CHAPTER – I

INTRODUCTION

1.1 Background of the Study

Insurance appeared so as to defend individuals against the losses and the costs that will occur depending on the various conditions along with the necessity of taking precautions beforehand throughout the people's life. In other words, insurance is a form of attitude that occurs as a result of request and wish in order to supply the needs of the individuals in the future.

Insurance is the principle against risk which insures financials securing for unforeseen losses. Insurance may be defined as a co-operative device to spread the looses caused by a particular risk over a number of persons who are exposed to it and who agree to insure themselves against the risk. This means that insurance provides a pool to which the many people contribute a creation sum of money called the premium cut of which, the few who suffer losses are compensated by the insurer who takes to be charged from each person insured. Insurance is financial arrangement that redistributes the cost of unexpected losses. the insurance arrangement involves the transfer of many different exposure to loss to one insurance pool which combines the numerous exposures.(Dorfman,1987:2)

Insurance has been introduced to safe guard the interest of people from uncertainty. As the growth of human civilization people developed everywhere and made their life more comfort but some sort of losses is also coming together, which are out of their control. The owner aware of this can so manage his affairs that by the end of that life time of the assets; a substitute is made available to insure that the benefits (of value or income) are not lost. However, if the assets get lost earlier, being destroyed or made non-functional, through an accident or other unfortunate event, the owner and those deriving benefits there from, suffer. Insurance is a mechanism that helps to reduce such adverse consequences. The risk only means that there is a possibility of loss or damage. It may or may not happen, there has to be an uncertainty about risk. Insurance is done against the contingency that it may happen. Insurance is related only if there are uncertainties. If there is no uncertainty about the occurrence of an event, it cannot be insured against.

Insurance does not protect the assets. It does not prevent its loss due to the peril. The peril cannot be avoided through insurance. The peril can sometimes be avoided through better safety and damage control management. Insurance only tries to reduce the impact of the risk on the owner of the assets and those who depended on that asset. It compensates, may not be fully, the losses. Only economic or financial losses can be compensated. The love and nurturing lost to the family of a deceased person cannot be compensated.

Insurance is defined as a co-operative device to spread the loss caused by a particular risk over a number of persons who are exposed to it and who agree to ensure themselves against to co-operate each other at the time of the loss. The loss cannot be averted but loss occurring due to a certain risk can be distributed among the agreed persons. Anyone of them may suffer from loss to a given risk, so the rest of the persons who are agreed will share the loss (Aryal, 2006).

The insurance has proved as double weapon for socio-economic development of the nation. In one way it provides financial security against the uncertainties to the person industry, commerce and other assets. In the other way insurance business collects the scattered financial resources and injects the bulk amount of money in the productive sector, which helps for the growth of industrialization and commercialization. The proper development of the industrialization and commercialization make the better economic standard of the country. Only efficient management and sound financial position of the company can achieve these sets of goals (Pathak, 2005).

Financial analysis is the process of identifying the financial strength and weakness of the concern. It is the process of critically examining in detail accounting information given in the financial statement by evaluating the relationship between component part of financial statement to gain better understanding of the firm's financial position and performance. Thus the financial analysis is the key point of the concern for the financial forecasting and planning.

1.2 Evaluation of Insurance

Insurance is said to have commenced with marine insurance covering goods sent on shops, against the risks of piracy and storms. The Lloyds Coffeehouse in London where the traders used to gather and from where the first insurance risks were underwritten still exists and continues to be the center of insurance activity. Life and other insurance developed later. The first life insurance policy is said to have been issued in 1583AD in England Motor insurance a fascinating branch of insurance had it's beginning in the United Kingdom in the early part of 19th century. The first motor car was introduced in England in 1894AD. The first motor policy was introduced in 1895AD to cover third party liabilities. By 1899 accidental damage to the "comprehensive" policy along the lines of the policy issues today.

The great fire of London in 1666 caused such huge caused of property and life that attention was called to the problem of adequate fire insurance facilities. Dr Nicholas Barbon responded to this situation by building houses to replace those, which had been destroyed and offering fire insurance to purchasers. In 1667 he established the world's first fire insurance company known as fire office. (Mishra, 2003)

1.3 Development of Insurance Business in Nepal

In Nepal the history of modern insurance is not so far before 2007 BS revolution there was no any economic activities. Nepal Bank Limited was the first organization of Nepali economic which established in 1994 B.S. for carrying and custom clearing of its own imported goods it though necessity of a company. So a company was established in 2004 BS with the name of “Mal Chalani and Beema Company”. It was the first insurance Company of Nepal. It was later on converted into Nepal insurance and Transport Company Ltd, in 2016 and “Nepal Insurance Company Ltd.” since 2048 B.S. Basically the company is concentrated on General insurance. At that time it faced competition with some Indian insurance company (Pathak, 2005).

Considering the role of insurance business in the expansion of economic activities and alarming outflow of money from the country, the government introduced Rastriya Beema Corporation under the insurance Act 2025. The third insurance of Nepal is National life and General Insurance Co. Ltd in 2043. After the democracy, insurance Company is growing rapidly and till now there are in total 21 insurance Companies in Nepal. Among them 14 are General Insurance, 5 are life Insurance, and 2 are both Life and General Insurance. The Government has organized Beema Samiti in 2025 under the insurance Act. 2025. This board was organized to enforce rules and regulation regarding insurance business in the nation as an authorized body of Government.

Premier Insurance Company (PIC) is a highly reputed insurance company of Nepal. It has earned a distinct image in the insurance market of Nepal especially through quick claim settlement and other customer’s service .It was registered as PIC ltd ,at company Register’s office on 12th May 1994.It has emerged as a renewed general insurance company of the second generation. The company has earned a reputation on local and international insurance and reinsurance sector as well as for its professionalism and service. .

As part of the company‘s effort to serve people country wide. head office of PIC is at Tripureshwor Plaza Kathmandu .it has established four regional office .The Birjunj office cover southern part of country. The Narayanghat and

Pokhara offices cover western part of country while the Biratnagar office covers the eastern region of Nepal. New office in other part of the country is scheduled to be opened soon.

PIC ltd. has authorized capital 200 million issued capital Rs 100 million and paid up capital of Rs 30 million. Major services of PIC are fire ,marine and miscellaneous insurance .In miscellaneous insurance include loss of profits insurance ,Comprehensive household insurance, motor insurance, Burglary/housebreaking insurance, cash in transit insurance, fidelity guarantee insurance ,personal accident insurance, Hospitalization / Medical insurance, Engineering insurance, workman compensation insurance.

Table no 1.1

Insurance Companies Working In Nepal

S.N.	Name of Insurances companies	Established Year	Phone	Address
Life Insurance Company				
1	Rastriya Beema sansthan	2024	426565	bema@wlink.com.np
2	National life insurance co. Ltd.	2044	4412625	nlgi@mail.com.np
3	Nepal life insurance Co. Ltd	2058	4223440	nlic@mos.com.np
4	Life insurance co. Ltd.	2058	4229688	lic@licnepal.com
5	American life insurance co .Ltd	2058	5555166	american.life@alico.com.np
6	Asian life insurance co. Ltd	2064	----------	
7	Surya life insurance co. Ltd	2064		
8	Gurans life insurance co Ltd.	2064		
9	Prime life insurance co. Ltd.	2064		
Non life insurance company				
1	Nepal insurance co Ltd	2004	4245565	nic@wlink.com.np
2	Oriental insurance co. Ltd	2004	4267826	oriental@wlink.com.np
3	National insurance co. ltd.	2030	4250710	nationsur@ccsl.com.np
4	Himalyan insurance co .ltd	2050	4231788	ktm@hgi.com.mp
5	Everest insurance co. ltd.	2051	4444717	eveninso@mos.com.np
6.	United insurance co .ltd.	2050	4266868	uic@mail.com.np
7	Premier insurance co .ltd	2051	4259567	premier@pic.com.np
8	Neco co. ltd	2053	4444717	
9	Sagarmatha co. ltd	2053	4247941	sagarmatha@insurance.com.np
10	Alliance co. ltd	2053	4253166	aic@wlink.com.np
11	N.B. co. ltd	2053	4694851	
12	Prudential co .ltd	2051	4212940	prudential@wlink.com.np
13	Shikhar co .ltd	2061	4784515	shikharians@mos.com
14	Lumbani General co. ltd	2062	4784514	lgic@mos.com.np
15	N.L.G. co. ltd	2062	4258776	nlgi@mail.com.np
16	Siddartha co. ltd	2062	4256190	sil@info.com.np

Source: Rastriya Bema Sansthan

1.4 Focus of the Study

The study focuses on the financial performance analysis of the Nepalese insurance companies by taking a case of PIC. Insurances companies' plays very important role in risk management in national economy. The financial management plays significant role in the success of insurance .Nowadays insurance companies are more successful than other corporate firms listed in Nepal stock Exchange. In today's uncertain environment it has gained immense popularity.

The study mainly focus on the performance analysis of premier insurance company on rules and regulation of Insurance regulation and development authority (IRDA).IRDA means Insurance Regulation and development authority India which is established on the Indian act 1992.

1.5 Statement of the Problem

After the established of democracy, Nepal Government has adopted economic liberalization. Many more financial institutions including insurance co. established in the country as a result. Nepal Government tried to develop the financial market with faire competition. As a result many more old companies faced the increasing competition in their existing market. Financial factor is the key element of any firm to its successful running. The present study evaluates a modest attempt to analyze financial performance of Premier Insurance Co. Ltd. in the current situation. The total Business Volume of this company is very low portion of insurance market of Nepal. The increase of re-insurance premium indicates that PIC has not increased its risk bearing capacity. Major part of total investment is made in the government securities and fixed deposit shows that PIC management seems risk averter and has not paid attention to make effective investment portfolio. According to the statement (points) some questions arise for solving the problems.

The economy of Nepal is characterized by lower per capital income, lack of sufficient infrastructure for development high population higher population growth rate. The study will make a important attempt to analyze financial performance of PIC on the base of last ten years data. The problems especially related to financial performance of PIC have been presented as:

- Is PIC more efficient of its fund utilization for the better financial performance?
- Weather the PIC will successful to utilize its available fund for the future or not?
- Is there any stability in profitability ratio of the PIC?
- What are the implications at the study on PIC?

1.6 Objectives of the Study

The major objective at this study is to generalize the performance analysis at the PIC. The specific objectives are as follows.

- To analyze the financial performance as the profitability point of view.
- To find out the empirical relationship between various important variable i.e. EPS, ROA, ROE, Combined Ratio and Investment Yields.
- To asses the trend of profit and provide information to PIC improve the financial performance.

1.7 Significance of the Study

Research itself has its own importance because it aims to gain knowledge and to add the new literature in existing field. The process of insurance has been involved to safeguard the interest of people from uncertainty by providing certainty of payment at a given contingency. It does not serve the end of individuals but tends to pervade and to transform modern social order.

This study help to reveal the financial position of the insurance company and it occupies important role in insurance studies. This study also help to shareholder and management committee of insurance to know the actual clear vision of the policy adopted by the insurance for better management and effective utilization of the insurance services.

This study may be important for researchers, scholars, investors, insurance sector, students, government and other parties. So, the study will be helpful to those who want to study in further detail and widely in this field.

1.8 Limitations of the Study

The study aims at finding the facts and the trend or pattern of profitability of company and investment pattern of PIC. Therefore, the scope is limited only within one insurance company operating. Here are mention some limitations of purpose study. Every activity has its own boundary. As in the same way this study also has some boundaries, which cannot be ignored. These boundaries are called as limitations of this study. The limitations of this study are:

- The study is based on secondary data collected from the Premier Insurance Company Limited, the Insurance Board (Beema Samitti) Nepal stock Exchange, Security Board Nepal.
- The study concern only six years periods of data (2006 to 2010) and conclusion drawn confines only to the limited duration.
- This study covers only the financial statement analysis.
- The cumulative data of investment are used in the study.
- This thesis is prepared as per the requirement for partial fulfillment of degree of master of business studies(M.B.S.)
- This is only case study and finding of the study cannot be generalized.

1.9 Organization of the Study

The whole study will be divided into five chapter viz, introduction, review of literature, research methodology, data analysis and presentation and summary, conclusion and recommendations.

- Introduction is presented in the first chapter. It is divided into six sub topics. They are background of study, focus of study, statement of problem, objectives of study, significance of the study, delimitation of the study and organization of the study.
- Second chapter deals with the Review of Literature. It contained conceptual frame work and review of related study, Journals, books, Articles and unpublished dissertations related to the study have been reviewed under this topic.
- The third chapter is related to the research methodology, which presents research design, population and sample, nature and source of data, data collection procedures and techniques, data analysis tools and limitations of the methodology.
- Chapter fourth deals with presentation and analysis of data through a definite course of research methodology. This chapter is to analysis different financial ratios and statistical analysis related to study.
- The final chapter is giving summary, conclusion and recommendations which explain the major findings and some suggestions for improvement to the concerned institution.

