CHAPTER I

INTRODUCTION

1.1   Background

In Today's world of uncertainty, a sense of security is not only needed but it is an essential factor of life as people always want their life and wealth to be secure and safe. People are surrounded by risks and uncertainties due to modern technical complexities and insurance provides the security against such risks. Insurance is an effective means to save from loss and makes man certain and fearless regarding the risks. Insurance may be viewed as a cooperative device to spread the loss caused by particular risks over a number of persons who are exposed to it and who agree to ensure themselves against that risk. "Insurance is a contract by which one party for compensation, called premium, assumes particular risk of the other party and promises to pay to him or his nominee a certain sum of money on a specified contingency." (Petterson, extract from Singh, 2009; 282)

"Life is full of risks and uncertainties, which result in fear, anxiety and unpleasant outcomes in human life. There are risks of losing life and properties. One hardly knows beforehand when a loss will occur or how serious that loss will be. The uncertainty surrounding possible losses are known as risk. In life, losses are sometimes inescapable. People may become in poor health and lose earnings or money to pay off medical bills. Individuals or their relatives may die of sickness or accidents. People's houses or other properties may suffer damage or burglary. People also may accidentally cause injury to others or damage to the property of others. People may suffer heavy loss in their business enterprise. People always want the protection against such risks. Risks cannot be predicted beforehand for they take place at any time." (Dahal and Manandhar; 2060;1)

Insurance companies play vital role for the economic development of the nation as well as for the world's economy. Whether the country is developed or non-developed, it is very important to mobilize the fund in different investment sectors. For economic

development, financial sectors play foremost role, where they collect funds from customer by paying some percent interest and invest it to large industries and other business sector by taking some percent interest. The participation of insurance companies play even more important role for the economic development. Beside the economic sector, social culture, industrial and technology sector are also should be strong for the development and progress of a country.

Financial sector plays an important role in the economic development of a country. Insurance companies constitute one of the most important financial structures. They play dual role in the economy by safeguarding the insured against the risk of loss of life and property. Though the history of insurance company is not very old in Nepal, the concept of insurance, however, was developed in ancient period in Nepal. The system of making "Guthi" can be taken as the beginning point for the development of insurance in Nepal. The income from such "Guthi" was used to build building and repairing temples etc.

The history of modern insurance company began from 1947 A.D. with the establishment of a company named Maal Chalani Ra Bima Company, later renamed as Nepal Insurance and Transport Company in 2016 B.S. At that time the company conducted the transportation services along with insurance. The company was renamed as Nepal Insurance Co. Ltd. since 2024 B.S. Then the government established Rastriya Beema Sansthan in 2024 B.S. under the Company Act. Currently 25 insurance companies are operating in Nepal. Among them 7 companies are carrying out life insurance business, 2 company is carrying out both life and non-life business and 16 companies are carrying out non-life insurance business.

The insurance has proved as double-edged 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 the efficient management and sound financial position of the company can achieve these sets of goals.

The active participation of private sector will play an important role in the development of the financial sector. It is essential to flow financial resources easily and in a simple manner to enhance the role of this sector in economic development to achieve desired results. Because of various responsible causes the country has not been able to realize the desired outcomes; one of them is poor capital market condition. The capital market of Nepal is small at early stage of growth. There is a problem of asymmetric information between management of newly established Nepalese companies and Nepalese investors who have poured their funds therein.

The basic finance functions must be performed in all types of organizations and in all types of economic systems. The unique about business organizations in a market economy is that they are directly and measurably subject to the discipline of the financial markets. These markets continuously value business firms' securities, thereby providing measures of the firms' performance. Financial performance 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 evacuating 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. Market price per share in one hand reflects the financial performance information of company and in other hand determines the returns to investors in the form of capital gain. The different variables such as earning per share dividend per share, net worth per share are also very crucial to analyze which affect market price and all these help to evaluate the performance of company. The role of insurance companies has been instrumental in the overall economic development of the country. They help to pool and utilize resources, reduce cost and risks, expand and diversify opportunities increase the locative efficiency of resources; promote the productivity and economic growth. These are the main part of economy of the nation.

Due to the uncertainty surroundings, insurance was developed. It has proved itself as an effective device that could be a safeguard against such uncertainties and unfortunate happenings. Insurance company helps to those people, who are insured to live in same living standard in every critical situation. And also collected fund by insurance company, invest in productive sector which helps to develop their country.

1.2 Profile of Sample Insurance Companies

Everest Insurance Company Ltd.

Everest Insurance Company Limited was incorporated under companies Act on 4 December 1991. With the approval of Beema Samiti, it commenced operation on 31 May 1994 and an objective of undertaking non-life and re-insurance business in the country and aboard. EICL listed on stock exchange on 1995 the shareholding pattern of the company is 60% shares owned by promoters and 40% by general public. At the end of fiscal year 2008/09 authorized capital, issued capital and paid up capital were Rs.150,000,000, Rs.105,000,000 and Rs.101,250,000 respectively.

(*Source: EICL (2004/2005 - 2008/2009) Annual Reports*)

Prudential Insurance Company Ltd.

Prudential Insurance Company was incorporated under the Companies Act on November 30, 2000. With the approval of BeemaSamiti, it commenced operation on June 20, 2002 and an objective of underwrite non life insurance business in the country and aboard. PICL listed on stock exchange on 10 November 2004 the shareholding pattern of the company is 80% shares owned by promoters and 20% by general public. At the end of fiscal year 2007/08, authorized capital, issued capital and paid up capital were Rs.200,000,000, Rs.100,000,000 and Rs.100,000,000 respectively. (*Source: PICL (2004/2005 - 2008/2009) Annual Reports*)

1.3 Statement of the Problems

Nepal is a developing country. Most of the people of Nepal lie below poverty line. Most of people do not have enough ideas of investment and they do not have enough money to invest in the same way those who want to invest also are poorly educated.

The process of economic development depends upon various factors. Financial institutions are viewed as catalyst in the process of economic growth. The mobilization of domestic resources, capital formation and its proper utilization plays an important role in the economic development of a country. Every financial institution, big or small, either banks or insurance, is regarded as a profitable sector. Insurance industry in the eyes of the layman appears as a very profitable sector. However, unlike the general perception, the industry is plagued with immense challenges to sustain it and outpace those within the industry, mainly due to rising competition and weak economic situation in the country. Therefore the insurance companies should be very much cautious about their business operation. In this ground the study deals with the following issues:

- Whether insurance companies are improving the profitability or not?
- How market prices of insurance companies move?
- Whether the investor's wealth is increase or decrease?
- Position of Return, Income and Investment is good or not?
- Whether the trend of premium collection and profitability is increase or not?

1.4   Objectives of the Study

The main objective of the study is analyzing the comparative financial performance of Everest Insurance Company Ltd. and Prudential Insurance Company Ltd.

The specific objectives of the study are as follows:

- To see the profitability position of the selected companies.
- To analyze various aspects relating to financial performance of selected companies.
- To study of trend of premium and net profit of selected companies.

1.5 Significance of the Study

Insurance is very important in developing countries like Nepal where the average income per family is very low. Most of the families depend upon single person's income. If the earner becomes sick, the family finds nothing to survive on. Life or medical insurance would be good solution in those circumstances. And also insurance industry is vital sector for economic growth in a country. Insurance Companies play an eminent role in the industrialization of the country. It is equality important to the individual and to the nations as well. Due to lack of full-fledged capital market, the insurance companies do not have sufficient investment opportunities. Insurance Companies also have to face intense competition in a limited market territory.

Profitability is regarded as the lifeblood for any enterprise because it is needed for growth and expansion. If the business cannot maintain a satisfactory level of profitability, it is not regarded as a good enterprise and may even close. Insurance business is regarded as a profit sector. So an independent study of financial analysis of insurance business is significant for the stakeholders and the persons who are interested on it. Researcher believes that following institution and individual will be benefited from the study.

- Individual who will carry out further research work in financial analysis of insurance companies.
- Insurance companies whose study has been made.
- Individuals who have keen interest in Nepalese economy and insurance industry.
- Important to Investors, policymaker, policy holders, stakeholders, students, teachers, managers.

Therefore, considering all of these facts, the study helps to provide some guidelines to investors, policy maker and future researchers as well.

1.6   Limitations of the Study

The study is conducted with certain limitations. It is mainly concerned with comparative financial performance of Everest Insurance Company Ltd. and Prudential Insurance Company Ltd. Basically, this study is done for the partial fulfillment of MBS level. So it has some limitations, which are as follows:

- The study is based on the secondary data of few years period i.e. from fiscal year 2004/05 to fiscal year 2008/09, therefore conclusion about the result confines only to stated period.

- The study is based on only two insurance companies among various insurance companies.

- Mainly, the necessary data for the thesis were collected from Everest Insurance Company Ltd. and Prudential Insurance Company Ltd.

- The evaluation is made through the analysis of financial statement published and presented by companies.

- The thesis was dependent upon availability of limited publications of books, reports and articles regarding insurance business.

- To some extent data published on website and that of insurance companies may differ. So, the data from website and published materials, whichever is updated recently, is taken as authentic ones.

- The study has to be conducted with time limitations being a partially requirement for an academic program.

1.7 Organization of the Study

The whole study has been divided into five main chapters:

Chapter I: Introduction

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

Chapter II: Review of Literature

This chapter includes conceptual framework, review of books, and review of previous study, reports, thesis and journal articles related to the topic of the study.

Chapter III: Research methodology

Methodology used for the purpose of the study in this chapter includes research design, population and sample, nature and sources of data, and methods of data analysis.

Chapter IV: Presentation and Analysis of Data

It includes analysis of Financial Performance of Insurance Companies, Assessment of Return to Investors, Net Profit and Earned Premium Trend. And it also includes the major findings of the study.

Chapter V: Summary, Conclusions and Recommendation

The last chapter contains the summary of entire study, its conclusion and concrete measures are suggested in the form of the recommendation.

CHAPTER II

REVIEW OF LITERATURE

2.1 Conceptual Framework

This chapter deals with the review of literature related with the financial performance of insurance companies in Nepal. This chapter has been divided into two parts. The first part deals with the conceptual framework of the study while the second part is related with the review of previous studies.

2.1.1 Meaning and Definitions of Insurance

Today's world is full of risk. Moreover, the development of sophisticated technology and different scientific innovation has changed the human life. It has the whole world a global village. But it has also increased a great deal of risk. Some sort of risk is beyond the human control. To reduce such type of risk the idea of insurance is developed. Insurance is a way of reducing uncertainty of future outcome. It provides financial security against risk. Insurance works as a cooperative device to spread the loss caused by particular risk over a number of persons who are exposed to it and who agree to ensure themselves against that risk. Insurance gives relief from the risk. It performs the task of playing compensation for financial loss under the insurance. In return of little fixed amount if loss or damage has taken place. Insurance is the principle against risk. The risk means the uncertainty about the economic loss and the uncertainty is the major characteristic of human's daily life.

"Insurance may be defined as a social device providing financial compensation for the effects of misfortune, the payment being made from accumulated of all parties participating in the scheme." (Hansell, extract from Singh, 2009; 282)

"Insurance Distributes the cost of risk over a large group of individuals subject to same risk in order to reimburse the few who actually from the risk." (Ackerman, extract from Singh, 2009; 282)

"Insurance is contract in which a sum of money is paid by insured in consideration of the insurer's incurring the risk of paying a larger sum when the given contingency arises." (Tindal, extract from Thapa and Neupane, 2065 B. S.; 210)

"It is quite hard to define insurance to satisfy every viewpoint of insurance." Insurance may be defined as a system of combining many loss exposures with the cost of the lossess being shared by all of the Participants" (Crane; 1980: 8).

Insurance can be explained as a social device to accumulate funds to meet the uncertain losses arising through a certain risk to a person insured against the risk. In some generic terms, insurance is regarded as "co-operative risk carrying", transfer of specializing risk carriers," redistribution of actual loss etc. As a business institution, insurance has been defined as a plan by which large number of people associate themselves and transfer to the shoulder of all risks that attach to as individuals (Merge; 1959:2).

Insurance is defined as a co-operative device to spread the loss caused by the particular risk over a number of persons, who are exposed to it and who agree to ensure themselves against that risk. Insurance gives relief from the risk. It performs the task of paying compensation for financial loss under the insurance, in return of little fixed amount if loss or damage has taken place. Insurance, in modern term, can be defined as a risk transfer mechanism whereby the one who is exposed to risks transfers all or some part of it to an Insurer. "The meaning of insurance as a mean of spreading over the many losses, which would otherwise be borne by the individual it provides, in effect a pool to which the many contributions, out of which the few who suffers losses, are compensated." (Dinsdale; 1971:25)

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

Thus, insurance safeguard the interest of people from uncertainty by providing certainty of payment at a given contingency. Insurance companies constitute one of the most important components of financial structure. They play two vital roles in the economy, safeguard against the risk of loss of property and life and accumulation of resources. The former role is unique to them while the later is also significant because they mobilize funds of long-term nature.

Insurance companies play vital role for the economic development of the nation as well as for the world's economy. Whether the country is developed or non-developed, it is very important to mobilize the fund in different investment sectors. Though the

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

The development of sophisticated technology and different scientific innovation   has changed the human life. It has made the whole world a global village. But it has also increased a great deal of risk in human life. More specifically risk denotes the uncertainty of loss. No human activity is free from the risk. Some sort of risk is beyond the human control but human being always wants safe and secured life. To reduce such type of risk and uncertainties the concept of insurance is developed. Insurance is a way of reducing uncertainty of future outcome. It provides financial security against risk.

2.1.2   Historical Development of Insurance

Today's modern form of insurance is not the effort of fortnight. It has crossed a long series of time to develop insurance from ancient to modern insurance practices. From the very beginning of society, men have been following the way to share loss and profit, suffering and prosperity mutually with one another. "The concept of insurance is originated very early in Greece. There is a word "Yogakshem" in Rigveda, which means security. About three thousand years ago, racial insurance was in existence in the Arya community of India. But before four century BC there was the use of Bottomward banks under the marine insurance in Greece. Existence of life annuity

was found during the period of Roman Emperor. At first, Church of England used to make religious guild. Later on forming the merchant guild, started to give protections to the members further, later on crafts guild began to work as subsidiary of the merchants' guild. In this way, the concept of insurance is evolved. The development of modern formal insurance can be described in the four phases." (Bailey and Jeffery; 2002: 95)

In the first phase concept of insurance was most commonly used for marine insurance; the first modern form in the history of insurance. The concept of marine insurance was commonly used in Lombard of Italy and Venice in 14th century. "The significant role of Lioyd's institution for the development of insurance cannot be ignored. The underwriters who took the marine risk used to carry out the work of marine insurance, meeting personally in the coffee house of Edberd Lioyd in the tower of street of England. Slowly the coffee house was successful to introduce itself as a centre of marine insurance. The Lioyd's institution established in 1771 is the first institution to make formal marine insurance." (Bailey and Jeffery; 2002:101)

In the second phase, people used the concept of the life insurance to provide security to live. The first life insurance policy of the world was issued in the name of a person named "William Gybbons" in 1583 A.D. One astronomer named AdmandHeley submitted a 'Mortal Table' in 1693 AD to the royal security. But the first time, life insurance institutions insured amount technology on the basis of data. "In 1744 AD passing the Life Insurance Act created the foundation of the modern insurance. There is no controversy that the Life Insurance Act 1870 was passed to control of the life insurance business for protection. In 1971, both the life and the non-life insurance

were nationalized in India; as a result, the Life Insurance Corporation for life insurance and General Insurance Company Ltd. for non-life insurance were established. During the region of Elizabeth I, the life insurance used to effect for only one year. After one year, if it was not renewed, the insurance automatically used to be cancelled. But the job of effecting long term insurance, started from 18th century has been increased continuously." (Bailey and Jeffery; 2002:105)
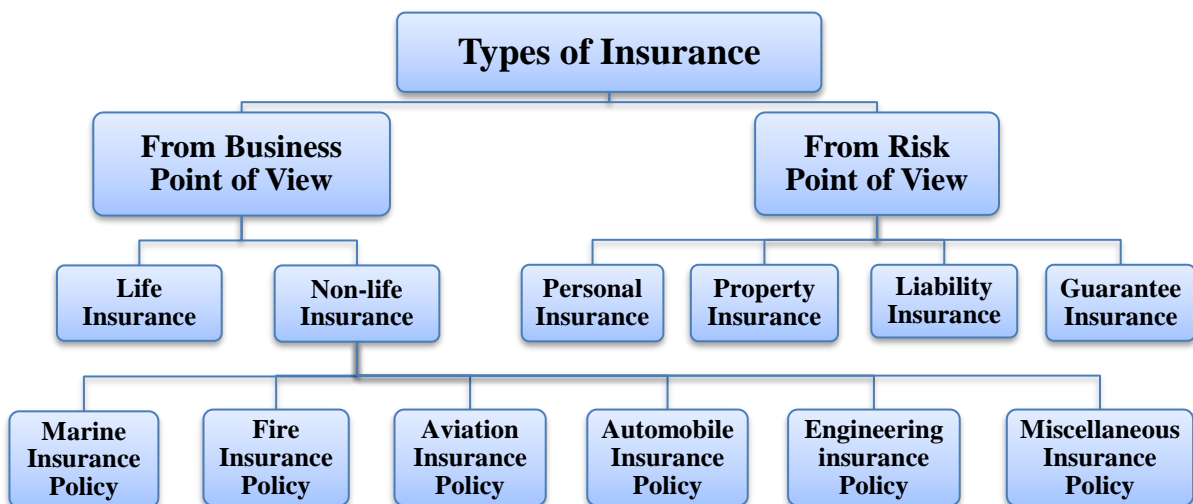
Fire insurance was emerged in third phase."In 1666 AD after the fierce fire incident, many buildings were turned into ash in England. It is known from the history of insurance that many people were in difficulties. So the fire insurance was introduced with the main objective of the providing the financial protection to the people to save from the risk and the ruin. In 1680 AD Dr. Nicholas Barbon has started the fire business related with the fire insurance in England. The office of Barbon was called the fire office later named as Phoenix In 1782. Phoenix Insurance Company was established with the development of the fire insurance today many people, industry and businessmen are breathing the air of the safety." (Bailey and Jeffery; 2002:106)

In the fourth phase, many other types of insurance have come in use. "Under the miscellaneous insurance, fidelity guarantee insurance started from 1848, personal accident insurance from 1880, liability insurance from 1875, public liability insurance from 1877, burglar and house breaking insurance from 1903, motor insurance from 1911, and aviation insurance came in practice. Similarly in other insurance, the vocal can consider castle insurance, rain insurance, and earthquake insurance, the vocal of the male singer and female singer, model beauty as miscellaneous insurance." (Bailey and Jeffery; 2002:107)

2.1.3 Types of Insurance

Insurance is to provide financial security against the uncertain event. It makes the security of the payment of insured among those who made life and non-life insurance. Now a day, insurance has become the pillar of alertness courage and eagerness to develop life and living standard of common people, industrialist and traders of the world. So, various types of insurance is developed, which can be classified as following:-

Figure:2.1
Types of Insurance

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                         ┌─────────────────────┐
                         │  Types of Insurance  │
                         └─────────────────────┘
            ┌────────────────────┴────────────────────┐
   ┌──────────────────┐                      ┌──────────────────┐
   │  From Business   │                      │   From Risk      │
   │  Point of View   │                      │  Point of View   │
   └──────────────────┘                      └──────────────────┘
      ┌────────┴────────┐        ┌────────┬────────┬────────┬────────┐
  ┌────────┐    ┌──────────┐  ┌────────┐ ┌────────┐ ┌────────┐ ┌────────┐
  │  Life  │    │ Non-life │  │Personal│ │Property│ │Liability│ │Guarantee│
  │Insurance│   │Insurance │  │Insurance│ │Insurance│ │Insurance│ │Insurance│
  └────────┘    └──────────┘  └────────┘ └────────┘ └────────┘ └────────┘
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| Marine Insurance Policy | Fire Insurance Policy | Aviation Insurance Policy | Automobile Insurance Policy | Engineering insurance Policy | Miscellaneous Insurance Policy |

A. From Business Point of View

There are following types of insurance from business point view:-

i. Life Insurance

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

the deceased. Generally, life insurance as a type of insurance plan conducted by the insurers is directly related with providing assurance against the economic part of total human life. "Life insurance contract may be defined as the contract where by the insurer in consideration of premium under takes, to pay a certain sum of money either on the death of the insured or on the expiry of a fixed period" (Mishra, 1989:49).

Life insurance is particularly concerned with that aspect of human life. In which the insurance or assurance of a person's life is impossible because of the certainty of death of a person once born; life insurance only provides assurance against the economic aspect of human life, not the assurance against the life itself. Life insurance provides future benefits against unseen future accident and it helps to live comfort in retirement life. Life insurance never fulfill losses of human life, it measures in amount of various risks and provides sum of amount in accordance to policy. It plays vital role in the society. Therefore, it is also known as social insurance too. Nepal insurance act 2049 (section 2-1) has defined life insurance as the contract of insurance effected on human life on the basis of age to pay a fixed sum to the assured or his nominee, on death or on the happening of any contingency, dependent on human life in consideration of payment of fixed investment premium by the assumed. Insurance companies provide the life insurance under various polices. Insurer provided various polices in accordance insured interest and desire. We can see following policy in life insurance commonly: Endowment policy, whole life policy annuity, term insurance and survivorship policy. In Nepal, Rastriya Beema Sasthan, National Life and General Insurance Co. Ltd, Nepal Life Insurance Co. Ltd, Life Insurance Corporation (Nepal) Ltd and American Life Insurance Co. provides life insurance service. The scope of life insurance business is seemed to be bright because of its nature and popularity. So

the various investors are interested to invest in life insurance business, although having restriction of government and challengers of other effecting factors.

ii. Non-life Insurance

It is also known as general insurance. It is a pure insurance because it measure any risk in term of money. General insurance is the insurance of property and liabilities risk of insured against some specified cost i.e. the premium, it includes property insurance liability insurance and other forms of insurance. General insurance considers all the risk and it provides certainty against the risk through certain some of money. This part of insurance includes the insurance and risk transfer of the property and liability of insured where "Property insurance against loss arising from the ownership or use of property, includes two general classifications; The first indemnifies the insured in the event of loss growing out of damages too, or destruction of his /her, own property and the second form pays damages for which the insured is legally liable the consequence of negligent acts that result in injuries to other persons or damage to their property, which is known as "liability insurance" (Bickeinaput, 1983:80).

Generally insurance companies are responsible to pay the insured amount. But when the accident is held by negligent of insured where the insurer does not responsible to pay any amount against the risk. Insurer and insured may agree to accept every kind of risk under their contract and the risk transfer through the assurance. But the "Coverage written by the property and liability insurance insurers may be divided into five types, physical damage or loss, loss of income and extra expenses resulting from physical damage to property, liability, health and surety" (Mehr, 1986:49).

