

**A STUDY ON INVESTMENT PRACTICES
OF
SELECTED INSURANCE COMPANIES
OF
NEPAL**

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A Thesis Submitted to:

Office of the Dean

Faculty of Management

Tribhuvan University

In partial fulfillment of the requirement for the degree of

Masters in Business Studies (MBS)

Narayangarh, Chitwan

July 2009

RECOMMENDATION

This is to certify that the thesis

Submitted by
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Entitled
**A Study on Investment Practices
Of
Selected Insurance Companies
Of
Nepal**

has been prepared as approved by this department in the prescribed format of the faculty of management. This thesis is in the form as required by the faculty of management, Tribhuvan University. It is forward for examination.

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VIVA-VOCE SHEET

We have conducted the Viva-Voce examination of the thesis
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and found the thesis to be the original work of the student and written according to the prescribed format. We recommended the thesis to be accepted as partial fulfillment of the requirement for the Degree of Masters in Business Studies (MBS).

VIVA-VOCE COMMITTEE

Chairperson, Research Committee :

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DECLARATION

I hereby declare that this thesis entitled “ A Study on Investment of selected insurance companies of Nepal.” Submitted to the Department of Management, Saptagandaki Multiple Campus, Bharatpur is my original work done in the form of partial fulfillment of the requirement for the Master of Business Studies (MBS) under the supervision of lecturer Kapil Dev Subedi, Faculty of Management, Saptagandaki Multiple Campus, Bharatpur.

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ACKNOWLEDGEMENT

This thesis has been prepared as partial requirement for the Degree of Masters in Business Studies. It would have been almost impossible to complete it without cooperation and help of the people from different sectors.

I would like to express my sincere thanks and deep respect to honorable supervisor Mr. Kapil Dev Subedi for his valuable suggestions and guidance. It was impossible to complete this study without his inspiration and guidance.

All the general managers and staff of different companies and banks, principals and staff of schools and colleges are acknowledged for providing me proper primary data and information. Especially, I am thankful to Mr. Sweet Barma (Assistant Manager of Nepal Insurance Company Limited, Head Office, Kathmandu), Mr. Subodh Shrestha (Senior Manager of Sagarmatha Insurance Company Limited, Head Office, Kathmandu), Mr. Daya Nidhi Ojhaiya (Branch Manager of Nepal Insurance Company Limited, Narayangarh), and Mr. Muskan Shrestha (Branch in-charge of Sagarmatha Insurance Company Limited, Narayangarh) for their precious cooperation.

Similarly, I would like to thank my friend Mr. Prakash Rijal, Kavita Ishor pandey, and Laxman Sharma for giving me their valuable time to finalize this dissertation.

I would also like to express my hearty thanks to my family members whose regular inspiration and continuous contribution made me complete this dissertation.

Lastly, I would like to say that this research paper is my original work. I do not want to declare that this study is perfectly satisfactory and complete. There may be limitations and shortcomings because of limited time and resources. I hereby want to take the responsibility of all those.

Jeni Puri
Bharatpur, Chitwan

Date: July 2009

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ABBREVIATIONS

NICL ¹	=Nepal Insurance Company Limited
UICL	=United Insurance Company Limited
NICL	=Neco Insurance Company Limited
SICL	=Sagarmatha Insurance Company Limited
AICL	=Alliance Insurance Company Limited
B.S.	=Bikram Sambat
BFD	=Bank Fixed Deposits
C.V.	=Co-efficient of Variation
Co.	=Company
d.f.	=Degree of Freedom
NRB	=Nepal Rastra Bank
F.Y.	=Fiscal Year
Ltd.	=Limited
Misc.	=Miscellaneous
RBS	=Rastriya Beema Sansthan
S.D.	=Standard Deviation
PCMI	=Premium Collection on Miscellaneous Insurance
PCFI	=Premium Collection on Fire Insurance
PCAI	=Premium Collection on Aviation Insurance
SPF	=Staff Provident Fund
PCMI ¹	=Premium Collection on Motor Insurance

CHAPTER ONE

INTRODUCTION

1.1 Background of the study:

In the 21st century the world suffer from competition so financial market and capital market regarded as an essence for the development of a country. The government firm and individuals agencies play vital role in the financial and capital market through investing the collected resources within the recognized and national sector like productive industry and financial area expecting reasonable benefit.

Among such financial institutions and intermediaries, insurance companies are also the major ones. Integrated and development of the country is possible only when competitive insurance services reach remote area and corners of the country. Insurance companies occupy quite an important place in the framework of every economy because it provides certainty to the industry, business, and capital for the development of industry, trade, and business investing the fund collected as premium.

