CHAPTER – I
INTRODUCTION

1.1 Background of the Study

Anything, which has got a start, has to end, but we have to be careful for making it long lasting. The world is full of risk. Risk is uncertainty of financial loss. The risk cannot be averted but loss occurring due to a certain risk can be distributed among the agreed person. Insurance plays important role for this purpose. Risk is the basis of insurance. Risk occurs because of the variation in outcomes or results. Insurance emphasizes the Variable results of financial losses. Uncertainty rather than certainty, unpredictability rather than predictability, not knowing rather than working characterizes risk.

Nowadays the existence of organized financial market and capital market within the boundary of a nation is regarded as an essence for the development of a country. The government firm and individuals agencies are playing vital role in the financial and capital market through investing the collected resources within the recognized national sectors like productive industry and financial area. Yet, the expectation of reasonable benefit their aim of investment will be to attain the returns for themselves. Among such financial institutions and intermediaries, the insurance companies are also the prominent one.

Insurance may defined as a cooperative device to spread the loss caused the loss by particular risk over a number of person's who are exposed it to and who agree to ensure him or herself against that a risk. They agreed to share the loss because the chances of loss i.e. the time, amount to person are not known. Anybody of them may suffer loss to a given risk; so, the rest of the persons who are agreed will share the loss. Insurance is a social device of eliminating or reducing the cost to society of certain types of risk (Mishra, 1995:3).

Insurance may be defined as a contract between to two parties whereby one party (the insurer) agrees to protect the other party (the insured) against a loss (which may arise or may not) when it takes place through the risk insured (in case of property) or pay a fixed amount on the happening of a certain event (death or expiry of the term) in exchange of fixed sum premium (Panda, 1985:22).

In the context of Nepalese insurance companies, they provide various insurance policies and charge premium under insured risk and nature. Insurance companies collect fund a from various clients/people and organization as premium of insurance policies. So, all the insurance Companies are responsible for their clients' interests. This study looks and analyzes the premium collection, investment pattern and returns' of Nepal Life Insurance Company Limited.

1.2 Focus of the Study

This study "A Study on Premium Collection, Investment Position and Returns of Nepal Life Insurance Co. Ltd." focus on the premium collection, investment position and returns. Premium collection and investment is the major function of all insurance companies. All insurance companies collects funds and use the collected fund in desired sectors by which they can maximize their profit. Investment is one of the major parts of all financial institutions. All financial companies invest their funds to the highest profit earning areas.

Premium collection and investment are the major tasks of insurance companies. So success and failure of insurance company depends upon their tasks. More premium collection means more income and more investment means more return.

Investment is one of the major parts of all financial institutions. All financial companies invest their excess fund to the desirable sector with profit motive. Investment means outflow of the fund at adjustable return.

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

The field of investment among the insurers are classified among these fields for the purpose of the study.

a. Compulsory Sector
   - Government Securities
   - Bank Fixed Deposits (commercial and developments banks)

b. Optional Sector
   - Corporate securities
   - Fixed Deposits (finance companies)
   - Loan to policy holders, staff and others

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

We know insurance company is also one kind of the financial institution. It is also involved in financial activities. Insurance company collects fund as premium and make investment. Premium means a certain charged amount, which is paid by the insured to the insurer for bearing risk and uncertainty. Premium is of two types: Net Premium and Gross Premium. The two premiums are further sub divided into two parts.

They are single premium and level premium usually; such investment policy aims at arriving to the optimized or agreed mix of risk return from the investment.

Company Profile

In this study, NLIC has used for 5 years secondary data are analyzed to conclude the resold based on the objective of the research. Nepal Life Insurance Company Ltd. (NLIC) has been taken as a sample among the insurance industries.

Nepal Life Insurance Company Limited

NLIC was registered on 18th Magh, 2055 under the company act 2053 and Insurance Act 2049 as a public limited company. The company has been performing its activities from 21st Baisakh 2058. NLIC is the foremost life insurance company established by private investors. The promoters of the company are a group of well known businessmen and business houses of Nepal. Within the nine years of operation, the company has set up an excellent business record and has a strong financial position among other insurance companies.

NLIC is the first company which was granted license for transacting life insurance exclusively. The company started its operation on May 4, 2001 (2058/01/21 B.S.). The 1st branch office of the company started its operation on the same day at Kathmandu. The head office of NLIC is located at Heritage Plaza, Kamaladi, and Kathmandu. The company has opened 22 branches and 70 sales centers. It's agents are over 18000 and 233 staffs as on Chaitra end, 2066.

Financial Structure of NLIC

The company has an authorized capital of Rs. 100 Crore divided in 10 million share of Rs. 100 each; issued capital is Rs. 50 Crore and paid up capital is Rs.

30 Crore. Right share of 4:1 is in the process for offering to the shareholders. Till Chaitra 2066, the company has insured around two lacs worth Rs. 5 billion. Out of the total premium collected the company has invested Rs. 4 billion and 40 Crore as for guidelines of Beema samittee.

Shareholders of NLIC

Promoters Share	80%
Public Share	20%

Re-Insurance

The company has insured itself with well known re-insurance company "Hannover Re Life Insurance Company", Germany for individual policies and "SCOR Global Life", France for term Assurance Foreign Expatriate Policies.

Types of Life Insurance Products Provided by NLIC

1. Surakshit Jeevan Beema Yojana (Endowment Plan with Bonus):-
2. Dhana Barsha Beema Yojana (Anticipated Plan with Bonus):-
3. Keta Keti Jeevan Beema (Child Endowment Plan):-
4. Jeevan Laxmi Beema Yojana (Triple Benefit Scheme with Bonus):-
5. Jeevan Sahara Beema Yojana (Whole Life Insurance Plan):-
6. Jeevan Sarathi Jeevan Beema Yojana (Joint Life Insurance Plan):-
7. Samuhik Jeevan Beema (Group Insurance Plan):-
8. Madhi Jeevan Beema (Foreign Overseas Employment Insurance Plan):-

This study is concentrated on the premium collection and investment aspects of the insurance industry and aimed on evaluating and analyzing the premium collection, investment, returns, trends and policies as well as to provide insight to the pattern and policies, which may be more beneficial to the insurers among Nepalese insurance industry.

1.3 Statement of the Problem

The big problem of such institution is to collect premium and mobilize in suitable sector. Nepal is an undeveloped country and more than 70% of people live in village and more than 40% illiterate. The geographical situation also does not favor for the expansion of insurance activates. Most of Nepalese people do not have faith on insurance and also do not have living standard to get insurance services. Poverty is also the main cause in dropping the insurance business. The main problems of this insurance company are finance and collection of premium fund. Finance means the source of fund and its proper utilization. This study aims to analyses and find out answer through various method of analysis and techniques.

Nepalese insurance companies are the successful public enterprises of Nepal which are still running in the insurance business without bearing any losses from the date of establishment till now? Investors and businessman are involved in insurance business subsequently. Twenty five insurance companies are established and operate their service and activities

Nepal Life Insurance Co. Ltd. 'NLIC' was incorporated in 21st Baisakh 2058, under Nepal Company Act 2021 BS, and the Insurance Act 2025 Bs. of Nepal. It is operating successfully from the date of establishment to now, but it has been facing the various difficulties relating to premium collection, investment and returns.

Insurers more than 70% of the assets are always included within the head “Investment and loans”. Hence, investment will be major part of their whole functioning. From investment aspect, the insurance industry performs as financial institutions.

The insurer's performance as financial institution will be guided by their investment policies and its implementation. While considering the investment policy and its implementation, the falling fundamental problems arise:-

a. What is the premium collection, investment position and returns of NLIC and how far it is appropriate?
b. Maintaining the desired composition of investment portfolios which suits best according to the line of primary business?
c. Attaining significant return from the composition of investment portfolios that will be more contributing with respect to the revenue generated from the basic line of business.

The insurers always come across with these problems. To be successful in their functioning as financial institutions, the insures need to tackle with above mentioned problems to achieve success.

Investment portfolios are regulated by the insurance board of Nepal (Beema Samiti) under the rules and regulations. Every insurance must invest their 75% of investable fund declared as compulsory sectors and rest 25% in other sectors. NLIC co. ltd. has invested life insurance fund in sectors like bank fixed deposits, government securities, policy loan, bank current account etc.

The company is also suffering from the weak liquidity position. The current liability is always higher than current asset due to increase in the dues to reinsurers, outstanding claims and other expenses. The research study is conducted to give appropriate suggestion in order to overcome the above difficulties and problems.

1.4 Objective of the Study

The basic objective of the study is to analyze the position of NLIC co. ltd. where the premium collection, investment pattern and evaluation of the return.

Its objectives can be stated as follows.

a. To identify the situation of the company in terms of premium collection.
b. To study the trend of premium collection, investment pattern and return of NLIC Co. Ltd.
c. To analyze the policy of company for premium collection, investment and returns to compete in the competitive market.
d. To provide suggestion that will strengthen the further performance of NLIC.

1.5 Significance of the Study

The insurer will accumulate a larger portion of fund, which they can invest against a definite return and same will be the investment for them. Such investment will have these significances:-

a. The investment of an insurer will be the ultimate liability because it comes either from the owners or the policy holders.
b. The surplus between incoming return and outgoing return whether in capital gain form or in normal gain form will be a major portion of the profitability for insurer.
c. The investment form the insurer will create on increase the productivity of the borrowers, whether they are individual, business organization or government.
d. The return of investment portfolio of insurance companies in Nepal
e. The insurance market and possibility of further expansion in Nepal.
f. The investment sector of insurance fund, policy of insurance and scenario of premium collection and investment too.

Premium collection and investment are the vital activities of insurance companies. As the topic of the study, "A study on premium collection, investment position and returns of NLIC Co. Ltd." deals with the problems regarding these important tasks of the company. The study is significant to the management of the company to take the right decision regarding the premium collection and investment. It is also helpful for the management of the other insurance companies. Shareholders, investors, customers, competitors, personnel and other stakeholders can get necessary information. Research will also be benefited to research about the NLIC co. ltd.

1.6 Limitations of the Study

The study aims at findings the fact and the trend or the pattern of the investment and premium collection within the Nepalese insurance industry. Therefore the scope is limited within the insurance company operating. The limitations of this study are:-

a. The study is based on secondary data collected by Nepal Life Insurance Co. ltd., Insurance Board (Beema Samittee) and Nepal stock exchange. Researches are based on secondary and primary data as needed.
b. This study comprises only five years periods of data (061/62, 062/63, 063/064, 064/65 and 065/66) and conclusion drawn from it.
c. This study covers only the area of premium collection, investment and returns.
d. The cumulative data of investment are used in the study.
e. This study implies to NLIC not for other insurance companies.

1.7 Organization of the Study

The whole study is based on the secondary data collected by concerned insurance company, Beema Samitte, NEPSE and others relevant sources. Here, the study is computed by utilizing many analytical tools by separating in following five chapters

Chapter – I Introduction

The first chapter contains as introductory frame work of the study, where insurance companies remain as financial institutions and objectives, limitation and scope of the study.

Chapter – II Review of Literature

It deals the review of literature. It contained conceptual meaning, evaluations, types, other related topic and review of related studies as well as company profile too.

This chapter includes the profile of the sampled insurance companies, their position/ statistics within related area, present regulatory provisions governing the insurers and their investment with brief assessment of their insurance function.

Chapter – III Research Methodology

It contained research design, sources of data, data analysis tools and technique limitation of the study etc. It also includes the methodology used through out the research work, including research design, source of data, population and sampling and data collection and analysis techniques.

Chapter – IV Data Presentation and Analysis

In this chapter data of the study are presented and these data are analyzed by separating different parts. Base on this analysis of data, major finding of the study are confined.

Chapter – V Summary, Conclusions and Recommendations

This chapter includes findings in aggregate conclusions drawn through the findings and the probable suggestions and solutions as ‘recommendations’ enlightened through the study. This chapter will also offer several avenues for future research in the field.

CHAPTER – II

REVIEW OF LITERATURE

This part of the of the study deals with review of prior research and theories. The chapter includes meaning, terminology, function, principles of insurance, etc. Similarly, method of calculating the premium has also been discussed in the chapter. The reviews of the past studies have also been done in the chapter

2.1 Meaning of Insurance

Insurance has been introduced as a safeguard of the people from uncertainty of the future by providing certainty of payment at a given contingency. Insurance companies mean the enterprises that are involved in insurance business. Insurance companies are integrated part of the same business.

Insurance can be explained as a social device to accumulate funds to meet the uncertain losses a rising the risk. For the economic growth of the country, insurance provides strong hand and minds, protections against loss of property and adequate capital to produce more wealth.

Risk is the basic of insurance. Risk occurs because of the variation in outcomes or results. Insurance emphasizes the variable results of financial losses uncertainty rather that certainty, unpredictability rather than predictability, not knowing rather than knowing characterizes risk.

According to M.N. Mishra, “Insurance is a co-operative device to spread the loss by a particular risk over a number of persons, who are exposed to it and who agree to insure themselves against the risk” (Mishra, 1995:3).

W.D Dinsdale defines insurances as “A means of spreading over the many losses, which would otherwise be borne by individual. It provides in effect a pool to which the many contributes, out of which the few who surer losses are compensated (Dinsdale, 1958: 3).

Fedrick G. Crane said, “Insurance may defined as a system of combining may loss exposures, with the cost of the losses being shared by all of the participants” (Crane, 1980:8).

According to M.K Ghosh and A.N Agawral, “Insurance is a co-operative form of distributing a certain risk over a group of persons exposed to it” (Ghosh, 1959:5).

According to M.N Mishra, “Insurance is a co-operative device to spread the loss by a particular risk over a number of persons, who are exposed to it and who agree to insure themselves a against the risk” (Mishra, 1975:3).

M.C Shukla and T.S Grewal defined insurances as a contract settled between the parties on is insurance company and another is insured party who, insure his properties as well as lives. They stated as it undertakes to indemnity the loss suffered (due to specified cased) 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 losses are paid of equivalent to loss (loss according to the term of contract) and those do not suffer loss by the premium paid. The protection against unforeseen event is purchased through a contract of insurance (Shukla and Grewal, 1990: 6).

From the above mentioned definition 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.

2.1.1 Evolution of Insurance

The terms of insurance developed through the faith of co-operation. The origin of insurance is lost in antiquity. However, there is no evidence that insurance in its present from was practiced prior to the twelfth century.

The earliest traces of insurance in the ancient world are found in the form of marine trade loans or carriers contract, which included an element of insurance. Evidence shows that the marine insurance is the oldest form of the insurance.

Travelers on the sea and land were very much exposable to the risk of losing their vessels and merchandise because the piracy on the open seas and highway robbery of caravans was very common. Besides, there were several risks. The cooperative devices were quite voluntary in the beginning, but now in modern age it has been converted into modified shape of premium. The Brugians sold the marine policies of the present forms in the beginning of fourteenth century, but the insurance development was not to the lombards and to the Hansa merchants, it spread through out Spain, Portugal, France, Holland and England. After marine insurance; Fire insurance developed in its present form. It was originated in Germany in the beginning of the sixteen century. It got momentum in England after the great fire in 1966 when the fire losses were tremendous. Gradually all the types of insurance were developed in this form.

2.1.2 Types of Insurance

There are different types of insurance however insurance has been classified into two groups for study. Insurance may be private or governmental. Private insurance can be divided into life and health insurance and property and liability insurance. Government insurance can be divided into social insurance and all other government insurance. So private and public insurance can be classified as follows:

Private Insurance

a. Life and Health Insurance
b. Property and Liability Insurance

Government Insurance

a. Social Insurance
b. Other Govt. Insurance Programs

Private Insurance

a. Life and Health Insurance

Life Insurance companies take responsibility to provide financial security after the death of insured and they try to avoid possible future risks. Thus, insurance companies provide benefits for funeral expenses, medical bills, estate taxes and other expenses as a result of death.

b. Property and Liability Insurance

- Fire Insurance:- It is the contract of indemnity. An insured gives fixed premium to insurance companies instead of premium given by insured within the time of insurance. Insurance companies take responsibility of providing compensation if insured’s property is damaged. Fire insurance covers the loss or damage to real estate and personal property because of fire lightening or removal from the premises. Indirect losses also can be covered, including the loss of profits and rents and the extra expenses incurred as a result of a loss from the interruption of business.
- Marine Insurance:- The marine insurance is the oldest from of modern insurance. The marine insurance policy will be written to provide the security against peril of sea. Marine policy will provide the assurance/insurance not only against the natural disaster, but also against inland transit loss, which is arising in the way to seller and buyer and protection against loading and unloading also. The modern insurance developed from marine insurance.
- Casualty Insurance:- This insurance too is contract of indemnification In casualty insurance insured provides fixed premium to insurer. Casualty insurance is a broad field of insurance which covers whatever is not covered by fire, marine and life insurance. It has been divided into followings groups.
  - Auto Insurance
  - General liability insurance
  - Burglary and theft insurance

- Workers compensation insurance
- Glass insurance
- Nuclear insurance
- Crop hail insurance
- Other miscellaneous insurance
  - Title insurance
  - Credit insurance

- Multiple Line Insurance:- Multiple line insurance agrees to provide indemnification to insured whose property has been damaged. So, it combines both property and casualty coverage's into one contract. For e.g., a home owner's policy also covers fire insurance and liability insurance.
- Fidelity and surety bonds:- Fidelity bonds provide protection against loss caused by the dishonest or fraudulent acts of employees, such as embezzlement and theft of money. Surety bonds provide for monetary compensation in cause of failure by bonded persons to perform certain acts, such as the failure of a contractor to construct a building on time.

Government Insurance

Government insurance can be classified into social insurance and other government social insurance program which are given below:

a. **Social Insurance**

This insurance was firstly started in Britain, and then slowly it was developed in other countries. In modern time, social insurance has great contribution in the field of insurance. The main aim of social insurance is to serve the society. Social insurance programs provide protection against risk resulting from financial losses. Social insurance is utilized for workers who work in factories. Social programs are financed by both sided insurer and insured compulsorily. Most social insurance programs are compulsory and employers are encouraged to finance legally and they participant in programs.

There are different types of social insurance programs which are explained below:-

- Old-age, survivors and disability insurance
- Medicare insurance
- Unemployment insurance
- Workers compensation insurance
- Compulsory temporary disability insurance
- Railroad retirement act
- vii) Railroad unemployment insurance act.

b. Other Government Insurance Programs

These insurance programs are present into both federal and state level according to construction of government. In federal employment retirement system, the civil service retirement system, various life insurance programs for veterans, pension termination insurance, insurance on checking and saving accounts in commercial banks and federal flood insurance, federal crop insurance and numerous other programs are include

2.1.3 Importance of Insurance

The role of insurance is great to bring our world in this stage. It has contributed a lot for the development of business and industrial revolution. The insurance principle has been frequently applicable and useful in modern affairs. As such, insurance is the main element which helps to minimize the risk of loss in business activities, individual activities and in social activities and the necessity of insurance can be studied under the following headings:

Uses to an Individual

a) Insurance Provides Security and Safety

The insurance provides safety and security against the loss on a particular event. In case of life insurance payment is made when death occurs or the term of insurance is expired. The insurance provides safety and security against the loss of earning at death or in olden age, against the loss at fire, against the loss or damage, destruction or disappearance of property, goods, furniture and machines etc.

b) Insurance Affords Peace of Mind

Insurance affords peace of mind .The security banishes fear and uncertainty, fire, wisdom, automobile accident damage and death are almost beyond the control of human agency and in occurrence of any of there event may frustrate or weaken the human mind. By means of insurance, however, much of the uncertainty that centers about the wish for security and its attainment may be eliminated.

c) Insurance Protects Mortgaged Property

When the owner of the mortgaged property is dead, the property is taken over by the lender of money and the family will be deprived of the uses of the property. Insurance is the solution for this problem. Mortgagee also wishes to get the property insured because at the damage or destruction of the property he will lose his right to get the loan repaid.

d) Insurance Eliminates Dependency

At the death of the husband or father, the destruction of family need no elaboration Similarly, the destruction of property and goods the family would suffer a lot living standard of the family would be low and suffering may to any extent of begging from the relatives, neighbors or friends. The insurance is here to assist them and provide adequate amount at the time of suffering.

e) Life Insurance Encourages Saving

Life insurance encourage saving. Once the person is life insured, he has to pay certain premium for the specified period. Systematic saving is possible because regular premiums are required to be compulsorily paid.

f) Life Insurance fulfils the needs of a Person

Life Insurance fulfills the needs of a person as family needs, old age needs, re-adjustment needs, special needs and the clean-up needs.

