

Financial Performance Analysis of Insurance Companies of Nepal



By:

Rabin Guragain

Post Graduate Campus, Biratnagar

T.U. Registration No.: 7-2-3-1743-2001

A Thesis Submitted to:

Office of the Dean

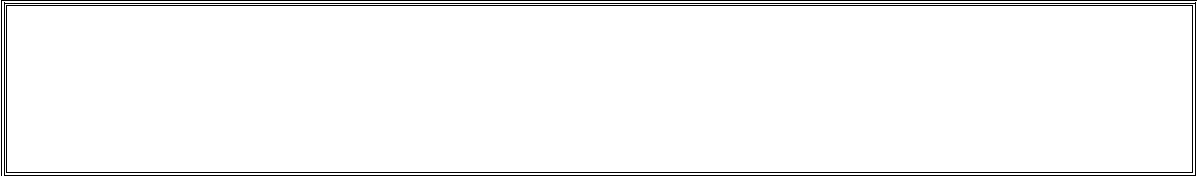
Faculty of Management

Tribhuvan University



*in partial fulfillment of the requirements for the degree of
Masters of Business Studies (M.B.S.)*

2009



**TRIBHUVAN UNIVERSITY
POST GRADUATE CAMPUS**

**BIRATNAGAR
021-526327**

Phone No.

NEPAL

021-522204

RECOMMENDATION

This is to certify that the thesis:

Submitted by

Rabin Guragain

Entitled

Financial Performance Analysis

of

Insurance Companies of Nepal

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

**Supervisor
Department**

Dr. Shyam Bahadur Katuwal
Shrestha

.....
.....

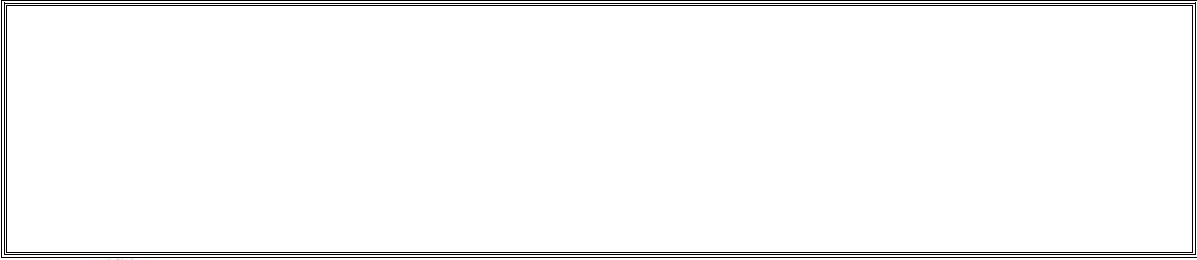
Head of

Prof. Dr. Madhav Bahadur

Campus Chief

.....

Date: November 24, 2009



**TRIBHUVAN UNIVERSITY
POST GRADUATE CAMPUS**

**BIRATNAGAR
021-526327**

Phone No.

NEPAL

021-522204

VIVA-VOCE SHEET

We have conducted the Viva-Voce examination on the thesis presented by

Rabin Guragain

Entitled

**Financial Performance Analysis
of
Insurance Companies of Nepal**

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

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

Viva-Voce Committee

Chair Person, Research committee

Member (Thesis supervisor)
(Dr. Shyam Bahadur Katuwal)

Member (External expert)

Date: _____

DECLARATION

I hereby declare that this thesis entitled “**Financial Performance Analysis of Insurance Companies of Nepal** ” submitted to Post Graduate Collage Biratnagar Nepal, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the Master's Degree in Business Studies under the Supervision of Dr. Shyam B.Katuwal

Date: November 20, 2009

Rabin Guragain

ACKNOWLEDGEMENTS

This thesis is for Partial fulfillment of Master's Degree in Business Studies (MBS) undertaken at Tribhuvan University of Nepal. For this, I gained lots of guidelines and suggestions from my teachers, friends and my relatives. Firstly, I want to express my profound gratitude to my Dr. Shyam Bahadur Katuwal, a Lecturer of Post Graduate Campus, Biratnagar for his guidance, encouragement, and possible help in the smooth conduct of this study.