In practice the insurers provides which are based upon their classification, among them these are the practical form:

a. Marine Insurance Policy

It is oldest form of insurance. It is written to provide the security against the perils of sea. Usually such policies provide the assurance not only against the natural disaster but also against piracy and other manmade disaster. Further the modified marine insurance policy may provide protection against the inland transit loss arising in the way to seller to buyer protection against loading and unloading or other mutually agreed risk with respect to the marine insurance a destination is customarily made between insurance written on shipment over land by such carrier as Rails, road, and trucks which is referred to as inland marine insurance and those that involve sea perils referred to as ocean marine insurance.

b. Fire Insurance Policy

Fire insurance had been originated in Germany in the beginning of sixteenth century. Fire insurance policies are issued to indemnity owners of property, whether buildings or content, against destruction or damage caused by the fire. Basic form of the fire insurance offers protection to the insured against the destruction of physical property as a result of fire. There may be various caused to extent an accident by fire. Insurer is only responsible to provide indemnity against risk, which was held at accordance to policy. The field of fire insurance can be modified or extended to include a number of peril closely allied to fire like wind, storm, earthquake, or else . Insurance may change higher premium as per nature of risk and insurance policy.

c. Aviation Insurance Policy

Aviation insurance is related with the risk occurring due to the peril, hazard or risks created by the aircraft. Aviation insurance provides the indemnity against the risk which is created on flight, landing and the time of take off an aircraft. Aviation insurance acquires the risk of passenger, cargo hull also. Despite the heavy charges all sends considerable quantities of Goods and there is a demand for insurance, more particularly because such goods are usually of small bulk and high value. Thus aviation insurance is essential and important in aviation field. Aviation insurance covers the Hull insurance, Aircraft liability insurance and medical payment too.

d. Automobile Insurance Policy

It is related to the risk of vehicles. It provides certainly against the risk of accident. It is directly related with providing the insurance against the perils or loss accruing with respect to the vehicle and with providing financial help to the insured to result the third party liability accruing due to the damage caused by the vehicle. The automobile insurance covers the full comprehensive policy and third party liability insurance too.

e. Engineering Insurance Policy

Engineering insurance policy is directly related with against the risk of engineering tools and technique. It is related with the risk transfers arrangement against perils, hazards or risk arising within manufacturing organization or within technical job sectors. A manufacturer has risk of break down his/her plant and may produce disqualify goods. However an engineering insurance provides the protection against that situation. Usually under this policy there will be basic insurance contracts.

f. Miscellaneous Insurance policy

A number of coverage's written by casualty insurers are available that cannot be classified neatly as liability, auto or crime insurance but nevertheless are important to those with the exposure that these forms are designed to protect. They are discussed under the innocuous heading of miscellaneous coverage and are written by property and liability insurance. Miscellaneous insurance policy covers the vague of insurance policy. However there are the practically important policies by the insurers.

B. From Risk Point of View

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

i. Personal Insurance

Under personal insurance, the insurance is made to the subject related to the person's life. There is possibility of risk associated to death, accident and diseases. The insurance which is affected against such risks with the objectives of getting financial protection is called insurance. Life insurance, personal accident insurance and health insurance are the examples of personal insurance.

ii. Property Insurance

Under this insurance, insurance of the different nature property is affected to compensate the property damaged or lost. The compensation is given to the assured by the insurance company. The insurance company gives only actual compensation to an insured on the basis of fact and even the examples of property insurance are fire insurance, marine craps, cattle and burglary insurance etc.

iii. Liability Insurance

Under this insurance, compensation is given to third person for loss or damage caused by negligence, or other reason of the party. The example of liability insurance is motor insurance, public liability insurance etc.

iv. Guarantee Insurance

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

2.1.4 Importance of Insurance

In modern economic age, insurance business plays a vital role in different sectors of the nation. We cannot imagine the smooth operation of economic activities without the provision of insurance. Insurance has become an integral part of modern economic activities. Insurance is such measure in the society which relieves a person form various anxieties. It is important to insurance the different spheres of life which are given below.

Figure:2.2
Importance of Insurance

Importance of Insurance			
Important to Individual and Family	Important to Business	Important to the Community	Important to Government

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

2.1.4.1 Importance to Individual and Family

An individual is score of any family. Importance of insurance to individual and family can be explained as below:

a.   Economic Protection

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

b.   Increase in Self-respect

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

c.   Assures Peace of Mind

Insurance removes most tension, fears and anxiety associated with future uncertainties. It results in improve meant of the efficiency of people because the carefree person can

devote his/her body and soul together for better achievement. Thus insurance provides peace of mind to the people.

d.   Eliminates Dependency

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

2.1.4.2 Importance to Business

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

a.   Financial Security

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

b.   Welfare of employees

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

c.   Promotes Foreign Trade

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

d.   Smooth Operation of Business

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

2.1.4.3 Importance to Community

Provision of insurance provides the following benefits to community:

a.   Safeguard of Wealth

Insurance company organizes different programs in order to bring favorable changes in the behavior and feeling of people living in society. It helps to overcome social evils, riots, violent demonstration etc. in community. As a result of individual and protection of private as well as public property is increase.

b.   Helps in Maintaining Standard of Living

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

c.   Creates Employment Opportunities

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

d.   Reduces Inflation

The term 'inflation' means increase in the price level of goods or services. Inflation is a concept which every citizen is not only aware of, but also painfully experiencing. In order to control the inflation, volume of money in the market should be reduced. Insurance company takes the money from the people in the form of premium, which reduces the volume of money in the market. Insurance companies invest the funds collected in the form of premium in the productive sectors, which certainly increase the quantity of goods or services. Thus when supply increase; business helps to control the inflation, which is desirable for the smooth economic development of the country.

2.1.4.4 Importance to Government

The government is responsible for maintaining law and order in the country. Government always wants the people be happy and healthy and prosperous. Insurance assists government by providing peace of mind to the individual and family, by

providing financial security to the individual and business firms in the country. Insurance companies help to generate employment.

2.2 Insurance Development in Nepal

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

The modern insurance business is relatively new in Nepal. Indian insurance companies initiated the insurance business from the late 1930 in Nepal. The Indian insurance companies were enjoying monopoly over the insurance business and had a well development business network in Nepal, later in 1948 (2004 B.S.).The first Nepalese insurance company, 'Nepal Mal Chalani Ra Beema Company Limited' was established by Nepal Bank Limited. This pioneering insurance company has changed its name into Nepal Insurance and Transport Company Limited in 2016 and Nepal Insurance Company Limited since 2048. The company started to provide only non-life insurance. There was not only insurance company to carry out life insurance business until 2024. So, the government realized the necessity for the establishment of insurance company to execute life insurance business. As a result then His Majesty's Government established Rastriya Beema Sansthan (Private) Limited in 2024 under the company Act. The government enacted Rastriya Beema Sansthan Act 2025 and RastriyaBeemaSansthan(Pvt.) Limited Changed in to Rastriya Beema Sansthan under the Rastriya Beema Sansthan Act 2025. It has provided life and non-life insurance service all over the country.

Now, the government has adopted liberal economic policy as a result many of the insurance company established after the restoration of democracy. In Nepal, there are 25 insurance companies. One of them is fully government owned corporation. 18 insurance companies are invested by private sector of the nation whereas 3 of them are joint venture with foreign companies and 3 are totally foreign investment company. Out of these 25 insurance companies, 2 companies are operating both life and non-life insurance business whereas other 7 are holding life insurance and other is non-life insurance companies.

Following are insurance companies which are operating only the life insurance business.

1. Nepal Life Insurance Co. Ltd.

2. Life Insurance Corporation (Nepal) Ltd.

3. American Life Insurance Company (ALICO)

4. Asian Life Insurance Company Ltd.

5. Surya Life Insurance Company Ltd.

6. Prime Life Insurance Company Ltd.

7. Gurans Life Insurance Company Ltd.

Similarly, following two companies operate both life and non-life insurance business.

1. Rastriya Beema Sasthan

2. National Life and General Insurance Co. Ltd

Following are non-life insurance companies.

1. Nepal Insurance Company Ltd
2. The oriental Insurance Company Ltd.
3. National Insurance Company Ltd.
4. Himalayan General Insurance Company Ltd.
5. United Insurance Company (Nepal) Ltd.
6. Premier Insurance Company Ltd.
7. Everest Insurance Company Ltd.
8. Neco Insurance Company
9. Sagarmatha Insurance Company Ltd.
10. Alliance Insurance Company Ltd.
11. NB Insurance Company Ltd.
12. Prudential Insurance Company Ltd.
13. Shree Shikhar Insurance Company Ltd.
14. Lumbini General Insurance Company Ltd.
15. Shikhar Insurance Company Ltd.
16. Siddhartha Insurance Ltd.

Growing number of companies in the Nepalese insurance market is the indication of expanding scope. Liberalized economic policies have tempted profit oriented joint venture companies. Insurance business is likely to accelerate with the speeded economic activities. With the rise in purchase power of the people and increased in educational level, the insurance business is expected to take upward course. There has been a growth of premium by 15% in average in non-life insurance. The volume of premium has been increasing. Similarly, the agent for life insurance has increased very significantly as compared to last fiscal year. This gives a clue that there is a

growth in life insurance as well. The fact that premium rate is decreased but the overall premium collection in insurance industry has increased suggest the increase of market size.

The Insurance Act 1993 has created an insurance regulatory Authority named "Insurance Committee" empowering to develop and regulate the insurance business, fix the priority area to invest the premium income, license and to facilitate administrative procedure to enable to function the insurance companies. The act has fixed the paid up capital requiring Rs.300 million to run the insurance business. No restriction is imposed between national and alien companies as to entering into business. The existence of economic and technological asymmetric between incumbent foreign investor has competitive advantage and the superiority of being foreign firms.

Due to low security, particularly in the context of Maoist insurgency most of the insurance companies have increased the premium particularly in terrorism insurance, which has discouraged the potential insured. Similarly, some insurance companies unnecessarily delay the claim or compensate very less has created panic among insured and compelled to think twice before purchasing policy. But in overall, the premium for other services such as fire insurance, vehicle insurance has decreased.

As there are several insurance companies in Nepal, competition is severe. As a result, this industry is going through innovation in its services offering for example, services are ranged from theft insurance to mobile insurance. The market for life insurance is tremendous and players are very few in this segment. There are hardly more than five

major players in this segment. Concept of life insurance is still unknown to majority of Nepalese.

2.3   Review of Previous Studies

2.3.1 Review of Related Journals and Articles

There are limited articles available in Nepal regarding the financial performance of insurance companies.

Bajracharya, (2047 B.S.), in his article, *"A Comparative Performance Study"*, expressed that deposits growth in commercial banks is not consistent. There is slow growth of deposit in local banks as compared to JVBs where as local banks are better in terms of mobilization of rural saving. In term of credit expansion, joint venture banks are more efficient than the local banks. Credit deposit is better in joint venture banks. The competition between the local and joint venture banks is not healthier.

Pradhan, (1994), in his article, "*Financial Management Practices in Nepal*", focuses the major feature of financial management practices in the context of Nepal. Throughout the research the researcher has carried out a survey of 78 enterprises. He found that most of enterprises do not burrow from only one bank; they switch to different banks whichever offers lower rate of interest rate. He found out that the bank loan for less than 1 year is more popular in public sector while bank loan of 1-5 years is preferred more in private sector. The most important aspect of finance function according to him is working capital management.

Pant,(1999), in his article, *"The Flow of Funds in Nepal"*, has analyzed the flow of funds of Rastriya Beema Sansthan since 1975 to 1991. He found that the small volume of credit transaction of Rastriya Beema Sansthan in areas other than government bonds means that it has influence to determine the structure of demand in the economy. The saving that it has managed to mobilized; especially through life insurance is considerable. It has, however, been used the finance government budget deficit or to further increase fixed deposit liability of the commercial banks which is many occasions has excess liquidity at their disposal. Rastriya Beema Sansthan however, has no alternative either.

Agrawal, (2000), in his article, *"Nepal's Capital Market, What It That Insurance Is A Key Factor in The Economic Development Take to Improve"*, of a Country. Insurance Companies not only shift the risks but also collect small-scattered capital and inject these in the development activities of long-term nature. It has director role to play in a developing country because of the fact the government is utilizing its entire means and resources for the all-sound development of the country. A slight mistake on the regulating of Insurance activities will create on adverse effect in the overall economy of the country. Hence, the supervision of insurance through regulation is a must in order to provide for insurance to establish and strengthen the national insurance market. Thus, insurance regulation facilities necessary control of insurers activities.

Shrestha, (2001), in his article, *"Research in Nepalese Finance"*, stated that there is a no doubt insurance plays a vital role in the development of economy. It gives security to the insured and collected the resources and mobilizes it. To highlight the importance of insurance business Dr. Shrestha says that insurance plays the important role in trade

and commerce. He specially focuses to the role of insurance is more sensitive in export marketing through his article. According to his views the role of insurance is more sensitive in export marketing and international trade to protect the risks and foreign exchange fluctuation risk etc. It is absolutely true that export trade is more risky that domestic trade. Generally as an exporter, he should be familiar with these risks involved in his trade. At last, he states that if the exporters are not aware of their facts they may have to face domestic exporters from exports risks by providing adequate insurance services to them, as they required. This would help a lot in the promotion of the country's export trade and to strengthen the country's balance of payment situation.

The government properties including corporation is insured to Government Company is priority basis. It is difficult to pursuer in such corporation and government offices, and so the environment is not very positive. Only lip service from Government, the economic growth of country is very slow. People cannot afford to pay insurance premium. The sense for insurance unawareness and unconscious mass is very high. Thus insurance business is very channeling. One has to create the market, tremendous market potentiality and opportunity is felt due to the unexplored market. Only the clue is to know and click on the right product and place with reasonable price to the right person. After the formation of Nepal Insurers' Association Companies can play their problems jointly to the government and should to forward for the interest and benefit of insures. The platform should be taken as an opportunity.

Shrestha,(2002), in his article, *"Changing Investment Portfolio of Rastriya Beema Sansthan",* attempted to analyze the investment portfolio holding pattern and its

effects to financial performance of R.B.S. He found the dominant part for total volume of investment portfolio in development bonds of HMG/N and a very negligible figure of total investment in share of other companies. Due to this fact, the contribution of income from development bound to total incomes from the portfolios is dominant part. The creation by a sound investment project is very crucial to R.B.S. to minimize return rather than always taking same trading policy of investing in government securities, fixed deposits, certificates and others. But the time has come for the Sansthan to cope with increasing competition to tap profitable investment opportunities by taking initiating in new industrial ventures for encouraging capital formation in the country.

2.3.2 Review of Thesis

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

Sharma, (2005) has conducted research entitled *"Financial Performance Analysis of Nepalese Insurance Companies Chitawan".* The study basically aims to examine the current financial position of insurance companies by analyzing the financial performance.

The specific objectives are:
- To examine the trend and pattern of earning, collection, investment and expenditure.
- To evaluate the comparative financial performance through the use of different kind of statistical and financial tools.

- To establish the empirical relationship to find out the effect of different performance indicators.
- To analyze the current situation of the Nepalese Insurance Companies in overall.

Major findings of her study are:

- The insurance companies were not following the generally accepted principle of financial management like in case of assets management, liquidity management, capital structure management and investment management etc. and also that there is no effective management system and any fixed plan and policy.
- The liquidity position of insurance companies is not in satisfactory level.
- By analysis of CV and SD it is found that the net profit is highly fluctuating and also is decreasing.
- The operating ratio is fluctuating high which is shown by higher value of CV and SD.
- The capital structure of the insurance companies is unhealthy and need to be improved.
- The turnover value is low and is not satisfactory level. From the analysis of the different turnover rations it is found that NICL and Premier Insurance Company Ltd. are in good condition and NLGI is in worst and condition of other companies are low satisfactory.

Dhakal, (2007) has conducted research entitled *"Financial Performance of Nepalese Insurance Companies"*. The study basically aims to evaluate the profitability of Nepal

life Insurance Company Ltd. and Life Insurance Corporation Nepal Ltd. in life insurance, & Himalayan General Insurance Co. Ltd. and Neco Insurance Co. Ltd. in non-life insurance and suggest recommendation based upon it.

The specific objectives of this study are:

- To evaluate the profitability of the companies.

- To analyze the relation of various factors like assets, Interest income, Managerial expenses and Life Insurance Fund on profitability.

- To analyze the financial position of sample insurance companies.

Major findings of her study are:

- The ratios of life insurance companies are more scattered than that of non-life insurance companies in the study period.

- Comparatively, the return on equity ratios of life insurance companies are more scattered than that of non-life insurance companies.

- The higher CV shows the greater variability in the average return on investment ratios of life insurance companies than that of the non-life insurance companies.

- Comparatively, the return on insurance fund ratios of life insurance are more scattered than that of the non-life insurance companies.

- The interest income to total income ratios of non-life insurance companies is more homogeneous than that of life insurance companies.

- Comparatively, the interest income to total assets ratios of life insurance are more dispersed than that of the non-life insurance companies.

- Comparatively, the investment to total assets ratios of life insurance are more dispersed than that of the non-life insurance companies.

- Comparatively, the interest earned to total investment ratios of non-life insurance companies are more dispersed than that of the life insurance companies.

K.C., (2008), in her thesis, *"A Study on Financial Performance of some Listed Insurance Companies".* The study basically aims to trace out and analyze the financial performance of insurance companies in Nepal.

The specific objectives are as follows:

- To analyze various aspects relating to financial performance of insurance companies in Nepal

- To examine the major financial indicators that has major influence on determining the MPS.

- To analyze the relationship between major financial indicators (DPS, EPS and NWPS) with MPS.

- To study the trend of premium collection and payment of claim.

Major findings of her study are:

- The average EPS of EICL is highest among the selected insurance companies and comparatively satisfactory during the period of study but other does not have satisfactory EPS, UICL has the lowest average EPS.

- The DPS indicates that the most of companies are not paying dividend regularly. Only UICL and EICL have paid regular dividend during the period of study.

- The MPS of EICL and is better than rest of companies. The MPS of PICL, EICL and HGICL is fluctuating up and down and rest of the companies has normal trend.

- The price earning ratio of PICL is fluctuating. P/E ratio reflects investors expectations about the growth in the firm's earning. UICL has highest P/E ratio than other four companies.

- The range of NWPS of five insurance companies is in increasing trend. EICL has better performance in terms of NWPS for five years period.

- The average P/E ratio is quite low. UICL has highest P/E ratio but it has high degree of fluctuation. EICL has lowest average P/E ratio.

- The average growth rate on MPS and EPS of stocks of the companies are not consistence.

- The relationship between MPS and EPS , MPS and DPS, MPS and NWPS, show mixed result that is some insurance companies have positive correlation and some have negative correlation, which indicates that there is no specific trend in this regard applicable for all insurance companies.

Pradhan, (2010), in his thesis, *"A Comparative Study of Financial Performance of Prudential Insurance Company Limited and Himalayan General Insurance Company Limited"*. The study basically aims to trace out and analyze the financial performance of insurance companies in Nepal.

The specific objectives are as follows:

- To see the profitability position of the selected companies.

- To analyze various aspects relating to financial performance of selected companies.

- To study of trend of premium and net profit of selected companies.

Major findings of her study are:

- The average MPS of HGICL is greater than PICL. The trend of MPS of HGICL is smooth and upward trend. PICL as well as HGICL gave dividend only two times in study period. The average DPS of PICL is slightly greater than HGICL. The trend of dividend policy is not good of these insurance companies. It implies bad message among the investor of insurance companies because it increases the risk for them. The average EPS of HGICL is greater than PICL. But the trend of EPS of HGICL as well as PICL is down ward slope trend. EPS are decreasing year by year.

- P/E ratio reflects investors' expectations about the growth in the firm's earning. From this analysis, it is clear that PICL has highest P/E ratio than HGICL. The market/book value ratio of PICL is slightly better than HGICL in five years study period. The dividend yield of PICL as well as HGICL is very low in five years study period. The capital gain yield of HGICL is far better than PICL in five years study period. The total yield of PICL is better than HGICL in five years study period.

- The return on assets ratio of HGICL is better than PICL in five years study period. The CV of PICL is greater than HGICL. The ratios of PICL is more scattered than HGICL, it is shown by CV in the study period. The return on

equity ratio of HGICL is better than PICL in five years study period. The CV of PICL is greater than HGICL. The ratios of PICL is more scattered than HGICL it is shown by CV in the study period. The return on investment ratio of HGICL is better than PICL in five years study period. The CV of PICL is greater than HGICL. The higher CV shows the greater variability in the ratios of PICL in the study period. The interest income to total income ratio of PICL is better than HGICL in five years study period. The average interest income to total income ratio of PICL is greater than HGICL. The higher CV shows the greater variability in the ratios of PICL in the study period. The interest income to total assets ratio of PICL is better than HGICL in five years study period. The CV of HGICL is greater than PICL. The higher CV shows the greater variability in the ratios of HGICL in the study period. The investment to total assets ratio of PICL is better than HGICL in five years study period. The CV of PICL is greater than HGICL. The higher CV shows the greater variability in the ratios of PICL in the study period. The interest earned to total investment ratio of PICL is better than HGICL in five years study period. The CV of HGICL is greater than PICL. The higher CV shows the greater variability in the ratios of HGICL in the study period

- The net profit trend of PICL is better than HGICL in five years study period. Because the value of b of HGICL is negative as well as higher than PICL. The earned premium trend of HGICL is better than PICL in five years study period. Because the value of b of HGICL is positively higher than PICL.

Research Gap

Since the above mentioned studies offer limited findings, more extensive testing , and adjustment of necessary variables are needed in ordered to be more conclusive about

the financial performance of insurance companies. Previous studies were directed to find the effect of the different financial ratios of firm on dividend per share to Market per share (i.e. dividend yield). Likewise many changes have taken place in the capital markets of Nepal after the completion of the K.C.'s study. Similarly, Dhakal's study is unable to present the exact condition of insurance companies in Nepalese market.

The previous relevant literature related to insurance business has just reviewed to support the study. In Dhakal's study, she failed to study the claim made towards the insurance companies. This study tries to fulfill this weakness. And there is also less research made in this topic especially in insurance sector.

Almost all research work done in past in based on market based and comparison of life & non-life insurance, thus, now research has to be done in the area of same categories to present detail comparative financial analysis. Hence, this study focused on a comparative financial performance of two non-life insurance.

Financial value has very big role to sustain any insurance companies. It is equally important to identify the relation of these financial ratios with capital gain yield and total yield. So, it tries to assess the market performance of insurance companies and by providing the proper atmosphere for the insurance market in our country. The present study is based on five years data of insurance companies, which tries to achieve its objectives by analyzing secondary as well as primary source of data. Thus, the earlier studies on these issues need to be updated and validated because of the many changes taking place in Nepalese insurance market. The current study is a supplement to overcome the weakness and limitation of previous studies.

CHAPTER III

RESEARCH METHODOLOGY

This chapter describes the methodology applied in this study. Research methodology is a systematic way to solve the research problem. It refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view. The chapter includes the research design, population and sample, nature and sources of data, analysis of data.

3.1 Research Design

This study covers quantitative methodology in a greater extent and also uses the descriptive part based on both technical and logical aspect. Though the research tried to concentrate on quite a specified subject area, it could not ignore some other relevant areas of study, which may give further support to the research. The study is related with comparative financial performance of two insurance companies and it is based on fully secondary sources of data. Thus, analytical research design has been used.

3.2 Population and Sample

There are twenty-four insurance companies operating in Nepal upto the end of fiscal year 2008/09 that are considered to be the total population of the study. But due to lack of time and resource factor, it is not possible to include all of them in the study. Hence, out of 18 non-life insurance companies, two non-life insurance companies

have been selected. The study is based on observations covering the fiscal year from 2004/05 to 2008/09.