Uses to Business

a) Uncertainty of Business Losses is Reduced

In a business, with a slight slackness or negligence, the property may be turned into ashes. The accident may be fatal not only to the individual or property but to the third party also. New construction and new establishment are possible only with the help of insurance. Without insurance, uncertainty will be in the maximum level and nobody would like to invest a huge amount in the business or industry. So, insurance plays important role in the development of business and its activities.

b) Business-efficiency is increased with Insurance

Insurance makes the owner free from botheration of losses. This helps them to devote much time to the business. As business man devotes much time to the business, business efficiency will increase.

c) Enhancement of Credit

The business company can obtain loan by pledging the policy as collateral for the loan. The insured persons are getting more loans due to certainty of payment at their death. So insurance is very much useful to the business.

d) Business Continuation

The property insurance of the business protects the property of the business. It protects against disasters and the chance of disclosure of the business due to tremendous wasted of loss.

e) Welfare of Employee

The business should be very much useful for the welfare of employees. The employer has to look after the welfare of the employee which can be provision for early death provision for disability and provision for old age. There requirements are easily met by the life insurance, accident and sickness benefit and pension which are generally provided by group insurance.

Use to the Society

a) Wealth of the Society is Protected

The loss of a particular wealth can be protected with the insurance. Life insurance provides loss of human wealth. The loss of damage of property at fire, accident, etc. can be well indemnified by the property insurance, cattle, crop, profit and machines are also protected against their accidental and economic losses. With the advancement of the society, the wealth or the property of the society attracts more hazardous and so new types of insurance are also invented to protect them against the possible losses. Each and every member will have financial security against old age, death, damage, destruction and disappearance of his wealth including the life wealth. The happiness and prosperity are observed everywhere with the help of insurance.

b) Economic Growth of the Country

Development of insurance in the country is the sign of economic growth of the country. Insurance provides strong hand and mind for the economic growth of the country. As the protection is given by the insurance, it stimulated more production in agriculture, in industry, the factory premises, machines, boilers and profit insurances provide more confidence to start and operated the industry.

c) Reduction in Inflation

The insurance reduces the inflationary in two ways. First, by extracting money in supply to the amount of premium collected and secondly, by providing sufficient funds for product narrow down the inflationary gap.

2.1.4 Nepalese Context

In our society, the concept of insurance can be traced down to the *Guthi* systems and joint family culture that has been prevalent since the ancient times.

These systems have provided security and assistance to individuals and families in time of need.

With the development of trade, commerce and industry, the necessity of insurance in our country was felt long ago. But there was no evidence of any organized form of insurance in Nepal until 1947 A.D.

In 1948 A.D. (2004 B.S) the first Nepalese Insurance company, Nepal Mal Chalani Ra Beema Company Limited was established by Nepal Bank Limited,. The 'National Fire Insurance Company' of Calcutta is the first insurance company to open branch in Kathmandu in 1958, to contract fire insurance business in Nepal.

With the development of trade and industry, establishment of Nepal Rastra Bank (Central Bank), Nepal Bank Ltd. (Commercial Bank), Rastriya Banijya Bank (Commercial Bank), Agricultural Development Bank, Co-operative Bank, Nepal industrial development corporation, numerous other companies and corporations, the need of fire insurance in Nepal is growing in a manifold way. To meet ever growing needs of fire insurance Indian branches such as "Ruby", "Oriental", "Sterling General" and "Hindustan General" and the domestic insurance company " Insurance and Transport Company" and "Rastriya Beema Sansthan" are transacting fire insurance business.

Rastriya Beema Sansthan was establishment on 15 December 1968. The company was established as a private company with an authorized capital of Rs.1 Crore and capital issued was Rs.25 lacs under the Nepal Company Act, 2021. The Company started its business by insuring Late king Mahendra's car. A year later, the company started operating with same name but under National insurance corporation Act, 2025. On Feb. 21, 1973, Five years after establishment life insurance was introduced.

After the instruction of Insurance Act, 1992 the number of private insurance companies come into existence. There are nine life insurance and seventeen non life insurance companies in Nepal, now they are as follows:-

Table 2.1

Name of Life Insurance Company Ltd. in Nepal

S.N.	Name	Address	Est. Date
1.	Rastriya Beema Sansthan	Ramshahpath	2024/09/01
2.	Nepal Life Insurance Co. Ltd	Kamaladi	2058/01/21
3.	National Life Insurance Co. Ltd.	Kantipath	2044/09/24
4.	Life Insurance Corporation (Nepal) Ltd.	Kamaladi	2058/01/12
5.	Americal Life Insurance Company Ltd.	Pulchowk	2002
6.	Asian Life Insurance Company Ltd	Putalisadak	2064/11/15
7.	Surya Life Insurance Company Ltd	Gairidhara	2064/12/06
8.	Gurans Life Insurance Company Ltd	Lal Colony Marg	2064/12/18
9.	Prime Life Insurance Company Ltd	Hattisar	2065/01/12

Table 2.2

Name of Non Life Insurance Company Ltd. in Nepal

S.N.	Name	Address	Est. Date
1.	Rastriya Beema Sansthan	Ramshahpath	2024/09/01
2.	Nepal Insurance Company Ltd.	Kamaladi	2004/08/08
3.	National Insurance Company Ltd.	Tripureshwor	2030/09/17
4.	Himalayan General Insurance Company Ltd.	Babarmahal	2050/08/16
5.	United Insurance Company Ltd.	Durbarmarg	2050/08/16
6.	Premier Insurance Company Ltd.	Tripureshwor	2051/01/29
7.	Everest Insurance Company Ltd.	Hattisar	2051/04/07
8.	Neco Insurance Company Ltd.	Hattisar	2053/02/17
9	Sagarmatha Insurance Company Ltd.	Kamaladi	2053/04/02
10.	Alliance Insurance Company Ltd.	Durbarmarg	2053/04/17
11.	NB Insurance Company Ltd.	Kamaladi	2057/10/19
12.	Prudential Insurance Company Ltd.	Putalisadak	2059/03/06
13.	Shikhar Insurance Company Ltd.	Baneshwor	2061/07/26
14.	Lumbini General Insurance Company Ltd.	Thamel	2062/04/02
15.	NLG Insurance Company Ltd.	Lazimpat	2062/12/05
16.	Sidhartha Insurance Company Ltd.	Tripureshowr	2063/01/01
17.	Orintal Insurance Company Ltd.	Kantipath	2024/05/30

Source: Insurance Board Report, FY 2065/66

2.1.5 Types of Insurance Company Ltd.

Insurance can be broadly classified into two groups, general or non life insurance and life insurance. The subject matters to be compensated by insured under general insurance is properties except life. All the insurance companies provided certainty against the risk. When they can be defined in the generic concept, it will take the form like social insurance and private insurance.

"If any person, related to his life, pays a certain amount on the basis of his living age on the installment basis, in two case of the death of his whished person or himself to give the certain amount to his business related to the contract is called life insurance business" (Insurance Act, 2049).

There is no substitute of life insurance. It provides financial protection to people. Life insurance provides required amount to the insured during his/her retired life. It provides additional amount to the insured in case of death by accident to the family member of the insured. Life insurance provides various facilities to the people. Loans can be taken by pledging life insurance policy in the insurance company Income tax concession can be obtained through life insurance policy. In Nepal, 5% of the addition income is exempt from income tax.

Kinds of Insurance from risk point of View:-

Personal Insurance

- Life Insurance
- Personal Accident Insurance
- Health Insurance

Property Insurance

- Marine Insurance
- Fire Insurance
- Automobile Insurance
- Cattle Insurance

- Crop Insurance
- Machinery Insurance
- Theft Insurance

Liability Insurance

- Third Party Insurance
- Employee Insurance
- Motor Insurance
- Re-insurance Insurance

Fidelity Insurance

- Fiduciary Insurance
- Credit Insurance
- Privilege Insurance

Life Insurance

Insurance provides protection against a wide variety of risk. However, life insurance provides sum of amount against the various risks relating to the human being body through issuing different policies. Life insurance is a financial instrument for providing post death resources to support survivors or pay obligations of the estate of the decreased.

Nepal Insurance Act 2049 (Section 2.1) has defined life insurance as the contract of insurance, effected on human life on the basis of age to pay a fixed sum to the assumed or his nominee, on death or on the happening of any contingency, depended on human life in consideration of payment of a fixed installment premium by the assured insurance companies provided the life insurance under various policies.

Life insurance is particularly, concerned with that aspect of human life. Since, the insurance of assurance of a person's life is impossible because of the certainty of death of a person once born; life insurance only provided assurance against the economic aspects of human life, not the assurance against the life, itself. Life insurance provides future unseen future accident and it helps to the life comfort in retirement life. Life insurance never fulfill losses of human life, it measures in amount of various risk and provides sum of amount in accordance to policy. Life insurance plays a vital role in the society.

Life Insurance can be defined as a contract. In this one party provides certain payments to another party after his/her death or fixed time is over against the partial and full paid amount called premium. Life insurance is not be a contract, without basic principles specific conditions and principles are contained for specific contract. Thus utmost good faith and insurable interest both should be included in life insurance contract. If both are not included that life insurance cannot be a contract.

Life Insurance Contractual Provisions

Life insurance is a contract between insurer and insured. There are different clauses or provision in an insurance contract, on which both side should agree and sign upon it to made a valid contract. They are called contractual provisions. The major contractual provisions or clauses are; ownership clause, entire contract clause, incontestable clause, suicide clause, grace period, change of plan provision, misstatement of age or sex clause and premiums payment.

Types of Life Insurance

Life Insurance policies can be classified as either term life insurance.

Types of Life Insurance

Term Insurance
- yearly renewal term
- 5,10 or 20 year term
- Term to age 65
- Decreasing term
- Re-entry term

Whole life Insurance
- Ordinary life insurance
- Limited payment life insurance

Endowment Insurance

Among these insurance policies, endowment life insurance is most popular in the context of Nepal. It is one of the insurance policies, which are issued by all the life insurance companies of Nepal. Under this policy, the premium to be paid by the insured is fixed on the basis of the health condition, age and other criteria. If the insured dies with in the time period mention in the policy, the company pays sum assured mentioned in the policy to legal heir, if the insured remains alive until the maturity of policy insured himself gets the sum assured and the bonus earned during the time. The endowment life insurance policy can be divided into various type which are as follows:-

- Ordinary endowment policy
- Pure endowment policy
- Double endowment policy
- Anticipated endowment policy
- Deferred endowment policy

2.1.6 Legislation Relating to Insurance in Nepal

Law is necessary in every field. Law makes the things controlled. Every business is directed and controlled by the legislation and regulation. The insurance toll is governed by the Insurance Act 2049 B.S. (1992 A.D.).The Rastriya Beema Sansthan and other more than 17 insurance companies from the private sectors are running. The Rastriya Beema Sansthan is governed by Rastriya Beema Sansthan Act 2025 B.S. and Insurance Act 2049 B.S. (1992 A.D.). The private insurance companies are run by the company Act 2053(1996 A.D.), Contract Act 2056 B.S. (1999 A.D.), Insurance Act 2049(1992 A.D.) and the rules 2049 B.S. (1992 A.D.).The Insurance companies should also follow their own memorandum, article of association and memorandum of understanding. They should obey the policy, instruction and the circulars issued by the Insurance Board from time to time.

The legislation and regulation related with the insurance activities in Nepal are as follows.

- Insurance Act 2049(1992) with amendment
- Rastriya Beema Sansthan Act 2025(1968)
- Insurance Rules 2049 (1992) with amendment.
- Company Act 2053 (1996)
- Contract Act 2056 (1999)

The main features of the insurance Act and Rules of Nepal are as follows:

1. Provision of the Insurance Board

Insurance Board is an organized supervisory body of government to regulate insurance business in the country. It is formed under the insurance Act 2049 B.S. (1992A.D.) Section 3, of the Insurance Act 2049(1992), mention in details about the members of the Board. The board is formed to manage, to regulate, to develop and to control insurance board.

a. A person appointed or designated by Nepal Government ……. Chairman.
b. Representative, Ministry of law, Justice and Parliamentary Affairs………Member.
c. Representative, Ministry of Finance ……………………….Member.
d. A person nominated by NG from among persons specializing in Insurance Business……Member.
e. A person nominated by NG from among insurers………………Member.

The employee designated by the Board shall function as it secretary. The Board may, if it so seems appropriate, invites any local or foreign expert to attend its meetings in the capacity of an observer. The nominated members of the Board shall have a term of four years. They may be re-nominated for not more than two terms after the expiry of their term. The head office of the board shall be located in the Kathmandu Valley.

2. Insurance Board is an Autonomous Body

Insurance Board (Beema Samitte) is an autonomous body as it is formed under the insurance act 2049 B.S. (1992A.D.). Such provision is made in section 4 of the Insurance Act 2049 B.S. (1992A.D.).The board may acquire, sell or otherwise dispose of movable or immovable property like an individual. It can sue and be sued too. It has its own name seal.

3. Specific function, Duties and power of the Insurance Board

The functions, duties and power of the insurance board are specified by the section 8 of the insurance Act 2049(1992). Similarly, in the section 9, there is a provision that the insurance board can form the sub-committee according to needs to operate its function continuously. The functions, duties and powers of the board are as follows:

a. To offer necessary suggestion to HMG to formulate policies for systematizing, regularizing, developing and controlling the insurance business.
b. To formulate policies and fix priority sectors for investing the insurance proceeds.
c. To register and renew (the certificate of) insurers, insurance agents, surveyors or brokers, and cancel such registration, or make arrangement for doing so.
d. To mediate in disputes between the insurer and the insured.
e. To justify on complaints filed by the insured against the insurer in regard to the assessment of the insurance liability.
f. To issue necessary directives to the insurers from time to time in regard to the insurance business.
g. To formulate necessary criteria for protecting the interest of the insured.
h. Make arrangement for performing other necessary functions related to the insurance business.

4. Provision about the Registration, Renewal and the cancel of the Registration of the Insurer

In section 10, of the insurance act 2049 B.S. (1992 A.D.), there is the provision of the registration of the insurer and in section 11 of the same act, there is provision of the renewal of the registration of the insurer. Similarly, in section 12, there is provision that the registration of the insurer can be cancelled in certain conditions. According to the Insurance Act 2049 (1992), without obtaining a license no one shall engage in the insurance business. Any local or foreign corporate body desirous of carrying out insurance business as an insurer should give an application form with the prescribed fees and the necessary documents. While checking under this cut it is right to give its notice to the insurer. There is provision to the effect that every last day of the month of chaitra of every year the insurer should give the application for the renewal of his registration with the prescribed fees and in the prescribed form to the office of the board. In section 13, of the insurance Act, 2049(1992), also it has been provided for the Board can cancel the registration of the insurer on a certain conditions.

5. Provision of the payment of the insurance claim after the cancellation of the Insurer

In case any insurer is dissolved as a result of the cancellation of its registration under section 13, the concerned insurer must refund the amount received by it on the course of insurance to the policy holder and institutions within time to time the procedure prescribed by the board. In the case of life insurance business, along with a bonus as prescribed by the board, while in the case of non life insurance business, it shall refund the principal amount prescribed by the board on a proportionate basis.

6. Provision to keep the separate fund and separate account for the Separate Insurance Business

If any insurance is involved in more than one insurance business, it should maintain clearly separate account for each insurance business. The insurer should keep the separate fund for deposit the amount received from the business to the related fund. There is a provision it can't borne the liability from the fund maintained for one business to another business.

7. Provision to pay the premium before the Risk Taken

The risk is taken by the insurer only after the premium is received. In some special condition, if there is practical difficulty to pay the whole sole amount, fixing the period to pay the rest of the amount, there is legal provision, not to restrict for issuing the insurance policy with the guarantee of the Nepal Government or the Bank.

8. Provision made about the Reinsurance

There is no reinsurance company in Nepal yet. There is provision in the act for establishing Reinsurance Company. Under section 28 of the act the insurer by taking the risk that it is supposed to take, should do the reinsurance as the insurance board fixed for the rest of the risk.

9. Provision for the Registration Renewal and cancellation of the Insurance Agent

Provision are made regarding registration of the insurance agent in the section 30 of the insurance Act 2049(1992), qualification of the insurance agent is made in section 32 and there is the provision for the cancellation of the license of the insurance agent in section 33. The person, who wants to act as an insurance agent with the approval letter or recommendation letter of the related insurer, should give the application to the office of the insurance board. After receiving the application, with the necessary change (fee), the board gives the license to the applicant. If it is found any reason not to give the license the board should give the notice about the related applicant. Similarly, the license should be renewed by the end of chaitra of every year with the renewal charge as the priority of the provision of section 31.If it is not renewed there is provision for the cancellation of the license.

10. Provision for the Registration, Renewal and Cancellation of the Insurance Surveyor

There are provision for the registration of the license in the section 30, qualification in 32 and cancellation of the license in the section 33 of the insurance act 2049 (1992).The person, who wants to work as and insurance surveyors with the written approval, should give the application to the office of the insurance board. After the application received, the insurance board checks up the document with the application and if correct, there is provision to give him/her the license of the insurance surveyors by taking the necessary fees as fixed by the Board. If the board not concludes to give the license notice should be given to the related person. The license should be renewed every year the end of chaitra as the provision of section 31. If the license is not renewed there is provision to cancel the license in section 33(c) of the insurance act 2049.

11. The provision to get the insured amount by the Designee

Under the section 38(1) of the insurance Act 2049, in case any life insurance policy holder dies before the expiry of the term of his policy the amount mentioned in such policy shall be paid to the person designated by him therein. In case he has not designated any person, or in case the designee has already died, payment shall be made to any of his surviving related dependents as following in the following order:

a. Husband or Wife
b. Unmarried sons and daughters (equal shares)
c. Parents
d. Married sons in equal shares
e. Sons and daughters of the deceased son, in equal shares.
f. Widowed wife or son.
g. Unmarried brothers in equal shares.
h. Unmarried sisters in equal shares.
i. Grandfather and grandmother on the father side.

12. Provision for the classification of the under subject to the act of rules, the insurance business to be under taken; by an insurer shall be classified into the following categories.

a. Life insurance business
b. General Insurance business
c. Reinsurance business

Under the life insurance business, an insurer may undertake the following insurance business:

a. whole life insurance
b. Endowment life insurance
c. Term life insurance

Under the general insurance business, an insurer may undertake the following insurance business.

a. Fire insurance
b. Motor insurance
c. Marine insurance
d. Engineering and contractors risk insurance
e. Aviation insurance

13. Provision for Insurance Rate Advisory Committee

For the purpose of offering necessary advice and suggestion to the board in determining insurance rated of insurance business, HMG shall form an Insurance rates Advisory committee comprising the following members.

a. Chairman, Insurance Board …………………………………Chairman.
b. Three persons nominated by HMG from among the chief of insurers ……Members.
c. Secretary, Insurance Board ……………………………Member secretary.

The working procedures relating to the meeting of the advisory committee shall be as determined by the committee itself, and the functions, duties and powers of the Advisory committee shall be as prescribed.

14. Legal Provision for the Appeal

According to the section 37 of the insurance act 2049,there is a legal provision that if a person or an organized institution is not satisfied with the decision of the insurance board, the related person, a institution can appeal to the related court within 35 day of the decision made. This provision is really very important. The person can get entry to the court under this provision.

15. Provision made for the appointment of Liquidator

Under the section 18 of the insurance act 2049, in case an insurer is dissolved as a result of the cancellation of its registration under section 13, HMG may appoint a liquidator. The functions, duties and powers of the liquidator appointed shall be equivalent to those of a government liquidator under the company act.

2.1.7 Premium Collection

Premium

Premium is the certain amount of payment which is paid by the insured to the insurer for bearing uncertain risk, peril or hazards. The management and ownership are very important factor while risks are evaluated for the purpose of rate making. General, the insurer charges higher premium for higher riskier insurance and lower premium for less riskier insurance policy. Different insurance companies or insurer may charge different premium to insured under their objective and goal with accordance to the policies, risk and uncertainty.

The main source of funds is the premium collected by the insurers. The premium may be single premium; level premium or considerations. Exceeding of this premium over the needed premium for meeting claims and expenses is the sources of fund.

Types of Premium

We can find various premiums to pay insurer according to the policy. But the premium is fundamentally of two types. Net premium and gross premium. Net premium is calculated considering mortality and interest rate. Therefore, the death rate of a person and interest directly affects on the premium amount to calculate under net premium method.

The net premium is based on the mortality and interest rates where as the gross premium depends upon the mortality rate, the assumed interest rate, the expenses and the bonus loading. To make the calculation of the premium amount easier, the two premiums are further sub divided into two parts.

