Insurance premium is the lifeblood for insurance business. Therefore, to succeed, the insurance companies should be able to increase insurance premium earning. This analysis is very crucial to get meaningful inference on financial performance of both companies.

4.2.5.1 Analysis of Yearly Changes in Premium Earning

The Earned premium (over all) of NICL & UICL and it changes on previous year's Earned premium is presented in the following table:-

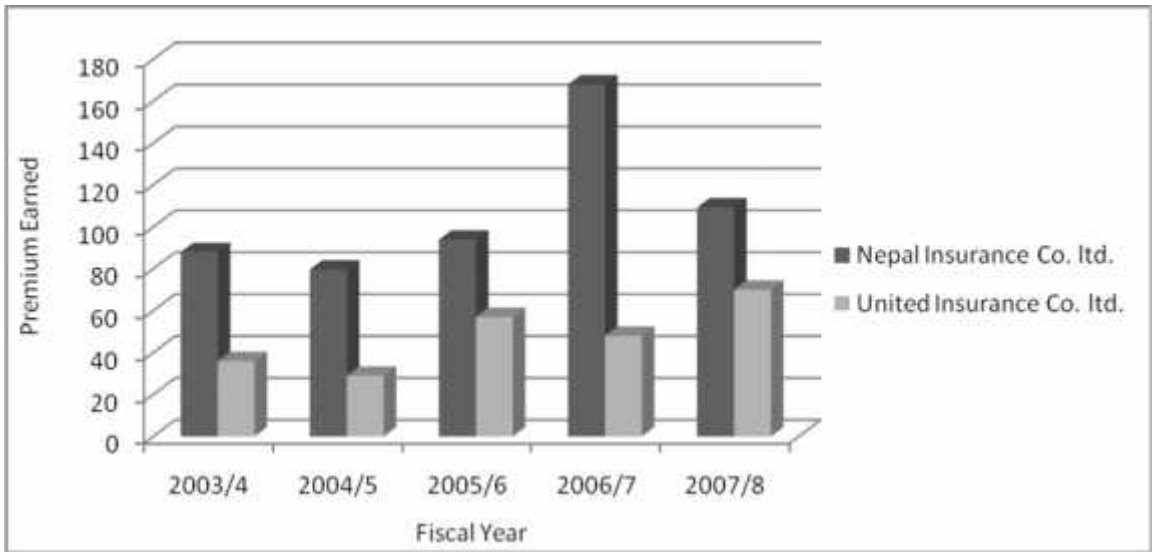
Table 4.19

Earned Premium & Its Changes of NICL & UICL

Fiscal Year	Nepal Insurance Co. ltd.		United Insurance Co. ltd.	
	Premium Earned	% Change	Premium Earned	% Change
2003/4	88	__	36	__
2004/5	79.7	-9.43	29	-19.4
2005/6	93.9	+17.82	57	+96.55
2006/7	168	+78.9	48	-15.79
2007/8	109.3	-34.9	70	+45.83
Average	**107,78**		**Average**	**45**

Figure 4.15

Premium Earned of NICL & UICL



Source: Table 4.19

Table 4.19 shows the earned premium of NICL & UICL for five years period. The premium earning position of both companies is fluctuating. But there is high increase (i.e. 96.55%) in fiscal year 2005/6 of UICL. The largest amount of the insurance earning is Rs 70 million in fiscal year 2007/8 and the smallest amount is Rs 29 million in fiscal year 2004/5. The average earned premium of UICL during the study period is Rs 45 million.

The trend of the premium earning of NICL is same. There is the highest increase in premium earning i.e. 168 million in fiscal year 2005/6 and the lowest earned premium is Rs 107.78 million over the study. The above analysis shows that NICL, on an average is able to earn 2 times more amount of premium than that of UICL. This shows that NICL is able to achieve more competitive efficiency in collection of insurance premium than that of UICL.

4.2.5.2 Total Claim to Net Premium Ratio

Total claim to Net Premium Rate is measured to judge that how much net premium is paid for claim. More claim means less surplus from net premium and low claims means high surplus from the underwriting of insurance policy. The financial performance of NICL & UICL can be analyzed with the help of Total

claim to Net premium Ratio by taking relevant data from F.Y 2003/4 to 2007/8 into consideration as follows:-

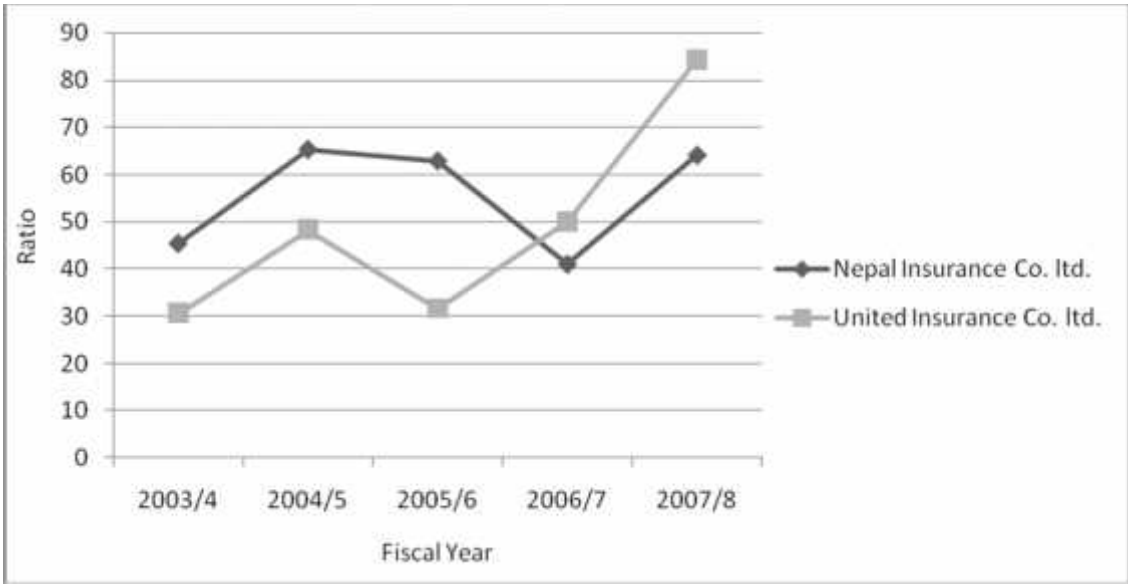
Table 4.20

Total Claim to Net Premium Ratio of NICL & UICL

Fiscal Year	Nepal Insurance Co. ltd.			United Insurance Co. ltd.		
	Total Claim	Net Premium	Ratio (in %)	Total Claim	Net Premium	Ratio (in %)
2003/4	40	88	45.45	11	36	30.55
2004/5	52	79.7	65.24	14	29	48.27
2005/6	59	93.9	62.83	18	57	31.57
2006/7	69	168	41.07	24	48	50
2007/8	70	109.3	64.03	59	70	84.29
Average Ratio = 55.72				**Average Ratio = 48.94**		

Figure 4.16

Total Claim to Net Premium Ratio Graph of NICL & UICL



Source: Table 4.20

The above table shows the amount collected from the underwriting of insurance and total claim paid for the compensation and total claim to Net premium ratio of both companies are fluctuating. Incase of NICL, it is highest (i.e65.24%) in fiscal year 2004/5 and lowest (i.e. 41.07%) in fiscal year 2006/7. The average total claim

to Net Premium Ratio of NICL is 55.72% during the study period. This shows that NICL is able to decrease this ratio in the ending period than the beginning period of the study.