3.3 Nature and Sources of Data

The study is totally based on different financial institutions. The website of NEPSE is www.nepalstock.com,SEBON is www.sebonp.com, PICL is www.prudential.com.np, and EICL is www.everestinsurance.com. The main sources of such data are NEPSE, Securities Board Office, Beema Samiti and Economic Survey published by Ministry of Finance. Besides these, the required data are also collected from various annual reports, various bulletin, journal, articles and other publications published by Beema Samiti is www.bsib.org.np, www.beema.com.np etc. Similarly other data are obtained by performing discussion with the executive of Insurance companies and management experts of the respective companies.

3.4   Methods of Data Analysis

The data collected from various secondary sources has been analyzed by using univariate Analysis, Various Ratios and different Statistical Tools. The collected data have been presented in different tables, figures and charts to trace out the situation of 'A Comparative Financial Performance Analysis of Everest Insurance Company Ltd. and Prudential Insurance Company Ltd.'

Figure: 3.1

Methods of Data Analysis

Methods of Data Analysis		
Univariate Analysis	Ratio Analysis	Statistical Analysis

3.4.1 Unvaried Analysis

In the method of unvaried analysis, a comparison is made between the market price per share (MPS), net worth per share (NWPS), earning per share (EPS), dividend per share (DPS), dividend yield, price earning ratio, market book value ratio of insurance companies. The analytical procedure applied for assessing the performance of EICL and PICL.

Figure: 3.2

Different Analytical Tools under Univariate Analysis

a. Market Price per Share (MPS)

b. Dividend per Share (DPS)

c. Earning per Share (EPS)

d. Price Earning Ratio (P/E Ratio)

e. Market / Book Value Ratio

f. Dividend Yield

g. Capital Gain Yield

h. Total Yield
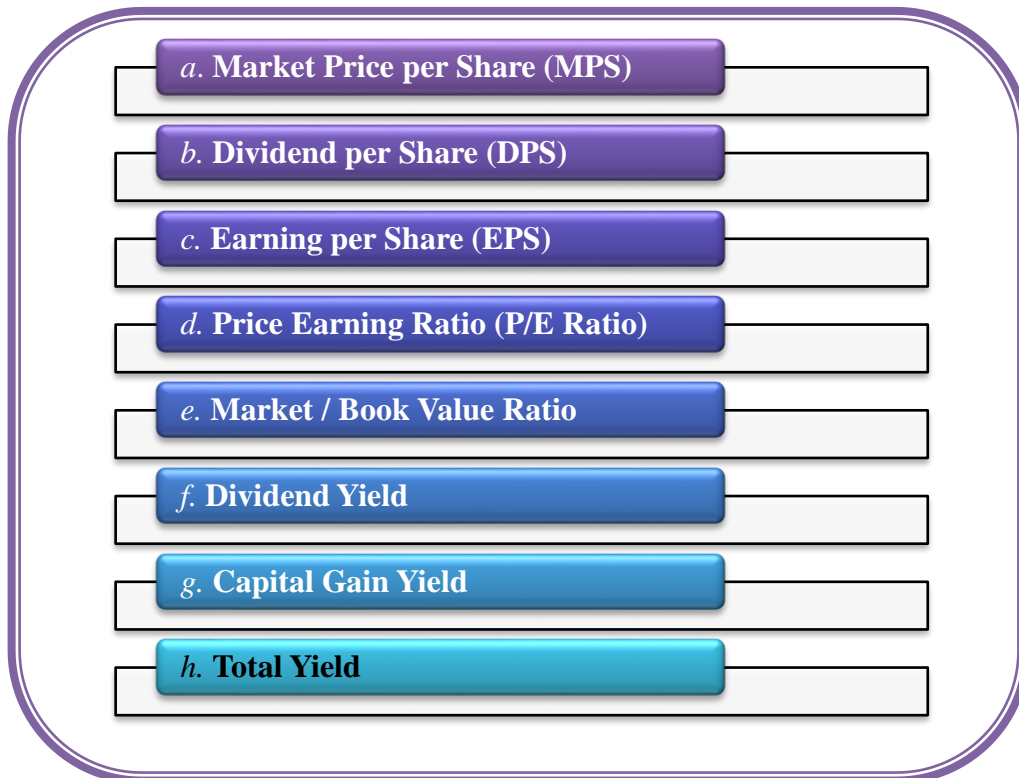
3.4.1.1 Market Price per Share (MPS)

MPS is that value of stock, which can be obtained by a firm from the market. Market values share is one of the variables, which is affected by the dividend per share and earning per share of the firm. If the earning per share and dividend per share is high, the market value of share will also be high. Market value of share may be lower or higher than the book value. If the firm is growing its earning power will be greater than cost of capital. For such firms market value of share will be higher than the book value. If the firm's earning capacity is lower than the cost of capital then MPS will be lower than the book value.

3.4.1.2 Dividend per Share (DPS)

Dividend refers the percentage of earnings paid in cash to its stockholders. "As long as there are investment projects with returns exceeding those that are required, it will use retained earnings and the amount of senior firm has retained earnings left over after financing all acceptable investment opportunities, these earnings then would be distributed to stockholders in the form of cash dividends, if not there would no dividends" (*Van Horne, 1990:328*). DPS is the net distributed profit belonging to the shareholders divided by the number of ordinary shares outstanding. It measures the financial performance of the company. It is calculated as under:

$$\text{Dividend per Share (DPS)} = \frac{\text{Amount paid to equity share holders}}{\text{Number of ordinary shares outstanding}}$$

3.4.1.3 Earning per Share (EPS)

EPS ratio is used to measure the profitability of a firm from the owner's viewpoint. The market value of shares of a company is dependent on the earnings of the company. EPS also measures the return of each equity shareholder. It can be calculated by dividing the net profit after tax by the total number of the common shares outstanding. It reveals the earning power of each share over the period basically in one year. It is calculated as under:

$$\text{Earning per Share (EPS)} = \frac{\text{Net Profit}}{\text{Number of existing equity share}}$$

3.4.1.4 Price Earning Ratio (P/E Ratio)

Price earning ratio reflects the price, which is currently paid by the market for each rupees of earning, which is currently reported earnings per share. The P/E ratio could be calculated by dividing the market value per share by earning per share. It is calculated as:

$$\text{Price Earning Ratio (P/E Ratio)} = \frac{\text{Market price per share}}{\text{Earning per share}}$$

3.4.1.5 Market /Book Value Ratio

This ratio indicates such types of price, which the market is paying for the value that is reported from the net worth of insurance companies. In other words, we can say that it is the price that the outsiders are paying for each rupee shown to the balance sheet of the company. This ratio is calculated by dividing the market value per share by the book value per share as under:

$$\text{Market/Book Value Ratio} = \frac{\text{Market price per share}}{\text{Book value per share}}$$

3.4.1.6 Dividend Yield

Dividend Yield ratio measures the relationship between the earnings belonging to the ordinary shareholders. This ratio evaluates the shareholders' return in the relation to the market value of the share. It helps to decide whether to make investment or not in a common stock. Sometimes, lower dividends also produce higher yield and higher dividends also produce lower yield. Thus, dividend yield helps the investors to know the rate of return in the form of dividends. This is calculated by dividing the dividend per share by the market value per share as under:

$$\text{Dividend Yield} = \frac{\text{Dividend per share}}{\text{Market price per share}}$$

3.4.1.7 Capital Gain Yield

Capital gain yield means rate of return on investment as a result of changing the year end stock price of two year. Positive value of capital gain yield shows the positive rate of return where as negative value to capital gain yield indicates negative rate of return or capital loss. It is calculated as under:

$$\text{Capital Gain Yield} = \frac{\text{Ending Price} - \text{Begining Price}}{\text{Begining Price}}$$

3.4.1.8 Total Yield

Total yield constitutes divided yield plus capital gain yield. It is the total rate of return on investments in stocks.

3.4.2 Ratio Analysis

Ratio analysis is one of the most powerful tools for analyzing the financial performance of any firm. Since many diverse groups of people are interested in analyzing the financial information to indicate the operating and financial efficiency and growth of the firm. These people use ratio to determine those financial characteristics of the firm in which they are interested. "In the financial analysis, ratio analysis is used for evaluating the financial position and performance of the firm" (Pandey; 1999; 104).

In this analysis detail analysis on return, expenses, income related ratios have been made in order to find out the true picture of profitability of the sample banks. Profitability analysis would be incomplete if these above aspects are not taken into consideration.

Figure: 3.3

Different Analytical Tools under Ratio Analysis
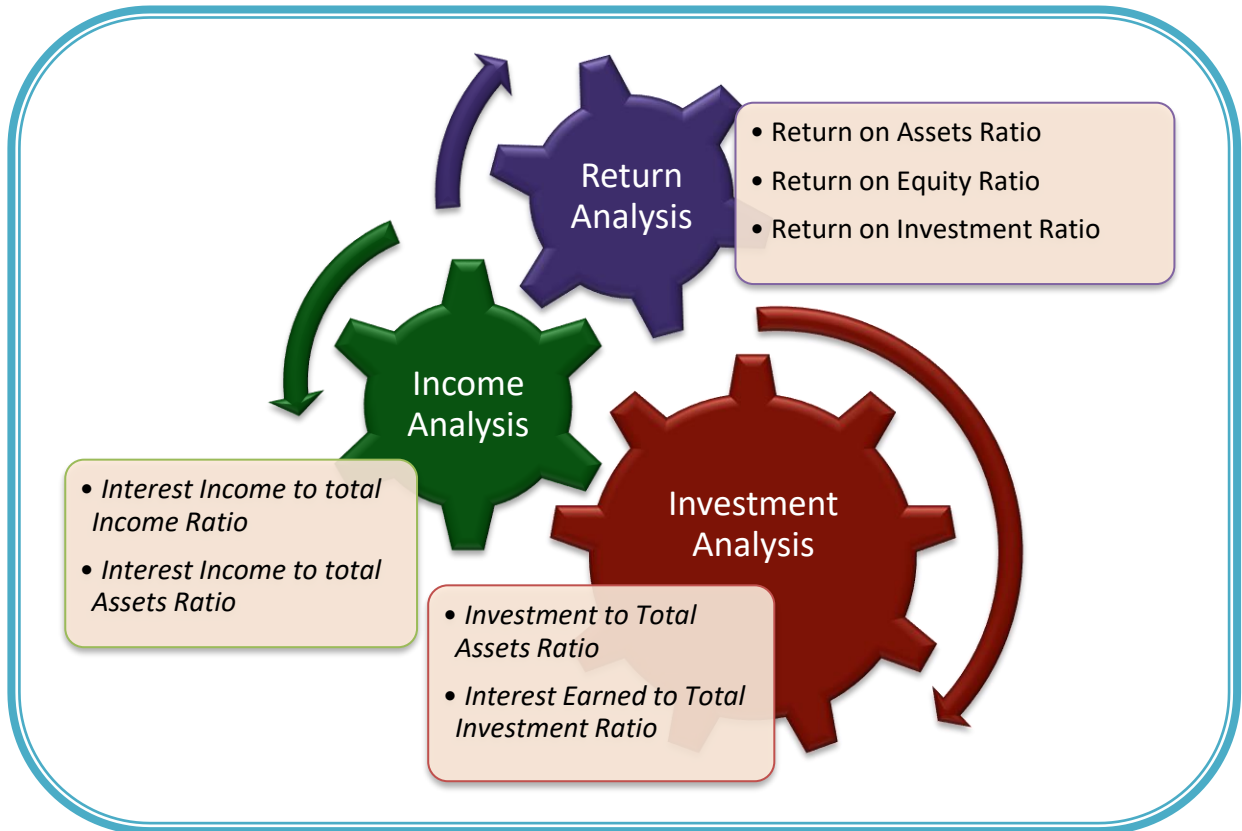
3.4.2.1 Return Analysis

3.4.2.1.1 Return on Assets Ratio

Return on Assets ratio measures the percentage of net profit on total assets employed to the firm. This ratio is obtained by dividing the net profit by total assets.

$$\text{Return on Assets} = \frac{\text{Net Profit}}{\text{Total Assets}} \times 100$$

3.4.2.1.2 Return on Equity Ratio

Return on Equity Ratio shows the percentage of net profit on total Equity. This ratio is measured by dividing the net profit by total equity amount.

$$\text{Return on equity ratio} = \frac{\text{Net Profit}}{\text{Total Equity}} \times 100$$

3.4.2.1.3 Return on Investment Ratio

Return on investment ratio measures the performance of the investment and it indicates the whole investment portfolio performance. This ratio is obtained by dividing the net profit by total investment.

$$\text{Return on Investment Ratio} = \frac{\text{Net Profit}}{\text{Total Investment}} \times 100$$

3.4.2.2 Income Analysis

3.4.2.2.1 Interest Income to Total Income Ratio

Interest Income to total Income Ratio measures the percentage of Interest income on total income earned to the firm. This ratio is obtained by dividing the interest income by total income.

$$\text{Interest Income to Total Income Ratio} = \frac{\text{Interest Income}}{\text{Insurance Fund}} \times 100$$

3.4.2.2.2 Interest Income to Total Assets Ratio

Interest Income to Total Assets Ratio measures the percentage of Interest income on total assets employed to the firm. This ratio is obtained by dividing the interest income by total assets.

$$\text{Interest Income to Total Assets Ratio} = \frac{\text{Interest Income}}{\text{Total Assets}} \times 100$$

3.4.2.3 Investment Analysis

3.4.2.3.1 Investment to Total Assets Ratio

Investment to total assets ratio is calculated to know the percentage of investment in assets. It is calculated as;

$$\text{Investment to total assets ratio} = \frac{\text{Total Investment}}{\text{Total Assets}} \times 100$$

3.4.2.3.2 Interest Earned to Total Investment Ratio

This ratio actually reveals the earning capacity of insurance company by investing its all collected premium and other capital funds. The higher the ratio, higher will be the income as interest. This ratio is calculated by using the following equation:

$$\text{Interest earned to total investment ratio} = \frac{\text{Total Interest Earned}}{\text{Total Investment}} \times 100$$

3.4.3   Statistical Analysis

The Financial performance analysis of the selected Insurance Companies is analyzed with the help of statistical tools such as Time Series Analysis.

Figure: 3.4

Different Analytical Tools used under Statistical Analysis
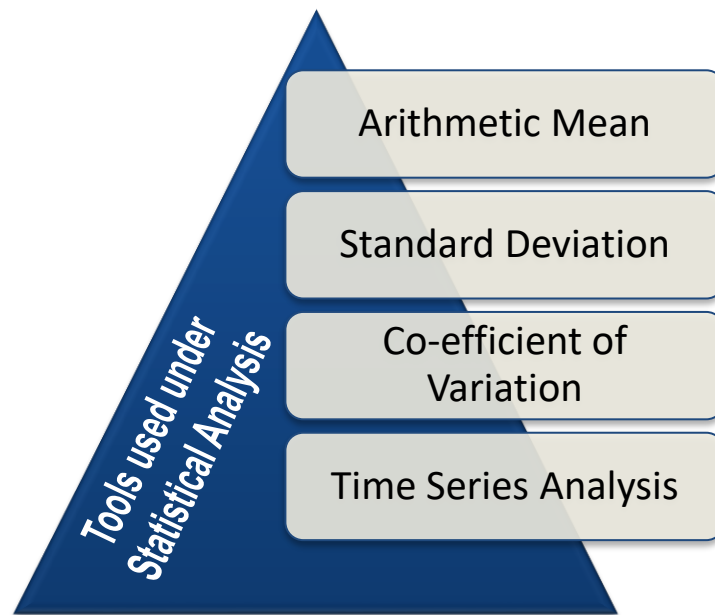
3.4.3.1 Arithmetic Mean

Arithmetic mean also called the 'mean', or 'average' 'arithmetic average' is most popular and widely used measure of central tendency. Arithmetic mean is the ratio of the sum of all observation to the number of observations. It is calculated from on grouped (individuals) data and frequency distribution as follows

$$\bar{X} = \frac{x1 + x2 + \ldots\ldots + xn}{n} = \frac{\sum x}{n}$$

Where $\sum x$ = sum of observations

n = number of observations

3.4.3.2 Standard Deviation

Standard deviation is the most popular and most useful measure of dispersion and gives uniform, correct and stable results. The chief characteristic of standard deviation is that it is based on mean, which gives uniform and dependable results, Furthermore; a standard deviation is always a positive number and is superior to the mean deviation, quartile deviation and the range because it is used for further mathematical treatment.

A standard deviation is positive square root of average sum of squares of deviations of observations from the arithmetic mean of the distribution. The square of standard deviation is call variance. The variance is measures of dispersion in which the unit the expressed in terms of squared form viz. cm^2, kg^2, etc. In order to reduce the unit of measurement we use standard in order to reduce the unit of measurement we use standard deviation (σ). Thus the standard deviation for individual series is

$$\sigma = \sqrt{\frac{\sum(x-\bar{x})^2}{n}}$$

3.4.3.3 Co-efficient of variation:

The percentage measure of co-efficient of standard deviation is called co-efficient of variation (C.V.). The C.V. is used for comparing the homogeneity, uniformity, and variability of two or more distributions. The formula of C.V. is as follows:

Co-efficient of variation (C.V.) = $\frac{\sigma}{\bar{x}} \times 100$

3.4.3.4 Time Series Analysis

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

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

$$Y = a+bx$$

Where,

Y   =   Trend Value of variables

Y   =   Variables which is assumed to depend upon time

a   =   Y intercept of computed trend figure of the Y variable where Y

     =   0

b   =   Slope of the trend line or the amount of change in Y variable that

          is associate with a change of one unit in X variable.

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

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

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

$$\Sigma XY = a\Sigma x + b\Sigma x^2$$

Where,

N represents numbers of years.

When

$$\Sigma x = 0$$

Then,

$$a = \Sigma \frac{y}{N}$$

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

In next chapter, we will study the Trend Analysis of Earned Premium and Trend Analysis of Net Profit.

CHAPTER IV

PRESENTATION AND ANALYSIS OF DATA

This chapter is fully devoted to analyze the various issues of the study in the context of Everest Insurance Company Ltd. and Prudential Insurance Company Ltd. It contains two parts. The first part includes financial as well as statistical comparative analysis and the second part includes major findings of the study.

4.1 Analysis of Financial Performance of Insurance Companies

Financial Performance of companies is a broad subject which can be examined in various ways. The current owners of the company, the potential investors, employees, creditors, government, customers etc. analyze the financial performance in their own ways based on their own interests. Although it is not possible to fulfill the interests of all the stakeholders about the financial performance of the selected companies, this study tries to help more or less all of them by examining the performance of the companies which are Everest Insurance Company Ltd. and Prudential Insurance Company Ltd.

4.1.1 Analysis of Market Price per Share

Market price per share is the price at which shares are traded in the stock Financial. Those shares are transacted in the secondary Financials which are already issued to the public. Organized stock exchange centers are known as secondary Market where trading of the stocks are conducted. Market value in the secondary Market is determined by supply and demand factors and reflects the consensus opinion of

investors and traders concerning the value of the stock. The market price per share of listed insurance companies is a good measure of performance. A higher market price per share indicates the better performance of the company and vice versa. Whether a market price per share is high or low it is difficult to determine. For this, the market analyst has to compare it with the book value per share and also with the market price share of other companies.

Table: 4.1

Market Price per Share (MPS) of EICL and PICL (Amount in Rs.)

Year	EICL	PICL
2004/05	325.00	230.00
2005/06	295.00	210.00
2006/07	290.00	238.00
2007/08	291.00	208.00
2008/09	285.00	204.00
Average	**297.20**	**218.00**

(Sources:Appendix-I)

Figure: 4.1

Market Price per Share (MPS) of EICL and PICL
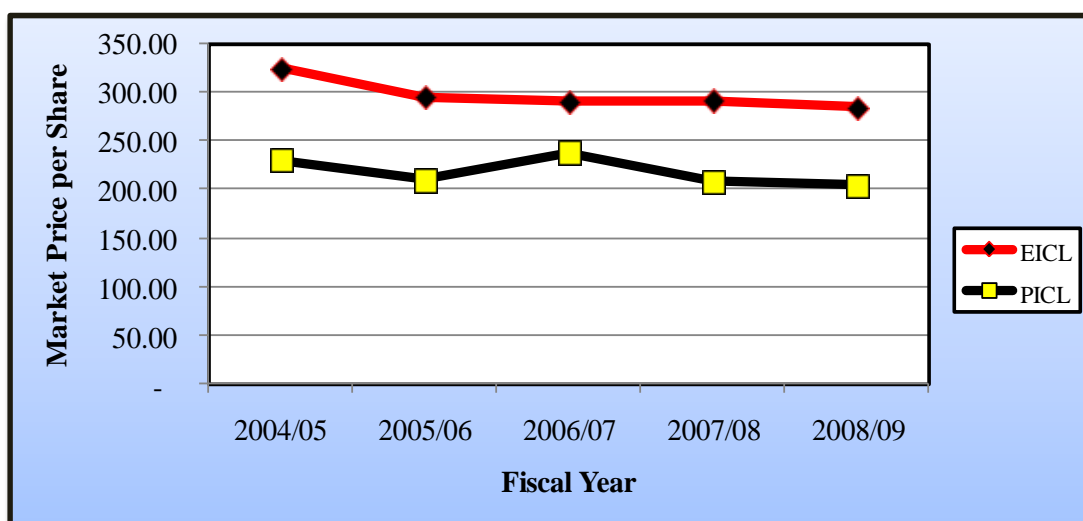
(Sources: Table: 4.1)

Table No 4.1 Shows that the market prices per share of EICL are Rs.325, Rs.295, Rs.290, Rs.291 and Rs.285 in 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. The market price per share of PICL is Rs.230, Rs.210, Rs.238, Rs.208 and Rs.204 in 2004/05, 2005/06, 2006/07, 2007/08 2008/09 respectively. The lowest MPS of EICL is Rs.285 in 2008/09 and the lowest MPS of PICL is Rs.204 in 2008/09.

4.1.2 Analysis of Dividend per Share

Dividend per share is the amount availed to the holders of each common stock by the company. Evaluation of performance of listed companies in terms of dividend per share (DPS) is considered as an appropriate measure which shows the companies' earnings and dividend paying capacity. DPS is the net distributed profit belonging to the shareholders divided by the number of ordinary shares outstanding. It measures the Financial Performance of the Company. It is calculated as under:

$$\text{Dividend per Share (DPS)} = \frac{\text{Amount paid to equity share holders}}{\text{Number of ordinary shares outstanding}}$$

Dividend per share includes dividend decision in earning per share. The joint venture banks, other Market institutions, and some other companies have brought greater revolution in this trend. They are competing for paying larger amount of dividends in recent years.

Table: 4.2

Dividend per Share (DPS) of EICL and PICL (Amount in Rs.)