Single Premium

According to single premium system the amount of premium is not divided into installment. The insured oblige to pay all premium amounts in humus basis. It makes difficulties to insured because of paying heavy amount in one time. This premium is received by the insurer in a lump sum and is exactly adequate, along with the return earned thereon, to pay the amount of claim whenever it arises whether at death or at maturity or even at surrender.

Calculation of Net Single Premium

Before calculating the premium amount under single premium. Single premium is one types of premium but it may differ under different policies. The premium calculated process might be affected by different factors. So insurer should consider and analyze those factors, this may affect the insurance system and policies. There are certain variables which are to be assumed at a level for calculation and alterations in premium, calculation are made at later stage according to the change in the variables. The following factors are assumed while calculating the net single premium.

- Premiums are collected in advance or in the beginning of the period.

- All collections are immediately invested and will remain invested until money is need for the payments of claims.
- The interest or dividend or any return of the invested fund is immediately invested for re-earning.
- Mortality rate will be the same as given in the mortality table and will be uniformly distributed through out the year.

Only these assumptions may not be adequately practicable, but they are taken for making calculation easy. So, insurer need to consider above mentioned factors while calculating premium under net single premium method.

Level Premium

Level premium is paid periodically in installment. The level premium may be yearly, half-yearly, quarterly and monthly. Life insurance is usually issued on a level premium basis, which means that the same premium is charged thought out the life of the contract. Usually, the level premium is suitable for the life insurance policies and for the purpose of limited income able person. So, the level premium ideas are considered one of the most basis advances ever made in the development of life insurance. With this concept, it becomes possible to issue policies for long run period until whole life contracts are made a regular part of the business. Actuaries using refined mortality statistics could calculate exactly how much had to be charged during the early years of the contract in order to make up for the rising mortality costs of the later years.

Level premium is easily converted by the net single premium. Hence, the single premium of a given policy can be easily converted into level premium by establishing ration between net level premium and net single premium The present value of all net level premium is equal to the net single premium.

Insurer can calculate the level premium by establishing ratio between level premium and net single premium.

2.1.8 Investment

Generally, the investment depends upon principle of investment. All financial institution and intermediaries invest their collected fund under investment principles and policies. However, investment policy reformed and developed from the principal of investment directly affects the investment policy.

Collecting the premium from the clients by issuing the insurance policies is one of the most important functions of any insurance companies. The main source of fund is premium and the income from the investment. Premium collection and investment are the main functions of every insurance company. So success and failure of the insurance company depends upon these two tasks. Premium is calculated by the insurance company under the tariff by insurance board. The tariff is fixed by observing risks involve in that insured. Here applies higher risk higher the premium.

Investment is the sacrifice of certain present value for the uncertain future reward. There are basically three concepts on investments.

Economic Investment: - That is an economist’s definition of investment.

a. Investment is a general or extended sense, which is used by “the man of the street.”
b. “The sense in which it is going to be very much interest, namely Financial Investment”

Investment operations are important to business operation. Insurers are required to generate reserves for claims that might arise. It is essential that insurance companies invest these funds rationally with the combined objectives of liquidity, maximization of yield & safety. Return on investment form life insurance funds influence to a large extent. It has to be ensured that the insurer must at all times maintain a prescribed minimum level of solvency as a protection to the policy holders. In view of public interest, investment of insurance fund is regulated. Many countries do not have regulation to guide such investment, but they do have provision setting out minimum level of assets and securities for the purpose of determining solvency level of insurance companies. The provision of the Insurance Act governs the pattern of investment.

Accordingly, its‟ composition or percentage of share may vary according to time to time or amendment of by laws depending upon the situation of the economy. Majority of investment is made in government and other approved securities, while investment are also made in the form of loans to government organization, loans to its policy holders and fixed deposit with approved banks. The ratio is specified according to the decision of board of Act of the company of by laws.

The term “Investment” is used differently in economics and in finance. Economists refer to a real investment (such as a machine or a house), while financial economists refer to a financial asset, such as, money that is put into a bank or the market, which may then be used to buy a real asset.

The investment decision is one of the fundamental decisions of business management: managers determine the assets that the business enterprise obtains. These assets may be physical (such as buildings or machinery), intangible (such as patents, software, goodwill), or financial. The manager must assess whether the net present value of the investment to the enterprise is positive; the net present value is calculated using the enterprises marginal cost of capital.

General investment means to flow cash in different sectors at profit motive. Investment in its broadest sense means the sacrifice of certain present value for future value. Financial management is the combination of the activities such as acquisition of fund from different sources, allocation of the fund in the respective area and utilization of the fund in an efficient way to ensure the achievement of basic objectives of maximizing the shareholder’s wealth. Financial management is interchangeably used with the term business finance, managerial finance and corporate office.

Investment means the sacrifice of current Rupees and resources for the sake of future Rupees of money and other resources that are expected to generated additional money and resources in the future. Such a commitment takes place in the present and is certain to occur but the reward comes in the future and always remains uncertain. Therefore, every investment entails some degree of risk.

Experts define the terms of investment from economic viewpoint that “Investment as a productive process by means of which additional are made to capital equipments.”

Insurer has responsibility to pay certain indemnity and balance fund at a certain specific time is held with the accident or loss. Therefore insurers basic function is not only premium collection but also investment of collected fund. Hence while calculating premium. It has been assumed that the accumulated premiums and funds are invested to earn at least assumed rate of interest. The needs of investment of funds are given here in brief.

- Operating management expenses;
- Payments of death claim, maturity with bonus;
- To avoid financial deficit;
- To collect the funds;
- To give contribute to the national economy.

The funds with the insurers are accumulated from the various sources, which are explained in these forms.

- Premium
- Interest

- Capital gain
- Saving in expenses
- Non payments of claim.

Though the insurer has advantages of investing above mentioned sources of fund, but they cannot invest all the collated cash (fund) in profitable investment. Insurance or an insurer must mobilize its collected premium and other funds to profitable, secured and business sector. So, that it can earn a handsome profit secured and can be converted into cash whenever needed.

Regarding the insurer investment policy and selection criteria, these will be the factors to be considered or simply we can mention following basic principle to be followed while investing the insurance fund.

- Safety and security
- Profitability
- Diversification
- Liquidity
- Marketability

The supervisory authority required insurers to comply with standards on investment activities. These standards include requirements on investment policy, asset mix, valuation, diversification, asset, and liability matching and risk management.

Insurers must manage their investments in a sound and prudent manner. An investment portfolio carries a range of investment related risks that might affect the coverage of technical provisions and the solvency margin. Insurers need to identify, measure, report and control the main risks.

The international insurer’s investment strategies are potentially complex because very often they need to manage and match assets and liabilities in a number of currencies and different markets. In addition, the need for liquidity resulting from potential large scale payments may further complicate an insurer's investment strategies.

The supervisory authority ensures that standards are established for insurers in managing their investment portfolios and inherent risks. The supervisory authority needs to have both the authority and ability to assess these risks and their potential impact, technical provisions and solvency. However, the detailed formulation of an insurer's investment management policy and internal risk control methodology is the responsibility of the board of directors.

To attain the attractive and maintain able goodwill, the insurer needs to make balance in their transactions. So they collect reasonable and premium and pay the reasonable indemnity with accordance to the written policy. To transact all function of insurance company is they need certain fund. The main sources of insurance companies or insurer followed all the mentioned above investment principle and policies.

2.1.9 The Principles of Investment Policy

The cannons of investment are safety, profitability, liquidity, diversification and increasing of life business. Regarding the insurers business investment policy will be the outcomes of various principle and other affecting matters along with the basic principles of investment that need to be followed because the investment policy is formulated under regarding the principle of investment while investment policy needed to be formed, the investors need to consider many factors. Usually these are the factors to be considered in investment planning decisions, security of principle, suitability of income and rate of return marketability and liquidity.

Safety and Security

It is a primary and a basic principle of the investment policy. The insurer should never invest its funds in these securities which are subject to too much depreciation and fluctuations because a little difference may cause great loss. Therefore, insurers perhaps invest their funds in fixed deposits and treasury bills of NRB. The collected premium is a liability for an insurer; therefore they are always conscious on security and safety of the investment. “The security of the investment depends upon the legal claims of the lenders and value of the underlying security but also upon the borrower’s ability to manage his affairs efficiently and his willingness as well as ability to repay” (Life Insurance Companies as Financial Institution, 1969: 60).

Profitability

Generally, the insurance companies or insurer obtain their name and era through paying claim in simple procedure at right time. In order to pay claim and maintain office expenses the fund is required. An insurance company can maximize its value of wealth and collection of fund through maximization of return on their investment. So, they must invest their fund where they can gain maximum profit. The funds must be invested in the higher yielding components. The rate of return must be matched with the rate of return to be providing on the policy reserve of simply the externally achieved return must exceed the return to be allocated internally.

Diversification

Another principle of the investment will be the diversification of fund. It can be either in the form of diverse components or in the form of different field of business or in the from of different geographical regions. An insurer should be always careful not to grant investment in only one sector. To minimize the risk, in surer must diversify his/her investment in different sectors.

Liquidity

The principle of liquidity is important for the insurance investment. Insurer has no information about when they need to pay the claim of their client. So, any one unseen time there will be the requirement of fund. Thus, the insurer has needed to invest under the principle of liquidity. Liquidity means convertibility of investment into cash without undue loss of capital. The principle of liquidity is against the principle of profitability because the idle cash will earn nothing and invested cash will have no liquidity.

Marketability

Marketability is an important principle of investment policy. The principle of marketability suggests the insurer to invest in that sector where easy possibility of cash convertibility exists. Therefore, the convertibility or marketability principal must match with other principle as well as with the line of insurance business and the nature of the required fund.

2.1.10 Investment Sector of Life Insurance Companies

A business might invest with the goal of making profit. These are called marketable securities or passive investment. It might also invest with the goal of controlling or influencing the operation of the second company, the investee. These are called inter-corporate, long- term and strategic investments. Hence, a company can have none, some or total control over the investee’s strategic, operating, investing and financing decisions. There are various alternatives of investment for insurance companies, which are as below:

a) Equity Securities

An equity security consists of the long- term fund provided by the firm's owners, the stockholders. In other words, equity capital included common stock, paid in capital (or share premium), reserve and surplus, position in a company. The holders of common stock called shareholders or stockholders are the legal owners of the company. Common stock is the recipient of the residual income of the corporation through the right to vote, holders of common stock have legal control of the corporation. An element of risk is also involved in equity securities due to its low priority of claims at liquidation. Common stockholders have limited liability. Common equity to total assets ratio is an indicator of the degree by which the amounts realized on the liquidation may decline form stated books values before creditors” suffer losses.

Unlike sole proprietorships and partnership firms, only corporation can issue common sock. Joint stock company cannot be establishing with inequity financing. “In Nepal the promoters must hold at least one share for the incorporation of joint stock Company in accordance with company act 2053”.

b) Preferred Stock

Preferred stock represents the long- term source of financing under which the stockholders are entitled to get fixed amount of dividend out of the earning of the company after payment of debenture interest and tax. Preferred stock, also called as preference share, a hybrid form of long term financing with combined features of both common stock and long term debenture. So there is no unanimous practice about the treatment of preferred stock. However, it is said to be equity from legal point of view since the company is not obliged to pay dividends on preference shares.

c) Long Term Debt Securities

Long term debt securities mature after more than one year. It is traded in the capital market. Long- term debt is one of the major long- term sources of financing. The big firms can raise fund by selling long- term bonds/debentures in the open market. But long- term loan may be suitable for both small and big firm. Long term debt consists of Government Securities, bond and debentures issued by other companies. A firm employs substantial amount of debt capital because of tax deductibility of interest payment, flexibility and lower effective cost. However excess amount of debt exposes high risk.

d) Short Term Debt Securities

Short term debt is that type of debt which matures within one year or less. They are traded in the money market. It is used to support a large portion of the firm/s current assets such as cash, marketable securities, inventories etc. short term debt consists of negotiable certificated of deposit, commercial paper, bankers" acceptance, trade credit, short term bank credit (line of credit, revolving credit arrangement, transaction loan) and Treasury bills. Investor must be careful while making decision about short- term financing. They are particularly concerned with sources of short- term financing, cost of financing and advantage and disadvantage of sources while choosing best alternative for a given set of conditions.

e) Real Assets

Real assets are non- financial assets. It consists of precious metals, real estate and collectibles. Precious metals include gold, silver, platinum and other metals in the form of coins, bullion. Collectibles include diamond, prints, coins, stamps etc. Its market is individual dealer. Real estate includes single and multifamily residences, land and commercial property.

f) Mutual Funds

Investment companies that sell shares of common stock that represent an ownership interest in a portfolio of domestic and or foreign securities. It is traded in over the counter market and direct transaction with individual funds.

g) Fixed Deposit Account

Bank deposit with finite maturity period is Fixed Deposit Account. Fixed deposit amount in bank and financial institution is another alternative of investment of insurance companies. Perhaps the most popular fixed income investment in the world of investment is saving in bank.. Commercial banks are the main institutions. Demand deposit, standard saving deposit, certificate of deposit is the types of deposit account. All type of deposit account gives fixed interest income to its depositor form the bank.

2.1.11 Life Insurance and Investment Policy

Life insurance is a main source of collection of the funds. It can collect large amount of fund, so insurer needs policy to invest these funds. “The chide objective in the management of the funds of life insurance companies, is to have adequate funds with which to meet claims, which includes not only the death, disabilities and annuity payments called for policies but also the demand for the cash surrender value by person canceling their policies or for loans secured by the cash surrender value. This aspect of insurance business desires the investment policy why because the fund of life insurance is liability for an insurer. Therefore, insurer has responsibility to invest profitable sector and securely also.

Life insurance business is a long period coverage insurance business. An insurer can mobilize the collected premium fund of life insurance in long term. Insurer returns the life insurance under different policy which is perhaps a nature of long period or whole life policy, endowment policy etc.

2.2 Review of Related Studies

Various experts, authorities and graduate students have conducted a number of researches relating the insurance business. Among then only few are related with the investment aspect of the insurer and insurer business. Although there are many research conducted in insurance field we cannot find the work in aspect of premium collection and investment pattern. Therefore this may be the first attempt on this subject matter.

2.2.1 Review of Books & Journals

John H. Magee (1958) outlined about the life insurance as the insurance seeks to the financial uncertainties arising from the natural contingencies old-age and death and to bring about a comparable certainty in the case of possible misfortunes injure and sickness. The fundamental function of the life insurance business then is to furnish protection against the financial demands occasioned by disability, old age and death (Magee, John H. 1958:22).

Shrestha (1991), in his arricle “Rastriya Bema Sansthan Changing Investment Portfolio”, has attempted to analyze the investment portfolio holding pattern and its effect to financial performance of RBS. He found, the dominant part of total volume of investment portfolios in development bonds of HMG/N and very negligible figure of total investment in share of other companies, due to his fact, the contribution of income from development bond to total incomes form the portfolios is dominant part the creation by a sound investment project is very crucial to RBS to minimize return rather than always taking same traditional policy of investing in Govt. Securities fixed deposits, certificates and others. But the time has come for the sansthan to cope with increasing competition to tap profitable investment opportunities by taking initiating in new industrial ventures for encouraging capital formation in the country.

The life insurance companies have proved to be a highly efficient means of channeling capital funds into those areas of the national economy, and into those uses, in which market demands have been strongest. They have responded quickly and imaginatively to the changing capital requirements of the American economy.

Insurance contributes to society by favorable affecting the apportionment of the factors of production, engaging in loss prevention activities, identifying losses, serving as a basis of the credit structure, eliminating worry and providing a channel for investing funds.

2.2.2 Review of Thesis

Shrestha, (2008), entitled *"A Study on Premium Collection & Investment Pattern of NLGI Co. Ltd."* The primary objective of the study is to analyzed and evaluates the financial performance of NLGI Co. Ltd. It's objectives can be stated as follows;

- To observe the situation of the company in terms of premium collection.
- To analyze the policy of company to compete in the marketing competitive.

- To study the trend of premium collection and investment pattern of NLGI co. ltd. and recommendation on the basis of findings.

Shrestha uses secondary data's only to evaluate the financial performance. He uses the last 5 years data since 057/58 to 061/62. Shrestha uses various financial tools used to accomplish the objectives. Main findings of this thesis are as follows:

- The company's ratio on first life premium to total life premium collection ratio are in fluctuate trend, and the renewal premium ratio showed the satisfactory result against the premium collection was increased.
- Under the supervision by Insurance Board of Nepal, NLGI has always invested more than 75% of its investable life fund on compulsory sectors. NLGI has bank fixed deposits as the first priority followed by government saving bonds. Bank fixed deposits contribute more than 70% of investment and rest given as priority. The company has also increased the volume of policy loans, short term investment and others etc. as required.
- The total claim to net premium ratio in fiscal year 061/62 to be 3.23%, it shows that the death claim was little inconsistency in claims paid.
- The investment and income have been increasing year by year. In fiscal year 061/62, 1.57% interest earned from investment showed the inconsistency of its return.

The company should collect more renewal premium and issue new policy. Premium collection of both life and non life insurance shows growing trend of the business of the study period.

The company should diversify its life investment and increases investment in policy loans.

The company should establish research and development department against new policies, marketing and increase the efficiency of employees.

This study is completely related with Shrestha's because both studies are about premium collection and investment position. All data are used by NLGI co. ltd. but in this study Shrestha used of NIC co. ltd. where needed. Tools used for analyzing and interpretation of data are also same.

Ghimire (2009) entitled *"A Study on Premium Collection and Claim Payment of Insurance Companies of Nepal."* Thesis research work is basically concerned to find what are the main policies used to invest the collecting premium of insurance industries. There are many objectives of Ghimire study but some major objectives are as follows:

- To examine the trend and pattern of investment toward different portfolio.
- To evaluate the investment return.
- To analysis the insurance perception or views regarding the investment policy, current regularity provision and the investment performance.

In this study, Ghimire has pointed out various findings and recommends action. Ghimire uses different financial and statistical tools like ratio analysis, cash flow; co-relation, standard deviation etc. main findings and recommendation of Ghimire study are as follows:

- All insurance companies have invested their fund on NRB bonds and Fixed Deposit as directives or guidelines provided by Beema Samittee.
- Net investment income of the life insurance and the industry was around three fourth $3/4^{th}$) and non-life insurance industry have $2/5^{th}$) of the net premium collection.

The relationship between Ghimire study and this study is that both study focus on investment. Investment policies and position are related in each other because investment position will be sound, good or bad according to investment policies.

Aryal (2010) entitled *"A study on Premium Collection and Investment Position of Prudential Insurance Company L.td."* The main objective of this study is to find out the position of Prudential Insurance Company L.td

The specific objectives of this study are as follows:

- To See the premium collection and investment position of Prudential Insurance Company Ltd
- To examine the trend and pattern of premium collection and investment.
- To recommend probable corrective measures relating to the improvement of the premium collection and investment aspect.
- To provide suggestion based on the finding of the analysis o the management of Prudential Company Ltd.

Ayral uses different financial and statistical tools like ratio analysis, trend analysis, co-efficient of correlation, mean standard deviation and 'T' test etc. The major findings of Aryal as follows:

a. Premium collection on first premium to total premium collection of life insurance is rising and falling trend. There was inconsistency in first premium collection.
b. One of major portion of premium collection in this company is marine insurance premium. The highest premium collection of marine insurance premium of PICL was 39.97 % in the year 062/063 and lowest contribute was 24.55 % in the year 060/061. It was in increasing trend till F/Y 062/063 and than in decreasing trend till n064/063
c. There was fluctuation in investment in government saving bonds to total investment. According to the table the high portion of invest of govt. Saving bond to total investment of PICL was 16.37 % in the year 061/065 and least was 12.90 % in the 061/062 at average portion was 17.78%
d. Among these the premium collection in non-life has also in increasing trend.

In this study, Aryal has some recommended to management for following points.

- The company should collect more life insurance premium firstly and issue new policies.
- The company should diversify its life investment and increase investment in policy loans.
- The company should establish research and development department and increase the efficiency of employees.

2.3 Research Gap

Different research has been conducted relating with premium collection and investment pattern but the researcher has been changed for analysis and interpret not only the premium collection and investment pattern but also the interpret of the returns from premium collection and investible sector in insurance company. So, this research study has collect the latest secondary data from fiscal year 061/62 to 065/66, which would be relevant to the present context.

Technology has been changing very fast and scope of NLIC is now becoming very wide due to the involvement of large number of insured. Hence, the research with old and absolute data cannot draw the relevant information. This study is specifically based on the recent data to produce relevant findings.

Insurance market has always become significant to its insurer, insured and investors as well as relevant to the economy of nation. Its main objective is to study the trend of premium collection, investment pattern and returns of NLIC in the competitive market.