CHAPTER-II

REVIEW OF LITERATURE

The previous chapter has highlighted on the introduction developments & problems of the insurance and this chapter provides the bases and inputs for this study. Review of literature reflects the previous articles, books and journals, which is related with the insurance. It is the main guideline of the study. It is easy to understand through the literature review. In this study insurance book, journals & publication of Beema Samiti and related thesis are used as literature review.

2.1 Conceptual Framework

2.1.1 Concept of Insurance

Insurance is related with risk. Risk is the main source of loss and insurance is the mechanism of covering such losses. Risk adverse people are interested to cover such loss through certain mechanism. The easiest way of handling risk is insurance. Insurance is an instrument to spread the losses caused by a particular risk over a number of people or distribution of risk among various people who are interested to accept risk for certain return.

The worldwide definition given by different intellectuals are highlighted below.

Mishra(2003) has defined insurance as functional and contract terms. In his functional definition insurance is defined as a co-operative device to spread the loss caused by a particular risk over a number of persons who are exposed to it and who agree to ensure themselves against that risk. In conceptual definition insurance has been defined to be that in which a sum of money as a premium is paid in consideration of the insurer’s incurring the risk of paying a large sum upon a given contingency.

Ganguly (2002) has defined insurance is a mechanism that individual to thrive on adverse consequences by compensating the individual, his/her loss financially. Every individual in the world and all activities connected with him/her, be it life, professional, business, travel or any other pursuits are subject to unforeseen and uncalled for hazards or dangers. the benefits that an individuals enjoys in his life by owning a car or a house or a factory can be snatched by sudden accident which can render even the individual immobile, and his family vulnerable. at this time critical juncture, only insurance helps him not only to survive but recover his loss and continue his life in a normal manner, which would otherwise be unthinkable

Panda (1992) has defined insurance is a way to reducing uncertainty of occurrence of an event.(Panda,1992)

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

Dinsdale(1958) has defined insurance is a device for the handling of some of the risks or chances of loss to which man is subject. Risks can be classified in various ways. For example, there are business risks and personal risks. Business risks include possible loss of goods by fire or theft or loss by reason of period of bad trade. Every individual faces risks, so that like the trader his goods may be destroyed while his dependants may suffer loss of income through his death. Another classification is into dynamic or speculative risks, which are uninsurable and static or pure risks, which are insurable because they are susceptible to the principles on which insurance is based.

M.K.Ghosh & Agrawal-"Insurance is simply a co-operative a certain risk over a group of person exposed to it"

J.H. Magee -“Insurance has been defined as a plan by which large number of people are associated themselves and transfer to shoulders of all risks to attach individuals.”

A.H. Mowbray & R H Blanchard -“Insurance is promise by an insurer to an insured protection of service.”

D.S. Hansell- “Insurance may be defined as a social device providing compensation for effect of misfortune, the payment being made from accumulated contribution of all parties participating in the scheme.”

Edwin W Petterson- “Insurance is a contract by which one party for a compensation called premium assumes particular risk of the other party and promise to pay him or his nominee a certain sum of money on a specified contingency.”

Tindal- “Insurance is a contract in which a sum of money is paid by insured in consideration of the insurer’s incurring the risk of paying a large sum when the given contingency arises.” (Singh Hriday, 2005)

2.1.2 Legal Concept of Insurance

Insurance is a contract between two parties whereby one party called insurer undertakes, in change for a fixed sum called premium, to pay the other party called insured a fixed amount of money on happening of a certain event.(Mishra,1998)

A contract where by one person called insurer undertakes to pay the another person called assured a sum of money or its equivalent on the happening of specified event in the return for the agree consideration called premium.(Hardy & Irmy,1979)

Purchaser of insurance product pays a fixed premium in exchange for promises of compensation in event of some specified economic loss for example a fire theft. By pooling such many risk insurance intermediaries convert the un-certainty of an individual loss into a predictable expenses. Insurance suffers from incentive problems-specifically, moral hazard and adverse selection. Moral hazard is a risk to an insurance company resulting from uncertainty about the honesty of the insured but it is harmful for the insurance company. People with small risks do not buy insurance but people with large risks generally buy insurance policy. They are adverse selection for company since the chance of loss with these businesses is higher. (Rizal Umesh 2008)

2.1.3 Concept of Financial Performance Analysis

Financial analysis is the process of identifying the financial strength and of the firms by the properly established relationship between the items of the balance sheet, profit and loss account effective decision making requires evaluating of the performance and assessment of their future prospects. (Narayanswami, 2002)

Financial performance analysis is the key tool for financial decision. All the enterprises are directly influenced by the financial policies in their growth and development. Rational evaluation of the financial performance of the enterprise is essential to set sound financial policies.

Computing key ratios can assess the performance of a firm and analyzing (a) how is the firm performing relative to the industry? (b) How is the firm performing relative to the leading firms in their industry? (c) How does the current year performance compare to the previous years? (d) What are the variables driving the key ratio? (e) What are the linkages among the ratios? It is hard to analyze a ratio in isolation (f) what do the ratios reveal about the future prospects of the firm for various stakeholders such as Shareholders, bondholders, employees, customers etc? Merely presenting a series of graphs and figures will be a futile exercise. We need to put the information in a proper context by clearly identifying the purpose of our analysis and identifying the key data driving our analysis.

Both internal management and external groups perform financial analysis. Firms could perform such an analysis in order to evaluate their overall current performance identity problem/opportunity areas, develop budgets and implement strategies for the future. External groups (such as investors, regulator lenders) also perform financial analysis in deciding whether to invest in a particular firm whether to extend credit etc.

2.1.4 Concept of Insurance Regulatory and Development Authority (IRDA)

The Insurance Regulatory and Development Authority (IRDA) India is a public authority as defined in the right to information act 2005.As such the IRDA is obliged provide information to member of public in accordance with the provision of the said Act, IRDA has provided for a separate channel for lodging complaints against deficiency of service rendered by insurance companies (www.irdaindia.com.org**)**

An Act to provide for establishment of an authority to protect the interest of holders of insurance polices, to regulate ,promote and ensure orderly growth of insurance industry and for matters conceited therewith or incidental thereto and further to amend the insurance Act 1938,the life insurance act 1956, and the general insurance business Act 1972.(Paudel,2008:13)

There was some sub title and commerce of this act ,this act may be called insurance regulatory and development authority which extends to the whole of India .It shall come into force on such date as the central government may by notification in the official gazette .a point provided that different dates may be appointed for different provision of this act and any reference in such any provision to commencement of this act shall be constructed as a reference to the coming in to force of the provision .with effect from such dates as the central government may, by notification appoint ,there shall be established for the purpose of this act ,an authority to be called the insurance regulatory and development authority .the authority shall be a body corporate by the name aforesaid having perpetual succession and a common seal with the power subject to the provision of this act to acquire hold and dispose of property, both movable and immovable and to contract and shall, by the said name sue or be sued.(www.en.wikipedia.org/IRDA/india)

In the context of Nepal Insurance Board of Nepal (Beema Samiti) is a regulatory authority of Nepal government that regulates and supervises insurance business in its territory.

The introduction of insurance Regulatory and development authority in the insurance sector and IRDA act 1999 opened the floodgates of the insurance business the permitted foreign and private players to have a level playing field in the insurance sector ,which till then monopolized by General insurance company in the non life insurance sector and Life insurance company in the life business .IRDA act 1999 can be considered as landmark by insurance slandered .The act came into force from March 2000 .This act is basically to provide an authority to protect the interest of policy holders of the insurance policies and to promote ,regulate and ensure an orderly growth of insurance industry, which till then was in state of stagnancy.(Ganguly,2002)

The law of India has following expectations from IRDA..To protect the interest of and secure fair treatment to policyholders. To bring about speedy and orderly growth of the insurance industry (including annuity and superannuation payments), for the benefit of the common man, and to provide long term funds for accelerating growth of the economy. To set, promote, monitor and enforce high standards of integrity, financial soundness, fair dealing and competence of those it regulates. To ensure that insurance customers receive precise, clear and correct information about products and services and make them aware of their responsibilities and duties in this regard.To ensure speedy settlement of genuine claims, to prevent insurance frauds and other malpractices and put in place effective grievance redressal machinery. To promote fairness, transparency and orderly conduct in financial markets dealing with insurance and build a reliable management information system to enforce high standards of financial soundness amongst market players. To take action where such standards are inadequate or ineffectively enforced. To bring about optimum amount of self-regulation in day to day working of the industry consistent with the requirements of prudential regulation. (http://www.irdaindia.org/expectaion).

Duties, Powers and Functions of IRDA

Section 14 of IRDA Act, 1999 laysdown the duties,powers and functions of IRDA

Subject to the provisions of this Act and any other law for the time being in force, the Authority shall have the duty to regulate, promote and ensure orderly growth of the insurance business and re-insurance business.

Without prejudice to the generality of the provisions contained in sub-section (1), the powers and functions of the Authority shall include, (a)issue to the applicant a certificate of registration, renew, modify, withdraw, suspend or cancel such registration; (b)protection of the interests of the policy holders in matters concerning assigning of policy, nomination by policy holders, insurable interest, settlement of insurance claim, surrender value of policy and other terms and conditions of contracts of insurance;©specifying requisite qualifications, code of conduct and practical training for intermediary or insurance intermediaries and agents; (d)specifying the code of conduct for surveyors and loss assessors; (e)promoting efficiency in the conduct of insurance business;(f)promoting and regulating professional organisations connected with the insurance and re-insurance business;(g)levying fees and other charges for carrying out the purposes of this Act;(h)calling for information from, undertaking inspection of, conducting enquiries and investigations including audit of the insurers, intermediaries, insurance intermediaries and other organisations connected with the insurance business; (i)control and regulation of the rates, advantages, terms and conditions that may be offered by insurers in respect of general insurance business not so controlled and regulated by the Tariff Advisory Committee under section 64U of the Insurance Act, 1938 (4 of 1938); (j)specifying the form and manner in which books of account shall be maintained and statement of accounts shall be rendered by insurers and other insurance intermediaries; (k)regulating investment of funds by insurance companies;(l)regulating maintenance of margin of solvency;(m)adjudication of disputes between insurers and intermediaries or insurance intermediaries;(n)supervising the functioning of the Tariff Advisory Committee;(o)specifying the percentage of premium income of the insurer to finance schemes for promoting and regulating professional organisations referred to in clause (f); (p)specifying the percentage of life insurance business and general insurance business to be undertaken by the insurer in the rural or social sector; and(q)exercising such other powers as may be prescribed from time to time. (http://www.irdaindia.org/duties).

2.1.5 Concept of Insurance Analysis

Financial statement comprising i)Balance sheet, ii)Receipt and payment account (cash flow statement) profit and loss account (Shareholder's Account)and Revenue Account(Policy holder's account) shall be in conformity with the accounting standers (AS) issued by the Institute of Charter accountants of India to the extend applicable to the insurer carrying on general insurance business expect that :

- Accounting standard 3-Cash-flow statement shall be only under direct Method
- Accounting standard 13-Accounting for investment shall not be applicable.
- Accounting standard 17-segment reporting shall apply to all insurers irrespective of the requirement for listing and turnover mentioned therein.

As-3, cash flow statement is the widely accepted model for preparation of cash flow statements. It classified cash flow in the following categories

- Cash flow from operating activities
- Cash flow from investing activities
- Cash flow from financing activities

Cash flow from operating activities covers cash flows derived from the principle revenue, producing activities. Cash flow from investing activities are related to accusation and cash flow from financing activities refer to cash flows from and providers of equity and loan funds to organization. The method discussed above and shown in the format hereinafter is known as .Indirect method of reporting Cash flow form operation under Indirect Method. (Guria, 2010:3)

2.1.6 Concept of Insurance Profitability

Measurement of profitability is to some extent, like beauty, in the eye of the beholder .The connotation of the profitability is highly depend upon who is assessing profitability and to what purpose. To investor and insurer, profitability has a golden ring to it. To policy holders of a stock insurer it sounds like markup, while to those insured by a mutual company it is natural. Insurance regulators either encourage profitability, when concerned with solvency, or seek to curtail, when regulating rates.

Profit is important to investors and management as sources of dividends and growth. To insured and regulators profits provide additional security against insolvency. Rate of return is important to a prospective investor as a mean to compare alternative investments and to an assessment of economy efficiency. These are valid and useful function and we do not wish to minimize their importance. But the arena in which property-casualty insurance company profitability measurement was most discussed is that of rate regulation, and this study is written in the context of what IRDA consider appropriate in ratemaking or rate regulatory environment.