Incase of UICL, this ratio is also fluctuating. The highest Total Claim to Net premium Ratio of UICL is 84.29%. The average total claims to Net Premium Ratio of UICL is 48.94%. The analysis shows that UICL is not able to maintain the same ratio at the beginning period of the study during the study period. This ratio of UICL is higher in the ending period of study. The reason behind this is that the growth rate of claim of UICL is higher than the net premium. But both companies total claim is increasing which leads to achieve highs ratio. The increasing total claim of NICL will deteriorate the profitability of NICL. But in comparison, the average total claim to Net Premium Ratio of UICL is lower than that of NICL, so UICL is in better position than NICL.

4.3Statistical Analysis

The financial performance of Nepal Insurance company Limited and United Insurance company Limited can be evaluated and analyzed with the help of statistical tools.

The part of the study deals statistical analysis. Statistical Analysis means to find the relationship between variables and prediction of future possibility through defined tools. The Statistical tools applied in the study are time series analysis and Test of Hypothesis.

4.3.1 Time Series Analysis

Time Series analysis will help to analyze the data in relation with time. It reflects the dynamics pace of movement of a phenomenon over a period of time. Time series analysis will also help to forecast future based on past data. There are

various method of time series analysis but only least square methods of trend analysis is used in this study as described in research methodology chapter.

4.3.1.1 Gross Profit Trend

The gross profit trend equation of Nepal Insurance Company Limited and United Insurance Company Limited are Y_C= (10.432)+(2.95)x & Y_C= 5.672+8.146x respectively where 'x' and 'y' are used to denote time variable and gross profit variable respectively. The calculated value of 'a', 'b' and Gross Profit Trend Equation of both companies are presented below.

	NICL[Annex-V(1)]	UICL[Annex-V(2)]
a	(10.432)	5.672
b	(2.95)	8.146
Gross Profit Trend Equation	Y_C=(10.432)+(2.95)x	Y_C=5.672+8.146x

The value of 'a' represent the y- intercept when x=0 and the value of 'b' represent the slope of the trend line 'a' and 'b' of UICL is greater than that of NICL which means gross profit trend of UICL is greater than that of NICL. The gross profit trend of UICL is increased by Rs 8.146 per year where as the gross profit of NICL will be decrease by Rs 2.95 million per year. This shows that gross profit trend of UICL is better than that of NICL.

4.3.1.2 Net Profit Trend

The Net profit trend equation of NICL & UICL are Y_C= (12.58)+8.85x & Y_C= 9.45+10.82x respectively.

The value of 'a', 'b' and Net Profit Trend Equation are given below:-

	NICL[Annex-V(3)]	UICL[Annex-V(4)]
a	(12.58)	9.45

b	8.85	10.82
Net Profit Trend Equation	Y_C=(12.58)+8.85x	Y_C=9.45+10.82x

The above table shows that the values of 'a' and 'b' of UICL is greater than that of NICL which means the Net profit growth trend of UICL is better than that of NICL.

The Net profit of NICL will increase by Rs 8.85 million per year where as the Net profit of UICL will increase by Rs 10.82 million per year. This shows that better position of Net profit growth trend of UICL than that of NICL.

4.3.1.3 Earned Premium Trend

The earned premium trend equation of NICL and UICL are Y_C= 107.78+13.09x and Y_C= 4.8+8.7x respectively. The calculated value of 'a', 'b' and Earned Premium Trend Equation are as follows.

	NICL[Annex-V(5)]	UICL[Annex-V(6)]
a	107.78	4.8
b	13.09	8.7
Earned Premium Trend Equation	Y_C=107.78+13.09x	Y_C=4.8+8.7x

The above table shows that the values of 'a' and 'b' of NICL is greater that that of UICL. The earned premium of NICL will increase by Rs 13.09 million per year where as the earned premium of UICL will increase by Rs 8.7 per million per year. This indicates the better position of earned premium trend of NICL than that of UICL.

4.3.1.4 Operating Expenses Trend

The operating expenses trend equation of NICL & UICL are Y_C= 61.474+19.57x and Y_C= 5.844+0.622x respectively. The calculated values of 'a', 'b' and trend equation of operating expenses are as follows.

	NICL[Annex-V(7)]	UICL[Annex-V(8)]
a	61.474	5.844
b	19.57	0.622
Operating Expenses Trend Equation	Y_C=61.474+19.57x	Y_C=3.844+0.622x

The above table shows that the value of 'a', 'b' of NICL is greater than that of UICL. This means that Y-intercept of NICL is greater than UICL. NICL is not able to reduce & control operating expenses. In comparison to UICL is increasing per year by Rs 19.57 million.

4.3.1.5 Dividend Per Share Trend

Dividend per share trend equation of NICL and UICL are Y_C= 10+(12)x & Y_C= 35.4067+(29.492)x respectively. The calculated values of 'a', 'b' and Dividend Per Share Trend Equation are as follows.

	NICL[Annex-V(9)]	UICL[Annex-V(10)]
a	10	35.406
b	(12)	(29.492)
DPS Trend Equation	Y_C=10+(12)x	Y_C=35.406+(29.492)x

Here 'a' represents the Y-intercept of trend line during the five years study period and 'b' represents the shape of the trend line. The table shows the value of 'a' of UICL is greater than that of NICL but value of 'b' of UICL is smaller than that of NICL. Value of 'b' of both insurance companies are negative which means the dividend per share trend of both insurance companies are in decreasing trend which is not satisfactory. But in comparison, higher value of 'b' of UICL (29.492) shows that there is higher decreasing trend of dividend per share of UICL than that

of NICL. This shows the dividend per share trend of NICL is better than that of UICL.

4.3.1.6 Earning Per Share Trend

The earning per share trend equation and values of 'a', 'b' and Earning Per Share Trend Equation are presented a follows.

	NICL[Annex-V(11)]	UICL[Annex-V(12)]
a	20.228	15.16
b	(3.383)	1.08
EPS Trend Equation	Y_C=20.228+(3.383)x	Y_C=15.16+(1.08)x

Here 'a' represents the Y-intercept of trend line during the five years study period and 'b' represents the slope of the trend line. The above table shows the value of 'a' of NICL is greater than that of UICL but value of 'b' of UICL is greater than that of NICL. The slope of EPS trend line of NICL is negative (3.383) which means the EPS of NICL is decreases by 3.383 per year which is unsatisfactory. But the slope of the EPS trend line of UICL is positive (i.e.1.08) which means the EPS of UICL is increasing by Rs 1.08per year. This shows that EPS growth trend of UICL is greater than that of NICL.

4.3.2 Test of Hypothesis

As described in the Research Methodology chapter, test of hypothesis is a process of testing of significance regarding the parameter of the population on the basis of sample drawn from the population. In this part of the study test of hypothesis regarding the current ratio, total assets turnover ratio, total debt to equity ratio, Net profit margin of Nepal Insurance Company Limited and United Insurance Company Limited.

4.3.2.1 Test of Hypothesis on Current Ratio

It is necessary to test the hypothesis that whether there is significant difference in Current Ratio between NICL & UICL. For purpose of testing the hypothesis on Current Ratio, the following Null and Alternative hypothesis are formulated:-

Null Hypothesis, $H_O: \mu_1 = \mu_2$, (i.e. there is no significant difference between the average current ratio of NICL & UICL)

Alternative Hypothesis, $H_1: \mu_1 \neq \mu_2$ (i.e. there is significance difference between the average current ratio of NICL & UICL)

To test the above mentioned hypothesis, the necessary calculated information are mentioned in the following table:-

Average Current Ratio of NICL($\bar{X}_1$)	1.168
Average Current Ratio of UICL($\bar{X}_2$)	0.618
Square of Standard Deviation(S^2)	0.04175
Degrees of Freedom	8
Computed value of/t/	4.26
Tabulated value of /t/at 5% level of significance	2.308
Decision	H_O is rejected

From the t-test analysis for testing hypothesis, it is found that the computed value of /t/ (i.e.4.26) is greater than the tabulated value of /t/ (i.e.2.306) at 5% level of significance for 8 degree of freedom. Therefore, the Null Hypothesis is rejected which means that there is significant difference in the current ratio between NICL & UICL.