Year	EICL	PICL
2004/05	50.00	-
2005/06	-	6.00
2006/07	13.16	6.00
2007/08	-	-
2008/09	20.00	5.00
Average	**16.63**	**3.40**

(Sources: Appendix-II)

Figure: 4.2

Dividend per Share (DPS) of EICL and PICL
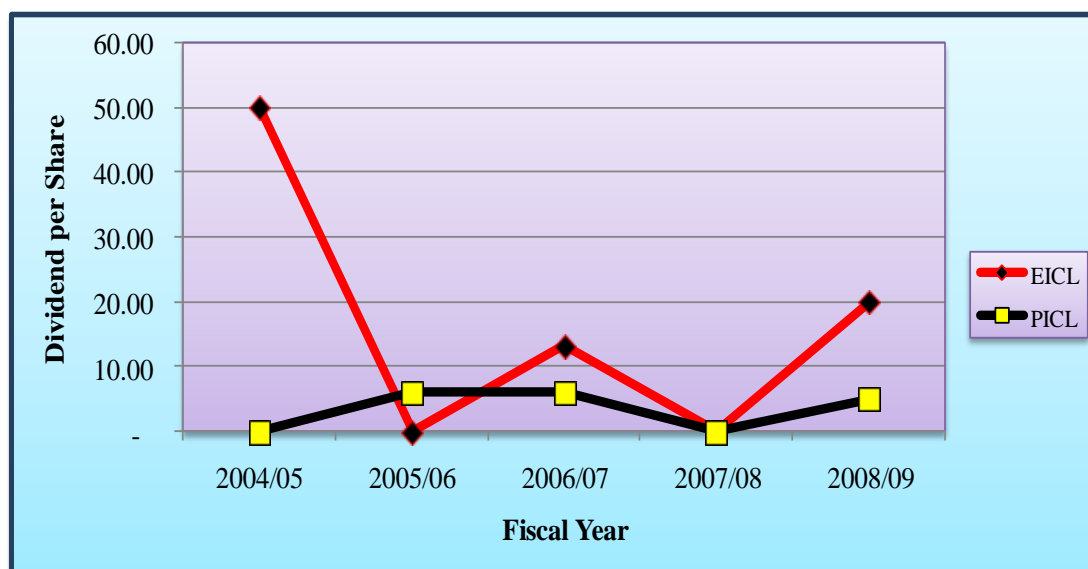
(Sources: Table: 4.2)

Table No. 4.2 shows that the dividend per share (DPS) of EICL is Rs.50, Rs.0, Rs.13.16, Rs.0 and Rs.20 in 2004/05 to 2008/09 respectively. The Dividend per share (DPS) of PICL is Rs.0, Rs.6, Rs.6, Rs.0 and Rs.5 in 2004/05 to 2008/09 respectively. EICL paid dividend per share of Rs.50, Rs.13.16 and 20 in 2004/05, 2006/07 and 2008/09. PICL paid dividend per share Rs.6, Rs.6 and Rs.5 in 2005/06, 2006/07 and

2008/2009 respectively. The highest dividend per share of EICL is Rs.50 in 2004/05 Similarly, The highest dividend per share of PICL is Rs.6 in 2005/06 and 2006/07. EICL did not give dividend to shareholders in year 2005/06 and 2007/08. PICL did not give dividend to shareholders in Year 2004/05 and 2007/08.

4.1.3 Analysis of Earning per Share

Company cannot run without profit in long period. It cannot run and exist over the long run. So Profit is called the life blood of any company. Therefore, sufficient earning is necessary for the company to satisfy its owners. Earnings of the shareholders is the residual amount which remains after deducting all the expenses, interest, taxes and dividends to preferred shareholders from the revenue Earning per share is the amount available to the holders of each share.

It is good measure of Financial Performance because it integrates all the major Market ratios and provides holistic information. Overall Market model states EPS as follows:

$$\text{Earning per Share (EPS)} = \frac{\text{Net Profit}}{\text{Number of existinge quantity of share}}$$

Table: 4.3

Earning per Share (EPS) of EICL and PICL (Amount in Rs.)

Year	EICL	PICL
2004/05	16.87	3.57
2005/06	13.94	8.59
2006/07	24.54	10.60
2007/08	6.42	2.11
2008/09	36.16	10.26
Average	**19.58**	**7.03**

(Sources:Appendix-II)

Figure: 4.3

Earning per Share (EPS) of EICL and PICL
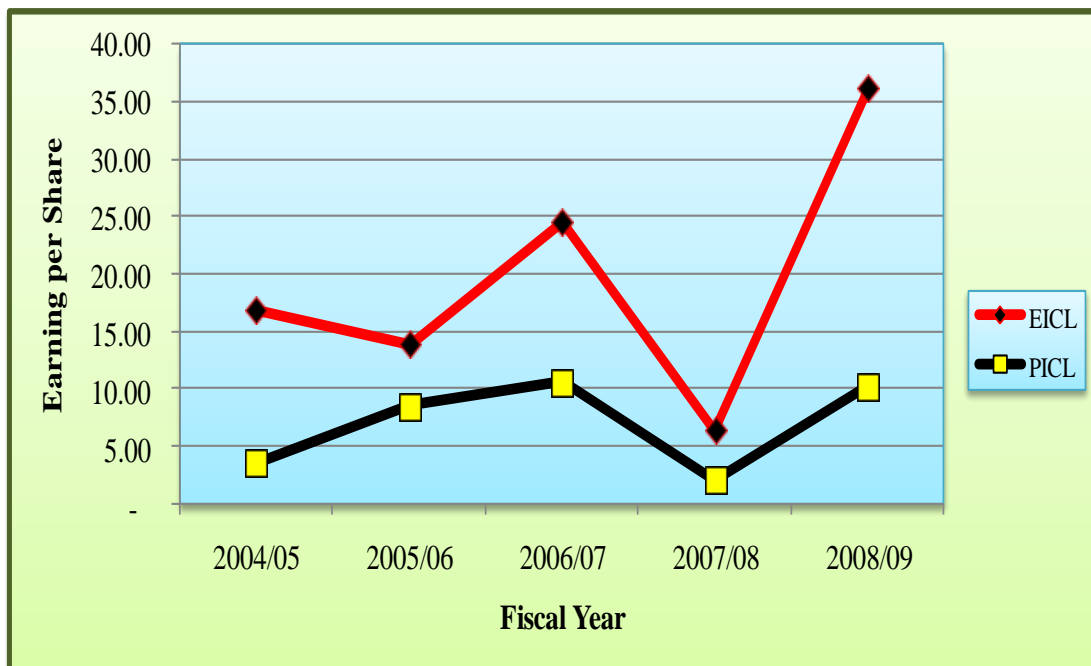
(Sources: Table: 4.3)

Financial performance of EICL and PICL in terms of EPS can be clearly seen in table no. 4.3. The earning per share (EPS) of EICL is Rs.16.87, Rs.13.94, Rs.24.54, Rs.6.42 and Rs.36.16 in 2004/05 to 2008/09 respectively. The earning per share (EPS) of PICL is Rs.3.57, Rs.8.59, Rs.10.60, Rs.2.11 and Rs.10.26 in 2004/05 to 2008/09 respectively. The highest earning per share of EICL is Rs.36.16 in 2008/09 and lowest earning per share of EICL is Rs. 6.42 in 2007/08. And similarly, The highest earning per share of PICL is Rs.10.60 in 2006/07 and lowest earning per share of PICL is Rs.2.11 in 2008/09. EICL has very much better EPS than PICL. Average EPS of EICL is Rs.19.58 and average EPS of PICL is Rs.7.03. Higher EPS shows the better earning capacity of the company. Higher earning per share not only can satisfy its existing shareholders but also attracts to the potential investors.

4.1.4 Analysis of Price Earning (P/E) ratio

P/E ratio of a company is simply obtained by dividing the Market price per share by earning per share. This ratio establishes the number of times the price of a stock exceeds the earning per share.

$$\text{Price Earning Ratio (P/E Ratio)} = \frac{\text{Market price per share}}{\text{Earning per share}}$$

The P/E ratio reflects the price currently being paid by the Market for each rupee of currently reported EPS. In other words, the P/E ratio measures investors' expectations and the financial performance of a firm. As a general, the higher the P/E ratio is better.

Table: 4.4

Price Earning Ratio (P/E Ratio) of EICL and PICL

Year	EICL	PICL
2004/05	19.27	64.38
2005/06	21.17	24.46
2006/07	11.82	22.45
2007/08	45.34	98.38
2008/09	7.88	19.89
Average	**21.10**	**45.91**

(Sources:Appendix-III and IV)

Figure: 4.4

Price Earning Ratio (P/E Ratio) of EICL and PICL
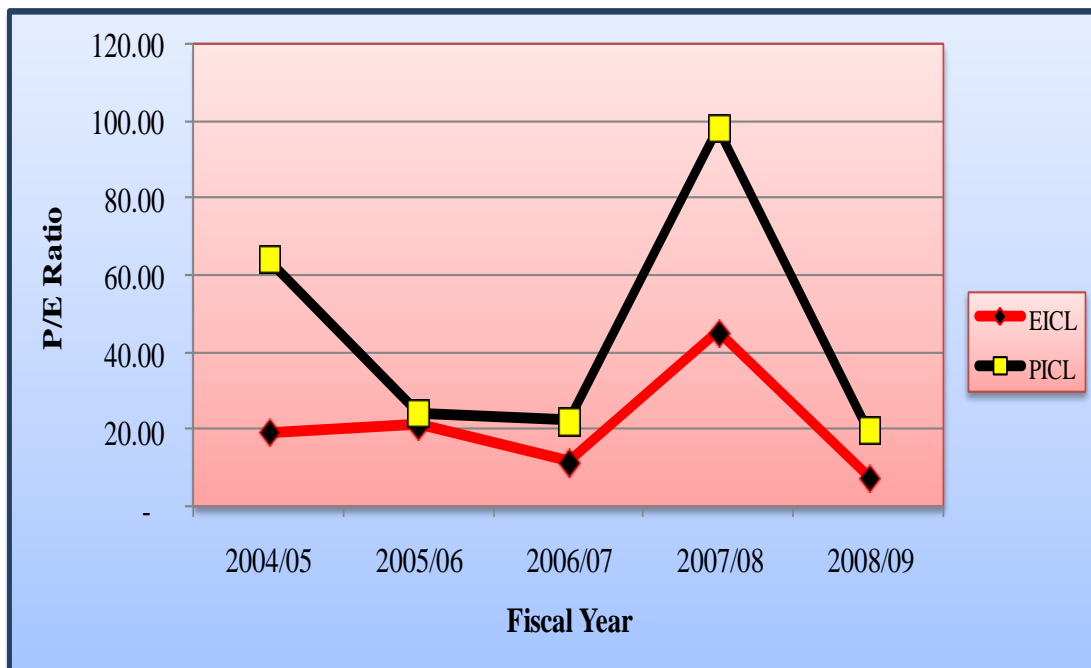
(Sources: Table: 4.4)

Financial performance of EICL and PICL in terms of Price Earning Ratio can be clearly seen in table no. 4.4. The price earning ratio (P/E Ratio) of EICL is Rs.19.27, Rs.21.17, Rs.11.82, Rs.45.34 and Rs.7.88in 2004/05 to 2008/09 respectively. The price earning ratio (P/E Ratio) of PICL is Rs.64.38, Rs.24.46, Rs.22.45, Rs.98.38 and Rs.19.89in 2004/05 to 2008/09 respectively. The highest price earning ratio of EICL is Rs.45.34 in 2007/08 and lowest price earning ratio of EICL is Rs. 7.88 in 2008/09. And Similarly, The highest price earningratio of PICL is Rs.98.38 in 2007/08 and lowest price earning ratio of PICL is Rs.19.89 in 2008/09. PICL has very much better P/E Ratio than EICL. Average P/E Ratio of EICL is Rs.21.10 and average P/E Ratio of PICL is Rs.45.91.

4.1.5   Market/Book Value Ratio

Net worth is the owner's equity in the company. It is also known as book value of the company. The book value per share is computed by dividing the amount of total shareholders' equity, which is called net worth, by the number of shares outstanding. This figure represents the asset value per share after deducting liabilities and preferred stock. Book value is a historical cost amount.

It represents the real or actual value of the common stock. Generally, Market price of stock is greater than book value of the stock. This clearly indicates that higher net worth per share is the signal of better companies. Therefore, it is a good measure of financial performance of sample insurance companies (EICL and PICL).

Table 4.5

Market/Book ValueRatio of EICL and PICL

Year	EICL	PICL
2004/05	1.61	2.16
2005/06	2.00	1.93
2006/07	1.70	2.09
2007/08	1.84	1.79
2008/09	1.58	1.69
Average	**1.75**	**1.93**

(Sources:Appendix-V and VI)

Figure 4.5

Market/Book Value per Share of EICL and PICL
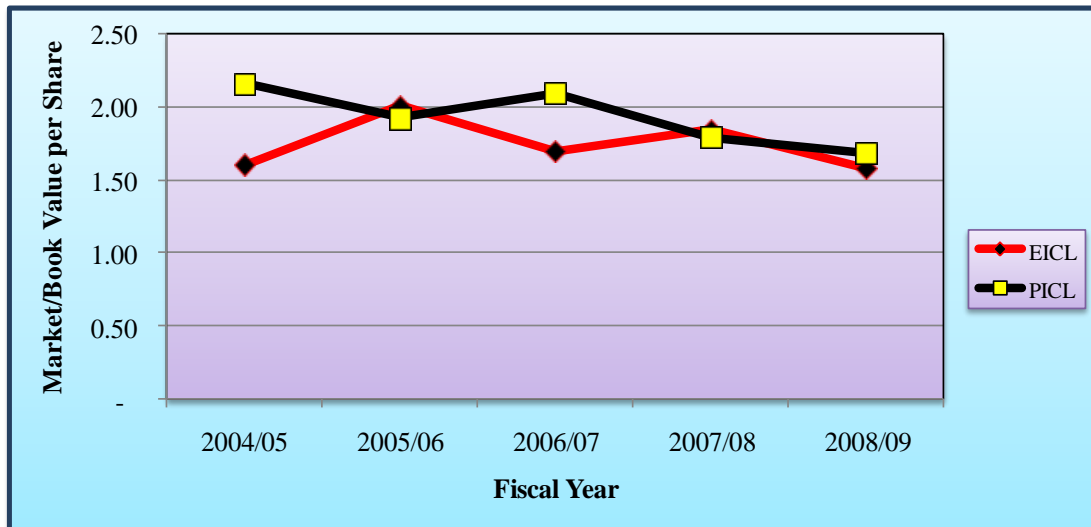
(Sources: Table: 4.5)

Table no. 4.5 shows that the market/book value Ratio of EICL is 1.61, 2.00, 1.70, 1.84 and 1.58 in 2004/05 to 2008/09 respectively. The market/book value Ratio of PICL is 2.16, 1.93, 2.09, 1.79 and 1.69 in 2004/05 to 2008/09 respectively. The highest market/book value ratio of EICL is 2.00 in 2005/06 and lowest market/book value ratio of EICL is 1.58 in 2008/09. And Similarly, The highest market/book value ratio of PICL is 2.16 in 2004/05 and lowest market/book value ratio of PICL is 1.69 in 2008/09. PICL has better market/book value Ratio than EICL. Average market/book value Ratio of EICL is 1.75 and average market/book value ratio of PICL is 1.93.

4.1.6 Analysis of Dividend Yield

Dividend yield is the rate of return in the form of dividend. It is a relative term which is calculated by DPS/MPS. Only higher dividends or lower dividends do not matter to investors. So it is essential to determine the rate of return on their investment. Dividend yield is an appropriate measure which helps to decide whether to make

investment or not in a common stock. Sometimes lower dividends also produce higher yield and higher dividends also produce lower yield. Therefore, dividend yield help the investors to know the rate of return in the form of dividend.

Table 4.6

Dividend Yield of EICL and PICL

Year	EICL	PICL
2004/05	15.38%	0.00%
2005/06	0.00%	2.86%
2006/07	4.54%	2.52%
2007/08	0.00%	0.00%
2008/09	7.02%	2.45%
Average	**5.39%**	**1.57%**

(Sources: Appendix-VII)

Figure 4.6

Dividend Yield of EICL and PICL

(Sources: Table: 4.6)

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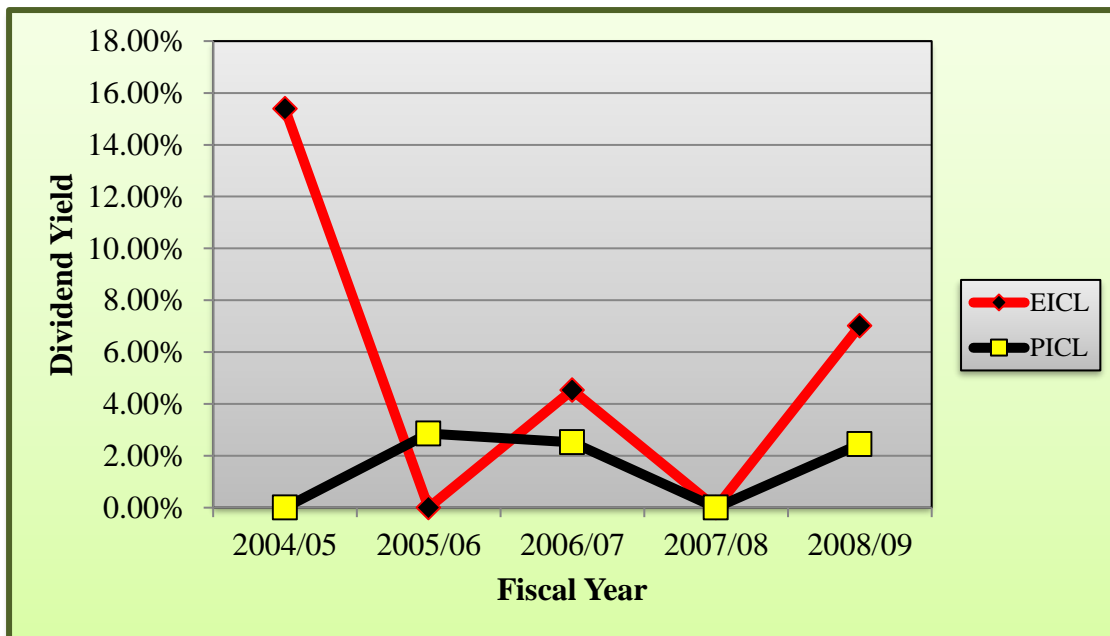
Returns to investors as dividend yield of selected insurance companies are presented in table no. 4.6. The table shows that the dividend yield of EICL is 15.38%, 0%, 4.54%, 0% and 7.02 % in 2004/05 to 2008/09 respectively. Dividend yield of PICL is 0%, 2.86%, 2.52%, 0% and 2.45% in 2004/05 to 2008/09 respectively. The highest dividend yield of EICL is 15.38% in 2004/05 and lowest dividend yield of EICL is 0% in 2005/06 and 2007/08. And Similarly, The highest dividend yield of PICL is 2.86% in 2005/06 and lowest dividend yield of PICL is 0% in 2004/05 and 2007/08. EICL has very much better dividend yield than PICL. Average dividend yield of EICL and PICL are 5.39% and 1.57% respectively.

4.1.7   Analysis of Capital Gain Yield

Price of stock is determined through the demand and supply of the stock at the stock market and such price is known as the Market price of the stock. If the Market price of the stock increases, the investors are benefited from the capital gain. Similarly, decrease in the Market price produces capital loss to investors. Capital gain is the profit from the stock price appreciation, and capital loss is the loss from stock price depreciation. Rate of return as capital gain is capital gain yield which is calculated by dividing the capital gain by the beginning stock price.

In an efficient stock, the Market price of stock increases or decreases based on the dividend decision of the company. Investors are directly benefited from dividend yield if earnings are paid as dividend, but they are compensated by capital gain yield if earnings of the company are retained. The capital gain yields to the investors from the EICL and PICL are shown in table 4.1.7.

Table 4.7

Capital Gain Yield of EICL and PICL

Year	EICL	PICL
2004/05	-7.14%	
2005/06	-9.23%	-8.70%
2006/07	-1.69%	13.33%
2007/08	0.34%	-12.61%
2008/09	-2.06%	-1.92%
Average	**-3.96%**	**-1.98%**

(Sources: Appendix-VIII)

Figure 4.7

Capital Gain Yield of EICL and PICL
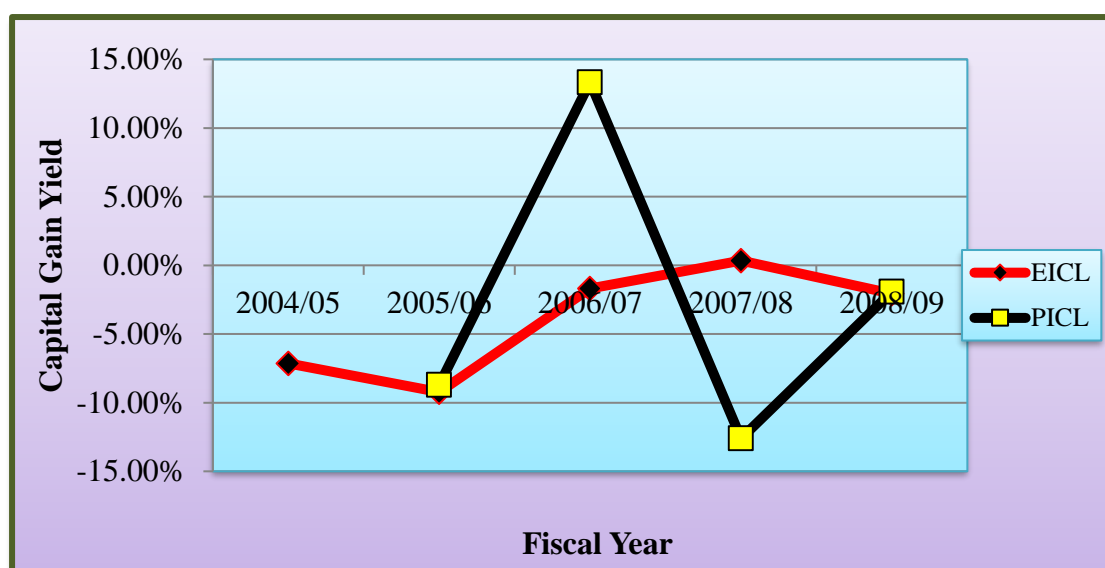
(Sources: Table: 4.7)

Returns to investors as capital gain yield of selected insurance companies are presented in table no. 4.7. In the table, the capital gain yield of EICL is -7.14%, -9.23%, -1.69%, 0.34% and -2.06% in 2004/05 to 2008/09 respectively. Capital gain yield of PICL is -8.70%, 13.33%, -12.61% and -1.92% in 2005/06 to 2008/09 respectively. PICL listed in 2004 so we could not calculated capital gain yield in 2004/05. The highest capital

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gain yield of EICL is 0.34% in 2007/08 and lowest capital gain yield of EICL is -9.23% in 2005/06. And Similarly, The highest capital gain yield of PICL is 13.33% in 2006/07 and lowest capital gain yield of PICL is -12.61% in 2007/08. EICL and PICL both have poor capital gain yield. Average capital gain yield of EICL and PICL are -3.96% and -1.98% respectively.

4.1.8 Analysis of Total Yield

Total yield constitutes dividend yield plus capital gain yield. In other words, returns to investors are in two forms; dividend yield and capital gain yield. Investors are attracted to the stocks of that company which provides high total yield to them. Not only may the higher rate, even the two kinds of yields not be important for them, because the other yield may be negative, too. Sum of both yields is the total rate of return to them on their investment. It is calculated by dividing dividend plus capital gain by the initial stock price of the year.