CHAPTER - III

RESEARCH METHODOLOGY

Introduction

Research methodology is a systematic way to solve the research problem. It gives a systematic way and a framework to solve a phenomenon. “Research methodology refers to the various sequential steps to adopt by a researcher in studying a problem with certain objectives in view” (Kothari, 1989:59).

These study aims at presenting, evaluating and finding about the investment pattern, premium collection condition and investment return of Nepalese insurer. The study will draw an actual scenario of investment pattern and premium collection condition of Nepalese life insurance industry. To accomplish this goal, the study follows the research methodology described in this chapter as such.

3.1 Research Design

The main purpose of the study is to show the life insurance business of NLIC with its financial position, collection and use of funds, its prospects and its position in the context of Nepal as well as to recommend suggestion for its improvements. The research is so designed that the analysis and interpretation of the secondary data relates to the evaluation of past behavior of the insures relating the investment with in the industry, collection of premium and the analysis and interpretation of the primary data relates to finding and predicting about forth coming behavior of the insurers relating to the premium collection and investment with in the industry.

3.2 Population and Sampling

In Nepal, there are nine insurance companies functioning to underwrite life insurance businesses. But this study undergoes to research the premium collection and investment position of NLIC, at present.

3.3 Types and Sources of Data

Primary sources of data are observation field visit to NLIC and observing the activities of staffs, clients etc and questionnaires, interviewing personally in the site. The research is based upon the description of the primary and secondary data for the historical performance assessment and the future prediction of planning and upcoming policy and implementation among the insurers.

The primary data is collected from various insurance companies for the opinion on investment of insurance fund, its policy and premium and other relevant factors.

The research is basically based upon secondary data. So, the secondary data for the purpose of the study is collected through various published and unpublished data sources. The secondary data used in this study are;

- Annual reports of NLIC.
- Performance reports prepared quarterly, semi-annually and annually and annually financial statements of the respective insurer.
- Books relation the subject.
- Publications of the Insurance Board (Beema Samittee).
- Thesis and reports conducted by various students related in insurance field.
- Various publications of the government agencies and bodies relating to the field.
- Various brochure, journals as well as booklets published by the insurers.

3.4 Analysis of Data

The data collected from NLIC, Beema Samittee and other authorities have been reorganized and refined in the form of taxes, charts and then necessary items out of many have been picked up for analysis and interpretation. Necessary statement, ratios, trend analysis, percentage indices etc. have been established in necessary.

3.5 Tools and Techniques Used

Financial statements are prepared for the purpose of presenting a periodical review or report on the progress by the management and deal with the status of the investment in the business and the result achieved during the period under the reviews.

3.5.1 Financial Analysis Tools

Analysis of financial statement is a purposeful and systematic presentation of information in the financial statements by developing relation with other in order to measure the profitability, liquidity, solvency, operational efficiency and growth potentiality the business organization.

There are various tools in financial sectors. In this study, ratio analysis is performed. Certainly, ratio analysis can show the position of investment return and its contribution on overall performance.

Ratio Analysis

An analysis of financial statements with the help of ratio may be termed as ratio analysis. It is a relationship between tow related items expressed in qualitative form. The term refers to the numerical or quantities relationship between the two components or variables. So, the ratio is the measurement of quantitative relationship between two or more items of financial statement connected with each others. Ratio can be expressed as percentage, fraction and stated comparison between numbers.

Ratio analysis is used to present the position of the investment and its performance as compared with the overall position and performance of the insurer. In order to analyze, the investment pattern and performance of premium collection, following ratios are used.

Since NLIC underwrite only life insurance. Ratios related only with life insurance are given below;

Premium Collection

First Premium Collection to Total Premium Collection

$$\text{Premium Collection} = X \frac{\text{First Premium Collection}}{\text{Total Premium Collection}}$$

Renewal Premium Collection to Total Premium Collection

$$\text{Premium Collection} = X \frac{\text{Renewal Premium Collection}}{\text{Total Premium Collection}}$$

Investment

Investment on Govt. Saving Bond to Total Investment

$$\text{Investment} = X \frac{\text{Investment on Govt. Saving Bonds}}{\text{Total Investment}}$$

Investment on Bank Fixed Deposit to Total Investment

$$\text{Investment} = X \frac{\text{Investment on Banks Fixed Deposits}}{\text{Total Investment}}$$

Investment on Share to Total Investment

$$\text{Investment} = X \frac{\text{Investment on Share}}{\text{Total Investment}}$$

Investment on Debenture to Total Investment

$$\text{Investment} = X \frac{\text{Investment on Debenture}}{\text{Total Investment}}$$

Investment on Policy Loan to Total Investment

$$\text{Investment} = X \frac{\text{Investment on Policy Loan}}{\text{Total Investment}}$$

Investment on Others to Total Investment

Investment= $X\frac{\text{Investment on Policy Loan}}{\text{Total Investment}}$

Return on Life Fund Investment

Investment on Return $X\frac{\text{Net Income}}{\text{Total Investment}}$

Interest Earned to Total Premium Collection $X\frac{\text{Interest Earned}}{\text{Total Premium Collection}}$

Profit Earned to Total Premium Collection $X\frac{\text{Interest Earned}}{\text{Total Premium Collection}}$

Interest Earned to Total Investment $X\frac{\text{Total Interest Earned}}{\text{Total Investment}}$

Claims paid to Total Premium Collection $X\frac{\text{Claims Paid}}{\text{Total Premium Collection}}$

3.5.2 Statistical Analysis Tools

Statistics are aggregates of facts, affected to a marketed extent or estimated according to a reasonable standard of accuracy, collected in a systematic manner for a predetermined purpose and places in relation to each other.

Generally the statistical tools are used for attaining accuracy on analysis and study. According to this studies objectives Mean, Standard Deviation, Coefficient of Correlation and Trend Analysis were performed.

Mean

Simple arithmetic mean is the sum of total values to the number of values in the sample, thus

Mean $X\frac{\text{Sum of Total Value}}{\text{Number of Values}}$

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

Standard Deviations

Standard deviation is the positive square root of average sum of squares of deviation of observations from the arithmetic mean of the distribution.

$$\text{S.D. } (\pm \ \ ) = \frac{\sqrt{(x \, Z \, \bar{x})^2}}{n}$$

Co-efficient of Variation (C.V)

The co-efficient of variance is the relative measures of dispersion, comparative a cross distribution which is defined as the ratio of the standard deviation to the mean expressed in percent. It is calculated as follows;

$$\text{C.V.} = \frac{\pm}{\bar{x}} \text{ x } 100\%$$

Correlation

Co-efficient of correlation is used for measuring the magnitude of linear relationship between two variables. In this study to attain the relationship between 'Premium collection and Investment', 'Premium collection and claim paid' and 'Investment and Net Income earns, co-efficient of correlation is used. The co-efficient of correlation measures the degree of relationship between two sets of figures. The result of co-efficient of correlation is always lies between '+1' or '-1'.

Among the various methods of finding out co-efficient of correlation, Karl Pearson's method is applied in this study.

Where,

$$\text{Correlation (r)} = \frac{xy}{x. \quad y}$$

$$\text{or, (r)} = \frac{n \quad xy \, Z \quad x. \quad y}{\sqrt{n \quad x^2 \, Z(\quad x)^2} \mid \sqrt{n \quad y^2 \, Z(\quad y)^2}}$$

Probable error of correlation is calculated by the following formula.

$$\text{PE (r)} = 0.6745 \text{ x } \frac{1 Z r^2}{\sqrt{n}}$$

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

In this chapter, it has been focused on the analysis of premium collection, investment position and returns of Nepal Life Insurance Co. Ltd. (NLIC). Once the data is placed on summary sheets, the latest data has been analyzed. After that, both the primary and secondary data has been used to the objectives of the study.

This data presentation and analysis chapter has been divided into three parts, as 'evaluation of premium collection and composition through financial tools', 'evaluation of investment pattern and composition through financial tools' and 'evaluation of returns and composition through financial tools and statistical tools.'

4.1 Evaluation of Premium Collection and Composition

Premium collection is the main source of an insurer for the purpose of investment. It shows the performance of the insurance company. Higher premium tends the higher volume of transaction. The insurer tries to collect higher premium because if they succeed to collect high volume of premium, then they also succeed to receive higher income from the investment.

Insurer use actuarial statistical or financial methods for estimating liabilities and determining premiums. In some cases particular premium are inadequate to cover the risk and costs, insurers may pursue lines of business that are not profitable and liabilities may be understated, masking the true financial state of the insurer.

This evaluation chapter is also separated into two parts as financial analysis and statistical analysis like wise evaluation of investment patterns chapter. For the purpose of the evaluation of the premium of the premium collection condition and composition among the portfolios, the trend analysis, T test, mean, standard deviation and coefficient of variation are used. Therefore, only quantitative analysis is described which is related to the premium collection and its composition.

Under this chapter various financial tools, which are related to premium collection are studied to evaluate and analyze the performance of Nepal Life Insurance Company Limited. These important ratios are calculated and the respective trend analysis is presented as follows. All data mentioned in percentage.

4.1.1 Premium Collection in Insurance of NLIC

Life Insurance Premium is the premium paid to the insuring company for insuring his life and contract to pay that amount for certain period. The insurer get amount back with bonus in expiry of the time or his beneficiary will get contract amount in expiry his life.

Nepal life insurance co. ltd. has been success to collect the funds in different fiscal years.

Table 4.1

Premium Collection of NLIC

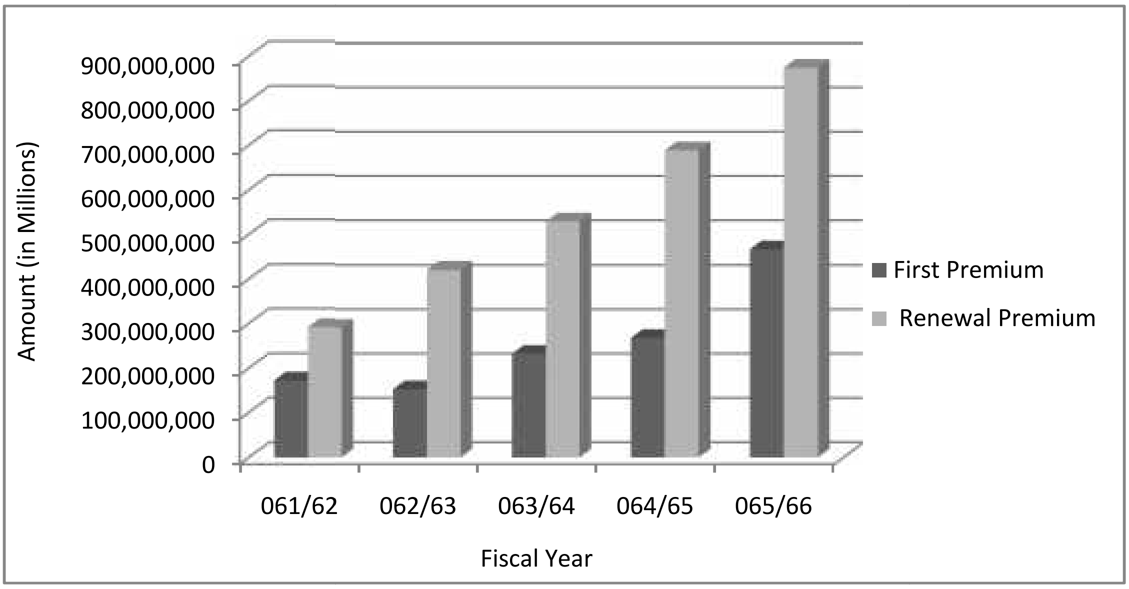
(In Rs.)

Years	**061/62**	**062/63**	**063/64**	**064/65**	**065/66**
First Premium	172,992,241	153,820,190	233,900,717	269,789,034	468,738,380
Renewal Premium	292,650,003	422,986,554	531,765,202	692,406,476	878,763,860

Source: Annual Report of NLIC 061/62 to 065/66

Figure 4.1

Premium Collection of NLIC



Source: Annual Reports of NLIC 061/62 to 065/66

The above table shows the share of NLIC in total life insurance business in Nepal with reference to premium collection in life insurance for the period from 2061/62 to 2065/66. So, the above table shows that NLIC has an increasing trend in life insurance premium collection on average. NLIC should follow effective steps and make good policies to capture a better coverage in Nepalese insurance market.

The premium collection in NLIC is in an increasing trend. In the fiscal year 2061/62 the premium collection in life insurance was Rs.172, 992,241. Similarly, in the fiscal year 2062/63 the premium was Rs.153, 820,190 which has 1% less than that of the FY 2061/62. In the FY 063/64 and FY 064/65, the company had started to issue new policies to collect more premiums. In the FY 063/64 and 064/65 the company had collected Rs.233, 900,717 & Rs.269, 789,034 as premium respectively, which is 17% more than the preceding fiscal year’s premium income. The company had collected Rs.1, 347,502,240 for the period of FY 065/66.

4.1.2 Premium Collection on First Premium to Total Premium Collection

First premium of life insurance hold significant role in total life premium collection. This ratio, premium collection on first life premium to total life premium collection is used to measure the contribution of premium collection on first life premium to total life premium. It is computed using following equation;

Premium Collection on First Premium to total Premium Collection

$$= X \frac{\text{First Premium Collection}}{\text{Total Premium Collection}}$$

Table 4.2

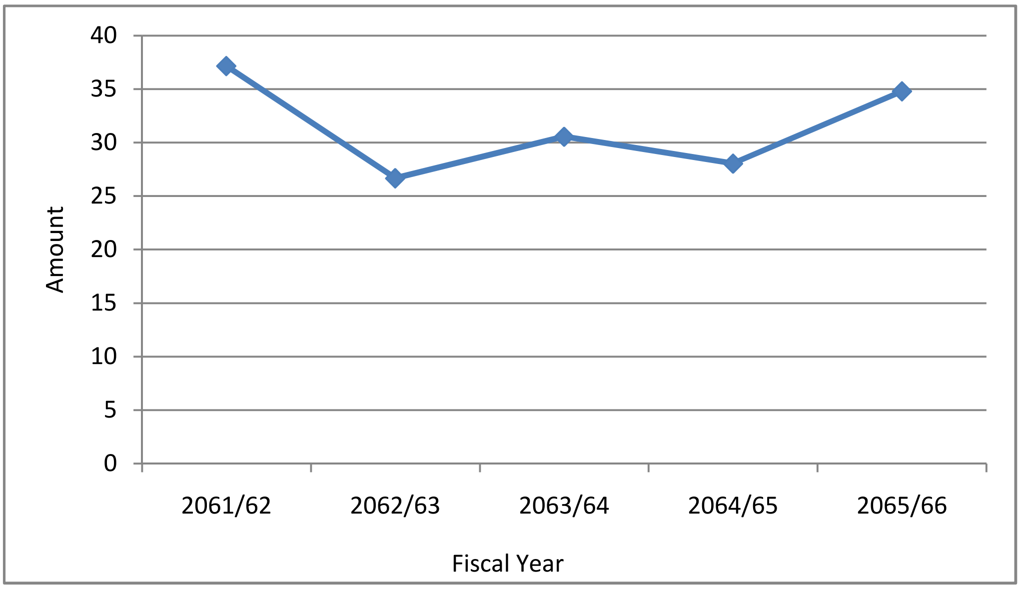
Premium Collection on First to Total Premium Collection

2061/62	2062/63	2063/64	2064/65	2065/66	Mean	S.D.	C.V.
37.15	26.67	30.55	28.04	34.79	31.44	3.97	12.64

Source: - Annual Report of NLIC 061/62 to 2065/66 (Annex I)

Figure 4.2

Premium Collection on First Premium to Total Premium Collection



Source:- Annual Report of NLIC 061/62 to 2065/66 (Annex I)

Above table 4.2 and figure 4.2 reveals that the company's ratio on first premium to total life premium collection ratio are in fluctuating trend. It's ratio with total premium collection 37.15% in FY 061/62 to 26.67% in the FY 062/63, But in the following year FY 063/64 & 064/65, it goes upward 30.55% and downward 28.04% respectively. Again it rose to 34.79% in the FY 065/66 which is most satisfactory among the study period of the company. The average premium collection of 31.44% is covered by total premium collection and C.V. 12.64% indicate the consistency of first premium collection on total premium collection by NLIC.

4.1.3 Renewal Premium to Total Premium Collection

Life Premium collection of person is continuous till the last date of policy period otherwise death of a policyholder and breaking of contract by any of party. Renewal life premium holds the majority of life premium collection.

This ratio shows the weight of renewal life premium collection to total life premium collection. Following equation depicts these ratios;

Renewal Life Premium Collection to Total Life Premium Collection

$$= \frac{\text{Renewal Premium Collection}}{\text{Total Premium Collection}}$$

Table 4.3

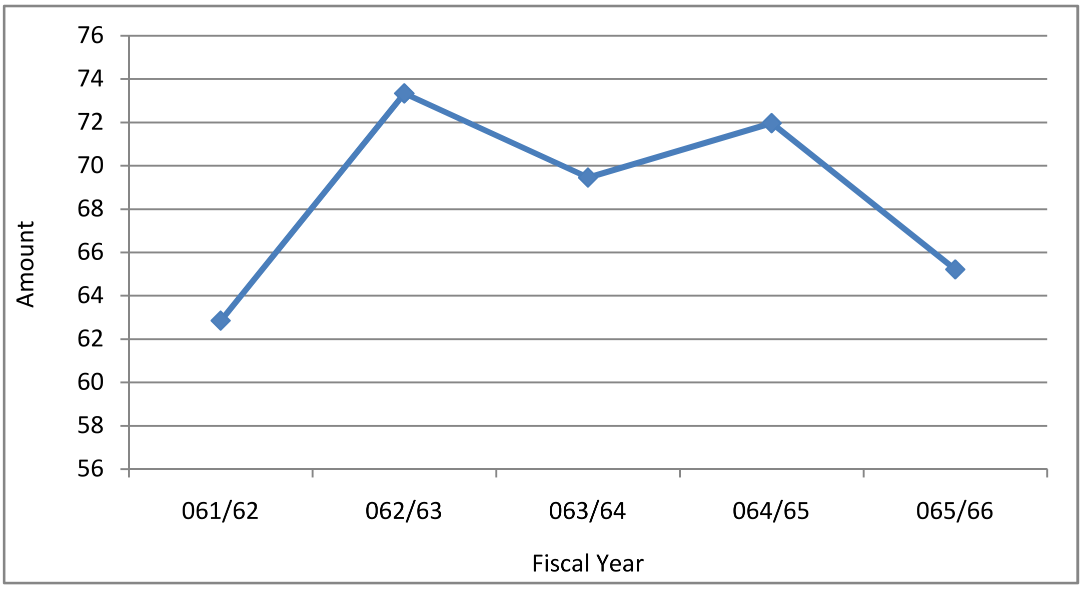
Renewal Premium Collection to Total Life Premium Collection

061/62	**062/63**	**063/64**	**064/65**	**065/66**	**Mean**	**S.D.**	**C.V.**
62.85	73.33	69.45	71.96	65.21	68.56	3.97	5.80

Source:- Annual Reports 061/62 to 065/66 (Annex II)

Figure 4.3

Renewal Premium Collection to Total Life Premium Collection



Source:- Annual Reports 061/62 to 065/66 (Annex II)

The table 4.3 shows the ratio between renewal life premium to total premium collection is in increasing trend which is 62.85%, 73.33%, 69.45%, 71.96% and 65.21% respectively from the fiscal year 061/62 to 065/66. The average renewal premium was 68.56%. The calculated standard deviation is 3.97% and C.V. is 5.80%. This indicates that the renewal premium is highly consistent. So, the renewal premium of NLIC is rising yearly.

4.1.4 Growth Rate of Premium Collection of NLIC

The total amount of life premium collected by NLIC covers the large portion of total premium collection. Premium collection plays important role in insurance companies. Premium collection of NLIC in total is in increasing trend year by year. The analysis of percentage change in premium collection and its effect in total previous collection is done below;

Table 4.4

Growth Rate of Total Premium Collection

Fiscal Year	061/62	062/63	%	062/63	063/64	%
First Premium	172,992,241	153,820,190	112.46	153,820,190	233,900,717	65.76
Renewal Premium	292,650,003	422,986,554	69.19	422,986,554	531,765,202	79.54
Total Premium	465,642,244	576,806,744	80.73	576,806,744	765,665,919	75.33
Fiscal year	**063/64**	**064/65**	**%**	**064/65**	**065/66**	**%**
First Premium	233,900,717	269,789,034	86.70	269,789,034	468,738,380	57.56
Renewal Premium	531,765,202	692,406,476	76.80	692,406,476	878,763,860	78.79
Total Premium	765,665,919	962,195,510	79.57	962,195,510	1,347,502,240	71.41

Source:- Annual Reports 061/62 to 065/66

The above table 4.4 reveals the growth of premium collection of NLIC. The first premium collection and renewal premium collection of the company can fluctuate year to year. The first life premium collection with previous year was varied to 112.46%, 65.76%, 86.70% & 57.56% from the year 061/62 & 062/63, 062/63 & 063/64, 063/64 & 064/65 and 064/65 & 065/66 respectively. Similarly, the renewal premium is in increasing trend with previous fiscal year. The highest change was 78.79% in the fiscal year 064/65 & 065/66. Regarding the total premium collection was in fluctuating trend where 80.73% increased rate in fiscal year 061/62 & 062/63 and the lowest change was in the fiscal year 064/65 & 065/66 by 71.41%. The total growth rate of total premium collection by NLIC is 48.39% in fiscal year 065/66 from 061/62.