I am also very much grateful to honorable Prof. Dr. Madhav Bahadur Shrestha, the Head of the Department of Research Committee of P. G. Campus, Biratnagar

I would like to express honorable Mr.Harihar Bhadari, Campus Chief similarly to Gopal Pd. Ghimire & other staffs of Post graduate collage Biratnagar for their cordial cooperation.

I am acknowledged to Nepal Insurance Company Limited, Premier Insurance Company (Nepal) Limited and Library of Post graduate collage Biratnagar and other public libraries that provided source of data and other information for this study.

I am also acknowledged to my friends Shamvu pd. Shah, Bodhanarayan Kangoi, Karnalal Chaudhary, Runa Yadav, Gauri Yadav, Madan Khatiwada, Kabir Neupane, Nimesh Sharma,Churamani Bhandari, Sanat Devkota and my brothers Nabin Guragain,Prabin Guragain and My Mama Mr. Santiram Khatiwada for their help and their inspiring suggestions to complete this work. I also express my gratitude to my family members.

I found my self-fortune enough to receive a good deal of help from various institutions and person of various sectors in completing this study. I am solely responsible for all errors.

Date: November 20, 2009

Rabin Guragain

Post Graduate Campus
Biratnagar, Nepal

TABLE OF CONTENTS

RECOMMENDATION

VIVA-VOCE SHEET

DECLARATION

ACKNOWLEDGEMENTS

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

ABBREVIATIONS

Chapter I: Introduction	1-19
1.1 Introduction	1
1.2 Concept	2
1.3 Origin & Development of Insurance	4
1.3.1 Origin of Insurance	4
1.3.2 Development of Insurance in Nepal	6
1.4 Focus of the Study	9
1.5 Statement of the Problem	10
1.6 Objectives of the Study	12
1.7 Need and Importance of study	13
1.8 Assumptions of the study	14
1.9 Terminologies Used	15
1.10 Scheme of the Study	17
1.11 Limitation of the Study	19
Chapter II: Review of Literature	20-40

2.1	Introduction	20
2.2	Conceptual Review	21
2.2.1	Importance of Financial Management	22
2.2.2	Financial Statement	24
2.2.3	Objectives of Financial Statement Analysis	26
2.2.4	Need of Financial Statement Analysis	27
2.2.5	Tools and Techniques of Financial Analysis	29
2.2.5.1	Ratio Analysis	29
2.2.5.2	Financial Analysis Techniques	33
2.2.5.3	Common size statement Analysis	35
2.2.5.4	Trend Analysis	35
2.2.6	Review of Previous Studies	36

Chapter 3: Research Methodology **41-45**

3.1	Introduction	41
3.2	Research Design	41
3.3	Nature and Sources of data	42
3.4	Data Collection Procedures	43
3.5	Universe, population and samples of the study	43
3.6	Data Processing Procedures	44
3.7	Use of Analytical Tools and Techniques	44

Chapter 4: Presentation and Analysis of Data **46-85**

4.1	Introduction	46
4.2	Financial Ratio Analysis and Interpretation	46
4.2.1	Liquidity Ratio	47
4.2.2	Stability Ratios	48
4.2.2.1	Shareholders Reserve to Share capital Ratio	49

4.2.2.2	Net worth to Total Assets	50
4.2.2.3	Investment to Net worth Ratio	52
4.2.2.4	Total Liabilities to Net worth Ratio	54
4.2.3	Profitability Ratios	56
4.2.3.1	Claim paid to Earned Premium Ratio	56
4.2.3.2	Net Profit to Operating Income Ratio	58
4.2.3.3	Operating Income to Total Assets Ratio	60
4.2.3.4	Net Profit to Total Assets Ratio	62
4.2.3.5	Return on Equity and Net worth Ratio	64
4.3	Cash Flow Analysis	67
4.3.1	Cash from Operating Activities	67
4.3.2	Cash from Investing Activities	68
4.3.3	Cash from Financing Activities	69
4.4	Common Size Statement Analysis	70
4.4.1	Common size Balance Sheet Statement	70
4.4.2	Common size Income Statement Analysis	75
4.5	Trend Analysis	79
Chapter 5: Summary, Conclusion and Recommendations		86-95
5.1	Introduction	86
5.2	Summary	86
5.3	Findings and Conclusions	90
5.4	Recommendations	93
5.5	Recommendations for Further Researchers	94
	References	
	Appendices	