While it has long been realized that investment of policyholder-provided funds is a source of income to insurance company, it was not until the 1970s that such income actually constituted an important part of insurance company profit. Even today it is common to hear references to underwriting profit, while the investment counterpart is generally termed investment income, not investment profit. In Lewis E. David’s Dictionary of Insurance (Littlefield, Adams & co.,1962) there is a

Definition for underwriting profit but not for profit. Investment income or interest income. The international Risk Management Institute’s glossary of insurance and risk management terms (RCI Commmunications,Inc.1980) includes both Underwriting profit and investment income .(www.investopidia.com/insurance/profitability)

2.1.7 Benefits of Insurance

The major social and economic benefits of insurance are presented following

Indemnification for Loss – Indemnification helps individuals and families to go back the financial position prior to loss. They can maintain financial stability. They do not need to see for social welfare and also for financial assistance from relatives and friends.

Indemnification permits business community to restore their business .They can remain in the business and employee can serve in their organization. Supplier can supply materials to them and customers can get the commodity that they are used. Government gets tax before. In this way, indemnification has greater importance over social and economical benefit.

Reduction of Worry and Fear-The second benefit of insurance is reduction and fear and after the loss occurs. Families will feel less worried about accident or serious illness that may reduce their income future, if they have proper insurance for such perils. They can keep peace of mind. Even after loss, they can feel safe because insurance company will pay for them.

Source of Investment Funds-The insurance industry provides sources of investment funds for capital investment and accumulation of fund. Advance premium provides huge amount of fund because there will not be the immediate loss. This fund can be invested for hospitals, factories, housing developments etc. This source funds helps to capital goods, employment and economic growth. This capital fund helps to provide invest able fund and helps to reduce cost of capital. (Gerorge Rejda, 2006)

2.1.8 Value of Insurance

The most important of insurance is risk transfer. By purchasing am insurance policy, a business is able to protect itself against the financial losses, which it may incur due to the unforeseen occurrence of risk. Insurance enables the business to offset the know cost of premium against the risk of incurring losses that may vary widely from year to year .A business can obtain other benefits through purchase of insurance . The benefits may be more than financial security. In many classes of non-life insurance, insurer's frequently carryout surveys and besides informing underwriters of the physical feature of the risk, the surveyor makes recommendations to reduce risk which may qualify for a reduction in the premium rate and improve risk profile. (Hampshire, 2000)

2.1.9 Legal Provision for Insurance Industry

As the insurance industry in different Asian economies is at different stages of development, they require different regulatory guidelines. (Regda, George 2006)

Insurance is technical subject and law supports it. Insurance legislation and supervision in developing countries are very crucial for success of the industry.

Insurance Board of Nepal (Beema samiti) is a regulatory authority of Nepal government that regulates and supervises insurance business in the country. The researcher reviewed various legal and other documents relating to regulation insurance business in Nepal.

Insurance Act 1992(Beema Ain 2049)

Insurance Act 1992 made several provisions to develop, systematize, control and regulate the insurance business in Nepal.

The Act 1992 has made provision to from insurance board as a supervisory body to systematic, regularizes, develop and control the insurance business in the country. Other provisions are provision for the member of the board and their designation, terms and condition as well as provision for duty, power and responsibility. Provision for registration cancellation and liabilities of insurance are also mentioned in this Act. It has clarified about restriction to grant loan, guarantee and security to directors of insurance companies. About the financial performance , it has made document authorized body(Beema samiti).It has also made provision to create necessary reserve for unexpired risk and outstanding liabilities as well as provision to have the various fiscal year document audited. The major provision in this act is restriction to accept risks before getting premium and compulsions to reinsure the risk beyond the retention limit of insurers. Provision for agent, broker and surveyor’s responsibility and accountability to them and legal treatment to them in case of conducting undesired activities as well as provision for separate funds under Beema Samiti has been established under this Act. For necessary future change, this act has provisioned for insurance tariff advisory committee.

Insurance regulation 1992 (Beema Niyamabali 2049)

The insurance regulation 1992 is explained under the subjection 2 in 1 of insurance Act 1992. Other necessary amendments were done in this regulation in 1996.

This regulation has classified insurance business in the group, life insurance, Non-life insurance and reinsurance. Registration and renewal of insurance companies, approval of investment sector other than priority sector fixed by the board and fixation of reserve funds of various insurance sector has also been presented under this regulation .limitation on management expenditure, restriction to collect premium in accordance with tariff are provisioned in this regulation along with provision of agent commission, provision regarding surveyors and procedure of claim settlement.

Regulatory Mechanism of Insurance Industry in Nepal

Insurance Board of Nepal (Beema samiti) is a regulatory authority of Nepal government that regulator and supervises insurance business in the country.

In order to systematize, regularize, develop and control the insurance business in the country following fuctions, duties and powers are conferred on insurance board (bema samiti). It provides suggestions to government of Nepal to formulate necessary policy for systematizing, regulation, developing and regulating the insurance business. It also provides guidelines, for insures to invest their fund and prescribe priority sectors for such investment .it has authority to register and renew the insurer, insurance agent, surveyors, and brokers and has authority to cancel or causes to cancel such registration. It arbitrates in the disputes, which arise between insurer and insured .it makes decision on the complaints filed by insurers regarding settlement of liability of insurance .it issues necessary directives to the insured. it also formulates necessary basis for the protection of interest of the insured .it also does or causes to do other necessary function regarding insurance business. (www.bsib.org.np/insuranceregulation.html)

There are following major provisions in insurance regulation (1992) regarding financial indicator of insurance companies.

Provision for paid up capital: All the non –life insurance companies are required to grow their paid up capital to rs.10 corer until to 2065 Bs.

Provision for reserves: Section 15 of the regulation states the reserve amount should not be less than fifty percent of the net insurance premium shown in the revenue account of the non-life insurance business.

Provision for reinsurance: Section 5 of the regulation states the insurer may re- insure the risk that are excess from the risks assumed by it and the board shall specify other managements.

Provision for Management Expenses: Section 16 of the regulation states that the insurer may spend up to twenty five percent in case of marine insurance and up to thirty percent in case of other insurance for management function out of total amount generate from the premium for operations of insurance business.

Provision of Reserve for Claim: Insurance regulation's section 15 states that provision of reserve for claim should be one hundred fifteen percent of remaining amounts of the payment against claims made by the insured before the expiry of each fiscal year.

Provision of Reserve for unexpired risk: Section 15 of the regulation states that fifty percent of the profit earned until the amount equals the paid up capital of the insurer operating the non-life insurance business. Provided that, in case of marine insurance, the amount to be deposited to the reserve fund for at least three years shall not be considered to be profit.

Provision for Investment: Non-life insurance companies should make investment on two basis and they are compulsory basis and optional basis. Compulsory basis is classified in two classes A and B. Class A represents for bond of Nepal Government and bond of Nepal Rastra Bank or other Government securities. Fifteen percent or more of total investment should be made in these sectors.

Class B represent for fixed deposit in commercial banks, development banks and Citizen Investment Trust. At least, thirty five percent of total investment should go for fixed deposit of commercial banks and exceeding twenty percent of total investment for fixed deposit of commercial bank and citizen investment trust. The combination of Class of A and B should be at least of sixty five percent.

Investment on preference share, secured debenture and debenture and bond of financial institution should not exceed ten percent under optimal category. Fixed deposits with of financial institution should not exceed fifteen percent and share of other public limited companies should not exceed five percent of total investment.

2.2 Types of Insurance

Insurance business is broadly classified into two groups. Life insurance deals with all insurance covering human lives. Non life of general insurance deals with insurance covering non human objects like animals, agriculture crops, goods, factories, cars etc. In recent times there are several types of insurance schemes have come into existence.

2.2.1 Life Insurance

Life insurance is a kind of saving. It is refundable in maturity period or pay compensation to concern people before maturity period when the accident is occurred. In other word life insurance provides protection for two major contingencies. A human life is an income-generating asset. This asset also can be lost through unexpectedly early death or made non-functional through sickness and disabilities caused by accidents. Accidents may or may not happen. Death will happen, but the timing is uncertain. If it happens, much earlier when alternate arrangement is not in place. Insurance contributes to help those depended on the time. On the other hand human earns stop on his retirement s/he may have made arrangement for his needs after this retirement.

Life insurance makes a provision for his retirement and helps take care of these needs.

2.2.2 Non Life Insurance

Non life insurance is nonrefundable policy. It protect insurable articles against certain risks with in it maturity period of the policy. It can be insure for one-year period, then renewable yearly. There are several types of general insurance in the market but mainly are as under.

Marine Insurance The mechanism of covering the risks against the losses of consign goods from related risk is known as marine insurance. Trade and industry get some steadiness and stability, despite the vagaries of natural and other calamities, because of insurance arrangements. Otherwise, there would have been major failures in business. If a cargo ship sinks, the effects of the loss spreads for beyond the owners of the cargo and ship those dependent on the cargo for the uninterrupted run of their business are also in trouble.

Fire Insurance Fire is responsible for causing considerable losses, which are relevant statistics of the carious countries for the world. Fire insurance policy may be taken on residential houses or on factories and business premises. The standard fire policy is the starting point in all fire insurance coverage. Under this policy, if any property lost by fire, the insured amount would pay as indemnity. The property should be in its full market value. The claim under the fire insurance policy is determined on the basis of present value of the property.

Motor Insurance- Motor insurance covers the loss or damage of vehicle due to the accident. It has two types comprehensive policy cover all risk like accident, third party liability, theft and other but third party policy covers only the third party liability.

Miscellaneous Insurance-Miscellaneous insurance cover the various types of insurance business. Some of them are as follows.

Personal Accident Insurance-Personal Accident Insurance refers to the insurance against the accident of the individual. This compensates the insured people who are handicapped and unable to accomplish any physical tasks. The compensation amount will be as prescribed by the insurance report. In case of partial disability of the insured person the compensation will be given under the laws described in insurance report of medical treatment.

Cash in Transit Insurance -Cash in Transit Insurance relates to the possible risks like robbery, vehicle or aero plane accident. Likewise it involves the risks in transferring money from one bank to another.

Burglary & House Breaking Insurance-This insurance refers to the robbery and burglary of cash, personal assets, machines or equipment by the robbers from the locked or secret places. But it is expected to have security guards in the office to claim for such insurance.

Fidelity Guarantee Insurance-It is such type of insurance in which compensation is given for the loss of cash or property due to carelessness of the accountant or other personal employed in the same field.

Public Liability Insurance -It refers to the insurance against legal liability cased by the carelessness of some individuals or organizations to the public.

Medical Aid Scheme-It refers to the insurance scheme in which there is compensation against medical treatment expenses of the person who is sicker caught in accident.

Contractors All Risks Insurance-It refers to the insurance, which is provided to the potential losses of the contractors even after the completion of the constructive works in buildings, bridge, dams or canals in the certain period of time.

Engineering Insurance -It implies to the insurance against physical loss to the machinery or other equipment in the factories or industries.

Students Safety Insurance Scheme-It means the insurance given to the students of school or collage who are injured or killed in accidents. But the compensation depends in the limitation recorded in insurance policy.

Household Insurance -It refers to the insurance policy against the thunderbolt, earthquake, storms, flood, landslide or hooliganism in personal house.

Overseas Mediclaim and Travel Insurance-It is related to the security against the unexpected risks. It aims to provide security against personal accidents, treatment expenses, hospital admission, losses of baggage, passport, personal liabilities etc.

2.3 Review of Books

“The essence of the insurance scheme is that, it is a social device, that it involve the accumulation of funds, that it involves a group of risks, and that each person or firm who becomes a members of the group transfers his risk to the whole group”(Atheam, 1981).

Mehr, Robert (1986) outlined about the insurance through his books as Insurance is a useful device for solving complex social problems compulsory victim of industrial accidents is handled by compulsory. Workers’ compensation insurance and indemnifying innocent automobile accident victims is handled to some extent by financial responsibility lows with most people comply by furnishing evidence of ownership of automobile liability insurance. Some insurance is used to help, solve the financial problems of unemployment, old age, disability, death and medical care for the aged (Mehr, Robert, 1986).

Insurance, in its pure insurance function (ignoring for the moment its effort at prevention) may be likened to the spring of vehicle. It absorbs the shock and distributes it over all risks insured in the same class. It permits a free functioning of credit and industry generally but does not eliminate loss. The retarding effects of loss are still present. The retarding effect of risk remove, but the cost and retarding effects of loss are still present. The burden of loss is still on society (Mowhray and Ralph, 1995).

In its most basic form, the insurance mechanism is simply a process where in a group agree to share the losses that may occur to various members of the groups in advance and the fund so created, augments by interests, and is used for the purpose of paying loses and expenses, further, the conditions surrounding the transfer or risks from individuals to the group are carefully set forth in great detail in a formal contractual agreement. The organization that brings the group together and manages its affairs is called an insurer, and it is typically a stock or mutual corporation (Mark & Serbin, 1978).