4.2 Evaluation of Investment Pattern and Comparisons

Investment is the crucial activity of every insurance company. It collected investment fund in form of premium and invests in various sectors for profit motive. It has to follow the rules and regulation of investment regulated by Insurance Board of Nepal. They have to invest 75% of their investable fund in compulsory sectors and rest 25% in other sectors.

For the purpose of the evaluation of the investment pattern and composition among the portfolios, the trend analysis and ‘T’ test are used. To evaluation the return on respective portfolio and investment amount, the ratio analysis is used. This analysis moves along with studies objective, therefore only those ratios are calculated and analyzed which are very important to evaluate in investment policy.

Here, only quantitative analysis is mentioned which are related to the investment and investment pattern of Nepal life insurance co. ltd. (NLIC). To attain the objectives of the study, all the concerned studies and analysis are done. The evaluation chapter is separated into tow parts as financial and statistical analysis.

The investments have been made in Government bonds, Development bonds of Nepal Rastra Banks and Commercial Banks, Fixed Deposits with various commercial banks, development banks and finance companies. The companies have purchased number of primary and promoter share of different banks and public companies. Due to strict investment norms followed by the company the yield on investments has shown an increase of 3,88,33,43,163.00 in the just concluded financial year.

Life Fund

Life Premium is collected through the life insurance polices. This premium is returnable along with bonus to the policy holder. So, the life fund should be invested in areas having higher return and thus the company able to give more bonuses to their customer. The life insurer preferred govt. saving bonds, bank fixed deposits and policy bonds and bank fixed deposits and policy loans to invest their life fund.

4.2.1 Investment on Government Saving Bond to Total Investment

This ratio is the average government saving bond investment. It shows the proportion of investment on government saving bond. The entire insurer invests their fund to making separate portfolio. This ratio measures the percentage of investment of particular insurer in government saving bond. This ratio is calculated by using this equation.

$$\text{Govt. Saving Bond to Total Investment} = \frac{\text{Investment on Govt. Saving Bond}}{\text{Total Investment}}$$

This ratio helps to know the average proportion on government saving bond of Nepal life insurance companies on aggregate.

Table 4.5

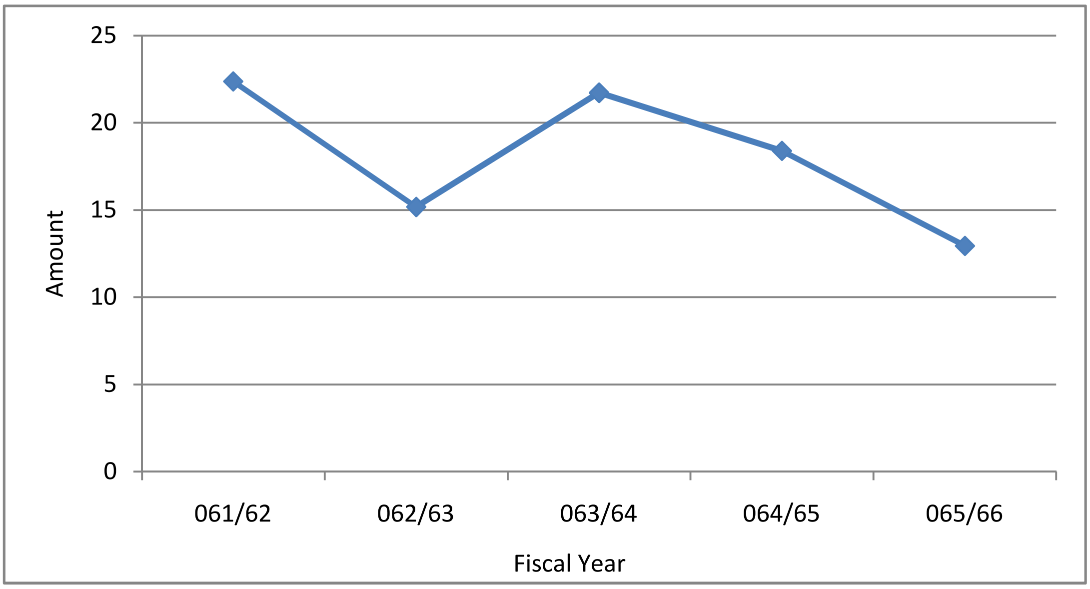
Investment on Government Saving Bond to Total Investment (%)

061/62	062/63	063/64	064/65	065/66	Mean	S.D.	C.V.
22.37	15.18	21.72	18.39	12.95	18.12	3.65	20.13

Source: Annual Reports of NLIC, 061/62 to 065/66(Annex III)

Figure 4.4

Investment on Government Saving Bond to Total Investment (%)



Source: Annual Reports of NLIC, 061/62 to 065/66(Annex III)

The above table 4.5 revealed that the investment on govt. saving bond fluctuated. It was 22.37% in the FY 061/62. It decreases 15.18% in the fiscal year 062/63. Then it raised up to 21.72% in the fiscal year 063/64. After that it decreased to 18.39% and 12.95% in the fiscal year 064/65 and 065/66 respectively. The average investment is 18.12% The C.V. IS 20.13%. This shows the little consistent and increasing trends on investment in govt. saving bonds.

4.2.2 Investment on Bank Fixed Deposits to Total Investment

The ratio measures the portion of total life investment on bank fixed deposit. It is the popular investment sector for Life Insurance Company. The ratio is computed using the following equation.

$$\text{Fixed Deposits to Total Investment Ratio} = \frac{\text{Investment on Fixed Deposits}}{\text{Total Investment}}$$

This ratio helps to show the proportion investment in fixed deposits of NLIC Ltd.

Table 4.6

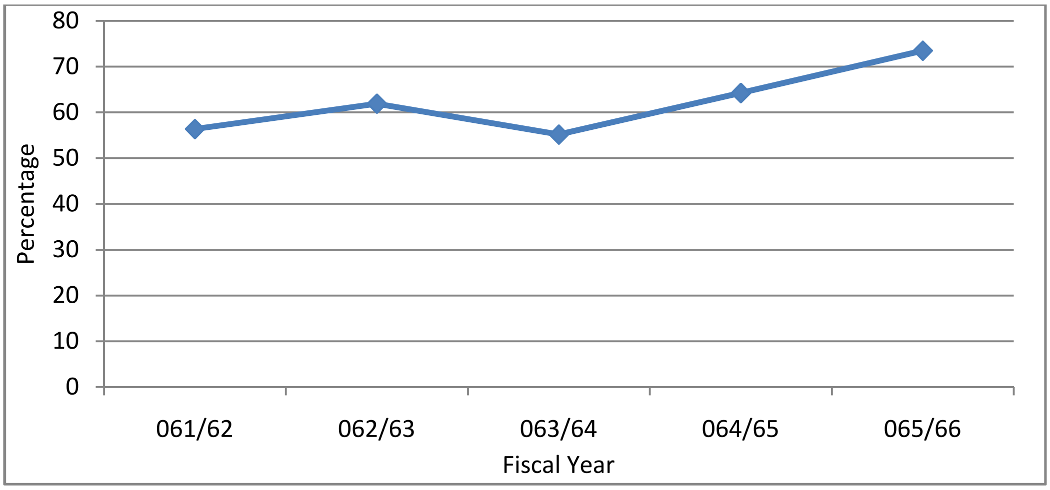
Investment on Bank Fixed Deposits to Total Investment (%)

061/62	062/63	063/64	064/65	065/66	Mean	S.D.	C.V.
56.38	61.90	55.16	64.22	73.46	62.23	6.55	10.52

Source: Annual Reports of NLIC, 061/62 to 065/66(Annex IV)

Figure 4.5

Investment on Bank Fixed Deposits to Total Investment (%)



Source: Annual Reports of NLIC, 061/62 to 065/66(Annex IV)

The above table 4.6 revealed that the investment on fixed deposit is fluctuated. It was 56.38% in the fiscal year 061/62. It increases the investment portion of fiscal year 062/63 is 61.90%. Then, it falls down to 55.16 in the fiscal year 063/64 which was lowest during the study period. The investment rose to 62.23% and 73.46% in the fiscal year 064/65 and 065/66 respectively. The average investment was 62.23%. The C.V. is 10.52%. This indicates that the investment is consistent.

4.2.3 Investment on Share to Total Investment

It is an average of share investment. This ratio shows the percentage of investment in share. Generally, this ratio shows the share of difference fiscal years. It is calculated by using the following equation;

Investment on Share to Total Investment Ratio

$$= \frac{\text{Investment on Share}}{\text{Total Investment}}$$

Table 4.7

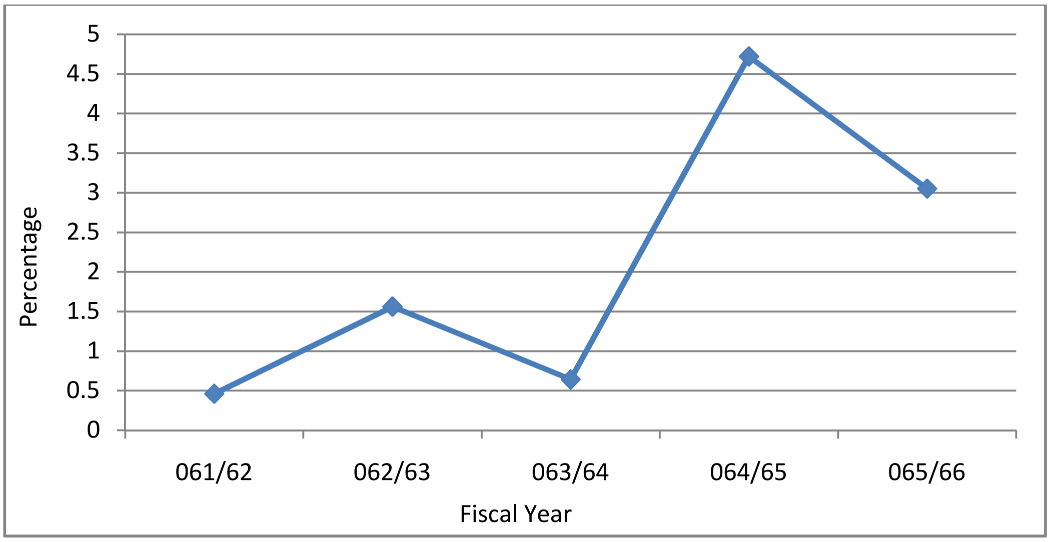
Investment on Share to Total Investment (%)

061/62	062/63	063/64	064/65	065/66	Mean	S.D.	C.V.
0.46	1.56	0.64	4.72	3.05	2.09	1.61	76.96

Source: Annual Reports of NLIC, 061/62 to 065/66(Annex V)

Figure 4.6

Investment on Share to Total Investment (%)



Source: Annual Reports of NLIC, 061/62 to 065/66(Annex V)

Above calculation revealed that the portion on share to total investment is very little. It is not more than 5% on total investment during the study period. The ratio is in fluctuating trend by 0.46%, 1.56%, 0.64%, 4.72% and 3.05% in the fiscal year 061/62 to 065/66 respectively. The average investment on share is 2.09% and the C.V. was 76.96%. This indicates that the investment is little inconsistent.

4.2.4 Investment of Debenture to Total Investment

This ratio is the average debenture or bond investment. It shows the proportion of investment on debenture. The entire insurer invests their fund to making separate portfolio. The debenture are the secured investment sectors therefore almost all insurer invest their higher fund in debenture. The ratio of debenture is the average of investment on debenture, which is calculated used by following equation;

$$\text{Debenture on Total Investment} = \frac{\text{Debenture}}{\text{Total Investment}}$$

Table 4.8

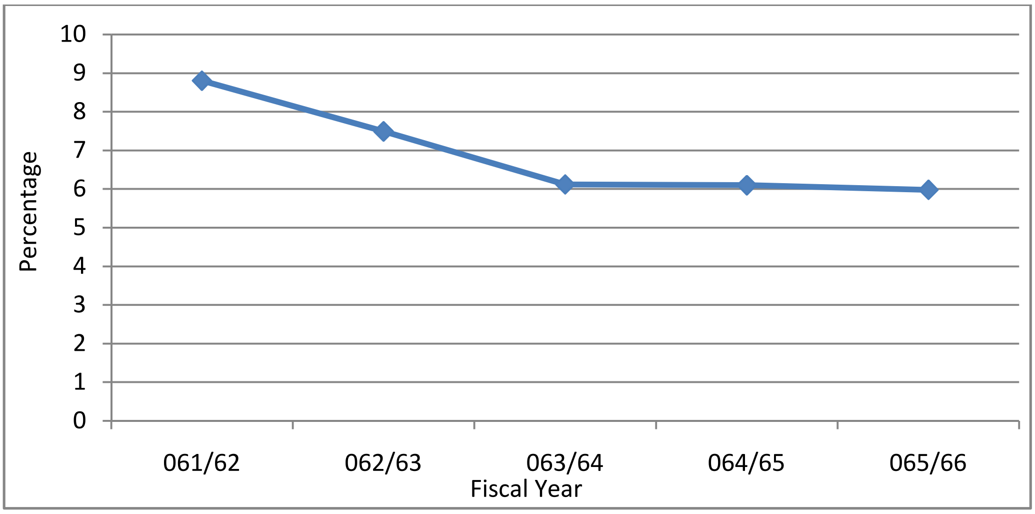
Investment on Debenture to Total Investment

061/62	062/63	063/64	064/65	065/66	Mean	S.D.	C.V.
8.80	7.49	6.12	6.10	5.98	6.90	1.10	15.97

Source: Annual Reports of NLIC, 061/62 to 065/66 (Annex VI)

Figure 4.7

Investment on Debenture to Total Investment



Source: Annual Reports of NLIC, 061/62 to 065/66(Annex VI)

Above calculation reveals that the average investment in debenture is 6.90%. The ration is in decreasing trend from starting of study period to the end of study period. It is 8.80%, 7.49%, 6.12%, 6.10 and 5.98% in the respective fiscal year 061/62 to 065/66 respectively. The calculated C.V. is 15.97% which reveal that the ratios are little consistent.

4.2.5 Investment on Policy Loans to Total Investment

Policy loan is the loan given to by insurer i.e. insurance company to its life policyholder. The loan is available to the customer after the stated time generally tow years of the start of policy and limited to ninety percentage of surrender value. Life policy holder can get this facility very easy to use money in their needy work. The ratio measures the portion of total life investment on policy loans.

$$\text{Investment on Policy Loans} = \frac{\text{Policy Loans}}{\text{Total Investment}}$$

Table 4.9

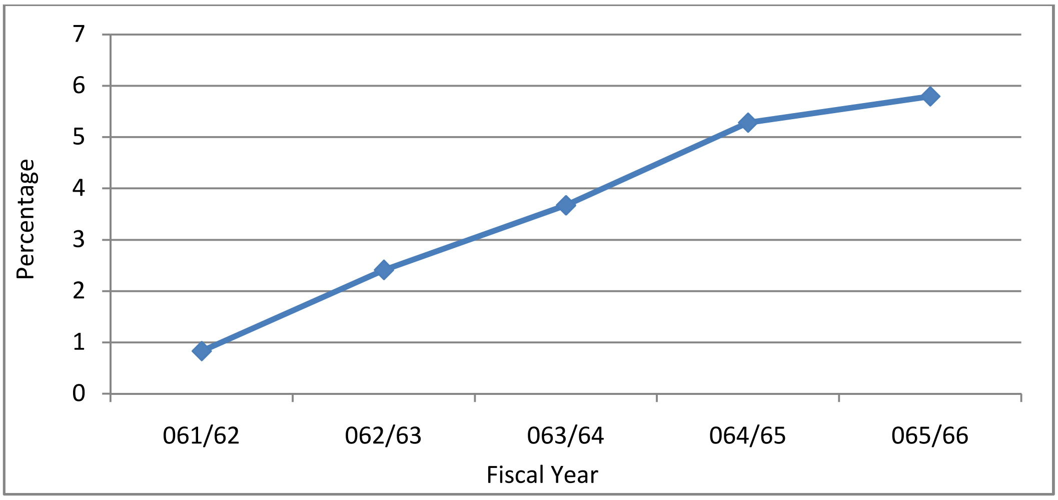
Investment on Policy Loans to Total Life Investment

061/62	062/63	063/64	064/65	065/66	Mean	S.D.	C.V.
0.83	2.41	3.67	5.28	5.79	3.60	1.83	50.92

Source: Annual Reports of NLIC, 061/62 to 065/66(Annex VII)

Figure 4.8

Investment on Policy Loans to Total Life Investment



Source: Annual Reports of NLIC, 061/62 to 065/66(Annex VII)

Above calculation revealed that the portion of policy loan in total investment is very little than others. The ratio is in increasing trend. Policy loan was rose up to 0.83%, 2.41%, 3.67%, 5.28% and 5.79% in the fiscal year 061/62 to 065/66 respectively. The average investment in policy loan is 3.60% and C.V. was 50.92%. This revealed that the ratios were not stable.

4.2.6 Investment in Other Sectors to Total Investment

The ratio reveals the portion of other investment in total investment made by the company. The company has investment for short term investment, employee loan, agent loan and others with interest and profit motive. It can be computed by using following equation.

$$\text{Other Investment to Total Investment} = \frac{\text{Other Investment}}{\text{Total Investment}}$$

Table 4.10

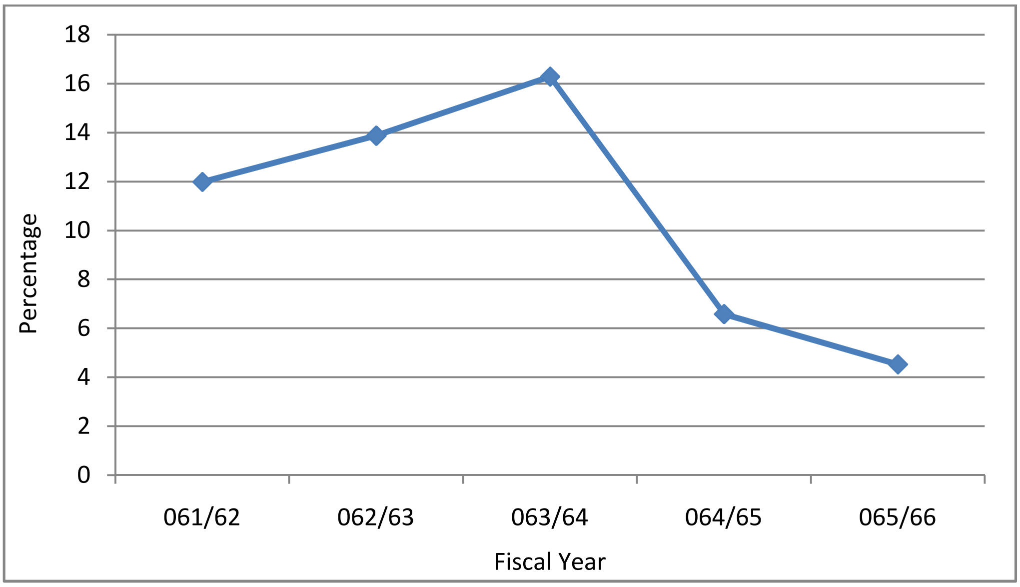
Investment on Others Sectors to Total Investment

061/62	062/63	063/64	064/65	065/66	Mean	S.D.	C.V.
11.98	13.87	16.28	6.58	4.53	10.65	4.43	41.56

Source: Annual Reports of NLIC, 061/62 to 065/66 (Annex VIII)

Figure 4.9

Investment on Others Sectors to Total Investment



Source: Annual Reports of NLIC, 061/62 to 065/66 (Annex VIII)

From the above table 4.10 the ratio is in increasing trend in previous period of fiscal year 061/62 to 063/64 but last two years is in decreasing trend. It was 4.53% in the fiscal year 065/66. The average investment is 10.65% and the C.V. was 41.56%. This revealed that the ratios were not stable during this study.