LIST OF TABLES

Number	Title	Page
Table 1.1:	Insurance Companies in Nepal	7
Table 4.1:	Current Ratio	47
Table 4.2:	Shareholders' Reserve to Share Capital Ratio	49
Table 4.3:	Net worth to Total Assets Ratio	51
Table 4.4:	Investment to Net worth Ratio	53
Table 4.5:	Total Liabilities to Net worth Ratio	55
Table 4.6:	Claim paid to Earned Premium Ratio	57
Table 4.7:	Net Profit to Operating Income Ratio	59
Table 4.8:	Operating Income to Total Assets Ratio	61
Table 4.9:	Net Profit to Total Assets Ratio	63
Table 4.10:	Return on Equity Ratio	65
Table 4.11:	Return on Net worth Ratio	66
Table4.12:	Comparative Common size Balance Sheet Statement-NICL	71
Table4.13:	Comparative Common size Balance Sheet Statement-PICNL	73
Table4.14:	Common size Income Statement-NICL	76
Table4.15:	Common size Income Statement-PICNL	77
Table 4.16:	Trend Analysis-NICL	80
Table 4.17:	Trend Analysis-PICNL	83

LIST OF FIGURES

Number	Title	Page
Fig 4.1:	Current Ratio	48
Fig 4.2:	Shareholders' Reserve to Share Capital Ratio	50
Fig 4.3:	Net worth to Total Assets Ratio	51
Fig 4.4:	Investment to Net worth Ratio	53
Fig 4.5:	Total Liabilities to Net worth Ratio	55
Fig 4.6:	Claim paid to Earned Premium Ratio	58
Fig 4.7:	Net Profit to Operating Income Ratio	59
Fig 4.8:	Operating Income to Total Assets Ratio	61
Fig 4.9:	Net Profit to Total Assets Ratio	63
Fig 4.10:	Return on Equity Ratio	65
Fig 4.11:	Return on Net worth Ratio	67
Fig 4.12:	Assets Distribution Pattern-NICL	72
Fig 4.13:	Capital &Reserves and CL Distribution Pattern-NICL	73
Fig 4.14:	Assets Distribution Pattern-PICNL	74
Fig 4.15:	Capital &Reserves and CL Distribution Pattern-PICNL	75
Fig 4.16:	Common size Income Statement-NICL	78
Fig 4.17:	Common size Income Statement-PICNL	79

ABBREVIATIONS

Avg.	:	Average
B.S.	:	Bikram Sambat
BVPS	:	Book Value per Share
CA	:	Current Assets
CL	:	Current Liabilities
CR	:	Current Ratio
C & R	:	Capital and Reserves
CV	:	Coefficient of Variation
DDC	:	Dairy Development Corporation
EBIT	:	Earning Before Interest and Tax
EPS	:	Earning Per Share
FA	:	Fixed Assets
LTI	:	Long Term Investment
NICL	:	Nepal Insurance Company Limited
NIDC	:	Nepal Industrial Development Corporation
NPAT	:	Net Profit after Tax
NW	:	Net Worth
PICNL	:	Premier Insurance Company (Nepal) Limited
ROA	:	Return on Assets
ROE	:	Return on Equity
RONW	:	Return on Net Worth
SD	:	Standard Deviation
TA	:	Total Assets
TCA	:	Total Current Assets
TFA	:	Total Fixed Assets
TL	:	Total Liabilities
WC	:	Working Capital