4.3.2.2 Test of Hypothesis on Total Assets Turnover Ratio

For testing the Hypothesis on Total Assets Turnover Ratio, the following Null and Alternative hypothesis are formulated:-

Null Hypothesis, H_O:$\mu_1=\mu_2$ (i.e. there is no significant difference in Total Assets Turnover Ratio between NICL & UICL)

Alternative Hypothesis, H_1:$\mu_1\neq\mu_2$ (i.e. there is significant difference in total assets turnover ratio between NICL & UICL)

The summary of the calculated values which are necessary to make decision whether the Null hypothesis is accepted or rejected are as follows:-

Total Assets Turnover Ratio of NICL($\overline{X}_1$)	107.78
Total Assets Turnover Ratio of UICL($\overline{X}_2$)	48
Square of Standard Deviation(S^2)	709.14
Degrees of Freedom	8
Computed value of/t/	3.55
Tabulated value of /t/at 5% level of significance	2.308
Decision	H_O is rejected

The table shows that the calculated value of /t/ is greater than the tabulated value of /t/ at 5% level of significance for 8 degrees of freedom there is significant difference in Total Assets Turnover Ratio between NICL & UICL.

4.3.2.3 Test of Hypothesis on Debt to Equity Ratio

For making financial decision about the financial performance of insurance companies, it is necessary to test the hypothesis that hypothesis that whether there is significant difference in Debt to Equity Ratio between the sampled insurance companies. Therefore to test hypothesis on Debt to Equity Ratio the following Null and Alternative Hypothesis are formulated:-

Null Hypothesis, H_O:$\mu_1=\mu_2$ (i.e. there is no significant difference in debt to equity ratio between NICL & UICL)

Alternative Hypothesis,H_1:$\mu_1 \neq \mu_2$ (i.e. there is significant difference in debt to equity ratio between NICL & UICL)

The following are the required information to make decision about the hypothesis on Debt to Equity Ratio of NICL & UICL.

Debt to Equity Ratio of NICL($\bar{X}_1$)	2.79
Debt to Equity Ratio of UICL($\bar{X}_2$)	1.278
Square of Standard Deviation(S^2)	0.36
Degrees of Freedom	8
Computed value of/t/	3.984
Tabulated value of /t/at 5% level of significance	2.308
Decision	H_O is rejected

From the t-test analysis of hypothesis, it is found that the calculate value of /t/ is greater than the tabulated value of /t/ at 5% level of significance for 8 degrees of freedom. Therefore, the Null Hypothesis is rejected which means that there is significant difference in Debt to Equity Ratio between NICL & UICL.

4.3.2.4 Test of Hypothesis on Net Profit Margin

For the purpose of testing the hypothesis that whether there is significant difference in Net Profit Margin between NICL & UICL the following Null and Alternative hypothesis are formulated:-

Null Hypothesis, H_O:$\mu_1=\mu_2$ (i.e. there is no significant difference in Net Profit /Margin between NICL & UICL)

Alternative Hypothesis,H_1:$\mu_1 \neq \mu_2$ (i.e. there is significant difference in Net Profit Margin between NICL & UICL)

The following table shows the required information to make decision about the hypothesis on Net Profit Margin of NICL & UICL:-

Average Net Profit Margin of NICL($\overline{X}_1$)	(2.576)
Average Net Profit Margin of UICL($\overline{X}_2$)	9.45
Square of Standard Deviation(S^2)	(288.27)
Degrees of Freedom	8
Computed value of/t/	5.60
Tabulated value of /t/at 5% level of significance	2.308
Decision	H_O is rejected

From the t-test analysis it is found that the calculated value of /t/ is greater than the tabulated value of /t/ at 5% level of significance for 8 degrees of freedom. Therefore, Null hypothesis is rejected which means that there is no significant difference in Net Profit Margin between NICL & UICL.

4.4 Major Findings

This study is made to appraise the financial analysis of Nepal Insurance Company Limited and United Insurance Company Limited. The financial performance of the selected companies have been already analyzed by using various financial and statistical tools. Based on the analysis done in chapter four, some of the major findings are highlighted as follows:-

1. The current ratio of NICL is near about the rule of thumb i.e. 2:1 during the research period but it is trying to meet the standard ratio in 2004/5 and in 2007/8. The current ratio of both companies are highly fluctuated and below the standard norms 2:1.
2. The highest Current ratio of NICL is 1.42 times (in 2007/8) where as the same ratio of UICL is 0.89 (in 2007/8) and the lowest current ratio of NICL is 0.95 time (in 2006/7) and the same ratio of UICL is 0.32 times (in 2006/7).

3. The analysis of current ratio shows that the liquidity position of NICL is satisfactory than that of UICL.
4. Test hypothesis shows that there is significant difference in the current ratio between NICL and UICL.
5. Cash to current liabilities ratio of both companies were less than the standard norm 1:1. It means both companies are unable to meet the short-term obligations.
6. NICL has better cash to current liabilities ratio in compare to UICL. UICL has very small amount of cash to current liabilities ratio, which cannot meet the weighted average ratio in fiscal year 2003/4,2004/5 & 2006/7 where as the same ratio of UICL is more than the weighted average ratio.
7. The highest cash provision to current liabilities ratio of NICL is 0.19 times (in 2005/6) where as the same of UICL is 0.16 times (in 2007/8) and the least cash provision to current liabilities ratio of NICL is 0.13 times (in 2004/5 & 2007/8) and same ratio is 0.03 times (in 2004/5).
8. Comparatively, NICL is in better position in respect to cash to current liabilities than UICL however both companies are below the standard norm1:1.
9. NICL and UICL have not been using long term debt to finance its assets during the study period. Hence debt of the companies mean simply current liabilities average ratio. Both the companies show the equity oriented capital structure.
10. Debt to equity ratio of NICL & UICL is about 278% and 127.8%. It ranges from 233% to 373% (NICL) and 70% to 220% (UICL) and weighted average ratio is 202.9%. It indicates that both companies are risky in terms of debt to equity ratio.
11. Test of hypothesis on Debt to Equity Ratio shows that there is significant difference in debt to equity ratio between NICL and UICL.

12. Investments in total assets is made of 64% is debt financing and 36% equity financing and the investment in total assets of (UICL) is made from 37% debt financing and 63% equity financing. It indicates that creditors of NICL are not safer in comparison to UICL.
13. Total Assets Turnover Ratio of NICL is increasing trend during the five years study period and fluctuating trend of UICL in same period. The Total Assets Turnover Ratio of both companies is not satisfactory. Both companies have the ratio of fair below than 1 but in comparison NICL has better Total Assets Turnover Ratio than that of UICL.
14. Test of hypothesis on total Assets turnover ratio shows that there is significant difference in Total Assets Turnover Ratio between NICL and UICL.
15. Fixed Assets Turnover Ratio of the two company is fluctuating trend which indicates that the fixed assets are not utilized properly and effectively. This ratio of both companies are unsatisfactory.
16. Current Assets Turnover Ratio of both insurance companies are highly fluctuating trend. Both insurance companies are not able to maintain a satisfactory level of Current Assets Turnover Ratio. It means both companies are not able to utilize current asset more efficiently in order to generate net premium. In comparison, UICL has better Current Assets Turnover Ratio than that of NICL.
17. In general, the turnover ratio of the sample companies are not satisfactory because of the less earning on the resource employed by the companies. Both insurance companies turnover ratio is not good.
18. Gross Profit Margin Ratio of the both companies are fluctuating. Gross Profitability of UICL is found sound in comparison with NICL because UICL has higher average Gross Profit Margin Ratio (43.33%) than that of NICL (33.37%).