4.2.7 Investment of Life Insurance Fund by NLIC

The Life investment fund in form of premium and invests in various sectors for profit motive. NLIC had to maintain the rules and regulation of investment regulated by Insurance Board of Nepal. They have to invest 75% of their investable fund in compulsory sectors and rest 25% in other sectors. The table shows the sectors where the company invested its life fund during the study period.

Table 4.11

Investment on Life Fund by NLIC

Particulars\Years	**061/62**	%	**062/63**	%	**063/64**	%	**064/65**	%	**065/66**	%
Long Term Investment										
Govt. Securities	237360678	20.57	240569078	16.12	476001082	21.72	477795607	18.39	472101963	12.95
FD (Commercial Banks)	550000000	47.67	890000000	59.65	915000000	41.75	1140000000	43.87	1860000000	51.02
FD (Development Banks)		0.00		0.00	140000000	6.39	302000000	11.62	462000000	12.67
FD (Finance Co.)	48200000	4.18	91000000	6.10	154000000	7.03	226875000	8.73	357075000	9.79
Eq. share of Housing & Fin. Co	4866249	0.42	24658452	1.65	13929336	0.64	122662129	4.72	111229886	3.05
Eq. share of Other Fin. Co.		0.00	0	0.00	0	0.00	0	0.00	0	0.00
Debenture (Bank's & Fin. Co)	93400000	8.10	118675225	7.95	134227305	6.12	158397305	6.10	218240000	5.99
Others	0	0.00	0	0.00	1750000	0.08	0	0.00	0	0.00
Total (A)	**933826927**	**80.94**	**1364902755**	**91.48**	**1834907723**	**83.72**	**2427730041**	**93.42**	**3480646849**	**95.47**
Short Term Investment										
Government Sec. & Sec. Guaranteed Securities	0	0	0	0	0	0	0	0	0	0
Interest Bearing Deposit of Commercial Banks	122935299	11.59	166546336	10.51	291674988	13.31	155334365	5.98	151554486	4.16
Interest Bearing Deposit of Development Banks	0	0	2540346	0.16	4751709	0.22	4815746	0.19	8081939.32	0.22
Interest Bearing Deposit of Finance Companies	4199833	0.40	50802443	3.21	60446802	2.76	10804454	0.42	5525385	0.15
Other Interest Bearing Investment	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
Total (B)	**127135133**	**11.98**	**219889125**	**8.52**	**356873499**	**16.28**	**170954565**	**6.58**	**165161810**	**4.53**
	1060962060	**100.00**	**1584797880**	**100.00**	**2191781222**	**100.00**	**2598684606**	**100.00**	**3645808659**	**100.00**

Source: Annual Reports of NLIC, 061/62 to 065/66

For Life fund investment, NLIC has preferred Bank, Development and Finance fixed deposits, equity share, debentures and others sectors. Bank fixed deposit contribute more than 70% of investment. It has invested 51.85%, 65.75%, 55.17%, 64.22% and 73.48% in fiscal year 061/62 to 065/66 respectively. It's second priority was government saving bonds where invested 20.57%, 16.12%, 21.72%, 18.39% and 12.95% in the fiscal year 061/62 to 065/66 respectively. It's invested in equity shares are 0.42%, 1.65%, 0.64%, 4.72% and 3.05% from fiscal year 061/62 to 065/66 respectively. The company has invest in bank debenture 8.10%, 7.95%, 6.12%, 6.10% and 5.99% from fiscal year 061/62 to 065/66 respectively. After this it has invested fund in various banks as call interest.

4.3 Evaluation of Returns and Composition

All the concept of insurance and insurance industry in Nepal are already mentioned in above chapters; which may shoe the details idea of insurance business. Here, only qualitative analysis is mentioned which are related to the returns and earned profits.

For the purpose of the evaluation of the returns and composition among the portfolios, the trend analysis and’t’ test are used. For the comparison of all respective matter on returns, the mean, standard deviation and C.V. is also used. To attain the objectives of the study, all the concerned studies and analysis are done.

Profit plays the vital role in insurance companies. Insurance company also thinks about profit or return. It collects premium from policy holders are used them to different profitable sectors hoping for better return from it.

4.3.1 Return on Investment

It is a rate of average investment income. It shows the proportion of return with respect to investment. It is just the calculation of average rate of investment for a particular year in aggregate.

This ratio is calculated using this equation.

$$\text{Return on Investment} = \frac{\text{Net Income}}{\text{Total Investment}}$$

This ratio shows the performance of the investment and it indicates the whole investment portfolio performance. Here, the total investment consists of the investments and compulsory sectors and the net income carried from profit and loss account.

Life fund is invested in government saving bonds, debenture, fixed deposits, share, policy loan and others sectors etc.

4.3.2 Return on Government Securities

This ratio is the average return on government securities. It shows the proportion of return on government securities. The insurer company can get fixed return from the government securities as interest. This ratio measures the percentage of returns on particular insurer in government saving bonds.

$$\text{Returns on Government Securities} = \frac{\text{Returns on Fixed Deposit}}{\text{Total Investment}}$$

Table 4.12

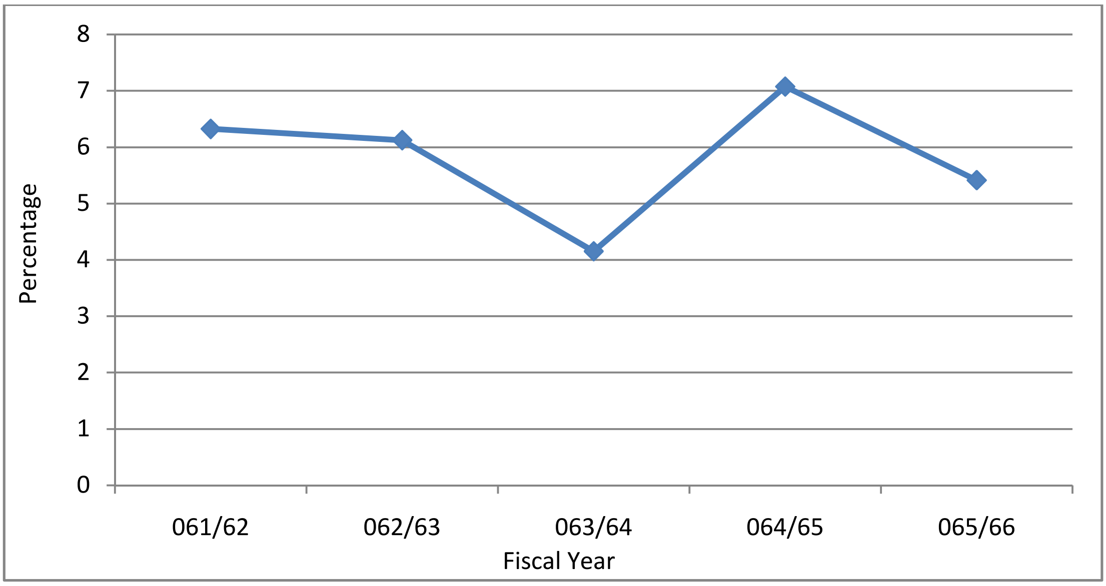
Return on Government Securities

061/62	062/63	063/64	064/65	065/66	Mean	S.D.	C.V.
6.32	6.12	4.15	7.07	5.41	5.81	0.98	16.91

Source: Annual Reports of NLIC, 061/62 to 065/66(Annex IX)

Figure 4.10

Return on Government Securities



Source: Annual Reports of NLIC, 061/62 to 065/66(Annex IX)

From the above table 4.12 the ratio is in fluctuating trend in previous period of fiscal year 061/62 to 065/66. The average mean return from government securities is 5.81% and the C.V. was 16.91%. This revealed that the ratios were little consistent during this study.

4.3.3 Return on Bank Fixed Deposits

This ratio measures the portion of return from fixed deposits. The insurer has to invest more than 70% in fixed deposit to various banks. The return of insurer has high. This ratio is computed using the following equations;

$$\text{Returns on Fixed Deposit} = \frac{\text{Returns on Fixed Deposit}}{\text{Total Investment}}$$

Table 4.13

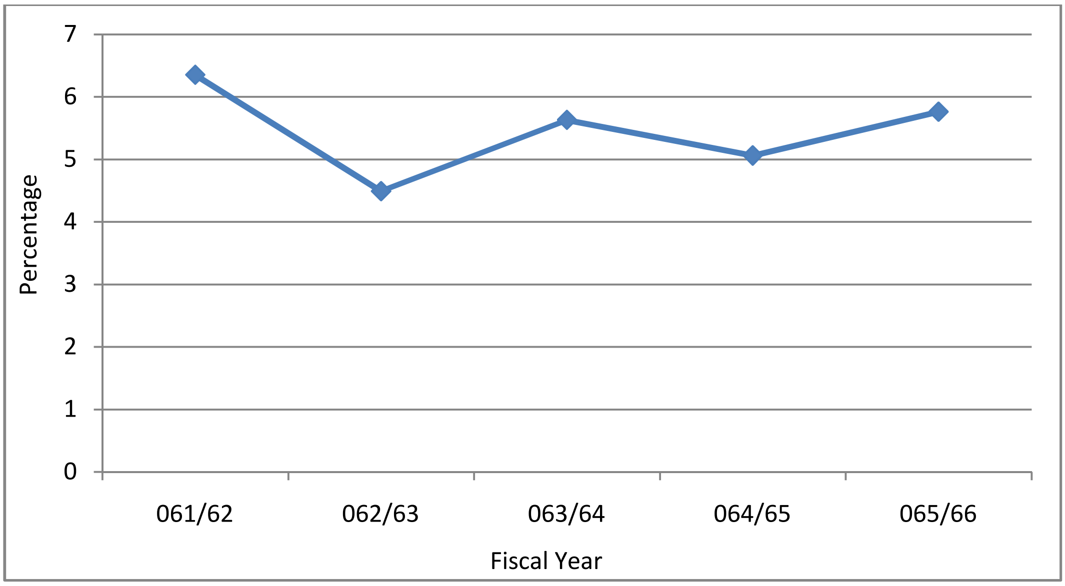
Return on Bank Fixed Deposit

061/62	062/63	063/64	064/65	065/66	Mean	S.D.	C.V.
6.35	4.49	5.63	5.06	5.76	5.46	0.63	11.58

Source: Annual Reports of NLIC, 061/62 to 065/66 (Annex X)

Figure 4.11

Return on Bank Fixed Deposit



Source: Annual Reports of NLIC, 061/62 to 065/66 (Annex X)

Above calculation revealed that the portion of return on life fund investment on fixed deposit is very high. It is more than 5% during this study period. The ratios are in increasing trend by 6.35%, 4.49%, 5.63%, 5.06% and 5.76% in the fiscal year 061/62 to 065/66 respectively. The average return on investment is 5.46% and C.V. was 11.58%. This indicates that the return is consistent.

4.3.4 Return on Equity Share

It is average of return on share. This ratio shows the percentage of return in share. It is calculated by using the following equations;

$$\text{Returns on Share} = \frac{\text{Returns on Equity Share}}{\text{Total Investment}}$$

Table 4.14

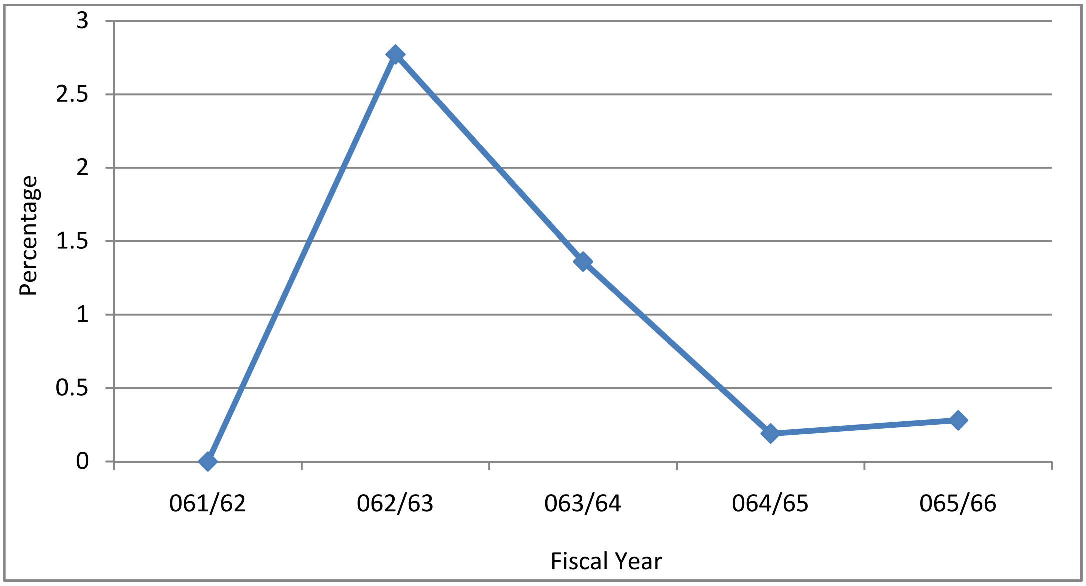
Return on Equity Share

061/62	062/63	063/64	064/65	065/66	Mean	S.D.	C.V.
0.00	2.77	1.36	0.19	0.28	0.92	1.04	113.07

Source: Annual Reports of NLIC, 061/62 to 065/66(Annex XI)

Figure 4.12

Return on Equity Share



Source: Annual Reports of NLIC, 061/62 to 065/66(Annex XI)

The table 4.14 shows the ratio between return on equity share is in decreasing trend. The return on equity share were 0.00%, 2.77%, 1.36%, 0.19% and 0.28% from the fiscal year 061/62 to 065/66 respectively. The average mean return on equity share is 0.92% and C.V. was 113.07%. This indicates that the return on equity share is highly inconsistent.

4.3.5 Return on Debenture

This ratio is the average return on debenture. It shows the portion of return in debenture. The ratio of returns on debenture is the average returns of investment in debenture, which is calculated by using the following equations.

$$\text{Returns on Debenture} = \frac{\text{Returns on Debenture}}{\text{Total Investment}}$$

Table 4.15

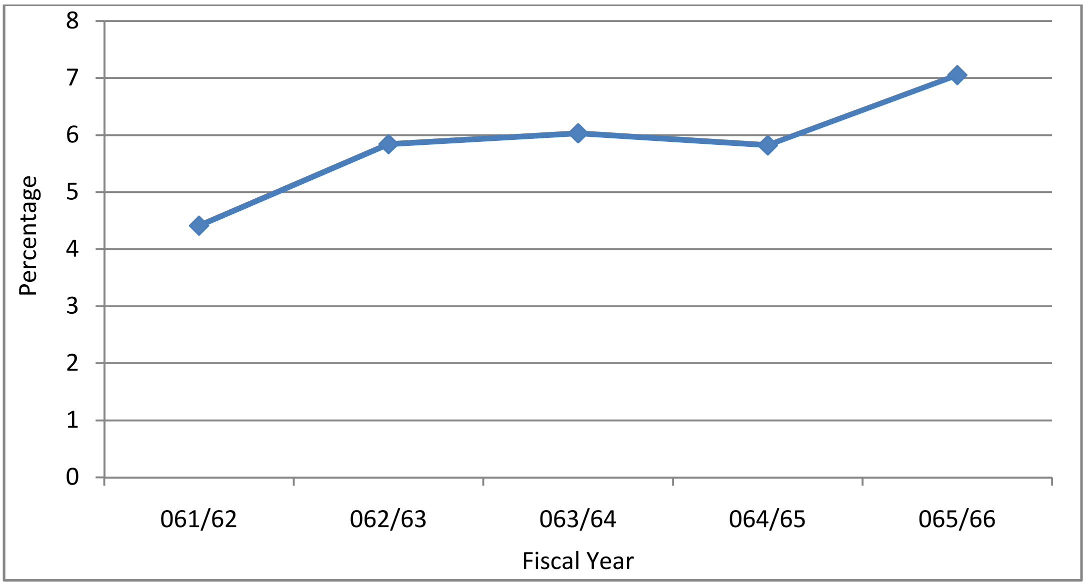
Return on Debenture

061/62	062/63	063/64	064/65	065/66	Mean	S.D.	C.V.
4.41	5.84	6.03	5.82	7.05	5.83	0.84	14.46

Source: Annual Reports of NLIC, 061/62 to 065/66(Annex XII)

Figure 4.13

Return on Debenture



Source: Annual Reports of NLIC, 061/62 to 065/66(Annex XII)

The table 4.15 shows the ratio between return on debenture is in increasing trend. The return in investment on debenture is in increasing trend. The return in investment on debenture is more than 5%. The average return on debenture is 5.83%. The C.V. 23.73% which indicate that the return on debenture is little consistent.

4.3.6 Return on Policy Loans

This ratio reveals that the portion of returns from policy loans. Insurer can provide loan to policy holder up to 90% of surrender value or insured deposit value after two years. This ratio measures the portion of total returns from total investment.

$$\text{Returns on Share} = \frac{\text{Returns on Equity Share}}{\text{Total Investment}}$$

Table 4.16

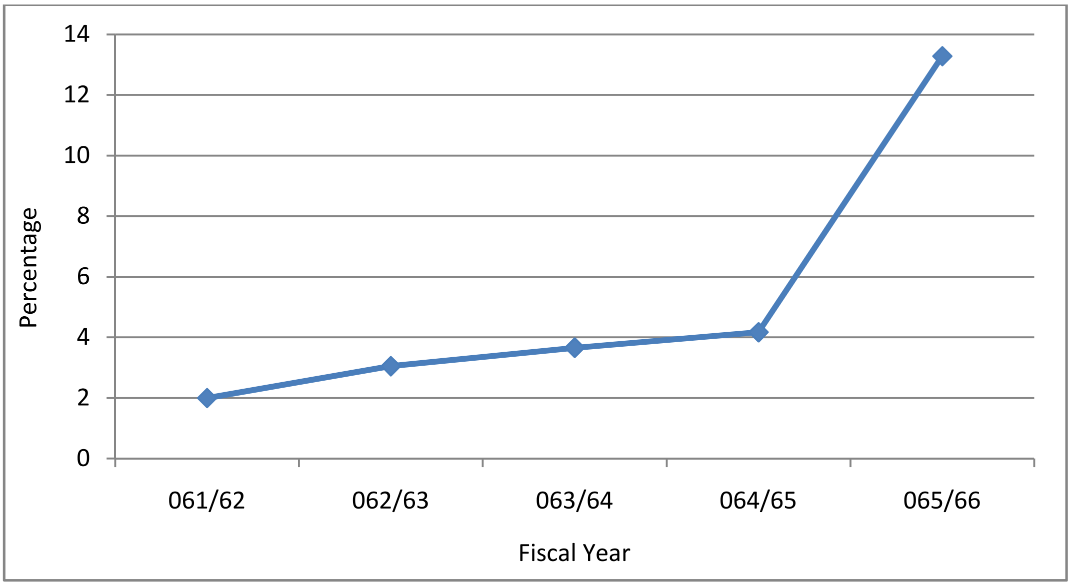
Return on Policy Loans

061/62	062/63	063/64	064/65	065/66	Mean	S.D.	C.V.
2.00	3.05	3.66	4.17	13.28	5.23	4.09	78.12

Source: Annual Reports of NLIC, 061/62 to 065/66(Annex XIII)

Figure 4.14

Return on Policy Loans



Source: Annual Reports of NLIC, 061/62 to 065/66(Annex XIII)

Above calculation revealed that the portion of income from policy loans made by the company. The ratio is in increasing trend. The return was 2.00%, 3.05%, 3.66%, 4.17% and 13.28% in the fiscal year 061/62 to 065/66 respectively. The average return in policy loan is 4.09% and C.V. was 78.12%. It reveals that the ratios were inconsistent.