2.4 Review of Article and Journals

Bhattarai,Ramesh Raj explained that insurance is the major part of economic development of a country. Sound external economic environment is a must for the development of the insurance sector. Insurance in Nepal is still a native business its market is not matured. A week regulation mechanism calls for important. Insurance regulation and supervision were fundamental requirements for the sound development of insurance activities and those insurance activities, properly supervised, played an outstanding role in the process of the economic growth of every country. Supervision helps to check an outflow of foreign exchange, which could result from excessive resource to foreign insurance and re-insurance facilities. A sound National Insurance and re-insurance market being an essential characteristic of economic growth. The average insurance depth (premium income as a percentage of the GDP) of the developed countries is about 4% to 6%. In Nepal, the insurance depth is only 1.40%. The figures reveal a wide gap between the development of Nepalese insurance markets and the demand and need for cover (Bhattarai, 2004).

The government properties including corporation is insured to Government Company is priority basic, it is difficult to pursue in such corporation and government offices, so the environment, is not very positive. Only lip service from government, the economic growth of the country is very slow. People can not afford to pay insurance premium. The sense for insurance unawareness and unconscious mass is very high. Thus insurance business is very-very challenging. One has to create the market. Tremendous market potentiality and opportunity is felt due to the unexplored market. Only the clue is to known and click on the right product and place with reasonable price to the right person. After the formation of Nepal Insurance Association, The companies can plead their problems jointly to the government and should to forward for the interest and benefit of insurance. This platform should be taken as an opportunity (Shrestha, 2054).

Development officer play dual role in insurance business. In insurance business a development officer plays the role of representative of customer when he speak the voice of customer, at the same moment he is the representative of insurance company since he has to explain the ideas of insurance to customers. Whatever the role development officer play, the main thing of them is to win the heart of customer and make them aware and, create the faith towards insurance. To fulfill this purpose all the staff of company should accomplish to customers, otherwise the faith earned by the company may loss. Thus, the management should ascertain the problems faced by development officers and should eradicate them duly, if it really wanted to promote the insurance business (Shrestha, 2054).

Rao had clarified some regulation of IRDA regarding assets, liability and solvency margin. He stated that gross premium should be gross direct premium and reinsurance accepted premium for the purpose of solvency margin. The gross incurred claims and net incurred claims and net incurred claims (including incurred but not reported and but not enough reported) shall taken as the average of previous three years (excluding the financial year with reference to which the solvency of the insurer is being computed) and should not be less than financial year ending on the reported date. The incurred claim should also count for claims pertaining reinsurance accepted. Assets value should not exceed their market of realizable values. Determination of reserve for unexpired risk should be higher of the actual reserve maintained at the book of account and the unexpired risk reserve arrived at based on the percentage stated in regulation for each class of business.(C.S Rao,2000)

Kumar had focused in his article about Regulatory and Development Authority (IRDA), India investment regulation. Insurance companies are investing in various instruments such as government securities, debenture and equities. The investing function is very critical for determining its ability to pay its claimants .The return from investment that an insurance company uses to pay its claim. Minimum paid up capital requirement of INR 1000 million (INR 2000 million in the case of re-insurance business) into the businesses had set up by IRDA .IRDA regulation 2000 determined pattern for investment and norms for all insurance companies. Life insurers can invest in government securities and other social sector and other investment in be governed by exposure norms. General insurance can also invest in government securities ad other approved securities .Housing sector and investment in fire fighting equipment and other investments to be governed by exposure norms. Other approved securities and exposure units are also further described by regulation. The regulation have designed to check whether the fund is safely parked and to ensure that they provide the insuring and investing public with optimal return. (R Kumar, 2005)

2.5 Review of Previous Studies

Gautam (2000), on his study, *Investment Analysis of the Finance Company in Context of Nepal*. His major research objectives are as follow: To study the fund mobilization and investment position on government securities. What is the trend of loan position of finance company? What is the proportion of bank's investment on priority sectors? What is the relationship of total deposit on total investment and total investment on total net profit of banks? His major findings are**:** From the aggregate data it is shown that the investment on government securities was increasing rapidly from F.Y.1995 to F.Y.1998. However, it has decreased in F.Y. 1999 and it may be because of low return on government securities as of mid October 1999 and out of 40 companies there are 9 companies with zero investment on government securities. Out of remaining 31 companies 16 company have up to 10 million and other 15 companies have more than 10 million investments on the securities. The high investment is 329.8 million by Nepal merchant Banking and finance limited and lowest is 0.6 million of general finance company. There are 38 companies having investment on hire purchase loan. The study clearing show the use of fund to wards the hire purchase loan is decreasing rapidly. The ratio of loan and total, loan and advances were 62% from F.Y. 1994 to F.Y. 1999 respectively. This shows there is gradual income in this sector. The major source of fund of finance company is utilized in loan and advance, the maximum, minimum and average percent of utilization on loan and advances are 53, 74 and 65.9% respectively. All the companies have invested on housing loan. The use of fund towards housing loans almost linear expect for F.Y. 1994. The ratios of housing and total loan are 14, 26, 27 & 28% from F.Y. 1994 to F.Y.1999 respectively. Except few companies, all other companies have invested on term loan, the use of funds towards the term loan is gradually increasing the ratio of term loan and total lease and total loan are 24, 20, 39, 46, 40 and 43% from F.Y. 1994 to F.T.1999 respectively.

In this study the researcher has not used the sufficient financial tools to reveal the deposit position of the concerned banks. Statistical tools like, the researcher has ignored correlation co efficient and probability error. He has analyzed the data for the five year period starting from F.Y.1994 to F.Y. 1999.

Gelal (2003) conducted his Master's thesis on "*A Comparative Financial Analysis of Nepal Insurance Company and National Life and General Insurance Company Limited*" This study is descriptive and analytical too. His research work was based on primary and secondary data and analyzed the financial position, liquidity position, profitability position and other. His research objectives are as follows: evaluate the liquidity position of both insurance companies, evaluate the General Insurance Company and Nepal Insurance Company for the year, and review the recent financial position of both insurance companies. Examine and interpret the financial position and make suggestion to remove obstacle in making decision regarding financial management.

Gelal used five years data from 2053/54 to 2058/59 to analyses the study. Mr. Gelal used mainly financial tools like ratio analysis, cash flow analysis to come in decision. After detailed study Gelal found following conclusion. Premium collection of both life and non life insurance shows growing trend of this business in the recent year of the study period. The net profit percentage of NIC found better than NLGI but the liquidity position of both companies are found better. Current assets turnover ratio of NLGI followed decreasing trend, which is the indication that the efficiency of utilizing current asset deteriorated over the period due to negligence of management. The average turnover on current assets of NIC was 24 paisa where as NLGI's return was 15 paisa. Changes in insurance premium collection of NIC ranged about 18.04% to 36.64% where as the same of NLGI ranged about 17.10% to 61.97% high fluctuation is found in NLGI and NIC .Insurance premium fund should be invested in different sector other than NG bond in other to enhance the life standard of people, thereby increasing the insurance premium. Training to agents is must essential before their (agents) appointment in order to attract the people. NIC is advice to minimize the risk level by reducing debt participation and increasing equity proportion even though it is risk oriented institution. (Gelal,2003)

Gautam(2003) had carried out thesis on ' *A study on premium collection and investment position of Nepal Insurance company Limited and premier insurance company limited'*. He has compared two insurance companies Nepal insurance company Ltd and premier insurance company ltd .in terms of performance of five years. The objective of the study was to compare the NIC and PIC premium collection and investment position. Other objective were to examine the trend and position of investment and premium collection and analyze the current situation of NIC and PIC .He has chosen financial and statistical tools like ratio analysis, trend analysis, co-efficient of correlation. The major findings of the study were fire premium collection of NIC had slightly fluctuated in decreasing order but it is in increasing order in PIC. The miscellaneous insurance contributed 35.52 % on an average and increasing order in NIC .It contributed 66.34% in PIC and decreasing order. Marine insurance is in stable condition and contributed around 2.36% in average in NIC. It contributed 4.21% in average at the study period in PIC. In investment sector, NIC had 40% average investment on government saving bonds but it was 20.14% for PIC. The researcher found that average of 38.5% investment of NIC goes to investment of bank fixed deposits and it was ranged from 156.17% to 36.23% in PIC .The average of 22% investment goes to finance fixed assets of PIC but there was no investment made by NIC.NIC had investment of 21.43% on average to corporate securities but it was 5.83% in PIC. The average of 15.2% interest was earned by NIC to total premium collection.(Gautam,2003)

Pathak (2005) conducted his thesis on "*Evaluation of Financial Performance of Nepal Insurance Company and Himalayan General Insurance Co. Ltd*" The primary objective of this study is too analyzed and to evaluate the financial performance of HGIC and NIC. His researches objectives are review the existing situation of sample insurance companies, analyze financial performance of both insurance companies, provide recommendation on the basis of findings. (Pathak, 2005)

Pathak uses secondary data's only to evaluate the financial performance. He uses the last 5 years data since 1996/97 to 2000/01. Pathak uses various financial ratios; cash flow statement analysis, trend analysis and test of hypothesis are used to accomplish the objectives. He found that HGIC and NIC have not been following better policy to keep sound liquidity position. Creditors of both companies are in safe side investment in total assets through net worth of HGIC is higher than NIC. The degree of financial risk of NIC is higher than HGIC.HGIC has mobilized its assets effectively than NIC.The profitability ratio, which measures the insurance, company's capability to earn profit. The profitability ratio shows the following position of both companies. Change in insurance premium collection of HGIC ranged about 6.6% to 196.84% where as the same of NIC ranged about 9.7% to 34.54% high fluctuations is found in HGIC than NIC. Both companies are suggested to increase their cash balance to meet their short term obligation. Both HGIC and NIC are suggested to improve total assets turnover ratio. The ratio can be improved by proper, effective and optimum utilization of total assets and avoiding unnecessary investment in total assets. HGIC is suggested to increase total revenue and gross profit for its sustainability and meet me competition. Insurance premium fund should be investment in different sector other than NG bond in order to enhance the life standard of people thereby increase the insurance premium.

Aryal (2006) conducted his thesis on "*Evaluate the Financial Performance of NIC Ltd*" In the thesis Aryal made an attempt to provide independent views of the financial performance of NIC and focusing on the challenges ahead of NIC. The major objective of the study is to evaluate the financial performance of NIC Ltd. He want to know highlight various aspects relating to financial performance of Nepal Insurance Company Limited. To study the trend of premium collection and payment of claim and utilization of available resources .To analyze the financial performance through the use of appropriate tools. To provide a package of suggestions and possible guidelines to improve the insurance business based on the finding of the study.

Aryal used all secondary data to analyze the financial performance. He used the data of 10 years since fiscal year 2051/52 to 2060/61.Aryal used different financial tools like ratio analysis, cash flow analysis, statistical tools like standard deviation, coefficient of variation, time series analysis, coefficient of correlation etc. He found that The company's outstanding premium in the 10 years period jumped from Rs. 2.38 million in 2051/52 to Rs 30.10 million in 2055/56.The re-insurance premium is in increasing trend except in FY 2052/53. The average outstanding re-insurance premium in FY 2046/47 is Rs. 11.49 million and Rs. 37.98 million in FY 2059/60.The total claim to net premium ratio come to the highest 38.65% in FY 2059/60 and to the lowest -10.16% in FY 2051/52, taking the deviation from average ratio of 10 years during the study period, i.e. 11.85%.The investment and income from investment have been increasing year by year. The NIC has not practiced risk diversified investment principle but adopted traditional investment portfolio. The raised funds are invested in different area i.e. NG securities, fixed deposit, other investment, purchase of fixed assets and repayment of loan. The company should improve the outstanding premium collection. Claim should be paid in time and the company should extend its business area. The company should make the effective investment policy and the business portfolio should diversify. The company should establish research and development department. (Aryal,2006)

Adhikari (2009) conducted his Master's thesis on "*A Study on Investment Policies and Practices*." His thesis work is basically concerned to find what are the main policies used to invest the collecting premium of insurance industries. His research 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.