According to nature, characteristics, and objective of the insurance company, they are also referred to as financial intermediaries. Hence, insurance industry (structure of insurance company) is also various financial institution bearing very different characters among various financial institutions and intermediaries. All insurance

companies are capable of providing industrial finance, government finance or even personal finance. They provide different finance through their own investment policy and pattern based upon their own objective and nature of the line of insurance business.

In the context of Nepalese insurance companies, they provide various insurance policies and charge premium under insured risk and nature. Insurance companies collect fund through various clients (people and organization) as premium.

Therefore, all the insurance companies are responsible for their clients. This study will identify and analyze different insurance company's premium collection pattern and investment behavior of the insurance company in different sectors of Nepalese economy.

1.2 Statement of the Problem:

It has seen that Nepalese insurance companies are the successful public enterprises of Nepal, which are still running in the insurance business without suffering any losses from the date of establishment until now. So, the investors and businesspersons involved in insurance business, subsequently now twenty-one insurance companies were established and operate their services and activities too. Nowadays, international insurance companies are also opened in Nepal to transact insurance business. However, an overlook on the balance sheet and profit and loss account of insurance companies are earning profit each year; however, it is not significant and satisfactory against the volume of transaction. The volumes of transaction are increasing tremendously year by year but the growth of net earning is not in the same ratio. It is because of price-cutting under rating and cutthroat competition in the market.

The big problem of such institution is to collect premium and mobilize in suitable sector. Nepal is an underdeveloped country and more than 70% of people live in village and are illiterate. The geographical situation also does not favor for the expansion of insurance activities. Most of Nepalese people do not have faith on insurance and have not living standard to get insurance services. Poverty is also main cause to have dropped the insurance business. The main problems of these insurance companies are finance and collection of premium fund. Finance means to sources of fund and its proper utilization. This study aims to analyze and find out answers through various methods of analysis as well as using various techniques.

The specific problems regarding these insurance companies are listed as follows:

-) What is the size and components of premium collection of insurance business in Nepal?
-) Does the trend of premium collection vary according to the time periods chronologically?
-) What are different sectors of investment by Nepalese insurance companies?
-) What are the investment policies of fund collected by insurance companies?
-) Does there exists any differences in investment pattern between the life and other insurance policies?
-) Whether the larger insurance companies have differentiated insurance premium collection and investment pattern than of the smaller companies?
-) What are the views and performance of managers and officers on the investment behaviour of insurance companies?

-) What are the opinion and preference of insurance client on the strength and weaknesses of insurance companies in Nepal?
-) What is financial performance of insurance companies in Nepal?

1.3 Objectives of the Study:

The basic aim of this study is to describe current phenomenon of insurance industry in Nepal and to analyze the premium collection and investment pattern of Nepalese insurance companies. The study will have the following specific objectives.

- (a) To describe the premium collection of selected Nepalese insurance companies.
- (b) To describe the investment pattern of selected Nepalese insurance companies.
- (c) To compare the investment policy of different insurance companies.
- (d) To analyze the size components and characteristics of insurance premium and investment of Nepalese insurance companies.
- (e) To analyze the views and opinions of executives of insurance companies.
- (f) To analyze the financial status(profitability) of insurance companies in Nepal.

1.4 Significance of the Study:

The process of insurance has been involved to safeguard the interest of people from uncertainty by providing certainty of payment at a given contingency. It does not serve the end of individuals but tends to pervade and to transform our modern social order. From an institutional viewpoint, the insurance companies are primarily aimed at providing the security against definite risk for an individual or organization.

However, as supplementary to their basic aim the insurances perform as financial

intermediaries too. The insurances perform as financial intermediaries too. The insurer will have a huge amount to invest, which they collect as individual's savings or as the cost of being insured. Therefore, the study analyzes these premium collection and investment pattern. This will show the fund's actual scenario. The study is needed to frame out the premium collection and investment position of Nepalese insurance industry. Insurance companies need to soundly mobilize its collection fund. Thus, it would be better to evaluate the condition of premium collection and investment pattern of Nepalese insurance companies. It is also needed to disclose the utility of insurance in Nepalese prospects. The study focuses the insurance market and possibility of future expansion in Nepal and is concerned to trace the weak area to suggest far its improvements.

Now a day, insurance is overcoming commonly as almost business but the concept of insurance is not old in Nepal. When the policy breaks the monopoly system and brings competition in insurance business, hence, so many private insurance companies have been opening now. Private insurance companies have been started cutthroat competition in this business. Because of such types of competition, management has to be made efficient; on the other hand, premium rate has to be reduced. Reduction in rate brings the strong possibilities of reduction in profit volume, but at the same time, people motivate to insurance. For seeing this fact, this study concertinas on analyzing about premium collection and investment related matters among the insurers, which is beneficial for insurance business.