Table 4.8
Total Yield of EICL and PICL

Year	PICL	HGICL
2004/05	8.24%	0.00%
2005/06	-9.23%	-5.84%
2006/07	2.84%	15.85%
2007/08	0.34%	-12.61%
2008/09	4.96%	0.53%
Average	**1.43%**	**-0.41%**

(Sources: Appendix-IX)

Figure 4.8

Total Yield of EICL and PICL
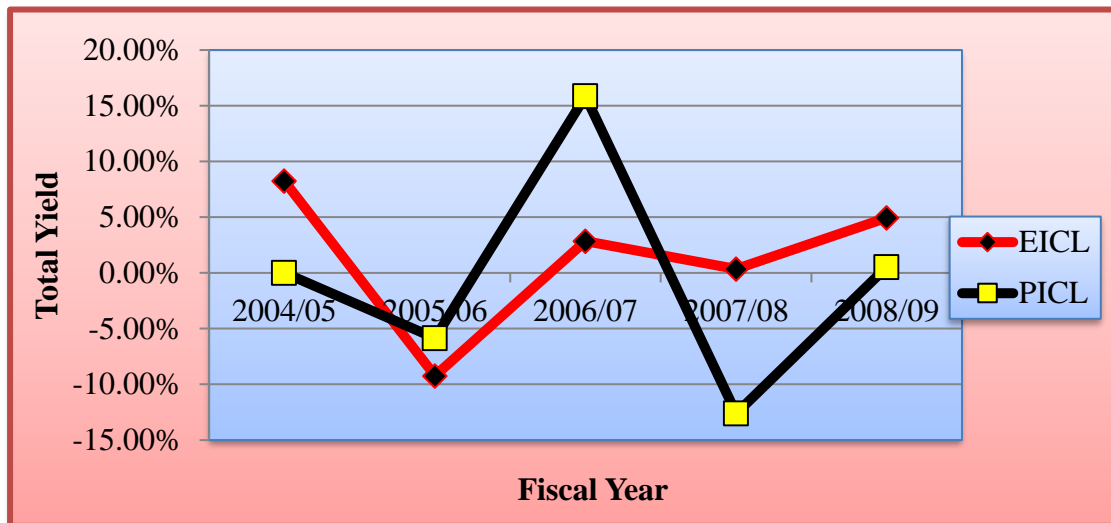
(Sources: Table: 4.8)

Table no. 4.8 shows that the total yield of EICL is 8.24%, -9.23%, 2.84%, 0.34% and 4.96% in 2004/05 to 2008/09 respectively. Total yield of PICL is 0%, -5.84%, 15.85%, -12.61% and 0.53% in 2005/06 to 2008/09 respectively. The highest total yield of EICL is 8.24% in 2004/05 and lowest total yield of EICL is -9.23% in 2005/06. And Similarly, The highest total yield of PICL is 15.85% in 2006/07 and lowest total yield of PICL is -12.61% in 2007/08. EICL and PICL both have poor total yield. Average total yield of EICL and PICL are 1.43% and -0.41% respectively.

4.2 Financial Ratio Analysis

Financial ratio analysis is a tool through which economic and financial position of organization can be fully X- rayed. It is the indicated quotient of two mathematical expressions, and as such the relationship between two or more things. Therefore, to find out the position of investment in government securities of sample commercial banks, the following ratios are examined.

4.2.1 Return Analysis

Under this topic, an attempt has been made to analyze the ratio of return on total assets and total investment.

4.2.1.1 Return on Assets Ratio

Return on assets ratio measures the percentage of net profit on total assets employed in the firm. This ratio is obtained by dividing the net profit by total assets.

$$\text{Return on Assets} = \frac{\text{Net Profit}}{\text{Total Assets}} \times 100$$

Comparative analysis of return on assets ratio of the companies under study is shown in the following table.

Table No: 4.9

Return on Assets Ratio (ROA)

Year	Return on Assets Ratio	
	EICL	**PICL**
2004/05	3.68	2.08
2005/06	3.67	4.11
2006/07	5.69	4.86
2007/08	1.35	1.04
2008/09	5.66	5.51
Mean	**4.01**	**3.52**
S.D.	**1.60**	**1.69**
C.V.	**39.97**	**48.09**

(Sources: Appendix-X and XI)

Figure 4.9
Return on Assets Ratio (ROA)
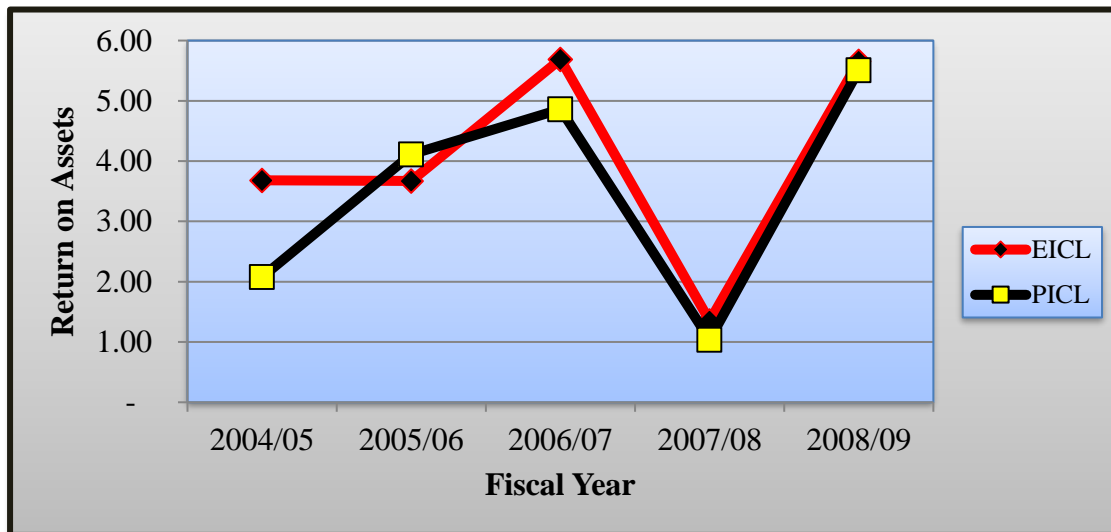
(Sources: Table: 4.9)

The return on assets ratio of EICL and PICL is presented in the above table no. 4.9 from fiscal year 2004/05 to 2008/09. The highest return on assets ratio of EICL is 5.69% on 2006/07 and the lowest is 1.35% in 2007/08. The highest return on assets ratio of PICLis 5.51% on 2008/09 and the lowest is 1.04% in 2007/08. It is depicted that the return on assets ratio of EICL is more because its average return percentage is higher compared to PICL. So, it implies that EICL was able to utilize assets more effectively than PICL. EICL and PICL have 4.01% and 3.52% of average ROA respectively. Higher coefficient of variation (CV) of PICL shows that the ROA are more scattered than EICL in the study period.

4.2.1.2 Return on Equity Ratio

Return on equity ratio shows the percentage of net profit on total equity. This ratio is measured by dividing the net profit by total equity amount.

$$\text{Return on Equity Ratio} = \frac{\text{Net Profit}}{\text{Total Equity}} \times 100$$

Comparative analysis of Return on Equity ratio of EICL and PICL is presented in the following table: 4.10

Table 4.10
Return on Equity Ratio (ROE)

Year	Return on Equity Ratio	
	EICL	PICL
2004/05	16.87	3.57
2005/06	13.94	8.59
2006/07	24.54	10.60
2007/08	6.42	2.11
2008/09	36.16	10.26
Mean	**19.59**	**7.03**
S.D.	**10.12**	**3.52**
C.V.	**51.66**	**50.03**

(Sources: Appendix-XII and XIII)

Figure 4.10
Return on Equity Ratio (ROE)
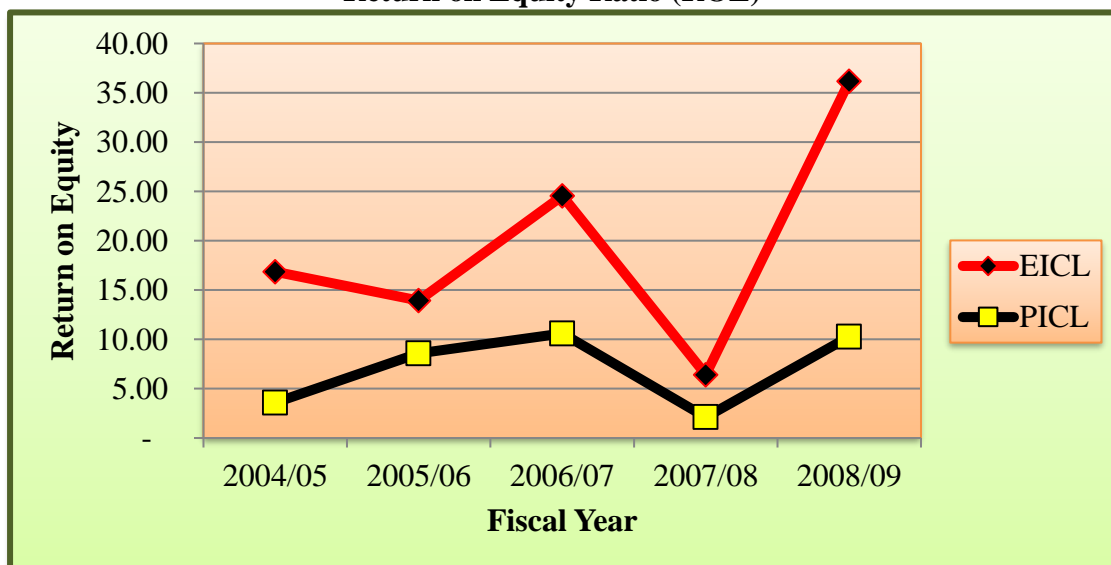
(Sources: Table: 4.10)

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The return on equity ratio of EICL and PICL is presented in the above table no. 4.10 from 2004/05 to 2008/09. The highest return on equity ratio of EICL is 36.16% in 2008/09 and the lowest is 6.42% in 2007/08. The highest return on equity ratio of PICL is 10.60% on 2006/07 and the lowest is 2.11% in 2007/08. The return on equity ratio of EICL is more because its mean return percentage is higher compared to PICL. So, it implies that EICL was able to utilize equity more effectively than PICL. EICL and PICL have 19.59% and 7.03% of average ROE respectively. Higher coefficient of variation (CV) of EICL shows that the ratios are more scattered than PICL in the study period.

4.2.1.3 Return on Investment Ratio

It is the rate of average investment income. It shows the proportion of return with respect to investment. It is just the calculation of average rate of return on investment of insurers, for a particular year in aggregate. This ratio shows the performance of the investment and it indicates the whole investment portfolio performance. Here the total investment consists of all the investment in optional and compulsory sectors and the net income carried from profit and loss account. This ratio is obtained by dividing the net profit by total investment.

$$\text{Return on Investment Ratio} = \frac{\text{Net Profit}}{\text{Total Investment}} \times 100$$

Table 4.11

Return on Investment Ratio (ROI)

Year	Return on Investment Ratio	
	EICL	PICL
2004/05	8.89	2.58
2005/06	8.63	6.93
2006/07	12.97	6.54
2007/08	3.12	1.40
2008/09	12.76	5.87
Mean	9.27	4.66
S.D.	3.58	2.24
C.V.	38.65	48.04

(Sources: (Appendix-XIV and XV)

Figure 4.11

Return on Investment Ratio (ROI)
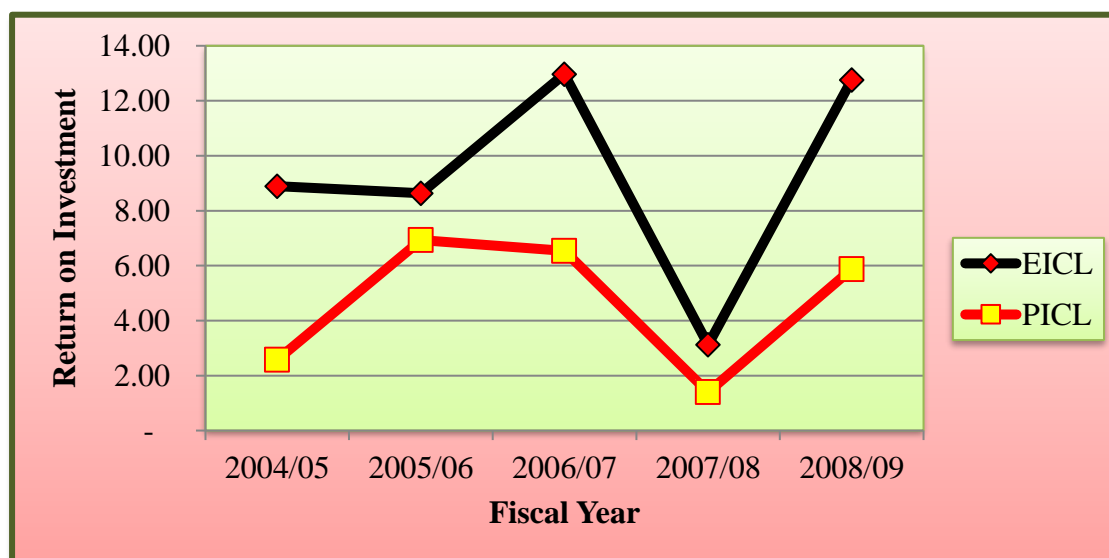
(Sources: Table: 4.11)

The return on Investment ratio of EICL and PICL is presented in the above table no. 4.11 from 2004/05 to 2008/09. The highest return on investment ratio of EICL is 12.97% in 2006/07 and the lowest is 3.12% in 2007/08. The highest return on Investment ratio of PICL is 6.93% in 2005/06 and the lowest is 1.40% in 2007/08. It is depicted that the return on Investment ratio of EICL is more because its average return percentage is higher compared to PICL. So, it implies that EICL was able to utilize Investment more effectively than PICL. EICL and PICL have 9.27% and 4.66% of average ROI respectively. Higher coefficient of variation (CV) of PICL shows that the ratios are more scattered than EICL in the study period.

4.2.2 Income Analysis

Income is the main factor, which affects the profitability significantly. In this section, an attempt has been made to analyze the various ratios regarding the income of the insurance companies under study.

4.2.2.1 Interest Income to Total Income Ratio

Interest income to total income ratio measures the percentage of interest income on total income earned to the firm. This ratio is obtained by dividing the interest income by total income.

$$\text{Interest Income to Total Income Ratio} = \frac{\text{Interest Income}}{\text{Insurance Fund}} \times 100$$

Comparative analysis of interest income to total income ratio of the companies under study is shown in the following table.

Table 4.12

Interest Income to Total Income Ratio

Year	Interest Income to Total Income Ratio	
	EICL	**PICL**
2004/05	18.06	68.74
2005/06	27.01	55.10
2006/07	23.04	45.50
2007/08	19.57	69.96
2008/09	24.70	47.13
Mean	**22.48**	**57.29**
S.D.	**3.28**	**10.38**
C.V.	**14.59**	**18.12**

(Sources: Appendix-XVI and XVII)

Figure 4.12

Interest Income to Total Income Ratio

(Sources: Table: 4.12)

The interest income to total income ratio of EICL and PICL is presented in the above table no. 4.12 from 2004/05 to 2008/09. The highest interest income to total income

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ratio of EICL is 27.01% on 2005/06 and the lowest is 18.06% in 2004/05. The highest interest income to total income ratio of PICL is 69.96% on 2007/08 and the lowest is 45.50% in 2006/07. It is depicted that the interest income to total income ratio of PICL is more because its average return ratio is higher compared to EICL. So, it implies that PICL was able to utilize their fund more effectively than EICL. EICL and PICL have 22.48% and 57.29% of average percentage of interest income to total income ratio respectively. Higher coefficient of variation (CV) of PICL shows that the ratios are more scattered than EICL in the study period.

4.2.2.2 Interest Income to Total Assets Ratio

Interest income to total assets ratio measures the percentage of interest income on total assets employed in the firm. This ratio is obtained by dividing the interest income by total assets.

$$\text{Interest Income to Total Assets Ratio} = \frac{\text{Interest Income}}{\text{Total Assets}} \times 100$$

Table 4.13

Interest Income to Total Assets Ratio

Year	Interest Income to Total Assets Ratio	
	EICL	**PICL**
2004/05	1.93	6.07
2005/06	2.30	4.65
2006/07	2.51	4.56
2007/08	1.94	4.61
2008/09	2.41	5.14
Mean	**2.22**	**5.01**
S.D.	**0.24**	**0.57**
C.V.	**10.84**	**11.41**

(Sources: Appendix-XVIII and XIX)

Figure 4.13

Interest Income to Total Assets Ratio
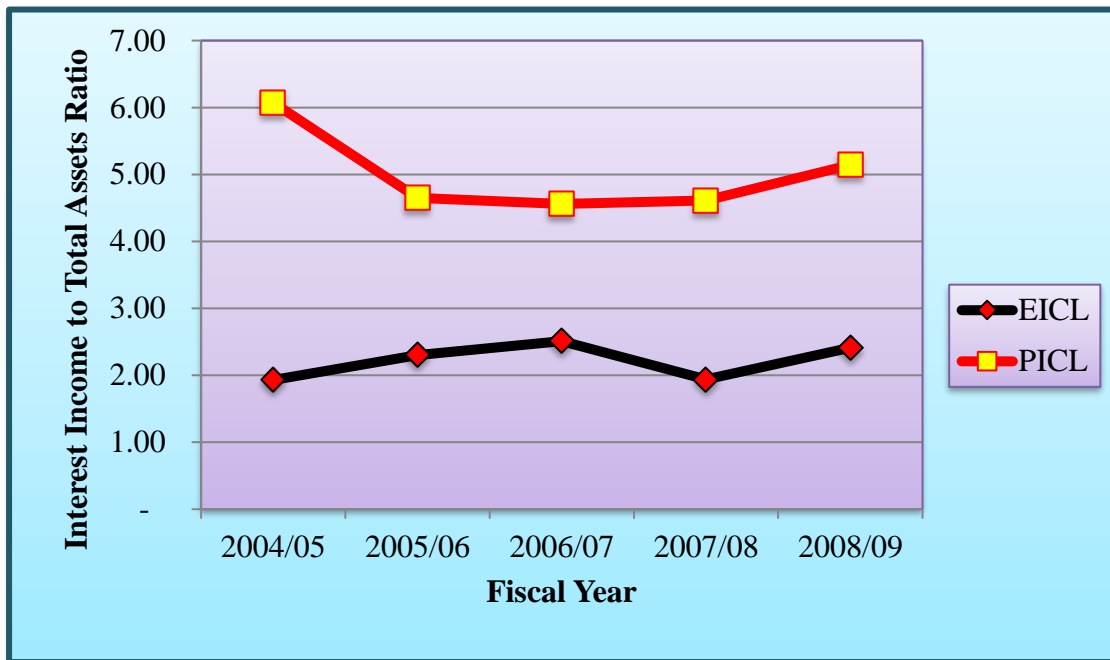
(Sources: Table: 4.13)

The interest income to total assets ratio of EICL and PICL is presented in the above table no. 4.13 from 2004/05 to 2008/09. The highest interest return on total assets ratio of EICL is 2.51% on 2006/07 and the lowest is 1.93% in 2004/05. The highest interest return on total assets ratio of PICL is 6.07% on 2004/05 and the lowest is 4.56% in 2005/06. It is depicted that the interest income to total assets ratio of PICL is more because its average return percentage is higher compared to EICL. EICL and PICL have 2.22% and 5.01% of average interest income to total assets ration respectively. Higher coefficient of variation (CV) of PICL shows that the ratios are more scattered than EICL in the study period.

4.2.3 Investment Analysis

Investment operations are important in business operation. Insurers are required to generate reserves for claims that may arise. It is essential that insurance companies

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invest these funds rationally with the combined objectives of liquidity, maximization of yields and safety.

4.2.3.1 Investment to Total Assets Ratio

Investment of insurance companies include investment made in HMG securities &debentures, bank fixed deposit account, fixed deposit on finance companies, shares, real estate, short term investments, mutual funds and others. Total assets of insurance company include current assets, fixed assets and others. Investment to total assets ratio is calculated to know the percentage of investment in assets. It is calculated as;

$$\text{Investment to Total Assets Ratio} = \frac{\text{Total Investment}}{\text{Total Assets}} \times 100$$

Comparative analysis of total investment to total assets ratio of the companies under study is shown in the following Table: 4.14
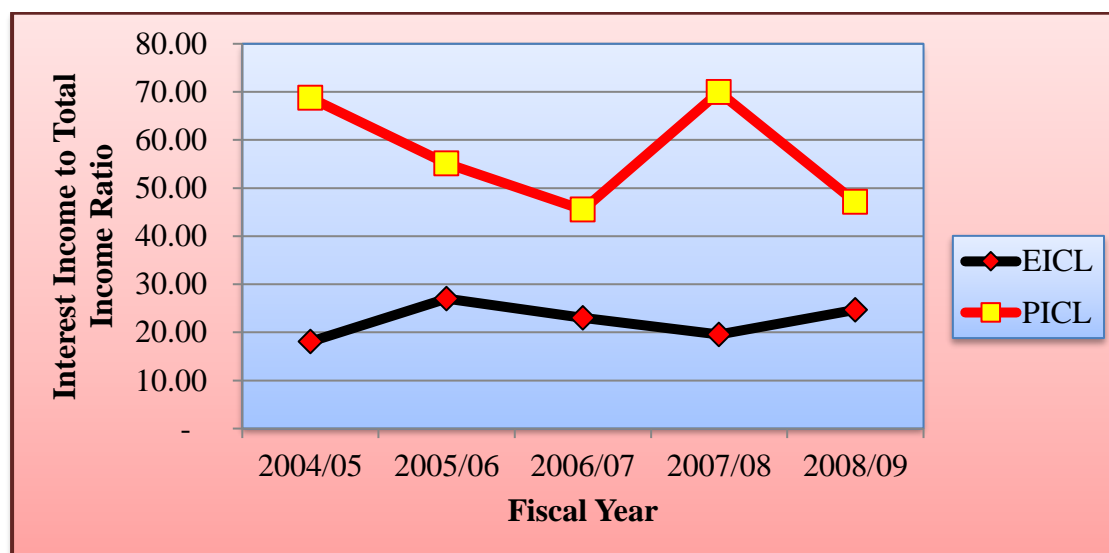
Table 4.14

Investment to Total Assets Ratio

Year	Investment to Total Assets Ratio	
	EICL	**PICL**
2004/05	41.42	80.77
2005/06	42.56	59.40
2006/07	43.91	74.24
2007/08	43.18	73.85
2008/09	44.32	93.87
Mean	**43.08**	**76.43**
S.D.	**1.03**	**11.18**
C.V.	**2.38**	**14.62**

(Sources: Appendix-XX and XXI)

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Figure 4.14

Investment to Total Assets Ratio
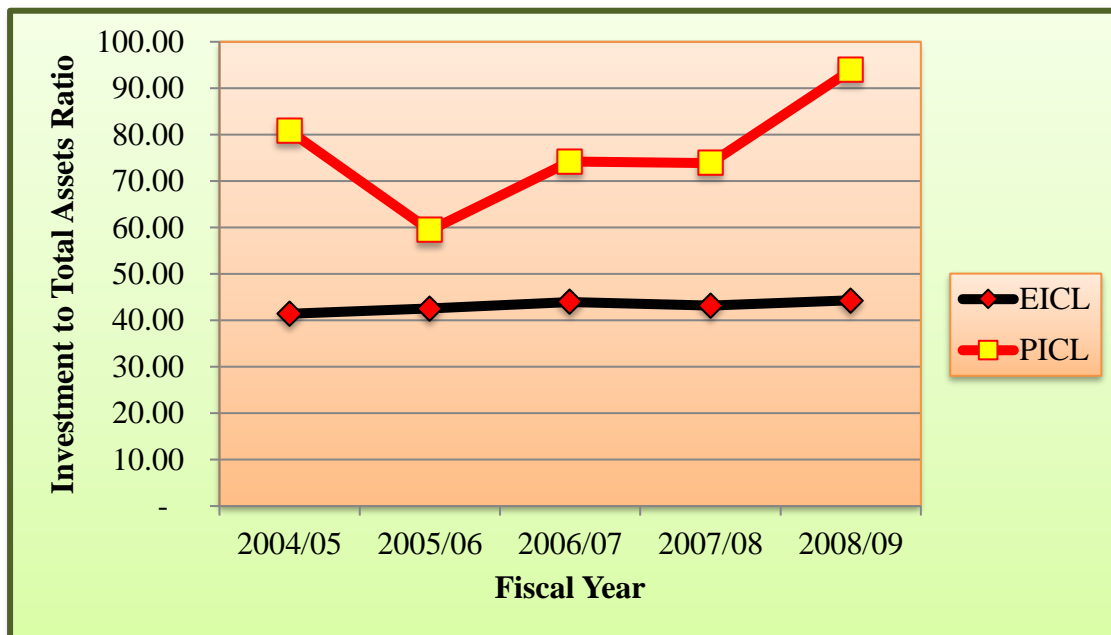
(Sources: Table: 4.14)

The investment to total assets ratio of EICL and PICL is presented in the above table no. 4.14 from 2004/05 to 2008/09. The highest investment on total assets ratio of EICL is 44.32% on 2008/09 and the lowest is 41.42% in 2004/05. The highest investment on total assets ratio of PICL is 93.87% on 2008/09 and the lowest is 59.40% in 2005/06. It is depicted that the investment to total assets ratio of PICL is more because its average return percentage is higher compared to EICL. EICL and PICL have 43.08% and 76.43% of average investment to total assets ration respectively. Higher coefficient of variation (CV) of PICL shows that the ratios are more scattered than EICL in the study period.