His research work was based on primary and secondary sources of data. The time period was six years from 2057/58 to 2062/63. In this study Adhikari has pointed out various findings and recommends action. Adhikari used different financial and statistical tools like ratio analysis, cash flow, co-relation, standard deviation etc. His findings and recommendation are as follows: Major portion of investment was incepted within the head ‘Government Securities’ and ‘Bank Fixed Deposit’ of both life and non life insurance industry. The portfolio falling within the compulsory sector had more uniform return rate. However, in average the return from the ‘Government Securities’ was highest and the return from the policy loan was lowest.Net investment income of the life assuror and the industry was around three fourth $3/4^{th}$ of the net premium collection and net investment income of the non life insurer with the industry was around fifth $2/5^{th}$ of the net premium collection. The insurer should enforce the diversification among the investment portfolio. The life assures should concentrate on the diverse portfolio holding as compare with the non life insurance. While investing within the particular sector, me insurer needs to consider the mutual inter link, age of transaction too. (Adhikari, 2009)

Shrestha (2010) conducted his Master’s thesis on “*A Study on Premium Collection and Investment Position of National Life and General Insurance Company Limited”* The study covered 7 years period since 1999/00 to 2005/06. The main objective of his research is to find the position of National Life and General Insurance co. Ltd in the insurance industries of Nepal. Shrestha’s objectives of those studies are to study trend of premium collection and investment pattern of NLGIC .To compare the trend of premium collection and investment of NLGIC with whole industry throughout various years .To find out the position NLGIC in the insurance industry of Nepal. To provide suggestion based on the finding of the analysis to the management of NLGIC. (Shrestha, 2010)

Shrestha uses both primary and secondary data to analysis his study. He uses different financial and statistical tools like ratio analysis, trend analysis, co-efficient of correlation, mean, standard deviation and ‘T’ test etc. based on the analysis finds many conclusions. He found on that studies are Premium collection on first life premium to total premium collection is fluctuating trend this ratio is highest in FY 2000/01 and lowest was in 2003/04. There was inconsistency in first premium collection. Fire premium collection to total general premium collection ratio was varied from 23% to 34% and it indicates that fluctuation rate was not so diversified. Marine premium collection to total general premium ratio varied from 1% to 4%, which indicated that the ratios were in approximately in stable order. Miscellaneous premium to total general premium collection had slightly fluctuated but in increasing order. Life premium collection to total premium collection was in increasing trend. The least contribution was 23.06% in 1998/99 and highest contribution was 51.3% in 2004/05.Investment on different sectors were also fluctuating trend and major portion of life investment went to bank fixed deposit it contributed 88.23% in highest and 69.71% in lowest. The company should collect more first life insurance premium and issue new policy. 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.

Rizal, Umesh (2006) had submitted the thesis on "*Diagnosis of financial health of Himalaya general insurance (HIG) company Ltd in the framework of IRDA*". His fundamental objective of the study was to diagnosis the financial health of HGI. The specific objective of the study were to analyze the trend in gross premium, shareholder's fund growth rate and expenses of management in HGI, to measure the pattern in the risk and premium retention commission, technical reserves and reinsurance in HGI, to examine the profitability pattern of HGI .In order to achieve the objective he had used the descriptive and analytical research design. Major findings of his study were HGI and insurance industries were in growing in terms of gross premium. Shareholders fund was in growing trend from 1993/94 to 2004/05 except 2001/02.general reserve was in growing trend. The technical reserve to net premium ratio showed the balance ratio measured the profit /loss in comparison to net premium. Operating profit was positive through out 1993/94 to 2004/05.Net profit was in increasing trend through out the study period expect 2001/02 and 2004/05.Net premium was growing continuously. (Rizal, 2006)

Poudel, Malati Kumari (2008) has conducted the thesis "*Financial Performance analysis of Everest Insurance Company in the frame work of IRDA*". Her fundamental objectives of her study are to analyze the pattern of shareholder's fund growth rate, gross premium, risk retention and management expenses of EIC. She wants to measure the pattern of risk and premium retention commission, technical reserve and reinsurance of EIC .To asses the trend of profit, investment and net worth over the year. She studied only the financial aspect of EIC .She has studied only the time boundary of 2000/01 to 2006/07.She use descriptive and analytical both for analysis the financial statement of the insurance company. For analysis the data she used the financial ratio and to clear it she used the table and graphic presentation .On that studies she conclude that shareholder's fund growth rate is fluctuated. Premium retention capacity of EIC is very low only on motor insurance retention ratio of EIC is high. EIC have to control on management expenses because it is in the growing trend. EIC has also conducted work on reinsurance. Claim paid ratio of company was fluctuating, claims have dominate role in financial management of company. Reserve for unexpired risk is less than reserve for outstanding claims. EIC had gained allover the studied period .Aviavation insurance faced underwriting loss. Reinsurance ratio is high in EIC which shows high performance of risk goes to reinsurance companies and risk bearing capacity of EIC is very low. The equity holder's strength was growing and they were able to gain profit compared to their investment. (Poudel, 2008)

2.5 Research Gap

The review of above relevant literature has contributed to enhance the fundamental understanding and knowledge, which is required to make study meaningful and purposive. There has been lots of article published related to financial performance of insurance companies. There are various researches conducted on financial performance and financial statement of insurance companies, impact and implementation of Beema Samiti guideline in insurance companies. Most of the thesis studies are of comparative type. Comparing of the firms from same industry can make the sense. But at the same, the individual firm may have its own strategy for business. In such a case, comparative study may mislead the researcher. So, this is the exclusive study of Premier Insurance Company. However the Beema Samiti directives are also taken into consideration, while analyzing the data. Most of the studies missed to see the growth trend of some major element. In this study the trend value of net premium, total claim, and gross premium have computed and analyzed. This shows the annual growth in the respective element. While reviewing other studies on financial performance analysis related to single company, the researcher found that the ratios are not properly analyzed. What actually the ratio indicates is not clear. So, this study has tried to analyze the different ratios in order to make fruitful analysis on the financial performance of the Premier Insurance Company. So, this study will be fruitful to those interested person, parties, scholars, professor, students, businessman and government for academically as well as policy perspective. Hope this study will help to others in future in the related field.

CHAPTER -III

RESEARCH METHODOLOGY

The man objectives of the study are to examine the major components of the financial statement as well as to evaluate financial performance of Premier Insurance Company. To achieve these objectives the study requires an appropriate research methodology. The study has mainly two aspects, they are analytical and descriptive. The objective of this study is to analyze various financial indicators and to find out various issues to recommend necessary suggestion for the strengthening of financial weakness of PIC. The following research methodology includes research design, source of data, data collection procedure, analysis of data and tools of analysis of data.

3.1 Research Design

The main objective of the study is to analysis the financial performance of PIC. The Research design is the major part of research work. The present study consists both analytical and descriptive research designs. On the basis of financial statement and other available data attempt will be made to investigate the level of financial performance of PIC with the help of analytical tools and followed by some suggestions and recommendations.

3.2 Population and Sample

There are all together twenty five insurance companies running in both life and non life insurance field in Nepal by mid-July 2010. Thus the population of the study is twenty five but in this study only the Premier Insurance Company Limited has taken as sample and all the analysis is related with the PIC..

3.3 Nature and Sources of Data

For the fulfillment of above-mentioned objectives, a definite series of analysis is introduced. 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 employees of PIC. Hence, the primary and secondary data are used for the analysis and drawing a valid conclusion.

Primary Data

Mostly we use the secondary data but some information on the study has been colleted through the primary from the staff of PIC in the relevant subject matter by using judgmental sampling method.

Secondary Data

This research is basically based upon secondary data. So, the secondary data for the purpose of the study is collected through various published and unpublished documentary type sources. The source of valid secondary data is:

- Published or unpublished annual reports of the Premier Insurance Company.
- Various Journals as well as booklets published by Insurance Company and Beema samiti.
- Various publications of the government agencies and bodies relating to the field.
- Security Exchange Board.
- Economic Survey and National Planning Commission.
- Ministry of Finance.
- Various publications dealing in the subject matter of the study.
- Published and unpublished articles, reports from various sources.
- Economic journal, magazine.
- Electronic data from websites.

3.4 Data Analysis Tools

All the data for the study have been collected from the secondary source mentioned above. The annual reports and other information's were collected from the field visit of respective insurance company head office Kathmandu and websites of that company. Exiting literature on the subject matter was collected from various research papers placed in central library, Western Regional Library, Public Library, P.U. Library Pokhara etc. First of all, necessary data were extracted from the audited financial statements which were recorded in master sheet manually then data were entered into the spread sheet to work out the financial ratios and prepare the necessary figures. Finally, different financial ratios were work out with the help of computer programs like Microsoft excel, Microsoft Word.

Presentation and analysis of the collected data is the core of the research work. To achieve the objective of the study, various financial as well as statistical tools have been used in this study. The analysis of data will be done according to pattern of data available. The collected data are first presented in systemic manner in tabular forms and then analyzed by applying different financial and statistical tools to achieve the research objectives. The major tools applied in this study are discussed in the ensuing section.

3.4.1 Financial Analysis Tools

Financial Tools are those, which are used for the analysis and interpretation of financial data. Those tools can be used to get the precise knowledge of a business, which in turn are fruitful to explore the strengths and the weakness of the financial policies and strategies. In order to complete the purpose of the study, the ratio analysis has been used.

In this study, different ratios are calculated and analyzed, which are given below:

3.4.1.1 Underwriting Ratio

Under the underwriting ratio researcher have to calculate loss ratio, expenses ratio and combined ratio

Loss ratio

Loss ratio can calculate by dividing loss adjustment expenses by premium earned .The loss ratio shows what percentage of payouts are being settled with recipient .the lower the loss ratio the better. Higher loss ratio may indicate that an insurance company may need risk management policies to guard against future possible payouts.

$$\text{Loss ratio -} \ \frac{\text{Loss adjustment}}{\text{Premium Earned}}$$

Expenses ratio

We can calculate the expenses ratio of an insurance company by dividing underwriting expenses by net premiums earned. Underwriting expenses are the costs of obtaining new policies from insurance carries .The lower the expenses ratio the better because it means more profits to the insurance company.

$$\text{Expenses ratio -} \frac{\text{Under writing Expenses}}{\text{Net Premium Written}}$$

Combined Ratio

This figure just measure claims losses and operating expenses against premiums earned .The combined ratio is the total of estimated claims expenses for a period plus overhead expressed as a measure of profitability and the efficiency of an insurance firms underwriting efficiency. Ratio above100 percent denote a failure to earn sufficient premiums to cover expected claims.

High ratios can usually occur either because of under pricing and/or because of unexpected high claims.

Combined ratio = (Loss ratio + expenses ratio)

Ratio of net written premiums to policyholder surplus

The ratio measures the level of capital surplus necessary to write premiums. An insurance company must have an assets heavy balance sheet to pay out claims .Industry statuary surpluses the amounts by which assets exceed liabilities. For instance a ratio 0.95-to 1 means that insures are writing less than $ 1.00 worth of premium for every $1.00 of surplus. A ratio of 1.02-to-1.00 means insures are writing about $1.02 for every $1.00 in premiums.

3.4.1.2 Profitability Ratios

On this study researcher calculate earning per share, return on shareholder equity, return on assets, investment yields and return on net worth

Earning per Share (EPS)

Earning per share calculated net profit after tax divided by no of share.

Earning per share (EPS) = $\frac{Netprofit}{Noofshare}$

Return on Equity (ROE)

ROE indicates the return a company is generating on the owner’s investment. In the policyholder owned case. We would use policy holder’s surplus as the denominator. As general rule for insurance companies, ROE should lie between 10-15 %.(investopedia.com/…/insurance. asp) .ROE calculating by following formula

Return on Equity (ROE) - $\frac{Netincome}{Shareholder' sEquity}$

Return on Assets (ROA)

ROA indicates the return a company is generating on the firm's investment/assets. In general insurance company should have an ROA that falls in 0.5-1 % range (www.investopedia.com/…/insurance. asp). ROA calculating by following formula.

$$\textit{Return on total Assets (ROA)} = \frac{\textit{Net profit}}{\textit{Total assets}}$$

Investment Yields (IY)

This is the return received on an insurance company's assets. The investment yield is obtaining by dividing the average investment assets into the net investment income before income tax. (www.Investopedia.com/…/insurance. asp)

$$\text{Investment Yields} = \frac{\text{Average Investment on Assets}}{\text{Net Investment Income}}$$

Return on Net Worth (RONW)

Return on net worth is calculated divided net profit after tax by net worth of the company.

$$\text{Return On net worth} = \frac{\textit{Netprofitaftertax}}{\textit{Networth}}$$

CHAPTER – IV

DATA PRESENTATION AND ANALYSIS

This chapter deals with the presentation, analysis and interpretation of relevant and available data of PIC which has been dealt in detail in order to achieve the stated objectives of this study.

Presentation and analysis of data is an important stage of the research study. The main purpose of analyzing the data is to change it from an un processed from to an understandable presentation. The analysis of data consists of organizing data by tabulating and then placing that data in presentable form by using figures and tables. (Pant & wolf, 2000:127)

The data have been analyzed according to the research methodology as mentioned in chapter three to get best result. Data and information are presented and analyzed using different financial ratio and statistical tools in order to fulfill the objectives of the study. The major findings thereby have been emanated as derived from analysis of data.