19. Trend Analysis of gross profit shows that gross profit trend of UICL is better than that of NICL.
20. Average Net Profit margin of UICL is better than NICL.
21. There is fluctuating trend of Net Profit Margin of both companies. NICL is not able to maintain the same ratio. It is negative to (63.6%) in fiscal year 2006/7. But in case of UICL, this ratio is 7.1 in the beginning and it decreased to 5.86 & increases at the end of the study period. But in comparison, UICL has better Net Profit Margin during the study Period.
22. Test of Hypothesis on Net Profit Margin shows that there is significant difference in Net Profit Margin between NICL & UICL
23. Operating Expenses Ratio of UICL is in the decreasing trend but it is in increasing trend in case of NICL. This shows that UICL has better and effective Management in controlling and regulating Operating Expenses than that of NICL.
24. Return on Total Assets Ratio of NICL is decreasing year by year except in fiscal year 2003/4. In case of UICL it is fluctuating. The Average Return on Total Assets Ratio of NICL & UICL is 1.01% & 3.862% respectively. UICL has better Return on Total Assets Ratio than NICL over the study period.
25. The Average Return on Net Worth Ratio of NICL is negative than the weighted average ratio i.e.7.1569%. But this ratio of UICL is above than the weighted average ratio. The Higher Return on Net Worth of NICL is 33.37% in fiscal year 2003/4 & same ratio of UICL is 22.35% in fiscal year 2007/8. This shows that UICL has better Return on Net Worth Ratio than that of NICL.
26. UICL has better earning per share than that of NICL because it has higher average EPS (i.e.Rs15.10) than that of NICL (Rs 0.348).
27. EPS of both companies are fluctuating during the study period. The fluctuating and decreasing EPS shows the unfavorable earning position of both companies. But in comparison UICL has better EPS than NICL.

28. Both the companies are not able to pay dividend regularly.. The average DPS of NICL & UICL is Rs25 & RS 10.20 respectively. The Earning position of both companies are unfavorable.
29. Trend Analysis shows DPS of both companies are inconsistency.
30. Both insurance companies are not able to pay dividend regularly. Both company do not declare dividend payout ratio. The dividend payout track is unsatisfactory.
31. Price Earning Ratio of NICL is found strong than UICL on the basis of Market price per share.
32. Earning Yield of both company are fluctuating .UICL is found strong than that of NICL.
33. Net Premium Earning of NICL is in better position than that of UICL.
34. On average Total Claim to Net Premium Ratio of UICL is smaller than NICL during the study period.
35. Earned Premium Trend analysis shows the better premium earning trend of NICL and than that of UICL.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Insurance Business is carried out with the objectives of offering financial protection to human beings from the loss out of control of human beings. Today, the popularity of insurance business growing day by day. It is considered as a great achievement in the financial world with its purpose of providing the protection to man made progress, not to discourage the man from the fear of possible accident and not to block the progress, and developments. Insurance business also provides capital for the economic development of the nation. In this way insurance business plays the integral role in the national financial system. The growing numbers of insurance

companies are competing with each other to attract policyholders with different types of insurance policies. In this regard, Nepal Insurance Company Limited and United Insurance Company Limited have played vital role in for socio-economic development the nation either by providing financial security against risk or by collecting capital from scattered resources.

In this study an attempt is made to analyze the financial position of Nepal Insurance Company Limited and United Insurance Company Limited. The financial analysis is based on financial statement from fiscal year 2003/4 to 2007/8. Various financial statistical tools viz. financial ratios, trend analysis and test of hypothesis are used to accomplish the stated objectives. This study is mainly based on secondary data that have been first processed and analyzed comparatively. Then, based on major findings a package of workable recommendation is offered to improve the future performance of these companies.

5.2 Conclusion

This study aimed at studying the Financial Analysis of Nepal insurance co. Ltd, and United insurance Company Ltd. For the study purpose financial and statistical tool were used. Based on the research findings, following conclusions are derived. Current Ratio and Cash to Current Liabilities Ratio of both companies are below the standard norms 2:1and 1:1 respectively. But the analysis of current ratio and cash to current liabilities ratio shows that NICL is better than UICL.

NICL and UICL both showed the equity oriented capital structure. In comparison that Creditors of NICL are not safer than UICL. Total Assets turnover Ratio of both companies are below than 1.Fixed Assets Turnover Ratio are not utilized properly and effectively by both companies. So it is threat for survival to both companies. It is found that both companies are not able to generate net premium

efficiently so, current asset turnover ratio is highly fluctuating. It is found that Gross Profit Margin Ratio and Net Profit Margin Ratio of UICL is found sound than NICL. The Operating Expenses Ratio of NICL is decreasing trend so it shows that its management is ineffective. It is found that Return on Total Assets Ratio and Average Return on Net Worth Ratio of both companies are unsatisfactory. Similarly, EPS shows the unfavorable earning position of both companies so, Trend analysis shows DPS of both companies are inconsistency. Both of them do not declare dividend payout ratio. UICL is found strong in Price earning ratio and earning yield but NICL is in better position than UICL. It is found that average total claim to net premium of UICL is better but earned premium trend analysis shows the better premium earning trend of NICL. Testing of hypothesis of both insurance companies ratio is found significant.

5.3 Recommendation

On the basis of findings shown in this chapter, some useful recommendation are offered to improve the future performance of Nepal Insurance Company Ltd and United Insurance Company Ltd.

1. Since the Current ratio of both companies are below the standard i.e. 2:1, both companies are suggested to maintain the current ratio to 2:1 standard. For this purpose the company should either decrease their current assets or increase Current liabilities. Both companies should keep the optimum level of current ratio.
2. Both insurance companies have below the standard level of cash to current liabilities ratio. Therefore, both companies are suggested to increase their cash balance or decrease their current liabilities to improve short term solvency position.
3. Both insurance companies are not using long-term debt to finance its assets and both companies have equity oriented capital structure. This type capital structure hinders the insurance to reap the benefit of levered capital structure. So, it is advised to include an optimum level of debt to finance its assets if any possible.
4. Both insurance companies are advised to minimize the risk level by reducing debt portion or by increasing equity portion even though it is risk oriented institution.
5. Both companies are suggested to improve total assets turnover ratio. For this purpose the company should make proper, effective and optimum utilization of total assets and avoid unnecessary investment in total assets.
6. Both insurance companies should improve their current and fixed assets turnover ratios by making the best utilization of resources available and thereby increasing the Net Premium Earning.

7. Average Gross Profit Margin and Average Net Profit Margin of UICL is higher than that of NICL. But NICL Average GPM and Average NPM is negative. So it is suggested that NICL should increase its GPM & NPM by increasing the level of total Premium earning. Both companies should increase total revenue and should formulate strategies to improve its profitability and install a Total Quality Management (TQM System) system for their sustainability and growth.
8. Operating expenses ratio of NICL is increasing. So the company should control the unnecessary expenses and keep the cost at the optimum level.
9. Return on total assets and Return on Net worth of both companies are decreasing and fluctuating of UICL and it is decreasing and negative incase of NICL. So both the companies should formulate effective policies to improve these ratios.
10. Earning Per Share of UICL is fluctuating. So it should maintain a steady growth is earning per share. The EPS of NICL is decreasing and negative trend. It should be controlled immediately. The company should improve its EPS by generating maximum level of revenue.
11. Dividend Per Share of both companies are inconsistency. So both companies should maintain its consistency to pay dividend and as well as should take effective steps to improve the level of DPS.
12. Both companies should formulate a certain type of dividend policy to attract their shareholders.
13. Both companies should improve its premium earning for its sustainability and growth. The company should make the marketing division effective and efficient for improving total premium earning.
14. Both companies should improve the outstanding premium collection. For this purpose the companies should sell the insurance policies mostly on cash and provide credit only to those customers who have proven credit worthiness and strong financial position. The companies should activate the

local agents for collecting outstanding premium and providing discounts and incentives to the policyholders.