4.3.7 Return on Others

This ration is the average return on other securities. It shows the portion of return in other equity. The ratio of return of other on equity is the average of investment of security, which is calculated by using the following equations.

$$\text{Returns on other } X \frac{\text{Return on Other Equity}}{\text{Total Investment}}$$

Table 4.17

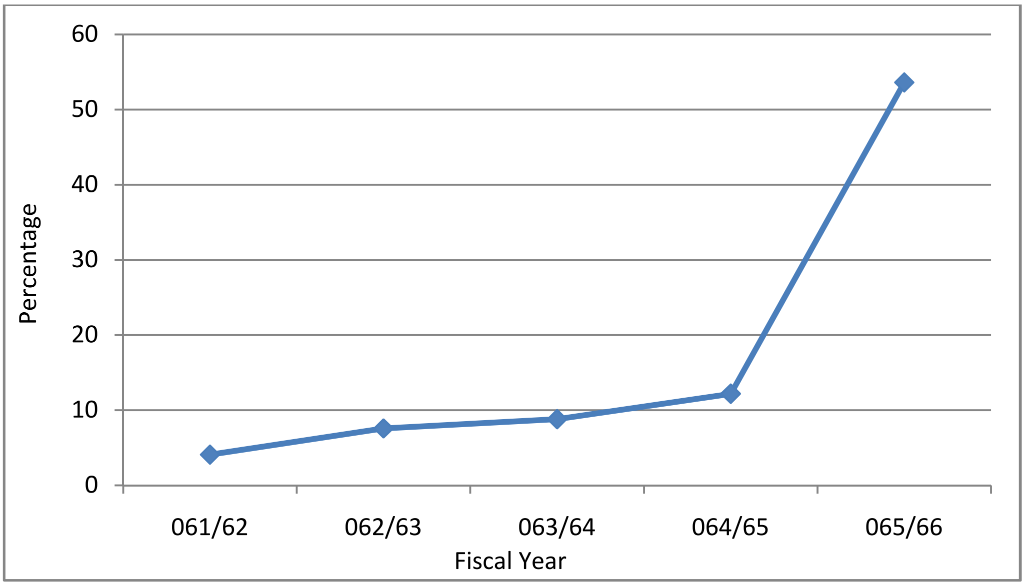
Return on Others

061/62	062/63	063/64	064/65	065/66	Mean	S.D.	C.V.
4.07	7.55	8.79	12.17	53.58	17.23	18.36	93.85

Source: Annual Reports of NLIC, 061/62 to 065/66(Annex IV)

Figure 4.15

Return on Others



Source: Annual Reports of NLIC, 061/62 to 065/66(Annex IV)

From the above table 4.17 the ratio is in increasing trend in previous period of fiscal year 061/62 to 065/66, it was 4.07%, 7.55%, 8.79%, 12.17% and 53.58% respectively. The average return on others is 17.23%. The C.V. was 93.85% that indicates that it was highly insignificant in return on other investment.

4.3.8 Interest Earned to Total Investment

The investment sectors like government saving bonds, bank fixed deposits and share, debenture and others investable fund yields interest. It is an average of interest earned on total investment. This ratio represents the return from interest earned to total investment. It is computed using following equations;

$$\text{Returns on Interest Earned} = \frac{\text{Interest Earned}}{\text{Total Investment}}$$

Table 4.18

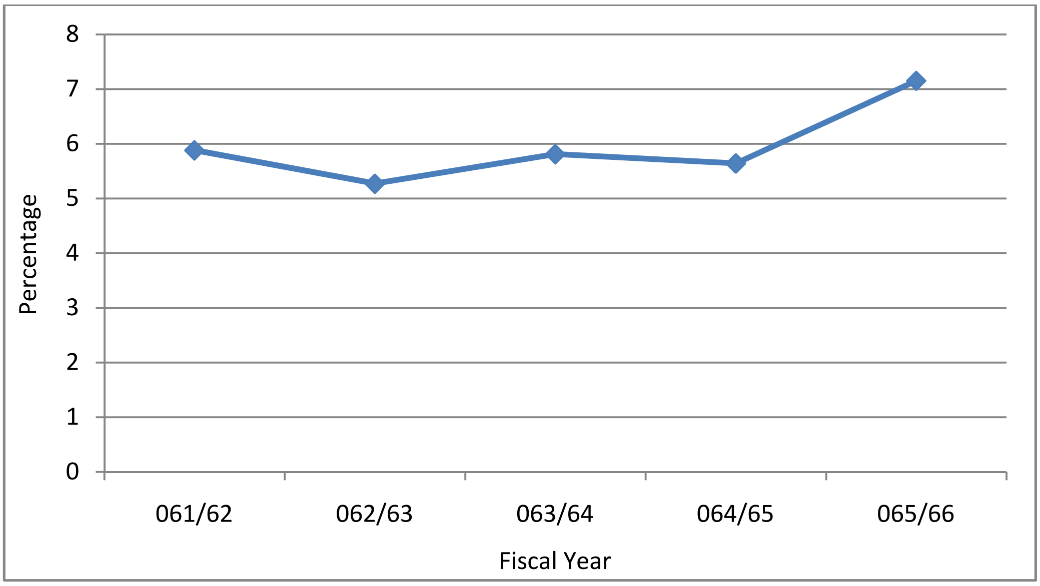
Interest Earned to Total Investment

061/62	062/63	063/64	064/65	065/66	Mean	S.D.	C.V.
5.88	5.27	5.81	5.64	7.15	5.95	0.64	10.72

Source: Annual Reports of NLIC, 061/62 to 065/66(Annex XV)

Figure 4.16

Interest Earned to Total Investment



Source: Annual Reports of NLIC, 061/62 to 065/66(Annex XV)

From the above table 4.18, it revealed that the interest earned to total investment ratio is in increasing trend where 5.88%, 5.27%, 5.81%, 5.64% and 7.15% respectively from fiscal year 061/62 to 065/66. It's average yield return of 5.95%. The C.V. 10.72% showed the consistent of its returns.

4.3.9 Profit Earned to Total Premium Collection

The ratio reveals which of the profit earned in respect of total premium on these sectors. It is computed using following equations;

$$\text{Returns on Profit Earned} = \frac{\text{Profit Earned}}{\text{Total Premium Collection}}$$

Table 4.19

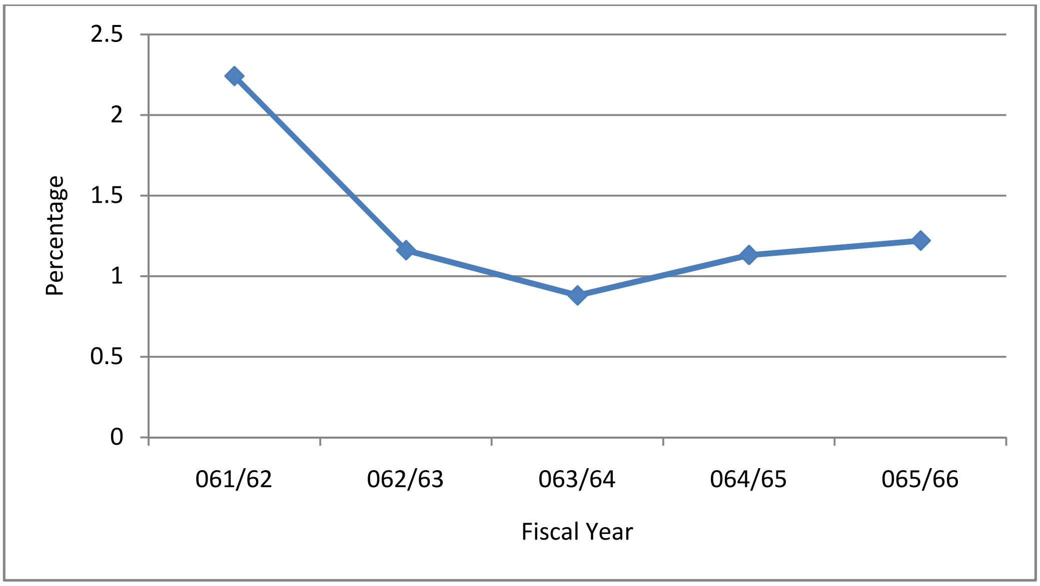
Profit Earned to Total Premium Collection

061/62	062/63	063/64	064/65	065/66	Mean	S.D.	C.V.
2.24	1.16	0.88	1.13	1.22	1.33	0.47	35.68

Source: Annual Reports of NLIC, 061/62 to 065/66(XVI)

Figure 4.17

Profit Earned to Total Premium Collection



Source: Annual Reports of NLIC, 061/62 to 065/66(XVI)

The table 4.16 shows the ratio between profits earned to total premium collection is in increasing trend. The profit earned ratios were 2.24%, 1.16%, 0.88%1.13% and 1.22% from the fiscal year 061/62 to 065/66 respectively. The average profit earned on total premium collection was 1.33%. The C.V. was 35.68%, it indicates that the profit earned is inconsistent. So, the profit earned of NLIC is rose up for the study.

4.3.10 Profit Earned to Total Investment

It is an average on profit earned on total investment. This ratio represents the return from profit in total investment. Total profit earned to total investment ratio reflects the extent to which insurer is successful to earn profit as major income on total investment. This ratio reveals the profit capacity of NLIC by investing its all collected premiums and others capital fund.

$$\text{Returns on Profit Earned} = \frac{\text{Profit Earned}}{\text{Total Investment}}$$

Table 4.20

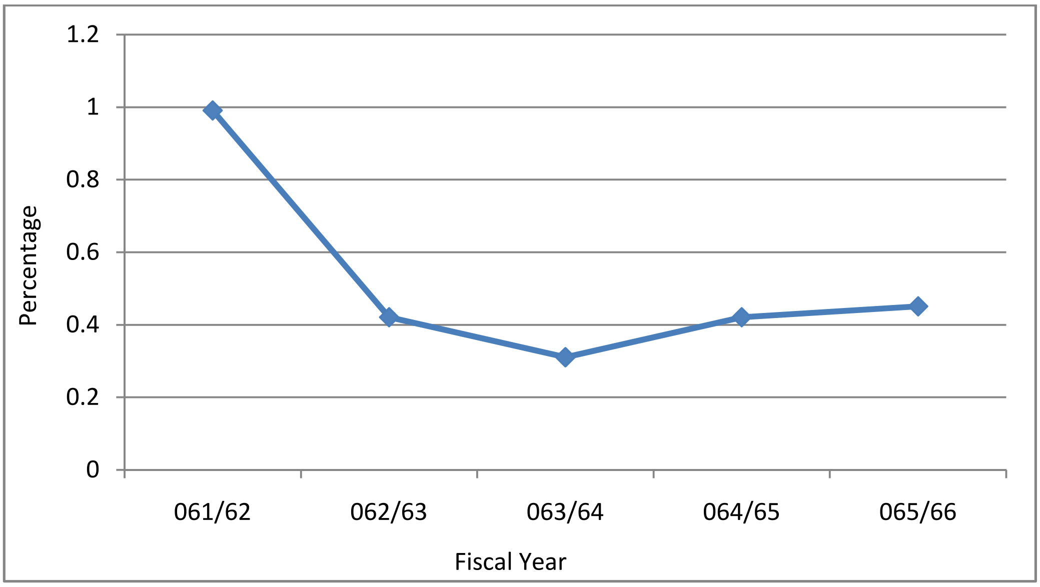
Profit Earned to Total Investment

061/62	062/63	063/64	064/65	065/66	Mean	S.D.	C.V.
0.99	0.42	0.31	0.42	0.45	0.52	0.24	46.30

Source: Annual Reports of NLIC, 061/62 to 065/66(Annex XVII)

Figure 4.18

Profit Earned to Total Investment



Source: Annual Reports of NLIC, 061/62 to 065/66(Annex XVII)

The table 4.17 shows the ratio between profit earned to total investment is decreasing trend of first three years 0.99%, 0.42% and 0.31% of fiscal year 061/62 to 063/64 respectively. The last two years 064/65 and 065/66 were in increasing trend 0.42% and 0.45% respectively. Regarding the profit earned to total investment ratio of NLIC, it has also increasing form in profit earned to total investment ratio. The average return was 0.52% and C.V. was 46.30%. It indicates that the profit is inconsistency of return.

4.4 Claim Paid

Life Insurance is less risky than general insurance. The claim is paid if the insured is dead in life insurance. Different types of life insurance policies are insured by the company. NLIC issue endowment life assurance policy, children marriage and education, anticipated endowment life assurance policy. The compensation is paid in the time of death only in endowment life assurance policy, or the compensation is paid only after the expiry of the policy.

Insurance company ensures compensation that if the accident, damage, death and theft happened to property and life of the policyholder with in the policy period. Delay in claim paying may damage the goodwill of the company.

4.4.1 Claim Paid to Premium Collection

It is the ratio that measure the total risk involves in total premium collection by the company. It is the portion of claim paid by the company from the premium collection. Following equation is used to calculate the ratio.

$$\text{Claim paid to premium Collection} = \frac{\text{Claim Paid}}{\text{Premium Collection}}$$

Table 4.21

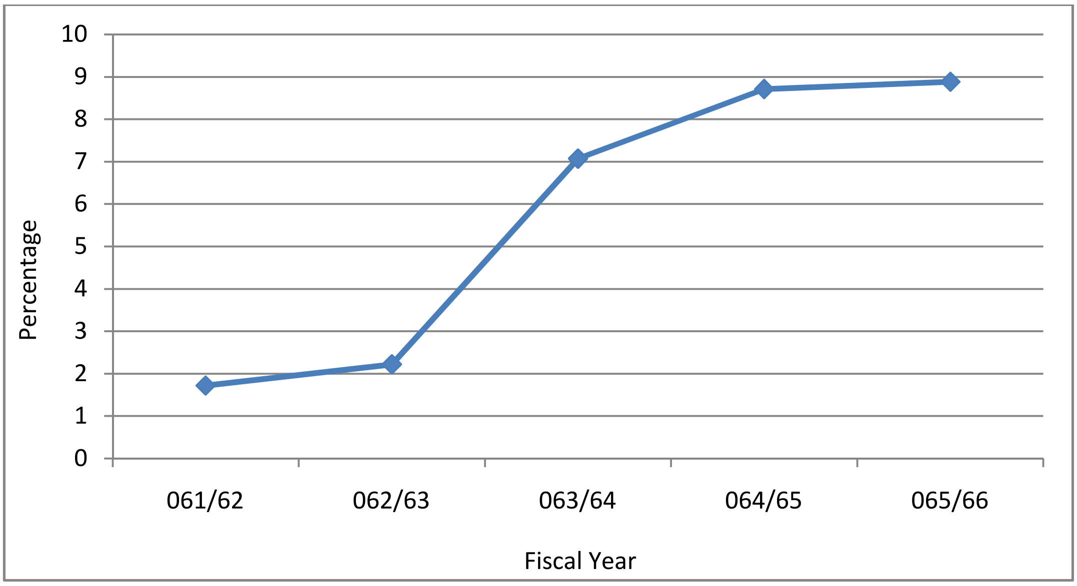
Claim Paid to Premium Collection

061/62	062/63	063/64	064/65	065/66	Mean	S.D.	C.V.
1.72	2.22	7.07	8.71	8.88	5.72	3.13	54.77

Source: Annual Reports of NLIC, 061/62 to 065/66(XVIII)

Figure 4.19

Claim Paid to Premium Collection



Source: Annual Reports of NLIC, 061/62 to 065/66(XVIII)

Above calculation reveal that the claim paid to total life premium collection were 1.72%, 2.22%, 7.07%, 8.71% and 8.88% respectively from the fiscal year 061/62 to 065/66. It showed that the life insurance was lowered risky. The lowest was 1.72% in the fiscal year 061/62 and the highest claim paid was 8.88% in the fiscal year 065/66. The average of 5.72% of life insurance premium collection went to claim paid. It's C.V. was 54.77% and it indicated there was little inconsistency in life claims paid.

4.5 Statistical Analysis

Under this chapter various statistical calculation was studied which were related to decision making for premium collection, investment pattern and returns. The trend analysis, coefficient of correlation and‘t’ Test were used for the purpose to find out tendency, relation and distinguish between premium collection, investment and return. For this purpose following measures were analyzed.

Correlation Analysis

In this analysis product moment method has been used to find out the relationship between premium collection and investment. Generally, the correlation analysis is used to describe the degree to which one variable related to another. It helps to determine whether a) a positive or a negative relationship exists. b) The relationship is significant or insignificant and c) establishes causes and effect relationship if any. The statistical tools, correlation analysis is preferred in this study to identify the relationship between premium and investment, investment and return whether the relationship is significant or not. For the purpose of decision making under correlation, decision maker based on following interpretation terms.

- When r= +1, there is perfect positive correlation.
- When r= -1, there is perfect negative correlation.
- When r= 0, there is no correlation.
- When ‘r’ lies in between 0.7 to 0.999, (-0.7 to -0.999), there is a high degree of positive, (or negative) correlation.
- When ‘r’ lies 0.5 to 0.6999, (-0.5 to -0.6999) there is a moderate degree of correlation.
- When ‘r’ is less than 0.5 there is low degree of correlation.

4.5.1 Correlation between Premium Collection and Investment of NLIC

The above ratio depicts the ration between the premium collection by NLIC and its investment. The above correlation between premium and investment of NLIC revealed the solution of the question: was there any relation between the premium collection by NLIC and its investment? In other word was more premium collection means more investment by it? If there is relationship between these two variables, what relationship existed, positive or negative relationship?

Table 4.22

Correlation of Premium Collection and Investment of NLIC

Coefficient of Correlation	Relationship	R^2	6*P.E. (r)	Probable Error P.E.(r)	Significant or Insignificant
0.9861	Higher degree of Positive Relationship	0.9724	0.0499	0.0083	Highly Significant

Source Annex XIX

Decision:

From the above computation and Table 4.22, we can draw the conclusion that there is higher degree of positive co-relation between the premium collection by NLIC and its investment. That reveals more premium collection means more investment.

Again, the coefficient of determination (R^2) is the measure of the degree of linear association or correlation between two variables, one of, which is the dependent variable and other is independent. In case of NLIC, the coefficient of determination is 0.9724, which means that the variation in independent variable (premium collection) explains 97.24% variations in dependent variable (investment).

Probable error is used to measure the significance of the relation between two variables. In case of this study the significance relationship between premium collection and investment is measured by calculation probable error of correlation of coefficient. Since, the co-efficient of correlation (r) is greater than the 6 P.E. (r), therefore we conclude that the relation between the two variables is significant.

4.5.2 Correlation between Investment and Returns of NLIC

As insurance company is also a financial institution, it always operates for profit motive. So, insurance companies mobilize its fund in those sectors that yield return. It collects fund in form of premium and invests in different sectors. In the context of NLIC, it is not different than other insurance company. The questions arise was there relationship between investment and net income? In other wards, if NLIC invest more fund then it got more return? If relationship between them exist, what relationship positive or a negative relationship? What is the degree of relationship?

Table 4.23

Correlation of Investment and Returns of NLIC

Coefficient of Correlation	**Relationship**	**R^2**	**6*P.E. (r)**	**Probable Error P.E.(r)**	**Significant or Insignificant**
0.6580	Moderate degree of Positive Relationship	0.4330	1.0266	1.1711	Significant

Source XX

Decision:

From the above computation and table, it was clear that there is higher degree of positive relationship between investment and net income. It says that more investment means more net income.

Again, the coefficient (R^2) is the measure of the degree of linear or correlation between two variables, one of, which is the dependent variable and other, is independent. In case of NLIC, the coefficient of determination is 0.4330, which means that the variation in independent variable (investment) explains 43.30% of the variation in dependent variable (net profit).

Generally, probable error is used to measure the significance of the relation between two variables. In the case of this study the significance relationship between investment and net income is measured by calculation probable error of correlation of coefficient. Since the co-efficient of correlation (r) is greater then the 6*P.E. (r), therefore we conclude that the relation between the two variables is highly significant.

4.5.3 Correlation between Premium Collection and Claims Paid of NLIC.

Was there any relationship between premium collection by NLIC and claims paid by it? It yes, what relationship existed between these two factors positive or negative relationship? What was the degree of relationship? The above correlation between premium collection by NLIC and claims paid by it got solution of these entire questions.

Table 4.24

Correlation of Premium Collection and Claims Paid of NLIC

Coefficient of Correlation	**Relationship**	**R^2**	**6*P.E. (r)**	**Probable Error P.E.(r)**	**Significant or Insignificant**
0.9852	Higher degree of Positive Relation	0.9706	0.105	0.0175	Significant

Source Annex XXI

From the above computation, we can conclude that there is higher degree of positive relationship between premium collection and claim paid of NLIC. It reveals that more premium collection means more claim paid.

Again, the coefficient (R^2) is the measure of the degree of linear or correlation between two variables, one of, which is the dependent variable and other, is independent. In case of NLIC, the coefficient of determination is 0.9768, which means that the variation in independent variable (premium collection) explains 97.68% of the variation in dependent variable (claims paid).

Generally, probable error is used to measure the significance of the relation between two variables. In the case of this study the significance relationship between premium collection and claims paid is measured by calculation probable error of correlation of coefficient. Since the co-efficient of correlation (r) is greater then the 6*P.E. (r), therefore we conclude that the relation between the two variables is significant.

4.6 Major Findings of the Study

Major findings are presented in accordance with the collected data. Statistical and financial tools are used in the process of analyzing for the collected secondary data. The findings are divided into three different parts.