4.1. Financial Analysis

4.1.1 Earning Per Share

Earning per share indicates the earning per Share of the company .It shows the companies efficiency and earning status. For the study earning per share of the PIC Nepal shows on the table no 4.1

Table 4.1

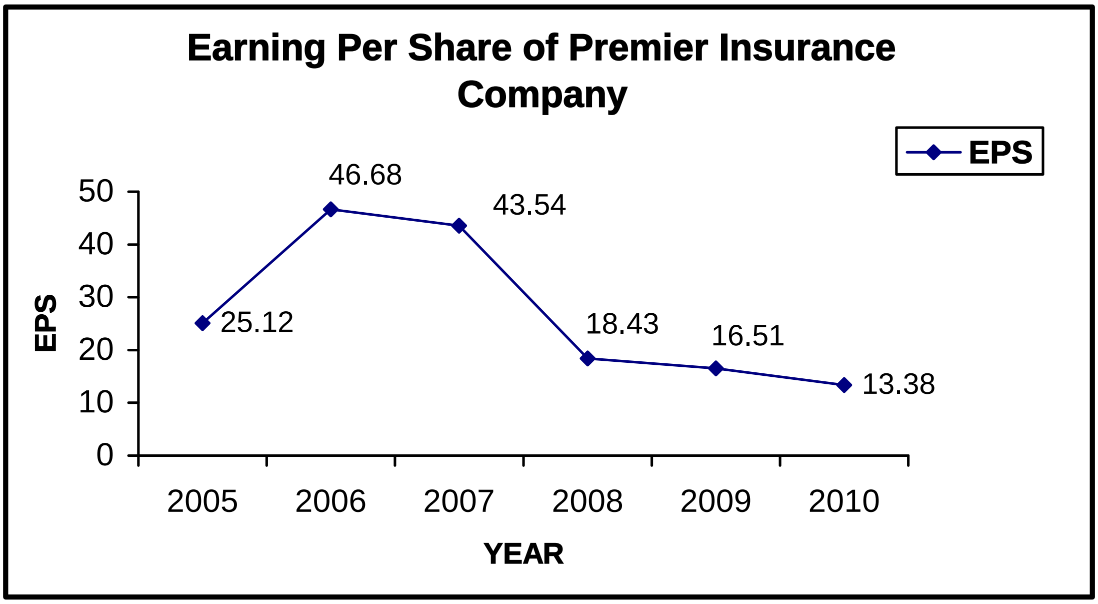
Earning Per Share of PIC (Nepal)

Particular	2005	2006	2007	2008	2009	2010
Net profit after tax	7,536,000	14,005,000	13,061,000	5,530,000	10404000	13645000
No of share	300000	300000	300000	300000	630000	1020000
EPS	25.12	46.68	43.54	18.43	16.51	13.38

Source –Annual report of PIC various Year

From the table 4.1 earning per share of PIC growing in first two year 2002 and 2003 then after it decreased unto 2006.Higest EPS is in 2004 which is Rs 43.54 and lowest in 2006 which is Rs 16.51.Average EPS is 30.06 which found in year 2003 and 2004.Investor of the company are in profitability situation. The table no 4.1 show in the figure 4.1.

Figure: 4.1



From the figure no 4.1 earning per share of the PIC Rs 46.68 in the year 2006 and Rs. 13.38 on 2010.Decresing in EPS of the company in the year 2009 and 2010 due to the increase of the share and bonus share of the company

4.1.2 Loss Ratio of Premium Insurance Company (Nepal)

For the study loss ratio can calculate by dividing loss adjustment expenses by premium earned .The loss ratio shows what percentage of payouts are being settled with recipient .the lower the loss ratio the better. Higher loss ratio may indicate that an insurance company may need risk management policies to guard against future possible payouts. For the study the loss Ratio of PIC presented on the table no 4.2

Table 4.2

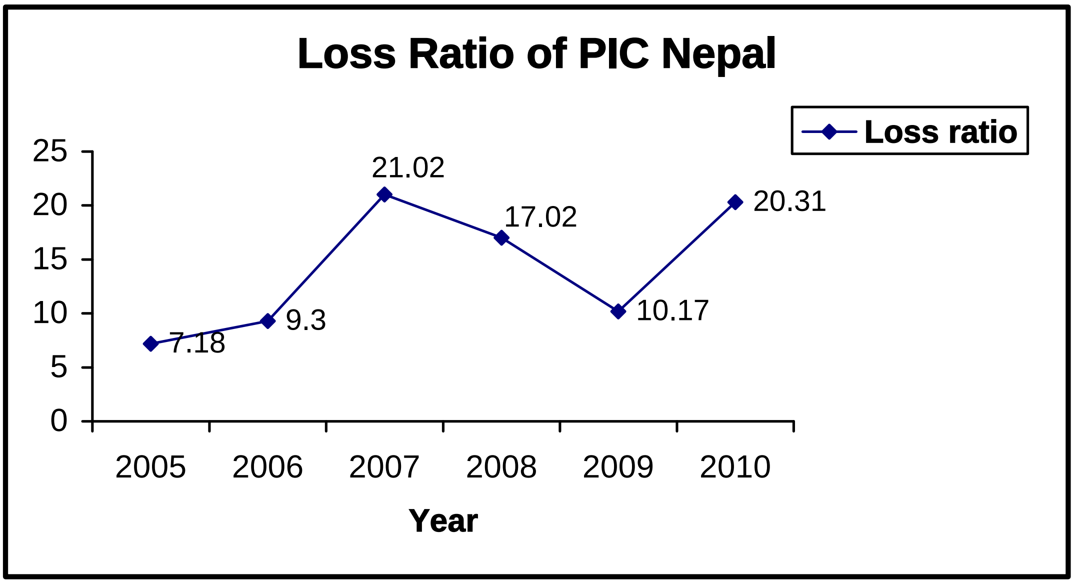
Loss Ratio of PIC Nepal

Year	Loss Adjustment	Net Premium	Loss Ratio
2005	8,428,112	117,383,177	7.18 %
2006	17,793,237	191,325,136	9.30 %
2007	201, 86,927	96,036,764	21.02 %
2008	219, 39,533	128,904,428	17.02 %
2009	239, 38,615	235,384,615	10.17 %
2010	28,658,732	141,100,514	20.31 %

Source: Annual Report of PIC Nepal

From the table 4.2 Loss ratio of the PIC Nepal is higher in 2007 which is 21.02 % and the lower ratio is in 2005 which is 7.18 %.It shows company is strength in the year 2005 and it paid more claim in 2007.From 2005 to 2007 loss ratio is growing and then after it is in decreasing trend. Due to the more claim on the company it has more adjustment expenses it increased the loss ratio of the company. Table 4.2 can show on Figure no 4.2

Figure 4.2



From the figure no 4.2 the study shows that loss ratio of PIC Nepal has fluctuated from 7.18 % to 21.02 %.Loss ratio of the PIC is increasing up to 2007 then it decreased up to 2009 after 2010 going increased.

4.1.3 Expenses Ratio

The expenses ratio of an insurance company calculated by dividing underwriting expenses by net premiums earned. Underwriting expenses are the costs of obtaining new policies from insurance carries .The lower the expenses ratio the better because it means more profits to the insurance company. Expenses ratio of the PIC Nepal can show on the table no 4.3.Combined ratio can be calculated by following formula

$$\text{Expenses ratio} - \frac{\text{Under writing Expenses}}{\text{Net Premium Written}}$$

Table 4.3

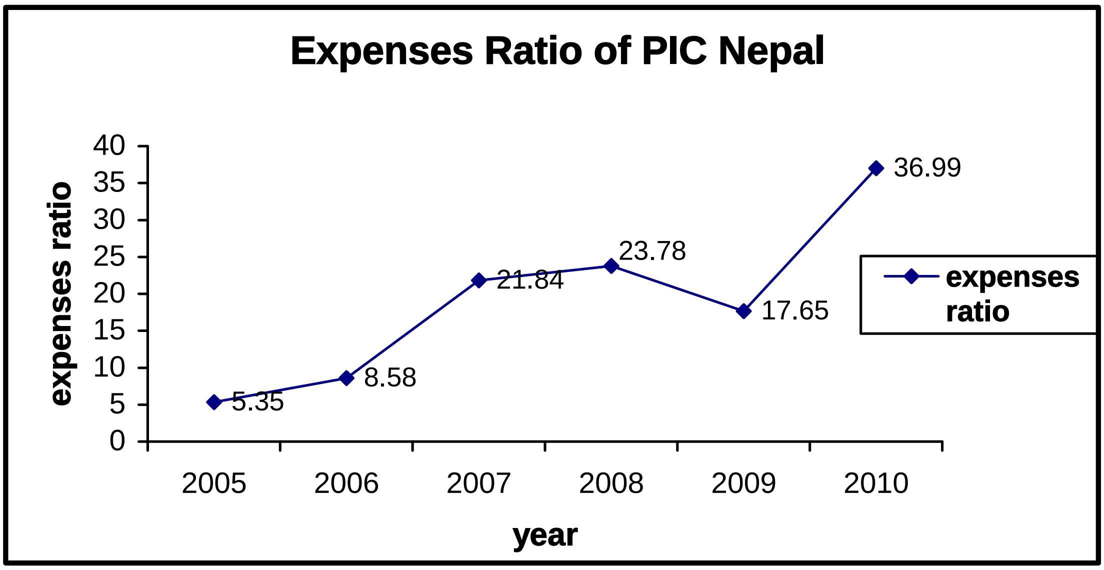
Expenses Ratio of PIC Nepal

Year	Under Writing Expenses (000,000)	Net Premium	Expenses Ratio
2005	6.29	117383177	5.35
2006	16.42	191325136	8.58
2007	20.98	96036764	21.84
2008	30.66	128904428	23.78
2009	41.56	235384615	17.65
2010	52.20	141106514	36.99

Source- Annual Report OF PIC Various Years

From the table 4.3 shows the company is run smoothly. Highest Expenses ratio is in 2010 which is 36.99 % and lowest expenses ratio is in 2005 which is 5.35% .Ratio are 2005-5.35 %, 2006-8.58 %, 2007-21.84 %, 2008-23.78%, 2009-29.78 %, 2010-36.99%. PIC has more underwriting expenses due to increase of no of policies and advertising expenses for new policies and this can be shown on figure 4.3

Figure 4.3



From the figure no 4.3 Expenses ratio of the PIC increasing 5.35 % to 36.99 % .underwriting expenses increasing due to company issue more new policies and renew every year. On 2010 PIC has maximum 36.99% expenses ratio, Company has to reduce it with its cost management.

4.1.3 Combined Ratio of PIC Nepal

This figure just measure claims losses and operating expenses against premiums earned .The combined ratio is the total of estimated claims expenses for a period plus overhead expressed as a measure of profitability and the efficiency of an insurance firms underwriting efficiency. Ratio above100 percent denote a failure to earn sufficient premium to cover expected claims. High ratios can usually occur either because of underwriting and/or because of unexpected high claims .Ratio of net written premiums to policyholder surplus. The ratio measures the level of capital surplus necessary to write premiums. An insurance company must have an assets heavy balance sheet to pay out claims .Industry statuary surpluses the amount by which assets exceeds liabilities.

Table 4.4

Combine Ratio Calculation of PIC Nepal

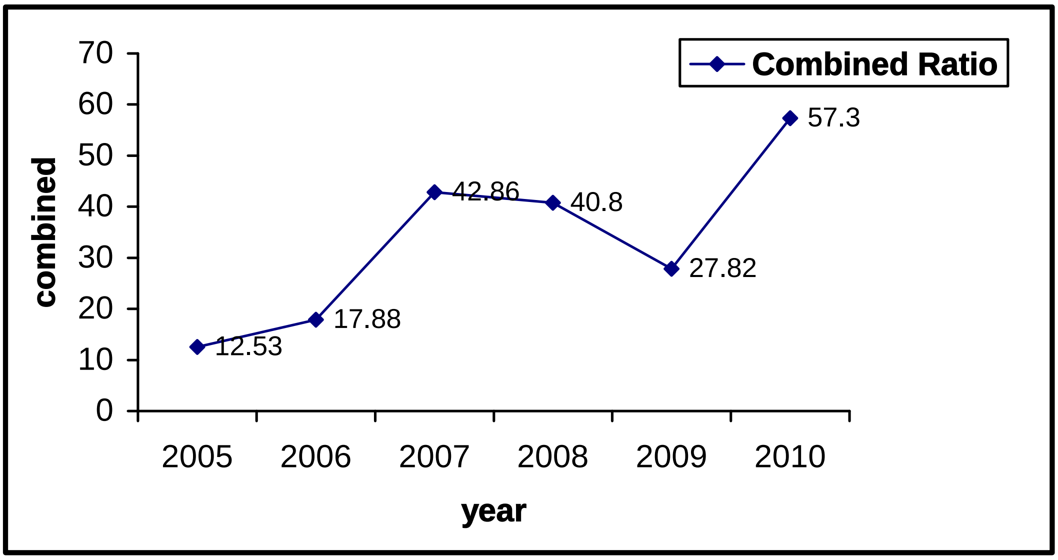
Year	Loss Ratio	Expenses Ratio	Combined Ratio
2005	7.18	5.35	12.53
2006	9.30	8.58	17.88
2007	21.02	21.84	42.86
2008	17.02	23.78	40.80
2009	10.17	17.65	27.82
2010	20.31	36.99	57.30

Source –Annual report of PIC various years

In table 4.4 The PIC has highest combined ratio on 2010 which is 57.30% and lowest combined ratio on 2005 which is 12.53%.All the five year company has not more than 100% ratio so the company PIC Nepal has not more expenses on premium writing or claim paid.