15. Settlement of claims should be made in time. Delay in the settlement of claims may affect the attitude of policy holders and business potentiality.
16. UICL should extend their business area. Insurance companies should operate not only in urban areas but also in rural areas of the nation.
17. Effective investment policies should be implemented. Both companies should adopt diversified investment portfolio so that the risk will minimize and return will maximize.
18. The insurance companies should diversity its business portfolio. The companies should introduce new insurance policy to attract the customers.
19. Insurance companies should emphasize on promotional activities like advertising, price discount, personal selling and gift & bonuses etc. This may enhance the sales of insurance policies.
20. A separate research and development department should be established for the purpose of findings present and future potential business opportunities in the market.
21. The insurance companies should have the customer-oriented vision to satisfy their customers.

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APPENDICES

APPENDIX-I (1)

Nepal Insurance Company Limited

Kamaladi, Kathmandu

Balance Sheet for the Fiscal Year 2003/4 TO 2007/8

Fiscal Year	**2003/4**	**2004/5**	**2005/6**	**2006/7**	**2007/8**
Total Assets	**503**	**475**	**515**	**578**	**449**
Net Fixed Assets	11	11	11	12	13
Miscellaneous Assets	5	5	4	72	
Investment in shares	43	41	40	40	88
Current Assets					
Cash & Bank Balance	48	31	44	43	36
Outstanding Premium	52	50	73	116	137
Due from Re-insurer					
Sundry Debtors	22	20	25	31	
Investment	156	152	151	171	175
Miscellaneous current Assets	166	165	167	93	
Total Capital & Liabilities	**503**	**475**	**515**	**578**	**449**
Share Capital					
Ordinary Share	78	102	102	102	102
Bonus Share	23	0.02	0.01		
Shareholder Reserve					
General Reserve	82	90	90	90	90
Capital Reserve	0.1	0.1	0.1	0.1	0.1
Other Reserve	25	40	47	85	55
Unappropriated Profit (loss)	3	1	1		
Current Liabilities					
Estimated Liabilities for outstanding claims	35	33	1.7	1.03	52
Due to Re-insurer	1.8	4.6	5.8	9.8	
Sundry Creditors	141	96	98	45	
Provision for Taxation	10.4	4.8	2.70	5.6	12
Provision for Dividend					
Miscellaneous current Liabilities	83	94	132	141	214
Deferred Liabilities					
Insurance fund					
Long term loan					
Miscellaneous Deferred Liabilities					

APPENDIX-I (2)

United Insurance Company Limited

I.J.Plaza, Tindhara Pathsahala, Durbar Marg, Kathmandu

Balance Sheet for the Fiscal Year 2003/4 TO 2007/8

Fiscal Year	**2003/4**	**2004/5**	**2005/6**	**2006/7**	**2007/8**
Total Assets	**152**	**184**	**194**	**286**	**207**
Net Fixed Assets	10	9.3	11.3	9.6	12
Miscellaneous Assets					
Investment in shares	4.1	4.1	13	18	80
Current Assets					
Cash & Bank Balance	3	2	9.4	7.3	18
Outstanding Premium					
Due from Re-insurer					
Sundry Debtors	7	6.8	5.3	12	15
Investment	107	139	102	154	82
Miscellaneous current Assets	20.9	22.8	29.34	85.1	
Total Capital & Liabilities	**152**	**184**	**194**	**286**	**207**
Share Capital					
Ordinary Share	56.6	56.6	56.6	60	72
Bonus Share					12
Shareholder Reserve					
General Reserve					
Capital Reserve					
Other Reserve	38.5	43.3	47.6	50	50
Unappropriated Profit (loss)	0.5	6	9.8	0.7	
Current Liabilities					
Estimated Liabilities for outstanding claims	5.7	8	10	15	1
Due to Re-insurer	2.1	3.1	3.6	4.1	
Sundry Creditors	10	15	7.4	19.6	68
Provision for Taxation	3	4.4	3.9	3.5	
Provision for Dividend	1	1.5	1.2	0.9	
Miscellaneous current Liabilities	20.9	37.6	37.9	89.83	8
Deferred Liabilities					
Insurance fund	13.7	8.5	16	31	8
Long term loan					
Miscellaneous Deferred Liabilities					

APPENDIX-II (1)

Nepal Insurance Company Limited

Kamaladi, Kathmandu

Income Statement For the Fiscal Year 2003/4 to 2007/8

Fiscal Year	**2003/4**	**2004/5**	**2005/6**	**2006/7**	**2007/8**
Total Revenue (Total Operating Income)	**35.3**	**37**	**29.63**	**38**	**16.9**
Less: Total Operating Expenses	33.7	29.9	38.77	11.7	8.8
Gross Operating Profit	1.6	7.1	(9.14)	(79)	8.1
Add: Income from other sources	35.6	15	11.86	21	10.8
Profit before Taxes	37.2	22.1	2.72	(58)	18.9
Less: Provision for Taxes	10.4	4.8	2.70	5.6	12
Net Profit	**26.8**	**17.3**	**0.025**	**(63.6)**	**6.9**

APPENDIX-II (2)

United Insurance Company Limited

I.J.Plaza, Tindhara, Pathsahala, Durbar Marg, Kathmandu

Income Statement For the Fiscal Year 2003/4 to 2007/8

Fiscal Year	**2003/4**	**2004/5**	**2005/6**	**2006/7**	**2007/8**
Total Revenue (Total Operating Income)	**8.2**	**10.1**	**10.9**	**8.88**	**19.8**
Less: Total Operating Expenses	4.1	4.2	7.3	8.62	5
Gross Operating Profit	4.1	5.9	3.6	(0.04)	14.8
Add: Income from other sources	6	7.8	9.6	9.4	6.99
Profit before Taxes	10.1	13.7	13.1	9.36	21.79
Less: Provision for Taxes	3	4.1	4.5	3.5	3.7
Net Profit	**7.1**	**9.6**	**8.6**	**5.86**	**16.09**

APPENDIX-III (1)

Summary of Used Financial Variables of

Nepal Insurnce Company Limited

(Rs in Million)

Fiscal Year	**2003/4**	**2004/5**	**2005/6**	**2006/7**	**2007/8**
Premium Earned	88	79.7	93.9	168	109.3
Total Operating Income (Total Revenue)	35.3	37	29.63	38	16.9
Gross Operating Profit	1.6	7.1	(9.14)	(79)	8.1
Total Operating Expenses	33.7	29.9	38.77	117	8.8
Net Profit After Taxes (NPAT)	26.8	17.3	0.025	(63.6)	6.9
Net Worth	78.9	102.68	102.68	102.68	102.68
Total Investments	200	194	191	211	263
Market Price per share (in Rs)	450	450	400	390	429
Earning Per Share (in Rs)	33.93	16.01	0.02	(49.61)	0.67
Dividend Per Share (in Rs)	40	10	-	-	-
Dividend Payout Ratio (in%)	117.89	59.14	-	-	-
Earning Yield (in%)	7.54	3.76	.005	17.05	0.16
Price Earning Ratio (in times)	13.26	26.61	20000	-	640.30