4.2.3.2 Interest Earned to Total Investment Ratio

It is an average of interest earned on total investment. This ratio represents the return from interest in total investment. Total interest earned to total investment ratio reflects the extent to which insurer is successful in earning interest as major income on total investment. This ratio actually reveals the earning capacity of insurance company by investing its all collected premium and other capital funds. The higher the ratio, higher will be the income as interest. This ratio is calculated by using the following equation:

$$\text{Interest Earned to Total Investment Ratio} = \frac{\text{Interest Earned}}{\text{Total Investment}} \times 100$$

Table 4.15

Interest Earned to Total Investment Ratio

Year	Interest Earned to Total Investment Ratio	
	EICL	**PICL**
2004/05	4.67	7.51
2005/06	5.41	7.83
2006/07	5.73	6.14
2007/08	4.50	6.24
2008/09	5.44	5.48
Mean	**5.15**	**6.64**
S.D.	**0.48**	**0.89**
C.V.	**9.28**	**13.35**

(Sources: Appendix-XXII and XXIII)

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Figure 4.15

Interest Earned to Total Investment Ratio
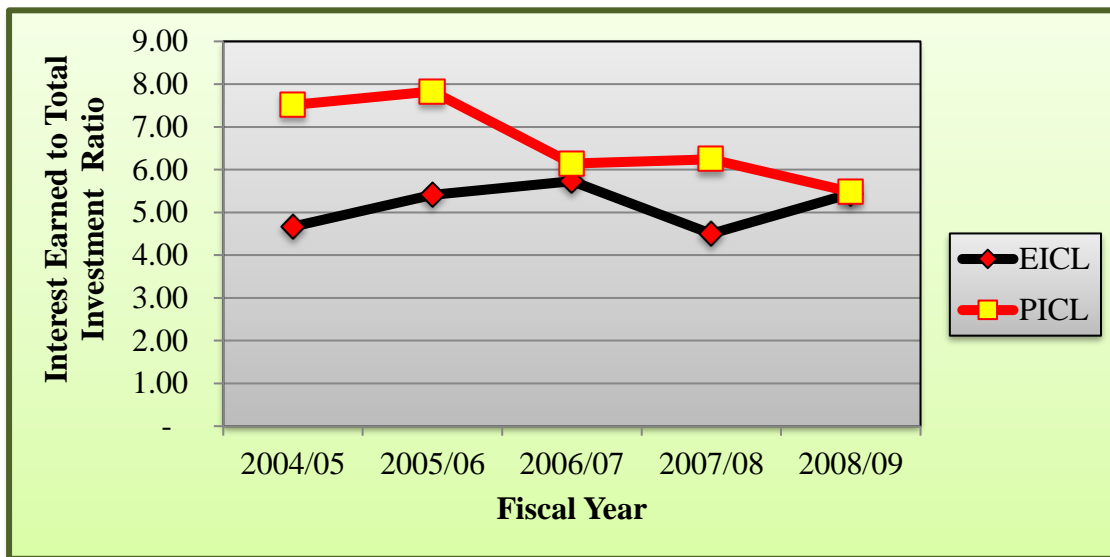
(Sources: Table: 4.15)

The interest earned to total investment ratio of EICL and PICL is presented in the above table no. 4.15 from 2004/05 to 2008/09. The highest interest earned percentage on total investment ratio of EICL is 5.73% on 2006/07 and the lowest is 4.50% in 2007/08. The highest interest earned percentage on total investment ratio of PICL is 7.83% on 2005/06 and the lowest is 5.48% in 2008/09. It is shown that the interest earned to total investment ratio of PICL is more because its average return percentage is higher compared to PICL. EICL and PICL have 5.15% and 6.64% of average percentage of interest earned to total investment respectively. Higher coefficient of variation (CV) of PICL shows that the ratios are more scattered than EICL in the study period.

4.3 Time Series Analysis

Under this topic, an attempt has been made to analyze the net profit Trend and net premium trend.

4.3.1 Net Profit Trend

Time Series Analysis will help to analyze the data in relation with time. It reflects the dynamic pace of movement of a phenomenon over a period of time. Time Series Analysis will also help to forecast future based on past data. There is various method of time series analysis but only least square methods of trend analysis is used in this study as described in research methodology chapter.

The Net Profit trend equation of EICL and PICL are shown in table 4.16. The value of 'a', 'b' and net profit trend equation are given below:-

Table No 4.16

Calculation of Net Profit Trend Equation

	EICL	**PICL**
a	17,571,801.40	7,025,652.20
b	4,692,742	689,438.50
Net Profit Trend Equation	$Y = 17,571,801.40 + 4,692,742.00\,x$	$Y = 7,025,652.20 + 689,438.50x$

(Sources: Appendix-XXIV and XXV)

Table no. no. 4.16 shows that the values of slope of regression line (a) & regression coefficient (b) of EICL and PICL. The equation shows that trend of net profit of EICL and PICL are going upward. Values of 'b' of EICL and PICL has positive figure.

Calculation of Net Profit Trend line (y=a+bx)(Amount in Rs.)

Year	EICL	PICL
2004/05	8,186,317.40	5,646,775.20
2005/06	12,879,059.40	6,336,213.70
2006/07	17,571,801.40	7,025,652.20
2007/08	22,264,543.40	7,715,090.70
2008/09	26,957,285.40	8,404,529.20
2009/10	31,650,027.40	9,093,967.70
2010/11	36,342,769.40	9,783,406.20

(Sources: Appendix-XXIV and XXV)

Figure 4.16

Net Profit Trend Line
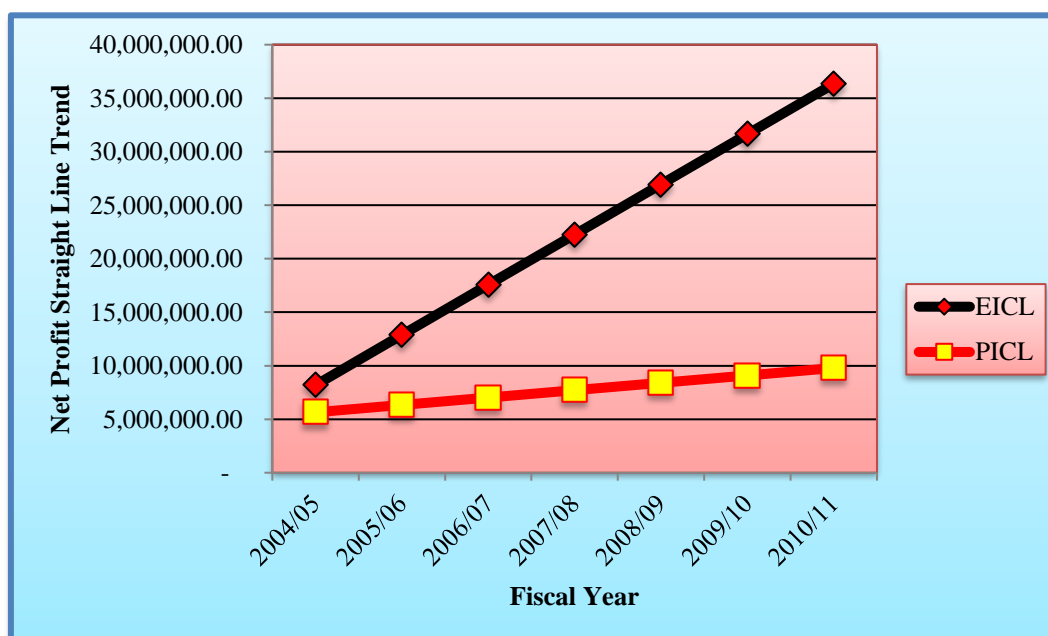
(Sources: Table: 4.17)

Table no. 4.17 shows that the net profit trend line of EICL and PICL. The estimation net profit of EICL and PICL for coming year 2009/10 is Rs.31,650,027.40 and Rs.9,093,967.70 respectively. Similarly the estimation net profit of EICL and PICL for coming year 2010/11 is Rs.36,342,769.40 and Rs.9,783,406.20 respectively. In

long run EICL is far better position than PICL. Figure no. 4.16 shows that the net profit trend line of EICL and PICL. In the figure we can see the net profit trend line. That trend line is upward slope but the slope of EICL is very upward than PICL.

4.3.2 Earned Premium Trend

The earned premium trend equations of EICL and PICL are shown in below table. The values calculated from time series analysis are presented in table given below:-

Table 4.18

Calculation of Earned Premium Trend Equation

	EICL	PICL
a	99,280,972.20	25,680,623.03
b	26,993,173.50	4,814,503.03
Earned Premium Trend Equation	Y= 99,280,972.20+26,993,173.50x	Y= 25,680,623.03+4,814,503.03x

(Sources: (Appendix-XXVI and XXVII)

Table no. 4.18 shows that the values of slope of regression line (a) & regression coefficient (b) of EICL and PICL. The equation shows that trend of net premium of EICL and PICL are going upward. Values of 'b' of EICL and PICL has Positive figure.

Table 4.19

Calculation of Earned Premium Trend Line (y=a+bx)(Amount in Rs.)

Year	EICL	PICL
2004/05	45,294,625.20	16,051,616.97
2005/06	72,287,798.70	20,866,120.00
2006/07	99,280,972.20	25,680,623.03
2007/08	126,274,145.70	30,495,126.06
2008/09	153,267,319.20	35,309,629.09
2009/10	180,260,492.70	40,124,132.12
2010/11	207,253,666.20	44,938,635.15

(Sources: Appendix-XXVI and XXVII)

Figure 4.17

Earned Premium Trend Line
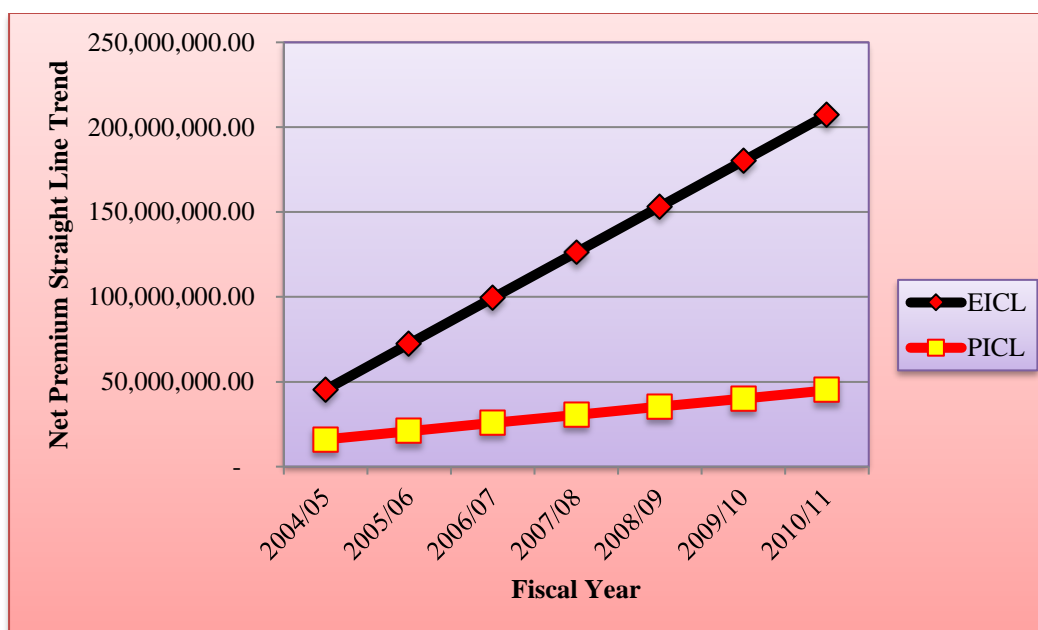
(Sources: Table: 4.19)

Table no. 4.19 shows that the earned premium trend line of EICL and PICL. The estimation net premiums of EICL and PICL for coming year 2009/10 are Rs.180,260,492.70 and Rs.40,124,132.12 and coming year 2010/11 are

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Rs.207,253,666.20 and Rs.44,938,635.15 respectively.

Figure no. 4.17 shows that the earned premium trend line of EICL and PICL. In the figure we can see the earned premium trend line. That trend line is up ward slope but slope of the EICL is far higher than PICL.

4.4 Major Findings of the Study

- The average MPS of EICL and PICL are 297.20 and 218 respectively. The trends of MPS of both companies are downward trend.

- EICL as well as PICL gave dividend only two times in study period. The average DPS of EICL is greater than PICL by Rs.13.23. The trend of dividend policy is not good of these insurance companies. It implies bad message among the investor of insurance companies because it increases the risk for them.

- The average EPS of EICL and PICL are Rs.19.58 and Rs.7.03. But the trend of EPS of PICL as well as EICL is down ward slope in 2007/08 but highly upward in 2008/09.

- P/E ratio reflects investors' expectations about the growth in the firm's earning. From this analysis, it is clear that PICL has higher P/E ratio than EICL. The highest P/E ratio is 98.38 times of PICL in 2007/08. The lowest P/E ratio of EICL is 7.88 times in 2008/09.

- The market/book value ratio of PICL is slightly better than EICL in five years study period. The average market/book value ratio of EICL and PICL is 1.75 and 1.93 respectively during the study period. The market/book value per share is downward trend during the study period.

- The dividend yield of EICL is greater than PICL in five years study period. The average dividend yield of EICL and PICL are 5.39% and 1.57% respectively in during the study period.

- The capital gain yield of EICL as well as PICL is not good in five years study period. The average capital gain yield of EICL and PICL is -3.96% and -1.98% respectively during the study period.

- The total yield of EICL is better than PICL in five years study period. The average total yield of EICL and PICL is 1.43% and -0.41% respectively during the study period.

- The return on assets ratio of EICL is better than PICL in five years study period. The average return on assets ratio of EICL and PICL is 4.01 and 3.52 respectively. The CV of EICL and PICL is 39.97 and 48.09 respectively. The ratios of PICL is more scattered than EICL, it is shown by CV in the study period.

- The return on equity ratio of EICL is better than PICL in five years study period. The average return on equity ratio of EICL and PICL is 19.59 and 7.03 respectively. In F/Y 2008/09 both co's ROE are higher than other F/Y. The CV of EICL and PICL is 51.66 and 50.03 respectively. The ratios of EICL is slightly more scattered than PICL it is shown by CV in the study period.

- The return on investment ratio of EICL is better than PICL in five years study period. The average return on investment ratio of EICL and PICL is 9.27 and 4.66 respectively. The CV of EICL and PICL is 38.65 and 48.04 respectively. The higher CV shows the greater variability in the ratios of EICL in the study period.

- The interest income to total income ratio of PICL is better than EICL in percentage in five years study period. The average interest income to total income ratio of EICL and PICL is 22.48% and 57.29% respectively. The CV of EICL and PICL is 14.59 and 18.12 respectively. The higher CV shows the greater variability in the ratios of EICL in the study period.

- The interest income to total assets ratio of PICL is better than EICL in five years study period. The average interest income to total assets ratio of EICL and PICL is

2.22% and 5.01% respectively. The CV of EICL and PICL is 10.84 and 11.41 respectively. The higher CV shows the greater variability in the ratios of PICL in the study period.

- The investment to total assets ratio of PICL is better than EICL in five years study period. The average investment to total assets ratio of EICL and PICL is 43.08% and 76.43% respectively. The CV of EICL and PICL is 2.38 and 14.62 respectively. The higher CV shows the greater variability in the ratios of PICL in the study period.

- The interest earned to total investment ratio of PICL is better than EICL in five years study period. The average interest earned to total investment ratio of EICL and PICL is 5.15% and 6.64% respectively. The CV of EICL and PICL is 9.28 and 13.35 respectively. The higher CV shows the greater variability in the ratios of PICL in the study period

- The net profit trend of EICL is better than PICL in five years study period. Because the value of EICL is positive as well as higher than PICL. The estimation net profits of EICL and PICL for coming year 2009/10 are Rs.31,650,027.40 and Rs.9,093,967.70 respectively and for coming year 2010/11 are Rs.36,342,769.40 and Rs.9,783,406.20 respectively.

- The earned premium trend of EICL is better than PICL in five years study period. Because the value of EICL is positively higher than PICL. The estimation net profits of EICL and PICL for coming year 2009/10 are Rs.180,260,492.70 and

Rs.40,124,132.12 respectively and coming year 2010/11 are Rs.207,253,666.20 and Rs.44,938,635.15 respectively.

CHAPTER V

SUMMARY, CONCLUSIONS 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 to as financial intermediaries. In the modern society and 21 century's business age, it plays vital role through risk bearing and providing certainty. Therefore insurance is an assist of a world's economy. It is a contract by which one party for a compensation called premium, assumes particular risk of the other party and promises to pay him or his nominee a certain sum of money on a specified contingency. In this regard, the Insurance companies have played a vital role for socio-economic development of the nation either by providing financial security against risk or collection of capital for scattered resources.

Basically, the entire research work has focused on the performance evaluation of two insurance companies. For the study, two non-life insurance companies are taken as sample and analyzed their performance. Five years secondary data are taken for the study. The general objective of the study is to evaluate the performance of the insurance companies. To meet the research objectives this study is divided in to five chapters.

This study has different limitations; it considers two non-life insurance companies as sample out of total insurance companies in Nepal. Time and resources are the constraints of the study. Therefore the study may not be generalized in all case and accuracy depends upon the data collected and provided by the organization.

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Financial analysis is the key tools for marketing strategies and starting point for making plan before using sophisticated forecasting and budgeting procedures. Such analysis is the considerable thing for the common stockholders, investors, bondholders and others. The analysis is based on the financial statement from fiscal year 2004/05 to 2008/09. Various financial as well as statistical tools via-financial ratio and trend analysis are used to accomplish the stated objectives. The study is mainly based on secondary data that have been first processed and analyzed comparatively. Then, based on major findings a package of workable recommendation is offered to improve the future financial performance and focusing on the challenges ahead of these companies.

5.2 Conclusion

This study focused at studying the performance of Everest Insurance Company Ltd. and Prudential Insurance Company Ltd. For the study purpose financial and statistical tool were used. Based on the research findings, following conclusions are derived.

- The average MPS, DPS and EPS of Everest Insurance Co. Ltd. are greater than Prudential Insurance Co. Ltd. from Rs.79.2, Rs.13.23 and Rs.12.55 respectively.

- The average P/E ratio and market/book value ratio of Prudential Insurance Co. Ltd. are higher than Everest Insurance Co. Ltd. from 24.81 and 0.18 respectively.

- The average dividend yield and total yield of Everest Insurance Co. Ltd. are greater than Prudential Insurance Co. Ltd. from 3.82% and 1.84 respectively. The average capital gain yield of Prudential Insurance Co. Ltd. is less negative than Everest

Insurance Co. Ltd. by 1.98 respectively.

- The average return on assets ratio (ROA), return on equity ratio (ROE) as well as return on investment ratio (ROI) of Everest Insurance Co. Ltd. are slightly higher than Prudential Insurance Co. Ltd. from 0.49, 12.56 and 4.61 respectively. In case of return part Everest Insurance Co. Ltd. is far better than Prudential Insurance Co. Pvt. Ltd. in terms of percentage as well as amount.

- The proportion of interest income to total income ratio, interest income to total assets ratio, investment to total assets ratio and interest earned to total investment ratio of Prudential Insurance Co. Ltd. are slightly higher than Everest Insurance Co. Ltd. from 34.81%, 2.79%, 33.35% and 1.49% respectively in percentage.

- The net profit trend equation of Everest Insurance Co. Ltd. and Prudential Insurance Co. Ltd. are $Y= 17,571,801.40 + 4,692,742.00x$ and $Y= 7,025,652.20 + 689,438.50x$ respectively. The net profit trend equation line is upward slope but the slope of Everest Insurance Co. Ltd. is highly greater upward slope than Prudential Insurance Co. Ltd. Estimation net profit for coming year 2009/10 of Everest Insurance Co. Ltd. and Prudential Insurance Co. Ltd. are Rs.31,650,027.40 and Rs.9,093,967.70 respectively. Similarly the estimation net profit of EICL and PICL for coming year 2010/11 is Rs.36,342,769.40 and Rs.9,783,406.20 respectively.

- The earned premium trend equation of Everest Insurance Co. Ltd. and Prudential Insurance Co. Ltd. are $Y= 99,280,972.20 + 26,993,173.50x$ and $Y= 25,680,623.03$

+ 4,814,503.03x respectively. The earned premium trend equation line is upward slope but the slope of Everest Insurance Co. Ltd. is greater upward slope than Prudential Insurance Co. Ltd. Estimation earned premium of EICL and PICL for coming year 2009/10 are Rs.180,260,492.70 and Rs.40,124,132.12 and coming year 2010/11 are Rs.207,253,666.20 and Rs.44,938,635.15 respectively.

5.3 Recommendations

This study has reflected that the overall financial performance of Everest Insurance Company Ltd. and Prudential Insurance Co. Ltd. Since the insurance directly related to premium collection and investment aspects, there will be the ultimate bearer of the soundness and weakness of their functioning as financial institution. They have also barrier from government rules and regulation and through other relevant side these corrective action needs to introduced. Some recommendations have been made for improvement of the investment portfolio of selected insurance company. These recommendations have been summarizing below:-

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

▪ PICL should increase their premium collection. PICL should attract construction companies, transport companies, public etc. to increase their premium.