Figure 4.4

Combined Ratio of PIC Nepal



From the figure no 4.4 the company PIC has combined ratio highest on the year 2010 and lowest on the year 2005.PIC's expenses on writing policies and expenses on paying claim are increased .Every year company has increase its new policies and increasing of claim paid so the combined ratio of the company is increased.

4.1.5 Return on Equity of PIC Nepal

ROE indicates the return a company is generating on the owner's investment. In the policyholder owned case. We would use policy holder's surplus as the denominator. As general rule for insurance companies, ROE should lie between 10-15 %. For the study ROE of the PIC can show on the table no 4.5.

Table 4.5

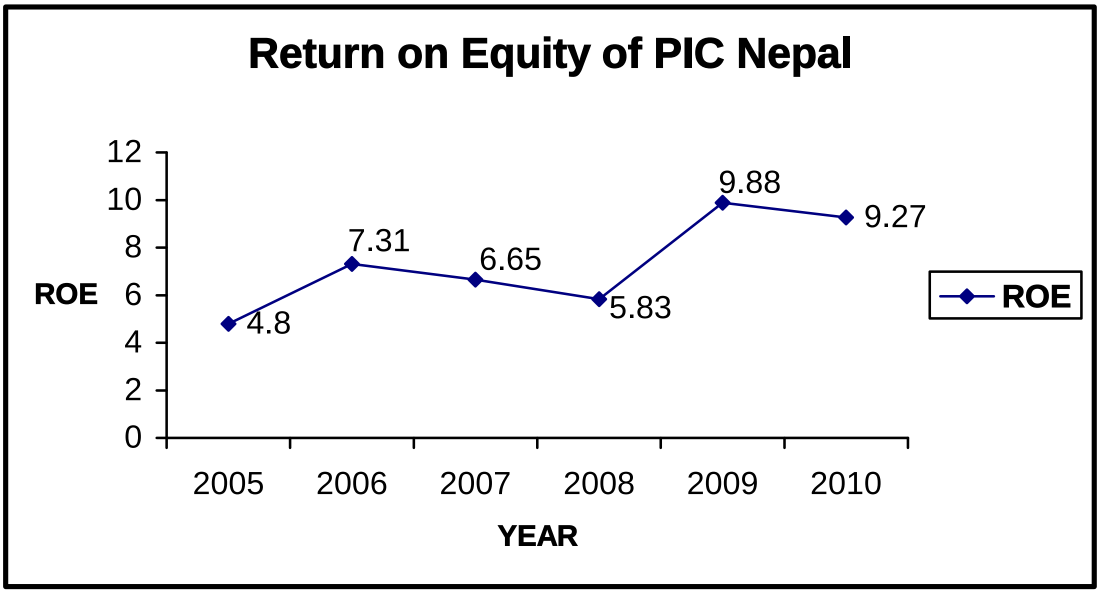
Return on Equity of PIC Nepal

Year	Shareholder Equity	Net Profit After Tax	Roe
2005	156755841	7536000	4.80 %
2006	191680205	14005000	7.31 %
2007	196352940	13061000	6.65 %
2008	94830902	5530000	5.83 %
2009	105295073	10404000	9.88 %
2010	147174911	13645000	9.27 %

Source: Annual report of PIC various years

From the table 4.5 the PIC has not ROE on the range of general rule .PIC has ROE highest in 2010 which is 9.27% and lowest on 2005 which is 4.80 %.ROE of the PIC Nepal is under its normal range which is under the 10%.For more explain table no 4.5 can present table on figure no 4.5

Figure 4.5



From the figure no 4.5 the study shows that return on equity of the company PIC has fluctuated from 4.83 % to 9.88 % on the study period. Lower the ROE of the company indicate that company has not more profit earn on the study period for the equity holders.

4.1.6 Return on Assets (ROA) of PIC Nepal

ROA indicates the return a company is generating on the firm's investment/assets. In general insurance company should have an ROA that falls in 0.5-1 % range (www.investopedia.com/…/insurance. asp). ROA calculating by following formula

$$\textit{Return on total Assets (ROA)} = \frac{\textit{Net profit}}{\textit{Total assets}}$$

For more explain return on total assets of premier insurance company Nepal shown on the table no 4.6.

Table 4.6

Return on Total Assets of PIC Nepal

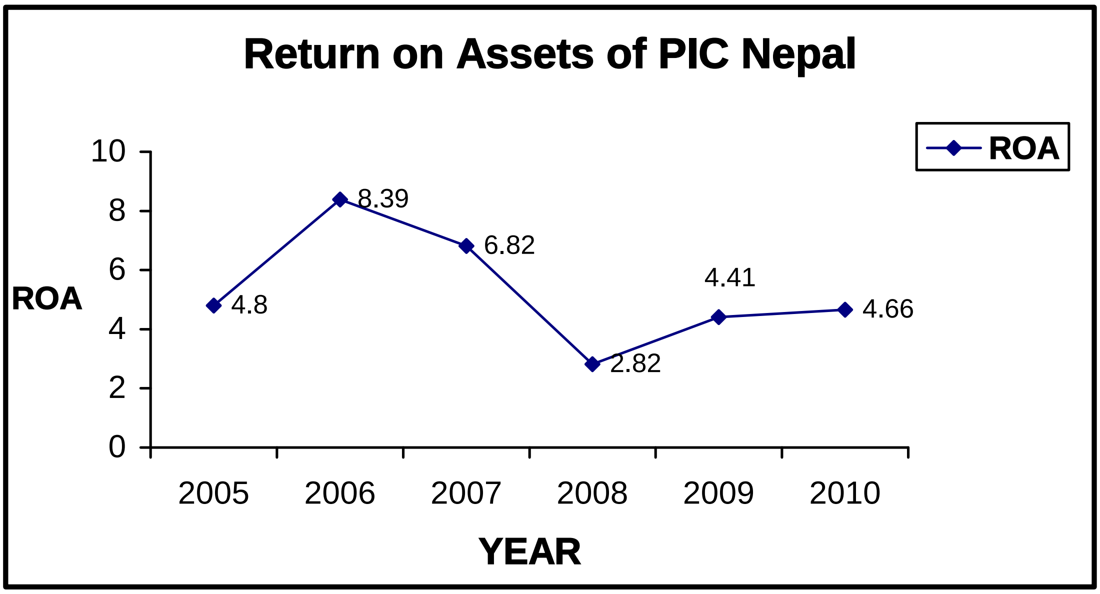
Year	Total Assets	Net Profit After Tax	ROA
2005	151247490	7536000	4.98 %
2006	156656952	14005000	8.39 %
2007	191613655	13061000	6.82 %
2008	196141856	5530000	2.82 %
2009	236282458	10404000	4.41 %
2010	292625070	13645000	4.66 %

Source –Annual Report of PIC Various Years

From the table no 4.6 return of assets of the PIC under the range highest on 2006 which is 8.39 % and lowest on 2008 which is 2.82 %. Ratio of return on assets are not on the range of normal rule of IRDA .Net profit after tax of the

PIC on the year 2008 it decreased the ROA of the Company. Table no 4.6 can be show on figure no 4.6

Figure 4.6



From the figure no 4.6 study shows the company PIC Nepal has highest ROA which has fluctuated from 8.39 % to 2.82 %.Study shows that decreasing on the net profit after tax of the company directly affect the ROA of the PIC.

4.1.7 Investment Yields

This is the return received on an insurance company's investment on assets. The investment yield is obtaining by dividing the average investment assets into the net investment income before income tax. Investment yields show on the table no 4.7.

Table 4.7

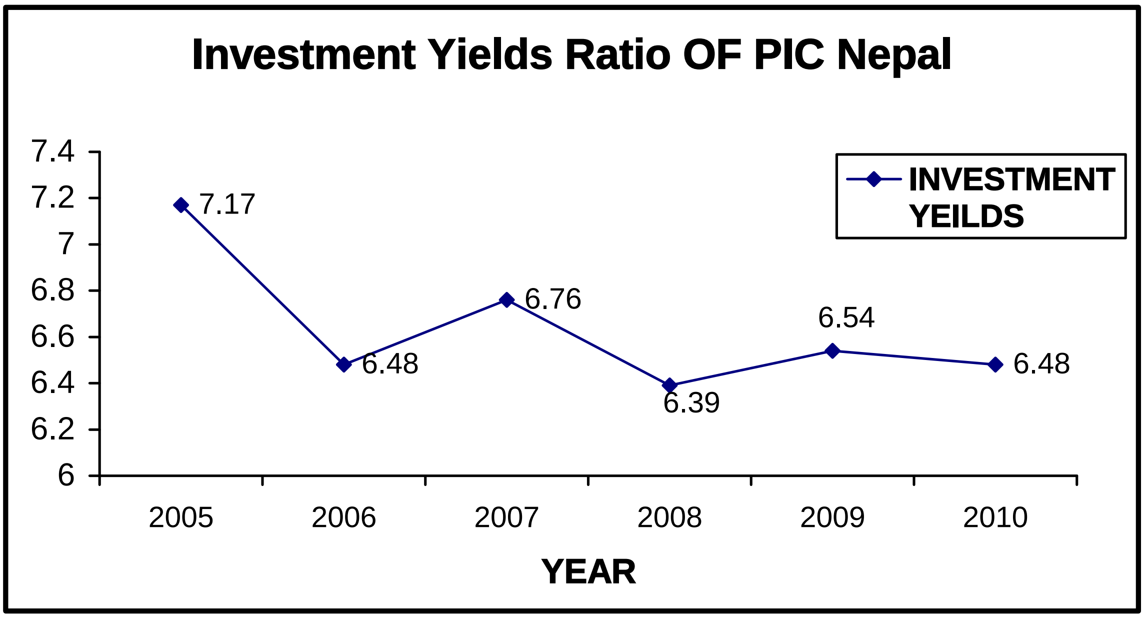
Investment Yields Ratio of PIC Nepal

Year	Investment On Assets	Income From Investment	Investment Yields
2005	88561102	6349831	7.17 %
2006	110596466	7166651	6.48 %
2007	115025300	7775713	6.76 %
2008	129884617	8299627	6.39 %
2009	88239969	5770894	6.54 %
2010	123728425	8017602	6.48 %

Source –Annual report of PIC various years

PIC has Investment Yields ratio highest on the year 2005 which is 7.17 % and lowest on 2008 which is 6.39 %.Investment Yields ratio is decreasing in trends on first year then it decreased to 6.39%.From 2006 to 2010 investment yield of company is stable. Table no 4.7 shown on figure no 4.7

Figure 4.7



From the Figure no 4.7 study shows that Investment yields which has been fluctuated from 7.17% to 6.39 %.Investment yields of the company is high on the initial year then it is stable.

4.1.8 Return on Net Worth

Return on net worth shows the total return percentage of the PIC on the net worth. Return on net worth can be calculated, net profit after tax divided by net worth. Here the table no 4.8 shows the return on net worth of the PIC Nepal.

Table 4.8

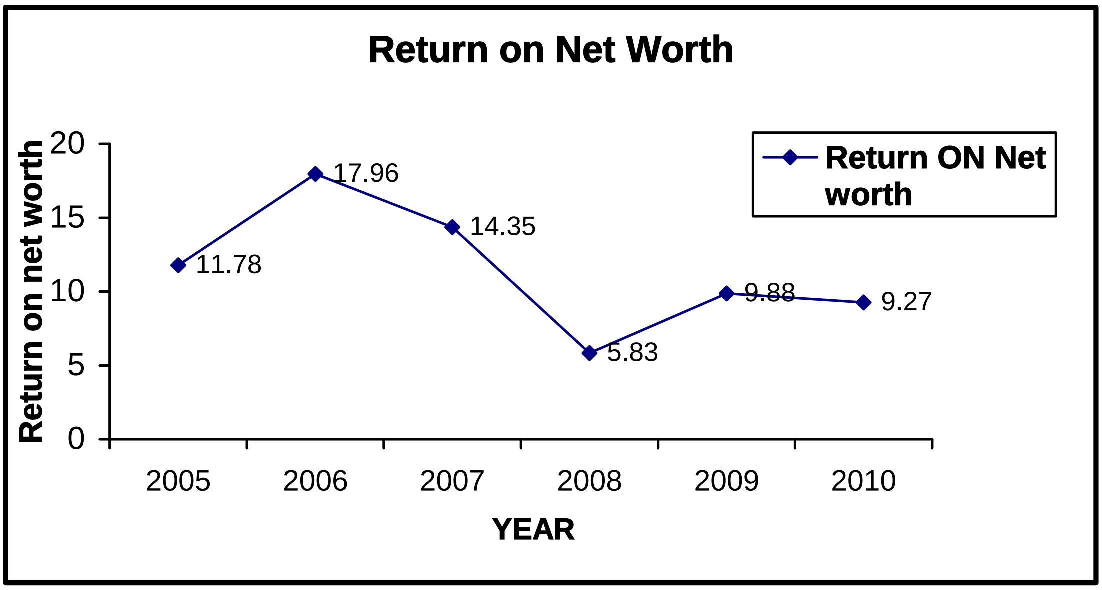
Return on Net Worth of PIC Nepal

Year	NPAT (000)	Net Worth (000)	RONW
2005	7536	63971	11.78 %
2006	14005	77977	17.96 %
2007	13061	91038	14.35 %
2008	5530	94831	5.83 %
2009	10404	105295	9.88 %
2010	13645	147181	9.27 %

Source –Annual report of PIC various years

From the table 4.8 PIC Nepal has return on net worth is highest in the year 2006 which is 17.96 %, and lowest is in the year 2008 which is 5.83 %..Researcher show table no 4.8 on the figure no 4.8

Figure 4.8



From the figure no 4.8 study shows return on net worth of the company which has been s fluctuated from 5.83 % to 17.96 %.Net worth of company was increased but the net profit of the company was fluctuated.