APPENDIX – III (2)

Summary of Used Financial Variables of

United Insurnce Company Limited

(Rs in Million)

Fiscal Year	**2003/4**	**2004/5**	**2005/6**	**2006/7**	**2007/8**
Premium Earned	36	29	57	48	70
Total Operating Income (Total Revenue)	8.2	10.1	10.9	8.58	19.8
Gross Operating Profit	4.1	5.9	3.6	(0.04)	14.8
Total Operating Expenses	4.1	4.2	7.3	8.62	5
Net Profit After Taxes (NPAT)	7.1	9.6	8.6	5.86	16.09
Net Worth	36.6	56.6	60	60	72
Total Investments	111	143	155	172	180
Market Price per share (in Rs)	203	216	205	196	209
Earning Per Share (in Rs)	13	17	14	9.8	22
Dividend Per Share (in Rs)	-	-	-	10.20	-
Dividend Payout Ratio (in%)	-	-	-	104.08	-
Earning Yield (in%)	6.40	7.87	6.83	5	10.48
Price Earning Ratio (in times)	15.62	12.70	14.64	20	9.5

APPENDIX – IV (1)

Computation of Gross Profit Trend of NICL

Let the linear equation describing the trend be,

$Y_C = a + bx$……..(1)

Where 'x' is the time variable and 'y' be the gross profit variable.

Working Table

Fiscal Year(X)	**Gross Profit(y) (Rs in Million)**	**x=(X-2006)**	**x^2**	**xy**
2004	1.6	-2	4	-3
2005	7.2	-1	1	-7.2
2006	9.14	0	0	0
2007	-79	1	1	-79
2008	8.9	2	4	17.8
N=5	∑y=-52.16	∑x=0	$\sum x^2=10$	∑xy=-71.6

Since, ∑x=0

$$a=\frac{\sum Y}{N}=\frac{-52.16}{5}=-10.432$$

$$b=\frac{\sum xy}{\sum x2}=\frac{-71.6}{10}=-7.16$$

Putting the value of 'a' and 'b' in equation 1

$Y_C=a+bx$

$Y_C=-10.423+(-7.16)x$

APPENDIX – IV (2)

Computation of Gross Profit Trend of UICL

Let the linear equation describing the trend be,

$Y_C=a+bx$……..(1)

Where 'X' is the time variable of 'y' be gross profit variable

Working Table

Fiscal Year(X)	Gross Profit (y) (Rs in Million)	x=(X-2006)	x^2	xy
2004	4.1	-2	4	-8.2
2005	5.9	-1	1	-5.9
2006	3.6	0	0	0
2007	-0.04	1	1	-0.04
2008	14.8	2	4	29.6
N=5	∑y=28.36	∑x=0	$\sum x^2=10$	∑xy=-15.46

Since, ∑x=0

$$a=\frac{\sum Y}{N}=\frac{28.36}{5}=5.672$$

$$b=\frac{\sum xy}{\sum x2}=\frac{-15.46}{10}=-1.546$$

Putting the value of a and b in equation -1

$Y_C=a+bx$

$Y_C=5.672+(-1.546)x$

APPENDIX – V (1)

Computation of Net Profit Trend of NICL

Let the linear describing the trend be,

$Y_C=a+bx$……..(1)

Where, 'X' is the time variable and 'y' be net profit variable

Working Table

Fiscal Year(X)	Net Profit(y) (Rs in Million)	x=(X-2006)	x^2	xy
2004	26.8	-2	4	-53.6
2005	17.3	-1	1	-17.3
2006	0.02	0	0	0
2007	-63.6	1	1	-63.6
2008	6.9	2	4	13.8
N=5	∑y=-12.58	∑x=0	$\sum x^2=10$	∑xy=-120.7

Since, ∑x=0

$$a=\frac{\sum Y}{N}=\frac{-12.58}{5}=2.516$$

$$b=\frac{\sum xy}{\sum x2}=\frac{-120.7}{10}=-12.07$$

Substituting the values of a and b in equation-1

$Y_C=a+bx$

$Y_C=-12.58+(-12.07)x$

APPENDIX-V (2)

Computation of Net Profit Trend of UICL

Let the linear describing the trend be,

$Y_C=a+bx$…….(1)

Where, 'X' is the time variable and 'y' be net profit variable

Working Table

Fiscal Year(X)	Net Profit(y) (Rs in Million)	x=(X-2006)	x^2	xy
2004	7.1	-2	4	-14.2
2005	9.6	-1	1	-9.6
2006	8.6	0	0	0
2007	5.86	1	1	5.86
2008	16.09	2	4	32.18
N=5	$\sum y=47.25$	$\sum x=0$	$\sum x^2=10$	$\sum xy=14.24$

Since, $\sum x=0$

$$a=\frac{\sum Y}{N}=\frac{47.25}{5}=9.45$$

$$b=\frac{\sum xy}{\sum x2}=\frac{14.24}{10}=1.424$$

Substituting the values of a and b in equation-1

$Y_C=a+bx$

$Y_C=9.45+1.424x$

APPENDIX-VI (1)

Computation of Earned Premium Trend of NICL

Let the linear describing the trend be,

$Y_C=a+bx$…….(1)

Where, 'X' is the time variable and 'y' be net profit variable

Working Table

Fiscal Year(X)	Earned Premium(y) (Rs in Million)	x=(X-2006)	x^2	xy
2004	88	-2	4	-178
2005	79.7	-1	1	-79.7
2006	93.9	0	0	0
2007	168	1	1	168
2008	109.3	2	4	218.6
N=5	∑y=538.9	∑x=0	$\sum x^2=10$	∑xy=130.9

Since, ∑x=0

$$a=\frac{\sum Y}{N}=\frac{538.9}{5}=107.78$$

$$b=\frac{\sum xy}{\sum x2}=\frac{130.9}{10}=13.09$$

Substituting the values of a and b in equation-1

$Y_C=a+bx$

$Y_C=107.78+13.09x$

APPENDIX-VI (2)

Computation of Earned Premium Trend of UICL

Let the linear describing the trend be,

$Y_C=a+bx$…….(1)

Where, 'X' is the time variable and 'y' be net profit variable

Working Table

Fiscal Year(X)	**Earned Premium(y) (Rs in Million)**	**x=(X-2006)**	**x^2**	**xy**
2004	36	-2	4	-72
2005	29	-1	1	-29
2006	57	0	0	0
2007	48	1	1	48
2008	70	2	4	140
N=5	∑y=240	∑x=0	$\sum x^2=10$	∑xy=87

Since, ∑x=0

$$a=\frac{\sum Y}{N}=\frac{240}{5}=48$$

$$b=\frac{\sum xy}{\sum x2}=\frac{87}{10}=8.7$$

Substituting the values of a and b in equation-1

$Y_C=a+bx$

$Y_C=4.8+8.7x$

APPENDIX – VII (1)

Computation of Operating Expenses Trend of NICL

Let the linear describing the trend be,

$Y_C=a+bx$…….(1)

Where, 'X' is the time variable and 'y' be net profit variable

Working Table

Fiscal Year(X)	Operating Expenses(y) (Rs in Million)	x=(X-2006)	x^2	xy
2004	33.7	-2	4	-67.4
2005	29.9	-1	1	-29.9
2006	38.77	0	0	0
2007	117	1	1	117
2008	88	2	4	176
N=5	∑y=307.37	∑x=0	$\sum x^2=10$	∑xy=195.7