- Insurance companies are also suggested to invest in profitable sector to earn profit. All insurance companies seem to be risk avoiding while making their investment. Therefore, they are making secured investment with lower rate of return. Thus, they are suggested to change their investment policy. They must introduce the portfolio management system to increase their earning from investment without increasing the degree of risk by diversification of risk. However, regarding interest income to total income ratio, it is found that PICL mostly depend on interest rather than investing on profitable sector to create better portfolio. Hence, its recommended to PICL to invest on profitable sector. Regarding interest income to total income ratio of PICL is found satisfactory.

- Both selected insurance Co's ROA are found unsatisfactory so, insurance companies are suggested to improve earning of the company by utilizing the ideal assets in profitable portfolio.

- From the entire analysis mentioned above findings seems that selected insurance is more fluctuation of investment and net income trend too. So, the entire insurer should try to remove that type of fluctuation on respective aspect. The insurance act and regulation should be clear enough to guide the investment-related matter to a direction. The regulatory limits relating the investment should be promptly changed according to the change in overall macro-economic and money capital market condition.

- Increase in company size with expanding fixed assets is desirable. These companies should utilize its funds to expand fixed assets, which can help the

company be financially stronger. Only the financially strong company attracts the potential customers and increases its business. It makes shareholders as well as other relative parties' confidence toward the company. In comparison of two insurance companies, EICL is in better position than PICL in fixed assets. So it is recommended to PICL to increase fixed assets.

- The study of both insurance companies shows that its business in some convenient are as of the country and it seems necessary to establish branches in other areas which enhance insured convenience as well as companies' business opportunities. For that purpose, they should appoint a large number of agents in different places. Radio and Television advertisement, talk programs, seminars, handouts and house painting may be used as promotional devices for the sake of promoting its Insurance market.

- In an efficient market the basic goal is to make the market aware about the performance of companies. So certain steps, which can bring the clear picture of their financial performance in the investors' mind is necessary. So, the flow of information should be made available to the investors to take correct decision.

- It is also recommended to the concerned body to carry out further research on Financial and market analysis of insurance companies for the betterment the companies. To grab the present and future potential business opportunities in the market, these companies should establish research and development department. So that the company would be able to get the more profitable opportunities in the market.

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APPENDIX-I

Calculation of Market Price per Share of EICL and PICL

(Amount in Rs.)

Year	EICL	PICL
2004/05	325.00	230.00
2005/06	295.00	210.00
2006/07	290.00	238.00
2007/08	291.00	208.00
2008/09	285.00	204.00
Total	**1,486.00**	**1,090.00**
Average	297.20	218.00

(Sources: EICL Annual Report 11th to 15th (2004/05 to 2008/09) and PICL Annual Report 4th to 8th (2004/05 to 2008/09))

Average ($\bar{X}$) of EICL is

$$= \frac{\text{Total MPS in sample year}}{\text{No. of sample year}}$$

$$= \frac{1,486.00}{5}$$

= Rs. 297.20

∴ EICL's Average MPS of Five Year Period is Rs. 297.20.

Average ($\bar{X}$) of PICL is

$$= \frac{\text{Total MPS in sample year}}{\text{No. of sample year}}$$

$$= \frac{1,090.00}{5}$$

= Rs. 218.00

∴ PICL's Average MPS of Five Year Period is Rs. 218.00.

APPENDIX-II

Calculation of Dividend per Share of EICL and PICL

Year	EICL			PICL		
	Dividend in Rs.	No of Share	DPS	Dividend in Rs.	No of Share	DPS
2004/05	30,000,000.00	600,000.00	50.00	-	1,000,000.00	-
2005/06	-	900,000.00	-	6,000,000.00	1,000,000.00	6.00
2006/07	11,842,105.00	900,000.00	13.16	6,000,000.00	1,000,000.00	6.00
2007/08	-	1,012,500.00	-	-	1,000,000.00	-
2008/09	20,250,000.00	1,012,500.00	20.00	5,000,000.00	1,000,000.00	5.00
Total	**62,092,105.00**	**4,425,000.00**	**83.16**	**17,000,000.00**	**5,000,000.00**	**17.00**
Average			**16.63**			**3.40**

(Sources: EICL Annual Report 11th to 15th (2004/05 to 2008/09) and PICL Annual Report 4th to 8th (2004/05 to 2008/09))

Where,

$$\text{Dividend per Share (DPS)} = \frac{\text{Amount paid to equity shareholders}}{\text{Number of ordinary shares outstanding}}$$

For Example:

EICL's 2004/05 DPS is $\text{EICL} = \dfrac{30,000,000.00}{6000,000.00} = \text{Rs. } 50$

$\therefore$ EICL's 2004/05 DPS is Rs. 50.

$$\text{Average Dividend of EICL is} = \frac{\text{Total dividend received}}{\text{No. of year}}$$

$$= \frac{83.16}{5}$$

$= \text{Rs. } 16.63$

$\therefore$ EICL's Average DPS of Five Years Period is Rs. 16.63.

APPENDIX-III

Calculation of Earning per Share of EICL and PICL

Year	EICL					
	Net Profit	No of Share	EPS	Net Profit	No of Share	EPS
2004/05	10,121,927.00	600,000.00	16.87	3,572,593.00	1,000,000.00	3.57
2005/06	12,542,403.00	900,000.00	13.94	8,585,020.00	1,000,000.00	8.59
2006/07	22,088,924.00	900,000.00	24.54	0,601,248.00	1,000,000.00	10.60
2007/08	6,497,829.00	1,012,500.00	6.42	2,114,209.00	1,000,000.00	2.11
2008/09	36,607,924.00	1,012,500.00	36.16	0,255,191.00	1,000,000.00	10.26
Total	**87,859,007.00**	**4,425,000.00**	**97.92**	**5,128,261.00**	**5,000,000.00**	**35.13**
Average			**19.58**			**7.03**

(Sources: EICL Annual Report 11th to 15th (2004/05 to 2008/09) and PICL Annual Report 4th to 8th (2004/05 to 2008/09))

Where,

$$\text{Earning per Share (EPS)} = \frac{\text{Net Profit}}{\text{Number of existing equity share}}$$

For Example:

$$\text{EICL's 2004/05 EPS is EICL} = \frac{10{,}121{,}927.00}{600{,}000.00} = 16.87$$

$\therefore$ EICL's 2004/05 EPS is Rs. 16.87.

$$\text{Average Dividend of EICL is} = \frac{\text{Total EPS in Sample year}}{\text{No. of sample year}}$$

$$= \frac{17{,}571{,}801.40}{885{,}000.00}$$

$= \text{Rs. } 19.58$

$\therefore$ EICL's Average EPS of Five Years Period is Rs. 19.58.

APPENDIX-IV

Calculation of P/E Ratio of EICL and PICL

Year	EICL			PICL		
	MPS	EPS	P/E Ratio	MPS	EPS	P/E Ratio
2004/05	325.00	16.87	19.27	230.00	3.57	64.38
2005/06	295.00	13.94	21.17	210.00	8.59	24.46
2006/07	290.00	24.54	11.82	238.00	10.60	22.45
2007/08	291.00	6.42	45.34	208.00	2.11	98.38
2008/09	285.00	36.16	7.88	204.00	10.26	19.89
Total	**1,486.00**	97.92	**105.48**	**1,090.00**	35.13	**229.56**
Average	**297.20**	**19.58**	**21.10**	**218.00**	**7.03**	**45.91**

(Sources: EICL Annual Report 11th to 15th (2004/05 to 2008/09) and PICL Annual Report 4th to 8th (2004/05 to 2008/09))

Where,

$$\text{Price Earning Ratio (P/E Ratio)} = \frac{\text{Market price per share}}{\text{Earning per share}}$$

For Example:

EICL's 2004/05 P/E Ratio is $\dfrac{325}{16.87} = 19.27$

$\therefore$ EICL's 2004/05 P/E Ratio is Rs. 19.27.

$$\text{Average Profit Earning Ratio of EICL is} = \frac{\text{Total P/E ratio in sample year}}{\text{No. of sample year}}$$

$$= \frac{105.48}{5}$$

$$= \text{Rs. 21.10}$$

$\therefore$ EICL's Average P/E Ratio of Five Years period is Rs. 21.10.

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Calculation of Book Value per Share of EICL and PICL

Year	EICL			PICL		
	Total Net Worth	**No. of Shares**	**Book Value per Share**	**Total Net Worth**	**No. of Shares**	**Book Value per Share**
2004/05	121,473,419.00	600,000.00	202.46	106,594,333.00	1,000,000	106.59
2005/06	132,436,875.00	900,000.00	147.15	109,059,742.00	1,000,000	109.06
2006/07	153,829,633.00	900,000.00	170.92	113,728,438.00	1,000,000	113.73
2007/08	159,840,563.00	1,012,500.00	157.87	116,098,847.00	1,000,000	116.10
2008/09	182,547,183.00	1,012,500.00	180.29	121,021,953.00	1,000,000	121.02
Total	**750,127,673.00**	**4,425,000.00**	**858.69**	**566,503,313.00**	**5,000,000**	**566.50**
Average	**150,025,534.60**	**885,000.00**	**171.74**	**113,300,662.60**	**1,000,000**	**113.30**

(Sources: EICL Annual Report 11th to 15th (2004/05 to 2008/09) and PICL Annual Report 4th to 8th (2004/05 to 2008/09))

Where,

$$\text{Book Value per Share (Net Worth per Share)} = \frac{\text{Total Net Worth}}{\text{Total No. of shares}}$$

For Example:

EICL's 2004/05 Book Value per Share is $\dfrac{112,473,419.00}{600,000.00} = 202.46$

∴ EICL's 2004/05 Book Value per Share is Rs. 202.46.

Average Book Value per Share of EICL is =

$$\frac{\text{Total book value per share in selected year}}{\text{No. of year selected}} = \frac{858.69}{5}$$

= Rs. 171.74

∴ EICL's Average Book Value per Share of Five Years Period is Rs. 171.74

Calculation of Market/Book Value per Share of EICL and PICL

Year	EICL			PICL		
	Market Value per Share	Book Value per Share	Market / Book Value per Share	Market Value per Share	Book Value per Share	Market / Book Value per Share
2004/05	325.00	202.46	1.61	230.00	106.59	2.16
2005/06	295.00	147.15	2.00	210.00	109.06	1.93
2006/07	290.00	170.92	1.70	238.00	113.73	2.09
2007/08	291.00	157.87	1.84	208.00	116.10	1.79
2008/09	285.00	180.29	1.58	204.00	121.02	1.69
Total	**1,486.00**	**858.69**	**8.73**	**1,090.00**	**566.50**	**9.65**
Average	**297.20**	**171.74**	**1.75**	**218.00**	**113.30**	**1.93**

(Sources: EICL Annual Report 11th to 15th (2004/05 to 2008/09) and PICL Annual Report 4th to 8th (2004/05 to 2008/09))

Where,

$$\text{Market/Book Value Ratio} = \frac{\text{Market price per share}}{\text{Book value per share}}$$

For Example:

EICL's 2004/05 Market/Book Value Ratio is $\frac{325.00}{202.46} = 1.61$

∴ EICL's 2004/05 Market/Book Value Ratio is Rs. 1.61.

Average Market/Book Value per Share of EICL is

$$= \frac{\text{Total Market/Book Value per Share}}{\text{No. of year selected}} = \frac{8.73}{5}$$

$= \text{Rs. } 1.75$

∴ EICL's Average Market/Book Value Ratio of Five Years Period is Rs. 1.75.

Calculation of Dividend Yield per Share of EICL and PICL

Year	EICL			PICL		
	DPS	MPS	Dividend Yield	DPS	MPS	Dividend Yield
2004/05	50.00	325.00	15.38%	-	230.00	0.00%
2005/06	-	295.00	0.00%	6.00	210.00	2.86%
2006/07	13.16	290.00	4.54%	6.00	238.00	2.52%
2007/08	-	291.00	0.00%	-	208.00	0.00%
2008/09	20.00	285.00	7.02%	5.00	204.00	2.45%
Total	**83.16**	**1,486.00**	**26.94%**	**17.00**	**1,090.00**	**7.83%**
Average	**16.63**	**297.20**	**5.39%**	**3.4**	**218.00**	**1.57%**

(Sources: EICL Annual Report 11th to 15th (2004/05 to 2008/09) and PICL Annual Report 4th to 8th (2004/05 to 2008/09))

Where,

$$\text{Dividend Yield} = \frac{\text{Dividend per share}}{\text{Market price per share}}$$

For Example:

EICL's 2004/05 Dividend Yield is $\dfrac{50.00}{325} = 15.38\%$

∴ EICL's 2004/05 Dividend Yield is 15.38%.

Average Dividend Yield per Share of EICL is

$$= \frac{\text{Total Dividend Yield per Share in Sample year}}{\text{No. of shample year}}$$

$$= \frac{26.94\%}{5}$$

= Rs. 5.39%

∴ EICL's Average Dividend Yield of Five Years Period is 5.39%.

APPENDIX-VIII

Calculation of Capital Gain Yield of EICL and PICL

Year	EICL			PICL		
	Ending price	Beginning price	Capital Gain Yield	Ending price	Beginning price	Capital Gain Yield
2004/05	325.00	350.00	-7.14%	230.00	-	
2005/06	295.00	325.00	-9.23%	210.00	230.00	-8.70%
2006/07	290.00	295.00	-1.69%	238.00	210.00	13.33%
2007/08	291.00	290.00	0.34%	208.00	238.00	-12.61%
2008/09	285.00	291.00	-2.06%	204.00	208.00	-1.92%
Total			**-19.79%**			**-9.89%**
Average			**-3.96%**			**-1.98%**

(Sources: EICL Annual Report 11th to 15th (2004/05 to 2008/09) and PICL Annual Report 4th to 8th (2004/05 to 2008/09))

Where,

$$\text{Capital Gain Yield} = \frac{\text{Ending Price} - \text{Begining Price}}{\text{Begining Price}}$$

For Example:

EICL's 2004/05 Capital Gain Yield is $\frac{325.00 - 350.00}{350}$ = -7.14%

∴ EICL's 2004/05 Capital Gain Yield per Share is -7.14%.

Average Capital Gain Yield per Share of EICL is

$$= \frac{\text{Total Capital Gain Yield of selected year}}{\text{No. of year selected}} = \frac{-19.79\%}{5}$$

= Rs. -3.96%

∴ EICL's Average Capital Gain Yield per Share of Five Years Periods -3.96%.

Calculation of Total Yield of EICL and PICL

Year	PICL					
	Dividend Yield	**Capital Gain Yield**	**Total Yield**	**Dividend Yield**	**Capital Gain Yield**	**Total Yield**
2004/05	15.38%	-7.14%	8.24%	0.00%	0.00%	0.00%
2005/06	0.00%	-9.23%	-9.23%	2.86%	-8.70%	-5.84%
2006/07	4.54%	-1.69%	2.84%	2.52%	13.33%	15.85%
2007/08	0.00%	0.34%	0.34%	0.00%	-12.61%	-12.61%
2008/09	7.02%	-2.06%	4.96%	2.45%	-1.92%	0.53%
Total	**26.94%**	**-19.79%**	**7.15%**	**7.83%**	**-9.89%**	**-2.06%**
Average	**5.39%**	**-3.96%**	**1.43%**	**1.57%**	**-1.98%**	**-0.41%**

(Sources: EICL Annual Report 11th to 15th (2004/05 to 2008/09) and PICL Annual Report 4th to 8th (2004/05 to 2008/09))

Where,

Total Yield = Dividend Yield + Capital Gain

For Example:

EICL's 2004/05 Total Yield is 15.38%+(-7.14) %=8.24%

∴ EICL's 2004/05 Total Yield is 8.24%.

Average Total Yield per Share of EICL is

$$= \frac{\text{Total Total Yield of selected year}}{\text{No. of year selected}} = \frac{7.15\%}{5}$$

= Rs. 1.43%

∴ EICL's Average Total Yield per Share of Five Years Periods 1.43%.

Calculation of Return on Assets Ratio of EICL

Year	Net Profit in Rs.	Total Assets in Rs.	Ratio (x)	x-$\bar{x}$	(x-$\bar{x}$)^2
2004/05	10,121,927.00	274,891,738.00	3.68	-0.33	0.1089
2005/06	12,542,403.00	341,309,433.00	3.67	-0.34	0.1156
2006/07	22,088,924.00	387,905,798.00	5.69	1.68	2.8224
2007/08	6,497,829.00	482,757,394.00	1.35	-2.66	7.0756
2008/09	36,607,924.00	647,277,890.00	5.66	1.65	2.7225
Total	**87,859,007.00**	**2,134,142,253.00**	**20.05**	**0.00**	**12.85**
Mean			**4.01**		
S.D.			**1.60**		
C.V.			**39.97**		

(Sources: EICL Annual Report 11th to 15th (2004/05 to 2008/09))

For Example,

EICL's 2004/05 Return on Assets Ratio ($\times$) is $= \dfrac{\text{Net Profit in Rs.}}{\text{Total Assets in Rs.}} \times 100\%$

$= \dfrac{\text{Rs. } 10,121,927}{\text{Rs. } 274,891,738} \times 100\%$

$= 3.68$

$\therefore$ EICL's 2004/05 Return on Assets Ratio is 3.68.

Mean $(\bar{X}) = \dfrac{\sum x}{n} = \dfrac{20.05}{5} = 4.01$

S.D. $(\sigma) = \sqrt{\dfrac{\sum(x-\bar{x})^2}{n}} = \sqrt{\dfrac{12.85}{5}} = 1.60$

C.V. $= \dfrac{\sigma}{\bar{x}} \times 100 = \dfrac{1.60}{4.01} \times 100 = 39.97$

Calculation of Return on Assets Ratio of PICL

Year	Net Profit in Rs.	Total Assets in Rs.	Ratio (x)	x-$\bar{x}$	(x-$\bar{x}$)²
2004/05	3,572,593.00	171,543,176.00	2.08	-1.44	2.0736
2005/06	8,585,020.00	208,676,174.00	4.11	0.59	0.3481
2006/07	10,601,248.00	218,180,286.00	4.86	1.34	1.7956
2007/08	2,114,209.00	204,255,830.00	1.04	-2.48	6.1504
2008/09	10,255,191.00	186,185,833.11	5.51	1.99	3.9601
Total	**35,128,261.00**	**988,841,299.11**	**17.60**	**-0.00**	**14.33**
Mean			**3.52**		
S.D.			**1.69**		
C.V.			**48.09**		

(Sources: PICL Annual Report 4ᵗʰ to 8ᵗʰ (2004/05 to 2008/09))

For Example,

PICL's 2004/05 Return on Assets Ratio ($\times$) is $= \dfrac{\text{Net Profit in Rs.}}{\text{Total Assets in Rs.}} \times 100\%$

$= \dfrac{\text{Rs. } 3,572,593.00}{\text{Rs. } 171,543,176.00} \times 100\%$

$= 2.08$

$\therefore$ PICL's 2004/05 Return on Assets Ratio is 2.08.

Mean $(\bar{X}) = \dfrac{\sum x}{n} = \dfrac{17.60}{5} = 3.52$

S.D. $(\sigma) = \sqrt{\dfrac{\sum(x-\bar{x})^2}{n}} = \sqrt{\dfrac{14.33}{5}} = 1.69$

C.V. $= \dfrac{\sigma}{\bar{x}} \times 100 = \dfrac{1.69}{3.52} \times 100 = 48.09$

APPENDIX-XII

Calculation of Return on Equity Ratio of EICL

Year	Net Profit in Rs.	Total Equity in Rs.	Ratio (x)	x-$\bar{x}$	(x-$\bar{x}$)²
2004/05	10,121,927.00	60,000,000.00	16.87	-2.72	7.376656
2005/06	12,542,403.00	90,000,000.00	13.94	-5.65	31.877316
2006/07	22,088,924.00	90,000,000.00	24.54	4.95	24.542116
2007/08	6,497,829.00	101,250,000.00	6.42	-13.17	173.343556
2008/09	36,607,924.00	101,250,000.00	36.16	16.57	274.697476
Total	**87,859,007.00**	**442,500,000.00**	**97.93**	**0.00**	**511.84**
Mean			**19.59**		
S.D.			**10.12**		
C.V.			**51.66**		

(Sources: EICL Annual Report 11th to 15th (2004/05 to 2008/09))

For Example,

EICL's 2004/05 Return on Equity Ratio ($\times$) is $= \dfrac{\text{Net Profit in Rs.}}{\text{Total Equity in Rs.}} \times 100\%$

$= \dfrac{\text{Rs. } 10,121,927}{\text{Rs. } 60,000,000} \times 100\%$

$= 16.87$

$\therefore$ EICL's 2004/05 Return on Equity Ratio is 16.87.

Mean $(\overline{X}) = \dfrac{\sum x}{n} = \dfrac{97.93}{5} = 19.59$

S.D. $(\sigma) = \sqrt{\dfrac{\sum(x-\bar{x})^2}{n}} = \sqrt{\dfrac{511.84}{5}} = 10.12$

C.V. $= \dfrac{\sigma}{\bar{x}} \times 100 = \dfrac{10.12}{19.59} \times 100 = 51.66$

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Calculation of Return on Equity Ratio of PICL

Year	Net Profit in Rs.	Total Equity in Rs.	Ratio (x)	x-x̄	(x-x̄)²
2004/05	3,572,593.00	100,000,000.00	3.57	-3.46	11.943936
2005/06	8,585,020.00	100,000,000.00	8.59	1.56	2.446096
2006/07	10,601,248.00	100,000,000.00	10.60	3.57	12.773476
2007/08	2,114,209.00	100,000,000.00	2.11	-4.92	24.167056
2008/09	10,255,191.00	100,000,000.00	10.26	3.23	10.458756
Total	**35,128,261.00**	**500,000,000.00**	**35.13**	**0.00**	**61.79**
Mean			**7.03**		
S.D.			**3.52**		
C.V.			**50.03**		

(Sources: PICL Annual Report 4th to 8th (2004/05 to 2008/09))

For Example,

PICL's 2004/05 Return on Equity Ratio ($\times$) is $= \dfrac{\text{Net Profit in Rs.}}{\text{Total Equity in Rs.}} \times 100\%$

$= \dfrac{\text{Rs. } 3,572,593}{\text{Rs. } 100,000,000} \times 100\%$

$= 3.57$

$\therefore$ PICL's 2004/05 Return on Equity Ratio is 3.57.

Mean $(\bar{X}) = \dfrac{\sum x}{n} = \dfrac{35.13}{5} = 7.03$

S.D. $(\sigma) = \sqrt{\dfrac{\sum(x-\bar{x})^2}{n}} = \sqrt{\dfrac{61.79}{5}} = 3.52$

C.V. $= \dfrac{\sigma}{\bar{x}} \times 100 = \dfrac{3.62}{7.03} \times 100 = 50.03$

Calculation of Return on Investment Ratio of EICL

Year	Net Profit in Rs.	Total Investment in Rs.	Ratio (x)	x-$\bar{x}$	(x-$\bar{x}$)^2
2004/05	10,121,927.00	113,852,800.00	8.89	-0.38	0.147456
2005/06	12,542,403.00	145,251,225.00	8.63	-0.64	0.414736
2006/07	22,088,924.00	170,344,069.00	12.97	3.70	13.660416
2007/08	6,497,829.00	208,455,219.00	3.12	-6.15	37.871716
2008/09	36,607,924.00	286,857,510.00	12.76	3.49	12.152196
Total	**87,859,007.00**	**924,760,823.00**	**46.37**	**0.00**	**64.25**
Mean			**9.27**		
S.D.			**3.58**		
C.V.			**38.65**		

(Sources: EICL Annual Report 11th to 15th (2004/05 to 2008/09))

For Example,

EICL's 2004/05 Return on Investment Ratio (×) is $= \dfrac{\text{Net Profit in Rs.}}{\text{Total Investment in Rs.}} \times 100\%$

$= \dfrac{\text{Rs. } 10,121,927}{\text{Rs. } 113,852,800} \times 100\%$

$= 8.89$

∴ EICL's 2004/05 Return on Investment Ratio is 8.89.