4.1.9 Branch of PIC Nepal

PIC Nepal has established its seven branches outside the Kathmandu. At Tripureshwor plaza it has Head office and its contact no is 4259567, 4252024 and fax no is 01-4259708.Its web address is www.premier-insurance.com.np and email address is premier@picl.com.np

Table 4.9

Branches of PIC Nepal

S.N	Branch	Branch Manager
1.	Head office	Surendra Lal Shrestha
2.	Birjung Branch	Devendra Prasad Upadhya
3.	Biratnagar Branch	Laxmi kumar shrestha
4.	Pokhara Branch	Ram Bikram Adhikari
5.	Narayanghat Branch	Chandramani Sharma
6.	Butwal Branch	Bharat Adhikari
7.	Birtamod Sub-Branch	Yadhav kumar karki
8.	Janakpur Sub-Branch	Bijayakatnta Jha

Source-Annual report of PIC 2010

From the table no 4.9 the study shows that company has branches and sub branches on the main city of the country. PIC run its business based on urban area and it cover whole country area.

4.1.10 Net Profit after Tax and Net Worth of PIC Nepal

For the profitability of the company the study should covered the net profit after tax and net worth of the company under the study period .NPAT and Net Worth can show on the table no 4.10

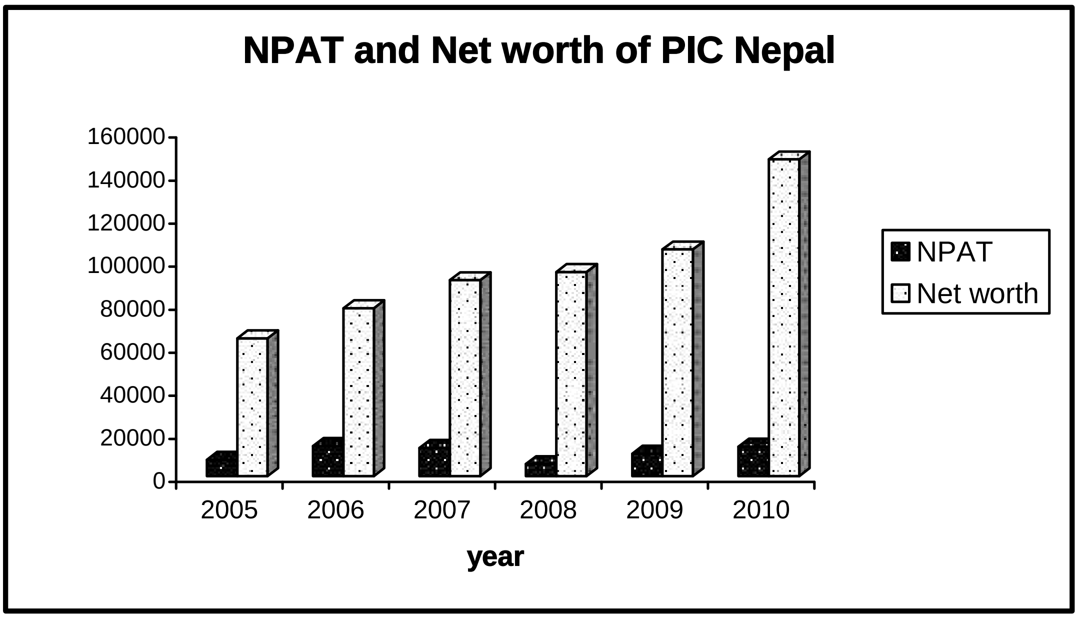
Table 4.10

NPAT and Net worth of PIC Nepal

YEAR	NPAT (000)	NET WORTH (000)
2005	7536	63971
2006	14005	77977
2007	13061	91038
2008	5530	94831
2009	10404	105295
2010	13645	147181

From the table no 4.10 NPAT and Net Worth of the PIC Nepal, NPAT has fluctuating every year under the study period and Net worth of the company has increasing in trend. Highest NPAT and Net worth of the PIC is Rs 14005 and Rs 147181 respectively. Lowest NPAT on the year 2008 which is Rs 5530000 and lowest Net worth of the PIC is on the year 2005 which is Rs 63971000.For more clear view it can be presented on the figure no 4.10

Figure 4.10



From the figure no 4.10 study shows that the NPAT of the PIC has fluctuated from Rs 5530000 to Rs 14005000.And Net worth of the PIC fluctuated from Rs 63971000 to Rs 147181000 on the study period.Net worth of the company is increasing in trend.

4.2 Major Findings

On the basis of data analysis the following finding can be drawn out

4.2.1 Earning per share of PIC growing in first two year 2002 and 2003 then after it decreased unto 2006.Higest EPS is in 2004 which is Rs43.54 per share and lowest in 2006 which is Rs16.51 per share .Investor of the company are in profitability situation.

4.2.2 Loss ratio of the PIC Nepal is higher in 2007 which is 21.02 % and the lower ratio is in 2005 which is 7.18 %.It shows company is strength in the year 2005 and it paid more claim in 2007.From 2005 to 2007 loss ratio is growing and then after it is in decreasing trend. Due to the more claim on the company it has more adjustment expenses it increased the loss ratio of the company.

4.2.3 Shows the company is run smoothly. Highest Expenses ratio is in 2010 which is 36.99 % and lowest expenses ratio is in 2005 which is 5.35%. Ratio are 2005-5.35 %, 2006-8.58 %, 2007-21.84 %, 2008-23.78%, 2009-29.78 %, 2010-36.99%. PIC has more underwriting expenses due to increase of no of policies and advertising expenses for new policies.

4.2.4 The PIC has highest combined ratio on 2010 which is 57.30% and lowest combined ratio on 2005 which is 12.53%.All the five year company has not more than 100% ratio so the company PIC Nepal has not more expenses on premium writing or claim paid.

4.2.5 The PIC has not ROE on the range of general rule .PIC has ROE highest in 2010 which is 9.27% and lowest on 2005 which is 4.80 %.ROE of the PIC Nepal is under its normal range which is under the 10%.

4.2.6 Return of assets of the PIC under the range highest on 2006 which is 8.39 % and lowest on 2008 which is 2.82 %.. Ratio of return on assets are not on the range of normal rule of IRDA .Net profit after tax of the PIC on the year 2008 it decreased the ROA of the Company.

4.2.7 PIC has investment Yields ratio highest on the year 2005 which is 7.17 % and lowest on 2008 which is 6.39 %.Investment Yields ratio is decreasing in trends on first year then it decreased to 6.39%.From 2006 to 2010 investment yield of company is stable.

4.2.8 PIC Nepal has return on net worth is highest in the year 2006 which is 17.96 %, and lowest is in the year 2008 which is 5.83 %.

4.2.9 PIC Nepal has branches and sub branches on the main city of the country. PIC run its business based on urban area and it cover whole country area.

4.2.10 NPAT and Net Worth of the PIC Nepal, NPAT has fluctuating every year under the study period and Net worth of the company has increasing in trend. Highest NPAT and Net worth of the PIC is Rs.14005000 and Rs147181000 respectively. Lowest NPAT on the year 2008 which is Rs5530000 and lowest Net worth of the PIC is on the year 2005 which is Rs 63971000.

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

Insurance has been introduced to safeguard the interest of people from uncertainties by providing certainty of payment at a given contingency. According to nature, characteristic and objective of the insurance company, they are also referred as financial intermediaries. In the modern society and 21st century's business age, it plays vital role through risk bearing and providing certainty.

Among the 25 insurance companies, this present study has been taken to evaluate the premium collection and investment pattern of Premier Insurance Company Ltd. The study analyzed the report of five years starting from 2006 to 2010 has been taken into consideration for the purpose of the study.

The study is analyzed reviewing the secondary data from journal, articles, annual report of the company and other relevant sources. To revel the problems, financial as well as statistical tools are applied. The recommendation is provided on the basis of findings from analysis.

Premier Insurance Company Ltd. was organized in the year 2045 B.S. and started its operation in around 2046B.S. Although, PIC runs smoothly with profit, they faced various problems. In about claim received, time consuming procedures in accepting, issuing and survey report submission, delay in claim settlement etc.

To evaluate the financial performance of premier insurance company we calculate the loss ratio, expenses ratio, earning per share, combined ratio, return on equity, return on assets and investment yields.

5.2 Conclusion

Based on analysis of findings of the study, following conclusions have been drawn which are summarized here

5.2.1 Earning per share -Analysis the earning per share of PIC every ear shareholder are earning position is good. After 2008 share holder earning per share is decreased due to the increase of no of share.

5.2.2 Loss ratio- From analyzing the Company performed well on claim settlement processes on initial year. The expenses of the PIC for settlement of claim are maintained as per IRDA rules. At the end of study period companies cost of settlement for claim is increasing due to increasing claim of previous year.

5.2.3 Expenses ratio –From analyzing the expenses ratio of PIC Nepal underwriting expenses more on the year 2010.Expenses are increasing for premium collection at the end of study period.

5.2.4 Combined Ratio-From analyzing the combined ratio PIC Nepal is in the range of IRDA .All the six year company has not more than 100% ratio so the company PIC Nepal has not more expenses on premium writing or claim paid. The increasing trend of management expenses and agency commission of PIC indicates the inefficiency of management. The high increase of total claim to net premium ratio shows the lack of risk management technique. The excess claim expenses is directly affected to net profit

5.2.5 Return on Equity –Analyzing the Return on Equity of PIC Nepal on the range of general rule. Recently increase in share doesn't affect the profit of the company. ROE of the PIC is increasing on profit and ratio of the company.

5.2.6 Return on Assets-The increase in the fixed assets presents the strong financial position of the company but unnecessary fixed assets cannot generate income. In insurance business there is no need of extra fixed assets except office equipment

5.2.7 Investment Yeilds- PIC has investment Yeilds ratio is decreasing in trends. The investment policy of PIC is traditional. It does not apply the "more risk more gain" theory. The block amounts of investment are invested in low return sectors i.e. government securities and fixed deposits. Vary little amount is invested in other sectors i.e. share of other companies

5.2.8 Analyzing the Return on net worth of PIC Nepal has return on net worth is decreasing in trend. The net worth is the resource of capital in any company. The return on net worth is tested to find how well the company has used the resource of owners. It shows the falling of return on net worth of PIC year to year. It indicates the improper use of its net worth.

5.2.9 Analyzing the branches of PIC Nepal, company adopted the policy of attending on urban area. PIC established its branch main city of the country.

5.2.10 Analyzing the NPAT and Net worth of the PIC, NPAT of the PIC is fluctuated ups and down but net Worth of the PIC is increasing in trend on the study period 2006 to 2010.

5.3 Recommendation

From analyzing the PIC on the study period researcher has some recommendation for the company

- PIC is recommended increase its profit by cost control and excellent management.
- PIC should improve their premium collection system and investment system too and try to increase customer service by providing different facilities and to withdraw unnecessary process of insurance and follow scientific insurance system
- Insurance premium fund should be invested in different sector other than Government bonds, bank deposits, shares in order to earn more return.
- PIC are suggested to expand insurance activities in rural areas by the established of branches or by the appointment of agents according to its potentiality. The necessity of training to agents is a must before their agents are appointed in order to attract the people.
- PIC should introduce more new policies and attractive strategy so as to make ease for the development of its business.
- Settlement of claims should be made in time; Delay in the settlement of claims may affect the business potentiality. Further, attention has to be adequately provided towards the faithfulness of the insured in connection with the claims arising due to the specified events

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