Since, ∑x=0

$$a=\frac{\sum Y}{N}=\frac{307.37}{5}=61.474$$

$$b=\frac{\sum xy}{\sum x2}=\frac{195.7}{10}=19.57$$

Substituting the values of a and b in equation-1

$Y_C=a+bx$

$Y_C=61.474+19.57x$

APPENDIX-VII (2)

Computation of Operating Expenses Trend of UICL

Let the linear describing the trend be,

$Y_C=a+bx$…….(1)

Where, 'X' is the time variable and 'y' be net profit variable

Working Table

Fiscal Year(X)	Operating Expenses(y) (Rs in Million)	x=(X-2006)	x^2	xy
2004	4.1	-2	4	-8.2
2005	4.2	-1	1	-4.2
2006	7.3	0	0	0
2007	8.62	1	1	8.62
2008	5	2	4	10
N=5	∑y=29.22	∑x=0	$\sum x^2=10$	∑xy=6.22

Since, ∑x=0

$$a=\frac{\sum Y}{N}=\frac{29.22}{5}=5.844$$

$$b=\frac{\sum xy}{\sum x2}=\frac{6.22}{10}=0.622$$

Substituting the values of a and b in equation-1

$Y_C=a+bx$

$Y_C=5.844+0.622$

APPENDIX-VIII (1)

Computation of Dividend Per Share Trend of NICL

Let the linear describing the trend be,

$Y_C=a+bx$…….(1)

Where, 'X' is the time variable and 'y' be net profit variable

Working Table

Fiscal Year(X)	DPS(y) (Rs in Million)	x=(X-2006)	x^2	xy
2004	40	-2	4	-80
2005	10	-1	1	-40
2006	-	0	0	-
2007	-	1	1	-
2008	-	2	4	-
N=5	∑y=50	∑x=0	$\sum x^2=10$	∑xy=120

Since, ∑x=0

$$a=\frac{\sum Y}{N}=\frac{50}{5}=10$$

$$b=\frac{\sum xy}{\sum x2}=\frac{120}{10}=12$$

Substituting the values of a and b in equation-1

$Y_C=a+bx$

$Y_C=10+(-12)x$

APPENDIX – VIII (2)

Computation of Dividend Per Share Trend of UICL

Let the linear describing the trend be,

$Y_C=a+bx$…….(1)

Where, 'X' is the time variable and 'y' be net profit variable

Working Table

Fiscal Year(X)	DPS(y) (Rs in Million)	x=(X-2006)	x^2	xy
2004	117.89	-2	4	-235.78
2005	59.14	-1	1	-59.14
2006	-	0	0	-
2007	-	1	1	-
2008	-	2	4	-
N=5	∑y=177.03	∑x=0	$\sum x^2=10$	∑xy=-294.92

Since, ∑x=0

$$a=\frac{\sum Y}{N}=\frac{177.03}{5}=35.406$$

$$b=\frac{\sum xy}{\sum x2}=\frac{-294.92}{10}=-29.492$$

Substituting the values of a and b in equation-1

$Y_C=a+bx$

$Y_C=35.406+(-29.492)x$

APPENDIX – IX (1)

Computation of Earning Per Share Trend of NICL

Let the linear describing the trend be,

$Y_C=a+bx$…….(1)

Where, 'X' is the time variable and 'y' be net profit variable

Working Table

Fiscal Year(X)	EPS(y) (Rs in Million)	x=(X-2006)	x^2	xy
2004	33.93	-2	4	-67.86
2005	16.91	-1	1	-16.91
2006	0.02	0	0	0
2007	49.61	1	1	49.61
2008	0.67	2	4	1.34
N=5	∑y=101.14	∑x=0	$\sum x^2=10$	∑xy=-33.83

Since, ∑x=0

$$a=\frac{\sum Y}{N}=\frac{101.14}{5}=20.228$$

$$b=\frac{\sum xy}{\sum x2}=\frac{-33.83}{10}=-3.385$$

Substituting the values of a and b in equation-1

$Y_C=a+bx$

$Y_C=20.228+(-3.383)X$

APPENDIX - IX (2)

Computation of Earning per Share Trend of UICL

Let the linear describing the trend be,

$Y_C=a+bx$…….(1)

Where, 'X' is the time variable and 'y' be net profit variable

Working Table

Fiscal Year(X)	EPS(y) (Rs in Million)	x=(X-2006)	x^2	xy
2004	13	-2	4	-26
2005	17	-1	1	-17
2006	14	0	0	0
2007	9.8	1	1	9.8
2008	22	2	4	44
N=5	∑y=75.8	∑x=0	$\sum x^2=10$	∑xy=10.8

Since, ∑x=0

$a=\frac{\sum Y}{N}=\frac{75.8}{5}=15.16$

$b=\frac{\sum xy}{\sum x2}=\frac{10.8}{10}=1.08$

Substituting the values of a and b in equation-1

$Y_C=a+bx$

$Y_C=15.16+1.08x$

APPENDIX - X(1)

Test of Hypothesis on Current Ratio

Let current ratio of NICL & UICL be X_1 and X_2 respectively.

Setting Hypothesis:-

Null Hypothesis, H_O:$\mu_1 = \mu_2$, (i.e there is no significant difference between the average current ratio of NICL & UICL)

Alternative Hypothesis, H_1: $\mu_1 \neq \mu_2$, (i.e there is significant difference between the average current ratio of NICL & UICL)

Under Null Hypothesis, H_O, the test statistics is given by,

$$t = \frac{\bar{X}_1 - \bar{X}_2}{\sqrt{S^2\left(\frac{1}{n_1}+\frac{1}{n_2}\right)}} = \frac{1.168-0.618}{\sqrt{0.04175\left(\frac{1}{5}+\frac{1}{5}\right)}} = \frac{0.550}{0.129}$$

$|t| = 4.26$

Working Table

Nepal Insurance Company Limited			United Insurance Company Limited		
X_1	$(X_1-\bar{X}_1)$	$(X_1-\bar{X}_1)^2$	X_2	$(X_2-\bar{X}_2)$	$(X_2-\bar{X}_2)^2$
0.99	-0.178	0.032	0.84	0.222	0.050
1.12	-0.048	0.002	0.51	-0.108	0.012
1.36	0.192	0.037	0.53	-0.088	0.008
0.95	-0.218	0.047	0.32	-0.298	0.009
1.42	0.252	0.064	0.89	0.272	0.073
$\sum X_1=5.84$		$\sum(X_1-\bar{X}_1)^2=0.182$	$\sum X_2=3.09$		$\sum(X_2-\bar{X}_2)^2=0.152$

$n_1=n_2=5$

$\bar{X}_1=\frac{\sum X_1}{n_1}=\frac{5.89}{5}=1.168$ $\bar{X}_2=\frac{\sum X_2}{n_2}=\frac{3.09}{5}=0.618$

$S^2=\frac{1}{n_1+n_2-2}[\sum(X_1-\bar{X}_1)^2+\sum(X_2-\bar{X}_2)^2]$

$=\frac{1}{5+5-2}[0.182+0.152]$

$=\frac{1}{8}\times 0.334$

$=0.04175$

Degrees of freedom=$(n_1+n_2-2)=5+5-2=8$

Tabulated value at 5% level of significance for 8 degrees of freedom is 2.306.

Decision: Since the calculated value of /t/ (4.26) is greater than the tabulated value of /t/ (2.306), the Null Hypothesis is rejected i.e. there is significant difference in the average current ratio between NICL & UICL.

APPENDIX-X (2)

Test of Hypothesis on Total Assets Turnover Ratio

Let X_1 and X_2 be the Total Assets Turnover Ratio of NICL & UICL respectively.