Mean $(\bar{X}) = \dfrac{\sum x}{n} = \dfrac{46.37}{5} = 9.27$

S.D. $(\sigma) = \sqrt{\dfrac{\sum(x-\bar{x})^2}{n}} = \sqrt{\dfrac{64.25}{5}} = 3.58$

C.V. $= \dfrac{\sigma}{\bar{x}} \times 100 = \dfrac{3.58}{9.27} \times 100 = 38.65$

Calculation of Return on Investment Ratio of PICL

Year	Net Profit in Rs.	Total Investment in Rs.	Ratio (x)	x-$\bar{x}$	(x-$\bar{x}$)^2
2004/05	3,572,593.00	138,547,679.00	2.58	-2.08	4.343056
2005/06	8,585,020.00	123,947,679.00	6.93	2.27	5.134756
2006/07	10,601,248.00	161,986,317.00	6.54	1.88	3.519376
2007/08	2,114,209.00	150,849,219.00	1.40	-3.26	10.653696
2008/09	10,255,191.00	174,773,499.10	5.87	1.21	1.454436
Total	**35,128,261.00**	**750,104,393.10**	**23.32**	**0.00**	**25.11**
Mean			**4.66**		
S.D.			**2.24**		
C.V.			**48.04**		

(Sources: PICL Annual Report 4th to 8th (2004/05 to 2008/09))

For Example,

PICL's 2004/05 Return on Investment Ratio ($\times$) is $= \dfrac{\text{Net Profit in Rs.}}{\text{Total Investment in Rs.}} \times 100\%$

$= \dfrac{\text{Rs. } 3,572,593}{\text{Rs. } 138,547,679} \times 100\%$

$= 2.58$

$\therefore$ PICL's 2004/05 Return on Investment Ratio is 2.58.

Mean $(\bar{X}) = \dfrac{\sum x}{n} = \dfrac{23.32}{5} = 4.66$

S.D. $(\sigma) = \sqrt{\dfrac{\sum(x-\bar{x})^2}{n}} = \sqrt{\dfrac{25.11}{5}} = 2.24$

C.V. $= \dfrac{\sigma}{\bar{x}} \times 100 = \dfrac{2.24}{4.66} \times 100 = 48.04$

Calculation of Interest Income to Total Income Ratio of EICL

Year	Interest Income in Rs.	Total Income in Rs.	Ratio (x)	x-$\bar{x}$	(x-$\bar{x}$)^2
2004/05	5,317,278.00	29,442,324.00	18.06	-4.42	19.501056
2005/06	7,862,891.00	29,115,634.00	27.01	4.53	20.557156
2006/07	9,755,621.00	42,342,209.00	23.04	0.56	0.318096
2007/08	9,383,049.00	47,952,298.00	19.57	-2.91	8.444836
2008/09	15,613,127.00	63,218,953.00	24.70	2.22	4.946176
Total	**47,931,966.00**	**212,071,418.00**	**112.38**	**0.00**	**53.77**
Mean			**22.48**		
S.D.			**3.28**		
C.V.			**14.59**		

(Sources: EICL Annual Report 11th to 15th (2004/05 to 2008/09))

For Example,

EICL's Interest Income to Total Income Ratio ($\times$) for 2004/05 is

$$= \frac{\text{Interest Income in Rs.}}{\text{Total Income in Rs.}} \times 100\%$$

$$= \frac{\text{Rs. } 5,317,278}{\text{Rs. } 29,442,324} \times 100\%$$

$$= 18.06$$

$\therefore$ EICL's 2004/05 Interest Income to Total Income Ratio is 18.06.

$$\text{Mean } (\bar{X}) = \frac{\sum x}{n} = \frac{112.38}{5} = 22.48$$

$$\text{S.D. } (\sigma) = \sqrt{\frac{\sum(x-\bar{x})^2}{n}} = \sqrt{\frac{53.77}{5}} = 3.28$$

$$\text{C.V.} = \frac{\sigma}{\bar{x}} \times 100 = \frac{3.28}{22.48} \times 100 = 14.59$$

Calculation of Interest Income to Total Income Ratio of PICL

Year	Interest Income in Rs.	Total Income in Rs.	Ratio (x)	$x-\bar{x}$	$(x-\bar{x})^2$
2004/05	10,409,287.00	15,143,815.00	68.74	11.45	131.194116
2005/06	9,708,424.00	17,620,260.00	55.10	-2.19	4.778596
2006/07	9,948,737.00	21,864,704.00	45.50	-11.79	138.909796
2007/08	9,417,559.00	13,460,754.00	69.96	12.67	160.630276
2008/09	9,577,765.25	20,323,636.98	47.13	-10.16	103.144336
Total	**49,061,772.25**	**88,413,169.98**	**286.43**	**0.00**	**538.66**
Mean			**57.29**		
S.D.			**10.38**		
C.V.			**18.12**		

(Sources: PICL Annual Report 4th to 8th (2004/05 to 2008/09))

For Example,

PICL's Interest Income to Total Income Ratio ($\times$) for 2004/05 is

$$= \frac{\text{Interest Income in Rs.}}{\text{Total Income in Rs.}} \times 100\%$$

$$= \frac{\text{Rs. } 10,409,287}{\text{Rs. } 15,143,815} \times 100\%$$

$$= 68.74$$

$\therefore$ PICL's 2004/05 Interest Income to Total Income Ratio is 68.74.

$$\text{Mean } (\bar{X}) = \frac{\sum x}{n} = \frac{286.43}{5} = 57.29$$

$$\text{S.D. } (\sigma) = \sqrt{\frac{\sum(x-\bar{x})^2}{n}} = \sqrt{\frac{538.66}{5}} = 10.38$$

$$\text{C.V.} = \frac{\sigma}{\bar{x}} \times 100 = \frac{10.38}{57.29} \times 100 = 18.22$$

Calculation of Interest Income to Total Assets Ratio of EICL

Year	Interest Income in Rs.	Total Assets in Rs.	Ratio (x)	$x-\bar{x}$	$(x-\bar{x})^2$
2004/05	5,317,278.00	274,891,738.00	1.93	-0.29	0.082944
2005/06	7,862,891.00	341,309,433.00	2.30	0.08	0.006724
2006/07	9,755,621.00	387,905,798.00	2.51	0.29	0.085264
2007/08	9,383,049.00	482,757,394.00	1.94	-0.28	0.077284
2008/09	15,613,127.00	647,277,890.00	2.41	0.19	0.036864
Total	**47,931,966.00**	**2,134,142,253.00**	**11.09**	**0.00**	**0.29**
Mean			**2.22**		
S.D.			**0.24**		
C.V.			**10.84**		

(Sources: EICL Annual Report 11th to 15th (2004/05 to 2008/09))

For Example,

EICL's Interest Income to Total Assets Ratio ($\times$) for 2004/05 is

$$= \frac{\text{Interest Income in Rs.}}{\text{Total Assets in Rs.}} \times 100\%$$

$$= \frac{\text{Rs. } 5,317,278}{\text{Rs. } 274,891,738} \times 100\%$$

$$= 1.93$$

∴ EICL's 2004/05 Interest Income to Total Assets Ratio is 1.93.

$$\text{Mean } (\bar{X}) = \frac{\sum x}{n} = \frac{11.09}{5} = 2.22$$

$$\text{S.D. } (\sigma) = \sqrt{\frac{\sum(x-\bar{x})^2}{n}} = \sqrt{\frac{0.29}{5}} = 0.24$$

$$\text{C.V.} = \frac{\sigma}{\bar{x}} \times 100 = \frac{0.24}{2.22} \times 100 = 10.84$$

Calculation of Interest Income to Total Assets Ratio of PICL

Year	Interest Income in Rs.	Total Assets in Rs.	Ratio (x)	$x-\bar{x}$	$(x-\bar{x})^2$
2004/05	10,409,287.00	171,543,176.00	6.07	1.06	1.132096
2005/06	9,708,424.00	208,676,174.00	4.65	-0.36	0.126736
2006/07	9,948,737.00	218,180,286.00	4.56	-0.45	0.198916
2007/08	9,417,559.00	204,255,830.00	4.61	-0.40	0.156816
2008/09	9,577,765.25	186,185,833.11	5.14	0.13	0.017956
Total	**49,061,772.25**	**988,841,299.11**	**25.03**	**0.00**	**1.63**
Mean			**5.01**		
S.D.			**0.57**		
C.V.			**11.41**		

(Sources: PICL Annual Report 4th to 8th (2004/05 to 2008/09))

For Example,

PICL's Interest Income to Total Assets Ratio ($\times$) for 2004/05 is

$$= \frac{\text{Interest Income in Rs.}}{\text{Total Assets in Rs.}} \times 100\%$$

$$= \frac{\text{Rs. } 10,409,287}{\text{Rs. } 171,543,176} \times 100\%$$

$$= 6.07$$

$\therefore$ PICL's 2004/05 Interest Income to Total Assets Ratio is 6.07.

Mean $(\bar{X}) = \dfrac{\sum x}{n} = \dfrac{25.03}{5} = 5.01$

S.D. $(\sigma) = \sqrt{\dfrac{\sum(x-\bar{x})^2}{n}} = \sqrt{\dfrac{1.63}{5}} = 0.57$

C.V. $= \dfrac{\sigma}{\bar{x}} \times 100 = \dfrac{0.57}{5.01} \times 100 = 11.41$

APPENDIX-XX

Calculation of Investment to Total Assets Ratio of EICL

Year	Investment in Rs.	Total Assets in Rs.	Ratio (x)	x-$\bar{x}$	(x-$\bar{x}$)^2
2004/05	113,852,800.00	274,891,738.00	41.42	1.66	2.748964
2005/06	145,251,225.00	341,309,433.00	42.56	-0.52	0.268324
2006/07	170,344,069.00	387,905,798.00	43.91	0.83	0.692224
2007/08	208,455,219.00	482,757,394.00	43.18	0.10	0.010404
2008/09	286,857,510.00	647,277,890.00	44.32	1.24	1.542564
Total	**924,760,823.00**	**2,134,142,253.00**	**215.39**	**0.00**	**5.26**
Mean			**43.08**		
S.D.			**1.03**		
C.V.			**2.38**		

(Sources: EICL Annual Report 11th to 15th (2004/05 to 2008/09))

For Example,

EICL's Total Investment to Total Assets Ratio ($\times$) for 2004/05 is

$$= \frac{\text{Total Investment in Rs.}}{\text{Total Assets in Rs.}} \times 100\%$$

$$= \frac{\text{Rs. } 113,852,800}{\text{Rs. } 274,891,738} \times 100\%$$

$$= 41.42$$

$\therefore$ EICL's 2004/05 Total Investment to Total Assets Ratio is 41.42.

$$\text{Mean } (\bar{X}) = \frac{\sum x}{n} = \frac{44.32}{5} = 43.08$$

$$\text{S.D. } (\sigma) = \sqrt{\frac{\sum(x-\bar{x})^2}{n}} = \sqrt{\frac{1.542564}{5}} = 1.03$$

$$\text{C.V.} = \frac{\sigma}{\bar{x}} \times 100 = \frac{1.03}{43.08} \times 100 = 2.38$$

APPENDIX-XXI

Calculation of Investment to Total Assets Ratio of PICL

Year	Investment in Rs.	Total Assets in Rs.	Ratio (x)	$x-\bar{x}$	$(x-\bar{x})^2$
2004/05	138,547,679.00	171,543,176.00	80.77	4.34	18.870336
2005/06	123,947,679.00	208,676,174.00	59.40	-17.03	289.884676
2006/07	161,986,317.00	218,180,286.00	74.24	-2.19	4.778596
2007/08	150,849,219.00	204,255,830.00	73.85	-2.58	6.635776
2008/09	174,773,499.10	186,185,833.11	93.87	17.44	304.293136
Total	**750,104,393.10**	**988,841,299.11**	**382.13**	**0.00**	**624.46**
Mean			**76.43**		
S.D.			**11.18**		
C.V.			**14.62**		

(Sources: PICL Annual Report 4th to 8th (2004/05 to 2008/09))

For Example,

PICL's Total Investment to Total Assets Ratio ($\times$) for 2004/05 is

$$= \frac{\text{Total Investment in Rs.}}{\text{Total Assets in Rs.}} \times 100\%$$

$$= \frac{\text{Rs. } 138,547,679}{\text{Rs. } 171,543,176} \times 100\%$$

$$= 80.77$$

$\therefore$ PICL's 2004/05 Total Investment to Total Assets Ratio is 80.77.

$$\text{Mean } (\bar{X}) = \frac{\sum x}{n} = \frac{382.13}{5} = 76.43$$

$$\text{S.D. } (\sigma) = \sqrt{\frac{\sum(x-\bar{x})^2}{n}} = \sqrt{\frac{624.46}{5}} = 11.18$$

$$\text{C.V.} = \frac{\sigma}{\bar{x}} \times 100 = \frac{11.18}{76.43} \times 100 = 14.62$$

APPENDIX-XXII

Calculation of Interest Earned to Total Investment Ratio of EICL

Year	Interest Earned in Rs.	Investment in Rs.	Ratio (x)	x-$\bar{x}$	$(x-\bar{x})^2$
2004/05	5,317,278.00	113,852,800.00	4.67	-0.48	0.2304
2005/06	7,862,891.00	145,251,225.00	5.41	0.26	0.0676
2006/07	9,755,621.00	170,344,069.00	5.73	0.58	0.3364
2007/08	9,383,049.00	208,455,219.00	4.50	-0.65	0.4225
2008/09	15,613,127.00	286,857,510.00	5.44	-0.29	0.0841
Total	**47,931,966.00**	**924,760,823.00**	**25.75**	**0.00**	**1.14**
Mean			**5.15**		
S.D.			**0.48**		
C.V.			**9.28**		

(Sources: EICL Annual Report 11th to 15th (2004/05 to 2008/09))

For Example,

EICL's 2004/05 Return on Investment Ratio ($\times$) is

$$= \frac{\text{Interest Earned in Rs.}}{\text{Total Investment in Rs.}} \times 100\%$$

$$= \frac{\text{Rs. } 5,317,278}{\text{Rs. } 113,852,800} \times 100\%$$

$$= 4.67$$

$\therefore$ EICL's 2004/05 Interest Earned to Investment Ratio is 4.67.

$$\text{Mean } (\bar{X}) = \frac{\sum x}{n} = \frac{25.75}{5} = 5.15$$

$$\text{S.D. } (\sigma) = \sqrt{\frac{\sum(x-\bar{x})^2}{n}} = \sqrt{\frac{1.14}{5}} = 0.48$$

$$\text{C.V.} = \frac{\sigma}{\bar{x}} \times 100 = \frac{0.48}{5.15} \times 100 = 9.28$$

Calculation of Interest Earned to Total Investment Ratio of PICL

Year	Interest Earned in Rs.	Investment in Rs.	Ratio (x)	x-$\bar{x}$	(x-$\bar{x}$)²
2004/05	10,409,287.00	138,547,679.00	7.51	0.87	0.7569
2005/06	9,708,424.00	123,947,679.00	7.83	1.19	1.4161
2006/07	9,948,737.00	161,986,317.00	6.14	-0.50	0.25
2007/08	9,417,559.00	150,849,219.00	6.24	-0.40	0.16
2008/09	9,577,765.25	174,773,499.10	5.48	-1.16	1.3456
Total	**49,061,772.25**	**750,104,393.10**	**33.20**	**0.00**	**3.93**
Mean			**6.64**		
S.D.			**0.89**		
C.V.			**13.35**		

(Sources: PICL Annual Report 4ᵗʰ to 8ᵗʰ (2004/05 to 2008/09))

For Example,

PICL's 2004/05 Return on Investment Ratio ($\times$) is

$$= \frac{\text{Interest Earned in Rs.}}{\text{Total Investment in Rs.}} \times 100\%$$

$$= \frac{\text{Rs. } 10,409,287}{\text{Rs. } 138,547,679} \times 100\%$$

$$= 7.51$$

$\therefore$ PICL's 2004/05 Interest Earned to Investment Ratio is 7.51.

$$\text{Mean } (\bar{X}) = \frac{\sum x}{n} = \frac{33.20}{5} = 6.64$$

$$\text{S.D. } (\sigma) = \sqrt{\frac{\sum(x-\bar{x})^2}{n}} = \sqrt{\frac{3.93}{5}} = 0.89$$

$$\text{C.V.} = \frac{\sigma}{\bar{x}} \times 100 = \frac{0.89}{6.64} \times 100 = 13.35$$

Calculation of Net Profit Straight Line Trend of EICL

Let straight line trend be,

Y= a + bx   eq^n……………… (i)

Year(X)	Net Profit(Y) in Rs.	x = X- 2006/07	x^2	x Y	y = a + bx
2004/05	10,121,927	-2	4	-20,243,854.00	8,186,317.40
2005/06	12,542,403	-1	1	-12,542,403.00	12,879,059.40
2006/07	22,088,924	0	0	0.00	17,571,801.40
2007/08	6,497,829	1	1	6,497,829.00	22,264,543.40
2008/09	36,607,924	2	4	73,215,848.00	26,957,285.40
	$\sum Y$ =87,859,007	$\sum x$ =0	$\sum x^2$ =10	$\sum x Y$ =46,927,420	

(Sources: EICL Annual Report 11th to 15th (2004/05 to 2008/09))

Where,

$$a = \frac{\sum Y}{n} = \frac{87,859,007}{5} = 17,571,801.40$$

$$b = \frac{\sum xY}{\sum x^2} = \frac{46,927,420}{10} = 4,692,742$$

Putting the value of a & b in eq^n. (i)

Y= 17,571,801.40 + 4,692,742.00 x

For estimation of net profit for coming year 2009/10 x =3

∴ Y for 2009/10 year   = 17,571,801.40 + 4,692,742.00 × 3

= Rs. 31,650,027.40

For estimation of net profit for coming year 2010/11 x =4

∴ Y for 2010/11 year   = 17,571,801.40 + 4,692,742.00 × 4

= Rs. 36,342,769.40

APPENDIX-XXV

Calculation of Net Profit Straight Line Trend of PICL

Let straight line trend be,

$Y = a + bx$ $\quad$ eqⁿ……………… (i)

Year(X)	Net Profit(Y) in Rs.	$x = X-2006/07$	x^2	$x\,Y$	$y = a + bx$
2004/05	3,572,593.00	-2	4	-7,145,186.00	5,646,775.20
2005/06	8,585,020.00	-1	1	8,585,020.00	6,336,213.70
2006/07	10,601,248.00	0	0	0.00	7,025,652.20
2007/08	2,114,209.00	1	1	2,114,209.00	7,715,090.70
2008/09	10,255,191.00	2	4	20,510,382.00	8,404,529.20
	$\sum Y = 35,128,261$		$\sum x^2 = 10$	$\sum xY = 6,894,385$	

(Sources: PICL Annual Report 4th to 8th (2004/05 to 2008/09))

Where,

$$a = \frac{\sum Y}{n} = \frac{35,128,261}{5} = 7,025,652.20$$

$$b = \frac{\sum xY}{\sum x^2} = \frac{6,894,385}{10} = 689,438.50$$

Putting the value of a & b in eqⁿ. (i)

$Y = 7,025,652.20 + 689,438.50x$

For estimation of net profit for coming year 2009/10 $x = 3$

$\therefore$ Y for 2009/10 year $= 7,025,652.20 + 689,438.50 \times 3$

$\qquad\qquad = Rs.\ 9,093,967.70$

For estimation of net profit for coming year 2010/11 $x = 4$

$\therefore$ Y for 2010/11 year $= 7,025,652.20 + 689,438.50 \times 4$

$\qquad\qquad = Rs.\ 9,783,406.20$

APPENDIX-XXVI

Calculation of Net Premium Straight Line Trend of EICL

Let straight line trend be,

$Y = a + bx$ eq^n……………… (i)

Year (X)	Earned Premium (y)in Rs.	x = X-2006/07	x^2	xy	y = a + bx
2004/05	61,909,246.00	-2	4	-123,818,492.00	45,294,625.20
2005/06	63,383,690.00	-1	1	63,383,690.00	72,287,798.70
2006/07	84,314,430.00	0	0	0.00	99,280,972.20
2007/08	116,461,073.00	1	1	116,461,073.00	126,274,145.70
2008/09	170,336,422.00	2	4	340,672,844.00	153,267,319.20
	$\sum Y$ =496,404,861		$\sum x^2$ =10	$\sum xY$ =269,931,735	

(Sources: EICL Annual Report 11th to 15th (2004/05 to 2008/09))

Where,

$$a = \frac{\sum Y}{n} = \frac{496,404,861}{5} = 99,280,972.20$$

$$b = \frac{\sum xY}{\sum x^2} = \frac{269,931,735}{10} = 26,993,173.50$$

Putting the value of a & b in eq^n. (i)

$Y = 99,280,972.20 + 26,993,173.50x$

For estimation of net premium for coming year 2009/10 x =3

$\therefore$ Y for 2009/10 year   = 99,280,972.20 + 26,993,173.50 × 3

= Rs. 180,260,492.70

For estimation of net premium for coming year 2010/11 x = 4

$\therefore$ Y for 2010/11 year   = 99,280,972.20 + 26,993,173.50 × 4

= Rs. 207,253,666.20

Calculation of Net Premium Straight Line Trend of PICL

Let straight line trend be,

$Y = a + bx$ $\qquad$ eq^n……………… (i)

Year (X)	Earned Premium (y)in Rs.	$x = X-2006/07$	x^2	xy	y = a + bx
2004/05	16,473,949.00	-2	4	-32,947,898.00	16,051,616.97
2005/06	23,382,023.00	-1	1	-23,382,023.00	20,866,120.00
2006/07	22,726,376.00	0	0	0.00	25,680,623.03
2007/08	27,166,583.00	1	1	27,166,583.00	30,495,126.06
2008/09	38,654,184.15	2	4	77,308,368.30	35,309,629.09
	$\sum Y$ =128,403,115.15		$\sum x^2$ =10	$\sum xY$ =48,145,030.30	

(Sources: PICL Annual Report 4th to 8th (2004/05 to 2008/09))

Where,

$$a = \frac{\sum Y}{n} = \frac{128,403,115.15}{5} = 25,680,623.03$$

$$b = \frac{\sum xY}{\sum x^2} = \frac{48,145,030.30}{10} = 4,814,503.03$$

Putting the value of a & b in eq^n. (i)

Y= 25,680,623.03 + 4,814,503.03x

For estimation of net premium for coming year 2009/10 x =3

$\therefore$ Y for 2009/10 year $\quad$ = 25,680,623.03 + 4,814,503.03 $\times$ 3

$\qquad\qquad\qquad\qquad$ = Rs. 40,124,132.12

For estimation of net premium for coming year 2010/11 x =4

$\therefore$ Y for 2010/11 year $\quad$ = 25,680,623.03 + 4,814,503.03 $\times$ 4

$\qquad\qquad\qquad\qquad$ = Rs. 44,938,635.15