This chapter is the consequence of the whole studies and analysis result and achievement of entire study too. So, this chapter is concentrated on drawing the conclusion of all analysis on premium collection, investment position and returns of Nepal Life Insurance Co. Ltd.

In accordance to the study, the analysis of 'Premium collection and composition' and 'Investment pattern and composition' and 'returns and composition' it will be clear that the Nepal Life Insurance Company Ltd. is following the generally accepted principles of collection, investment and the returns components.

The main findings, which are conclude from this analysis as follows;

- **Premium Collection on First Premium to Total Premium Collection**

From the analysis we found that the company's ratio on first premium to total premium collection ratio are in fluctuating trend. The highest ratio of 37.15% in the fiscal year 061/62 and the least ratio of 26.67% in the fiscal year 062/63. The average ratio was 31.44%. The C.V. is 12.64%. It shows that the ratios were little consistency.

- **Renewal Premium Collection to Total Premium**

The analysis showed the ratio between renewal premium and total premium collection. The renewal premium collection ratio's were in increasing trend. The highest ratio was 73.33% the fiscal year 062/63 and the least was 62.85% in the fiscal year 061/62. The average ratio was 68.56%. The 5.80% C.V. shows that there was highly consistent in renewal premium collection.

- **Investment on Government Saving Bonds to Total Investment**

The analysis shows that the ratios are in fluctuating trend. In the initial year of study period it was 22.37% and it went down to 12.95% in the fiscal year 065/66. The average of 18.12% went to government saving bonds. The 20.12% C.V. shows that it was little consistency on it.

- **Investment on Bank Fixed Deposits to Total Investment**

From the analysis, it is clear that the majority portion of life investment went to fixed deposit. It was 56.38% in the starting fiscal year i.e. 061/62 and 73.46% in the last years 065/66. The average of 62.23% total investment went to fixed deposit. The C.V. is 10.52% there was consistency on it.

- **Investment on Share to Total Investment**

From the analysis, we found that the average investment on share to total investment is 2.09%. It is in fluctuating trend from starting to end of the study period. It is 0.46%, 1.56%, 0.64%, 4.72% and 3.05% in the respective fiscal year 061/62 to 065/66 respectively. The calculated C.V. is 76.96%, which reveal that the ratio are highly inconsistent and homogeneity.

- **Investment on Debenture to Total Investments**

This analysis reveals that the average investment on debenture to total investments is 7.39%. The ratio was increasing trend from starting to end of the study period. It is 8.80%, 7.49%, 6.12%, 6.10% & 5.98% in the fiscal year 061/62 to 065/66 respectively. The calculated C.V. is 15.97% which reveal that the ratios are consistent.

- **Investment on Policy Loans to Total Investment**

The analysis shows that the ratios are in increasing trend. In the initial year of study period, it was 0.94% it went up to increase 5.79% in the fiscal year 065/66. The average of 3.70% of investment went to the policy loans. The analysis also shows that the ratios are in increasing order and there is inconsistency on the ratio.

- **Investment on Others Sectors to Total Investments**

The analysis reveals that the average investment in other sector is 10.65%. The lowest ratio was in the fiscal year 065/66. i.e. 4.53% and highest was in the fiscal year 063/64 i.e. 16.28%. The investment in other sector is fluctuated. The calculated C.V. is 41.56% showing little inconsistency in investment in other sectors.

- **Return on Government Securities from Investment**

The return of government saving bonds were 6.32%, 6.12%, 4.15%,7.07% and 5.41% from the fiscal year 061/62 to 065/66 respectively. The highest return was 6.32% in the fiscal year 061/62 and lowest return was 4.15% in fiscal year 063/64. The average return was 5.81%. The calculated c.v. is 16.91% which shows that the ratio were little consistent.

- **Return on Fixed Deposit to Total Investment**

The analysis revealed that the return on bank fixed deposits ranged from 6.35% to 5.76%. The average return of bank fixed deposit was 5.46%. The C.V. 11.58% indicate consistent in its return.

- **Return on Equity Share to Investment**

The analysis reveals the return of equity share in total investment is in fluctuating trend. The return ranges from 0.00% to 0.28% of fiscal year 061/62 to 065/66 respectively. The average return of equity share to total investment is 0.92%. The C.V. is 113.07% indicate that highly inconsistency of its return.

- **Return on Debenture to Investment**

The analysis revealed that the return on debenture ranged from 4.41%, 5.84%, 6.03%, 5.82% and 7.05% from fiscal year 061/62 to 065/66. The average return of debenture was 5.83%. The C.V. 14.46% indicates consistency of its return.

- **Return on Policy Loans to Investment**

The analysis reveals the return of policy loans in total investment. It is in increasing trend due to increase in policy loans. The return range from fiscal year 061/62 to 065/66, the ratios is 2%, 3.05%, 3.66%, 4.17% and 13.28% respectively. The average return of was 5.23%. The c.v. 161.16% indicate on policy loan is highly inconsistent of its return.

- **Returns on Others to Total Investment**

The analysis revealed that there was highly fluctuating in the returns on others sectors. The highest return was 53.58% and the lowest return was 4.07%. The average return was 17.23% and the C.V. 106.54% which indicate that this is highly inconsistency of its return.

- **Interest Earned to Total Investment**

From the analysis, we found that the average interest earned to total investment is 5.95%. It is fluctuating trend from starting to end of the study period. It is 5.88%, 5.27%, 5.81%, 5.64% and 7.15% in the respective fiscal year 061/62 to 065/66 respectively. The calculated C.V. is 10.72% which is consistent in interest earned to total investment.

- **Profit Earned to Total Premium Collection**

The analysis reveals that the average profit earned to total premium collection is 1.93%. The ratios was increasing trend from starting to end of the study period. It is 2.24%, 1.16%, 0.88%, 1.13% and 1.22% in the fiscal year 061/62 to 065/66 respectively. The calculated C.V. 35.68% showing inconsistency in profit earned to total premium collection.

- **Profit Earned to Total Investment**

The profit earned to total investment is 0.99%, 0.42%, 0.31%, 0.42% and 0.45% from the fiscal year 061/62 to 065/66 respectively. The highest profit earned 0.99% in fiscal year 061/62 and least profit 0.31% in the fiscal year

063/64. The average returns was 0.52% and C.V. 46.30% which shows that the ratio is inconsistent.

- **Claim Paid to Premium Collection**

From the analysis, we found that the majority of total claims paid by the company were death claims. The ratio was in increasing trend from starting period to ending period. The average of 28.59% death claim paid covered by total premium collection by the company. The C.V. of 54.77% indicated the consistency in death claim paid to total premium collection.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Nepal is a developing country. It is moving towards revolution and trying to initiate the modern technology in every field. For the entire development of the country, the government embarrassed the liberal economy policy and open competitive view. Thus, after 1990's financial intermediaries had been in rapid growth financial intermediaries consist of commercial banks, mutual funds, development banks, finance company and insurance companies etc. Although, insurance company runs smoothly with profit, they faced various problems. The main problem is cut throat competition due to liberalization and privatization thus under the unhealthy competition between each other.

NLIC was established in 21st Baisakh 2058 B.S. (2001A.D) under Nepal Company Act, 2053 B.S. and the Insurance Act 2049 B.S. of Nepal with prime objectives to meet nationals insurance requirements. It is operating successfully from the date of establishment.

There are total of twenty six general and life insurance companies. Insurance business is very important for modern age. It gives financial security to individual and business enterprises. It is due to financial security given by insurance companies, the economic development reach this stage.

Insurance is very important in the developing countries like Nepal. The average income per family is very low. Most of the families depend in a single person income. If the earner becomes ill, the family finds nothing to survive on. Still, we can say that insurance is not getting enough popularity among people. The no. of insurance policies undertaken are almost negligible. A deep, study is needed to find out why insurance business has been unable to attract enough public attention. Ever though, 95% of life insurance market remains untouched by life insurance companies. NLIC has covered 25% insurance market in Nepal where 5% of insured in total. As per financial report NLIC has collected Rs.1, 347,502,240 as premium in fiscal year 065/66. We can observe that the performance of the company has improved. There is a healthy growth in business for the company, in both no. of policies and premium collection, in the current year. The company should establish marketing development and research development. This department looks the present and potential business opportunities in the markets.

Among the insurance companies, NLIC study has been taken to evaluate the premium collection, investment position and returns through the sample base. The study analyzed the annual report of five years starting from 061/62 to 065/66 has been taken into consideration for the purpose of the study. All the study is analyses reviewing the secondary data from journal articles, annual report of the company and other relevant sources.

In the context of Nepal, life insurance is one of the business sectors operating in profit from establishment. But the trend of premium collection investment position and profit earned are not on steady growth. There is no informality. The rate of premium of insurance policy, investment directives, which regulates by government (Beema Samitti), needed to restudy and reanalyzed proper returns on premium investment can be changes on time to time. The regulatory limits relating the investment should be changed according to the change in overall macro economy and money/capital condition.

Premium collection, investment and returns are the vital activities of insurance companies. Success and failure of any insurance companies depend upon these activities. As the topic of the study, "A study on premium collection, investment position and returns of NLIC Co. Ltd." deals with the problems regarding these important tasks of the company. The study is significant to the management of the company to take the right positioning is the premium collection, investment pattern and returns. It also helps the management of the other insurance companies, shareholders, investors, customers, competitors, personnel and other stakeholders can get necessary information. Researcher will also be benefited about the NLIC co. ltd.

5.2 Conclusion

This study was undertaken to find out the premium collection, investment position and returns of NLIC Co. Ltd. The company's premium collection is in increasing trend. The total premium collection of the company was Rs. 4.65 crore in the fiscal year 061/62, it has been increased to Rs.134.75 crore in last year of the study period i.e. 065/66, which is 34.56% increased. NLIC should apply different strategy to compete in this market.

The total investment of the company (including policy loans, short term investments and others investment) of Ashad end 2066, stood at Rs. 364.68 crore as against Rs. 259.86 crore as at Asad 2065. This shows an increase of 40.34% and has been strictly managed as per guide lines and rules existing in the country to that affect, as well as per directions of the board of directors and the regulator (Beema Samiti) from time to time. From the analysis of total investment made by NLIC, it is found that the company has preferred bank fixed deposits as the first priority and followed by government securities and others. Bank fixed deposit contribute more that 73% of investment in fiscal year 065/66. It's second priority was on the government saving bonds which was 13% in the fiscal year 065/66. The company had invest 3% in equity share, 6% in debenture's and other investment areas are policy loans, staff loans, agent loans and short term investment which was 5% in approximately.

During the fiscal year 2065/66, the company had settle death claims for an amount of Rs.119, 625,887.00 crore.

The average net rate of investment return of NLIC is only 7.89 % in the fiscal year 065/66.

The company has been able to declared increase bonus rate to the policy holders. The company has provided 20% bonus share declared last year from its profit.

5.3 Recommendation

There are nine life insurance companies and Seventeen general insurance companies. The insurance market of Nepal is very small. So, all companies are trying to increase their and working to create new market. So, NLIC should issue new policies suitable on present market situation, for e.g. Bank assurance and micro insurance etc. It can help in increasing premium collection and its share in life insurance industry.

First premium of life insurance hold significant role in total life premium collection. It is regular amount that the policy holder should pay to the company till the expiry or death. So, if the company success to collect more life premium collection, it automatically increase the total life premium collection in the following years. So, the company should focus on it and make strategy to collect more first life premium collection.

Every insurance company should invest 75% of its investable funds towards compulsory sectors set by Insurance Board of Nepal; rest 25% can be diversified. NLIC can invest only limit areas under the Insurance Board on Bank fixed deposit, corporate securities, share and short term loans etc.

The company must give proper attention on their investment policy. It must introduce the portfolio management system to increase their earnings from investment without increasing the degree of risk which is possible through diversification of risk.

Claims settlement should in time. Delay in the settlement of claims may affect the business potentiality. Due to growth in insurance business, death claim should also be increased. It should be control the no. of death claim by proper underwritings and investigation.

The co-relation coefficient between premium collection and investment, investment and returns are positively correlated in high degree. Thus, the companies must analyze this while planning their premium collection, the return also fluctuated. Because small change in premium collection, it effects proper change in investment and returns respectively.

The company should appoint more agents to increase its business. The insurance business is more competitive than the past years. It should lesson from the marketing situations. So, it is highly recommend that the company should appoint more capable, active agents and announce new schemes to increase the efficiency and mobilize of the agents.

The company is suggested to expand insurance activities in rural areas by establishment of branches or sales center to its potentiality.

Advertisement is necessary to increase business. It plays vital role in this competitive market. So, it is highly recommended to create effective advertisement to increase its business.

All the study is analyzed reviewing the secondary data from annual reports, articles and reports from Beema Samitti. Financial and statistical tools are applied to reveal the information’s. The above recommendation is provided on the basis of findings from the analysis.

ANNEX XVIII

Claims paid to Total Premium Collection of NLIC from FY 061/62 to 065/66

Fiscal Year	Claims Paid	Total Premium	X	(x-X)	(x-X)2
061/62	7989951	465642244	1.72	-4.00	16.02
062/63	12786961	576806744	2.22	-3.50	12.26
063/64	54104211	765665919	7.07	1.35	1.82
064/65	83831580	962195510	8.71	2.99	8.97
065/66	119625887	1347502240	8.88	3.16	9.98
			28.59	**0.00**	**49.04**
					9.81
Average (x)	**5.72**				
S.D.	**3.13**				
C.V.	**54.77**				

ANNEX XIX

Correlation Coefficient Between Premium Collections and Investments of NLIC co. ltd.

In '000 Millions

Years	**Premium (X)**	**Investments (Y)**	**(X)**	**(Y)**	X^2	Y^2	**XY**
061/62	465642244	1060962060	4.66	10.61	21.68	112.56	49.40
062/63	576806744	1584797880	5.77	15.85	33.27	251.16	91.41
063/64	765665919	2191781222	7.66	21.92	58.62	480.39	167.82
064/65	962195510	2598684603	9.62	25.99	92.58	675.32	250.04
065/66	1347502240	3646808659	13.48	36.47	181.58	1329.92	491.41
			41.18	**110.83**	**387.74**	**2849.35**	**1050.08**

X = Premium Collection **Y = Investments**

Correlation Coefficient (r) = $\dfrac{n \quad xy - \quad x. \quad y}{\sqrt{n \quad x^2 - (\quad x)^2}\sqrt{n \quad y^2 - (\quad y)^2}}$

$= \dfrac{5 \times 1050.08 - 41.18 \times 110.83}{\sqrt{5 \times 387.74 - (41.18)^2}\sqrt{5 \times 2849.35 - (110.83)^2}}$

$= \dfrac{5250.4 - 4563.98}{\sqrt{1938.70 - 1695.79}\sqrt{14276.75 - 12283.29}}$

$= \dfrac{686.42}{15.59 \times 44.65} = \dfrac{686.42}{696.09}$

r = 0.9861

R^2 = 09724

Probable Error (P.E.) = $\dfrac{0.6745 \times 1 - r^2}{\sqrt{n}}$

$= \dfrac{0.6745 \times 1 - (0.9861)^2}{\sqrt{5}} = 0.0083$

r = 6 x P.E.

= 6 x 0.0083

= 0.0499

ANNEX XX

Correlation Coefficient Between Investments and Returns of NLIC Co. Ltd.

In '000 Millions

Years	Investments (Y)	Returns (Y)	(X)	(Y)	X^2	Y^2	XY
061/62	1060962060	10453513	10.61	0.10	112.56	0.01	1.11
062/63	1584797880	6709985	15.85	0.07	251.16	0.00	1.06
063/64	2191781222	6709985	21.92	0.07	480.39	0.00	1.47
064/65	2598684603	10900937	25.99	0.11	675.32	0.01	2.83
065/66	3646808659	16432266	36.47	0.16	1329.92	0.03	5.99
			110.83	**0.51**	**2849.35**	**0.06**	**12.47**

X = Investments **Y = Returns**

Correlation Coefficient (r) = $\dfrac{\text{n} \quad \text{xy} - \quad \text{x.} \quad \text{y}}{\sqrt{\text{n} \quad \text{x}^2 \ Z(\quad x)^2}\sqrt{n \quad y^2 \ Z(\quad y)^2}}$

$$= \frac{5 \mid 12.47 \, Z 110.83 \mid 0.51}{\sqrt{5 \mid 2849.35 \, Z (110.83)^2}\sqrt{5 \mid 0.06 \, Z (0.51)^2}}$$

$$= \frac{662.35 \, Z 56.52}{\sqrt{14246.75 \, Z 12283.29} \mid \sqrt{0.3 \, Z 0.26}}$$

$$= \frac{5.83}{44.31 \mid 0.2} = \frac{5.83}{8.86} = 0.6580$$

$R^2 = 0.4330$

Probable Error (P.E.) = $\dfrac{0.6745 \mid 1 Z r^2}{\sqrt{n}}$

$$= \frac{0.6745 \mid 1 Z (0.6580)^2}{\sqrt{5}} = 0.1711$$

r = 6 x P.E.

= 6 x 0.1711

= 1.0266

ANNEX XXI

Correlation Coefficient Between Premium Collection and Claims Paid of NLIC co. ltd.

In '000 Millions

Years	Premium Collection (X)	Claims Paid (Y)	(X)	(Y)	X^2	Y^2	XY
061/62	465642244	7989951	4.66	0.08	21.68	0.01	0.37
062/63	576806744	12786961	5.77	0.13	33.27	0.02	0.74
063/64	765665919	54104211	7.66	0.54	58.62	0.29	4.14
064/65	962195510	83831580	9.62	0.84	92.58	0.70	8.07
065/66	1347502240	119625887	13.48	1.20	181.58	1.43	16.12
			41.18	**2.78**	**387.74**	**2.45**	**29.44**

X = Premium Collection **Y = Claims Paid**

Correlation Coefficient (r) = $\dfrac{n \quad xy - \quad x . \quad y}{\sqrt{n \quad x^2 - (\quad x)^2}\sqrt{n \quad y^2 - (\quad y)^2}}$

$$= \frac{5 \times 29.44 - 41.18 \times 2.78}{\sqrt{5 \times 387.74 - (41.18)^2}\sqrt{5 \times 2.45 - (2.78)^2}}$$

$$= \frac{147.20 - 114.48}{\sqrt{1938.70 - 1695.79} \times \sqrt{12.25 - 7.73}}$$

$$= \frac{32.72}{15.59 \times 2.13} = \frac{5.83}{33.21}$$

$R^2 = 0.9852$

Probable Error (P.E.) = $\dfrac{0.6745 \times 1 - r^2}{\sqrt{n}}$

$$= \frac{0.6745 \times 1 - (0.9706)^2}{\sqrt{5}} = 0.0175$$

r = 6 x P.E.

= 6 x 0.0175

= 1.105

Annex XXII

Balance Sheet of Nepal Life Insurance Company Limited from FY

S.N	Particulars	FY 065/66	FY 064/65	FY 06
	Sources			
1	Paid up capital	300,000,000	250,000,000	250,00
2	Reserve & Surplus	16,432,266	60,900,937	56,70
3	Life Assurance Fund	3,932,237,462	2,761,483,246	1,971,7
4	Catastrophe Reserve	-	-	-
5	Long term loan & Borrowing	-	-	
	Total Sources	**4,248,669,728**	**3,072,384,183**	**2,513,0**
	Uses			
6	Fixed Assets (Net)	327,118,749	235,052,699	184,36
7	Long Term lnvestment	3,481,646,849	2,427,730,041	1,834,9
8	Policy Loan	211,264,890	137,295,385	80,45
9	Other Long Term Loan	23,993,189	18,687,926	15,36
	Current Assets, Loans and advances:			
10	Cash and Bank Balance	99,772,308	83,727,602	69,99
11	Short Term Investment	165,161,810	170,954,562	356,87
12	Other Short Term Loan	1,276,425	841,213	835,
13	Other Assets	92,205,482	88,871,779	30,41
	Total (A)	**358,416,025**	**344,395,156**	**458,12**
	Current liabilities and provisions:			
14	Current Liabilities	167,026,572	105,532,867	46,73
15	Provision for Unexpired Risk			
16	Claims Payable	17,705,200	19,378,363	13,41
17	Other Provision			
	Total (B)	**184,731,772**	**124,911,230**	**60,14**
18	**Net Current Assets C = (A - B)**	173,684,253	219,483,927	397,97
19	Misc. Exp.(To the extent not written off)	30,961,798	34,134,205	
20	Loss Transferred From P&Loss A/c			
	Total Uses	**4,248,669,728**	**3,072,384,183**	**2,513,0**

Source: Annual Reports of NLIC, 061/62 to 065/66

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