Setting Hypothesis:-

Null Hypothesis, H_O:$\mu_1 = \mu_2$, (i.e there is no significant difference in Total Assets Turnover Ratio between NICL & UICL)

Alternative Hypothesis, H_1: $\mu_1 \neq \mu_2$, (i.e there is significant difference in the Total Assets Turnover Ratio between NICL & UICL)

Under Null Hypothesis, H_O, the test statistics is given by,

$$t = \frac{\bar{X}_1 - \bar{X}_2}{\sqrt{S^2\left(\frac{1}{n_1}+\frac{1}{n_2}\right)}} = \frac{107.78-48}{\sqrt{709.14\left(\frac{1}{5}+\frac{1}{5}\right)}} = \frac{59.78}{16.84}$$

$|t| = 3.55$

Working Table

Nepal Insurance Company Limited			United Insurance Company Limited		
X_1	$(X_1-\bar{X}_1)$	$(X_1-\bar{X}_1)^2$	X_2	$(X_2-\bar{X}_2)$	$(X_2-\bar{X}_2)^2$
88	-19.78	391.25	36	-12	144
79.7	-28.08	788.49	29	-19	36
93.9	-13.88	192.65	57	9	8
168	60.22	3626.45	48	0	0
109.3	1.52	2.310	70	22	484
$\sum X_1=538.9$		$\sum(X_1-\bar{X}_1)^2=5001.15$	$\sum X_2=240$		$\sum(X_2-\bar{X}_2)^2=672$

$n_1=n_2=5$

$\bar{X}_1=\frac{\sum X_1}{n_1}=\frac{538.9}{5}=107.78$ $\bar{X}_2=\frac{\sum X_2}{n_2}=\frac{240}{5}=48$

$S^2=\frac{1}{n1+n2-2}[\sum(X_1-\bar{X}_1)^2+\sum(X_2-\bar{X}_2)^2]$

$=\frac{1}{5+5-2}$ [5001.15+672]

$=\frac{1}{8} \times 5673.15 \quad = 709.14$

Degrees of freedom=$(n_1+n_2-2)=5+5-2=8$

Tabulated value at 5% level of significance for 8 degrees of freedom is 2.306.

Decision: Since the calculated value of /t/ (3.55) is greater than the tabulated value of /t/ (2.306),the Null Hypothesis is rejected.ie. there is significant difference in Total Assets Turnover Ratio between NICL & UICL.

APPENDIX - X(3)

Test of Hypothesis on Debt to Equity Ratio

Let X_1 and X_2 be the Debt to Equity Ratio of NICL & UICL respectively.

Setting Hypothesis:-

Null Hypothesis, $H_O: \mu_1 = \mu_2$, (i.e there is no significant difference in Debt to Equity Ratio between NICL & UICL)

Alternative Hypothesis, $H_1: \mu_1 \neq \mu_2$, (i.e there is significant difference in Debt to Equity Ratio between NICL & UICL)

Under Null Hypothesis, H_O, the test statistics is given by,

$$t = \frac{\bar{X}_1 - \bar{X}_2}{\sqrt{S^2\left(\frac{1}{n_1}+\frac{1}{n_2}\right)}} = \frac{2.79-1.278}{\sqrt{0.36\left(\frac{1}{5}+\frac{1}{5}\right)}} = \frac{1.512}{0.379}$$

$|t| = 3.984$

Working Table

Nepal Insurance Company Limited			United Insurance Company Limited		
X_1	$(X_1-\bar{X}_1)$	$(X_1-\bar{X}_1)^2$	X_2	$(X_2-\bar{X}_2)$	$(X_2-\bar{X}_2)^2$
3.73	0.94	0.88	0.7	-0.58	0.33
2.33	-0.46	0.21	1.09	-0.19	0.03
2.33	-0.46	0.21	0.8	-0.48	0.23
2.91	0.12	0.01	2.2	0.92	0.85
2.6	-0.19	0.03	1.6	0.322	0.104
$\sum X_1=13.9$		$\sum(X_1-\bar{X}_1)^2=1.34$	$\sum X_2=6.39$		$\sum(X_2-\bar{X}_2)^2=1.54$

$n_1=n_2=5$ $\bar{X}_1=\frac{\sum X_1}{n_1}=\frac{13.9}{5}=2.79$ $\bar{X}_2=\frac{\sum X_2}{n_2}=\frac{6.39}{5}=1.278$

$S^2=\frac{1}{n1+n2-2}[\sum(X_1-\bar{X}_1)^2+\sum(X_2-\bar{X}_2)^2]$

$=\frac{1}{5+5-2}[1.34+1.54]$

$= \frac{1}{5} \times 2.88$

$=0.36$

Degrees of freedom= $(n_1+n_2-2)=5+5-2=8$

Tabulated value at 5% level of significance for 8 degrees of freedom is 2.306.

Decision: Since the calculated value of /t/ (3.984) is greater than the tabulated value of /t/ (2.306),the Null Hypothesis is rejected.ie. there is significant difference in Debt to Equity Ratio between NICL & UICL.

APPENDIX-X(4)

Test of Hypothesis on Net Profit Margin

Let X_1 and X_2 be the Net Profit Margin of NICL & UICL respectively.

Setting Hypothesis:-

Null Hypothesis, H_O:$\mu_1 = \mu_2$, (i.e there is no significant difference in Net Profit Margin between NICL & UICL)

Alternative Hypothesis, H_1: $\mu_1 \neq \mu_2$, (i.e there is significant difference in Net Profit Margin between NICL & UICL)

Under Null Hypothesis, H_O, the test statistics is given by,

$$t = \frac{\bar{X}_1 - \bar{X}_2}{\sqrt{S^2\left(\frac{1}{n_1}+\frac{1}{n_2}\right)}} = \frac{-2.576-47.25}{\sqrt{288.27\left(\frac{1}{5}+\frac{1}{5}\right)}} = \frac{-49.817}{10.738}$$

$|t| = 4.64$

Working Table

Nepal Insurance Company Limited			**United Insurance Company Limited**		
X_1	$(X_1-\bar{X}_1)$	$(X_1-\bar{X}_1)^2$	X_2	$(X_2-\bar{X}_2)$	$(X_2-\bar{X}_2)^2$
26.8	29.376	862.95	7.1	-2.35	5.52
17.3	19.876	395.65	9.6	0.15	0.02
0.02	2.596	6.74	8.6	-0.85	0.72
-63.6	-61.024	-3723.93	5.86	-3.59	12.89
6.9	9.476	89.79	16.09	6.64	44.09
$\sum X_1$=-12.88		$\sum(X_1-\bar{X}_1)^2$=-2369.4	$\sum X_2$=47.25		$\sum(X_2-\bar{X}_2)^2$=63.24

$n_1=n_2=5$ $\bar{X}_1=\frac{\sum X_1}{N_1}=\frac{-12.88}{5}$ =-2.576 $\bar{X}_2=\frac{\sum X_2}{N_2}=\frac{47.25}{5}$=9.45

$S^2=\frac{1}{n_1+n_2-2}[\sum(X_1-\bar{X}_1)^2+\sum(X_2-\bar{X}_2)^2]$

$=\frac{1}{5+5-2}$[-2369.4+63.24]

$=\frac{1}{8} \times$-2306.16

=-288.27

Degrees of freedom= $(n_1+n_2-2)=5+5-2=8$

Tabulated value at 5% level of significance for 8 degrees of freedom is 2.306.

Decision: Since the calculated value of is greater than the tabulated value (i.e. 4.64>2.306). Null Hypothesis is rejected i.e. there is significant difference in Net Profit Margin between NICL & UICL.