1.5 Limitations of the Study:

This study aims at findings the facts and the trend or pattern of the investment and premium collection within the Nepalese insurance industry. Therefore, the scope is limited within the insurance companies operating. Here are mention some

limitations of purpose study. Every activity has also some boundaries, which cannot be ignored. These boundaries are called as limitations of this study. The limitations of this study are:

1. The whole study is based on secondary data collected from the Nepal insurance company, United insurance company limited, Neco insurance company limited, Sagarmatha insurance company limited, Alliance insurance company limited, the Insurance Board (Beema Samitee), Nepal stock exchange, and website:

www.nepalstock.com. Researches based on secondary and primary data are not far from the limitation to inherent character.

1. The study concern only seven years periods of data (056/057 to 062/063) and conclusion drawn confines only to the limit duration.
2. This study covers only the area of premium collection and investment, beside this other area is not studied..
3. The cumulative data of investment are used in the study.

1.6 Organization of the Study:

The study is divided in to five chapters. The first chapter consists background of the study, focus of the study, statement of the problem, limitation of the study and organization of the study. The second chapter consists brief review of the related study and findings are presented and various related literature and quoted. Review of literature consists of the conceptual review, review of journal and review of thesis. The third chapter includes the methodology used for the purpose of the study. Research design, source of data, data collection process, data processing, and financial and statistical tools are used. The fourth chapter includes data presentation, analysis, interpretation and major findings of the selected companies and comparisons is also made between them. We have also include the major findings of

the study in this chapter. At last, of the entire study, fifth chapter contained summary, Conclusion and Recommendation of the study.

Bibliography and Appendix will be attached at the end of the study.

CHAPTER TWO

REVIEW OF LITERATURE

2.1 Introduction:

This chapter is concerned with review of literature relevant to the premium collection and investment position of NIC¹, UIC, NIC, SIC, and AIC. Every study is very much based on past knowledge. The past knowledge or the previous studies should not be ignored as it provides foundation to the present study. Therefore, this chapter has its own importance in the study. This chapter is divided into the following parts:

2.2 Conceptual Framework:

The main objective of this part is to develop theoretical foundation of the student on the study area. This part shall include the conceptual review on the area that needs to be based on a review of textbooks and other reference materials such as journals and magazines.

Human beings are facing various sorts of risk from every beginning of the human civilization. For reducing the risk, insurance proved as an effective device that could be safeguard against such unfortunate happenings.

2.2.1 Meaning of Insurance:

The insurance is the principle against risk. The risk means uncertainty about future losses, or in other words, the inability to predict the occurrence or size of a loss. The objective of insurance is to spread to loss exposure or to co-operate the risk holders in covering losses in case of occurrence. The terminology used for taking risk or assuring to cover loss is known as insurance.

Definition of insurance can be made from two points of views:

- i. Co-operative concept or Functional definitions; and
- ii. Legal concept or Contractual definition.

2.2.1.1 Co-operative concept or Functional definition:

John Bainbridge defines, as “*Insurance is indispensable to free economy and a free society because it not only protects the values produced by men and women who*

work for themselves but fasters in the confidence to produce more” (Bainbridge, 1952, P:15).

M.N. Mishra defines insurance as co-operative device. *“Insurance is co-operative device to spread the loss by particular risk over a number of person, who are expose to it and who agree to insure themselves against the risk”*(Mishra, 1979, P:5).

Robert I. Mehr and Emerson Commack define insurance in this way: *“Insurance may be defined as a device for reducing risk by combining a sufficient number of exposure units to make their individual losses collectively predictable loss is then shared proportionately by all units in the combination”* (Mehr and Commack, 1972, P: 72).

Frederick G. Crane said, *“Insurance may be defined as a system of combining many loss exposure, with the costs of the losses being shared by all of the participants”* (Crane, 1980, P: 8)

Thus from the above definition, we came to know that insurance is a compensation for uncertain happening of any loss which are insured for certain period of time and for specified amount, human life and property are subject to the risk of loss or damage from the various sources. The persons on whom such losses full suffer financially and practically ruined in several causes. The basic concept of insurance is a method of sharing financially loss of a few from the common fund out of contribution of the many who are equally exposed to the same loss.

2.2.1.2 Legal concept or Contractual definition:

According to E. R. Hardy, it can be defined the insurance contract as *“A contract where by one person called insurance undertakes, in the return for the agreed consideration called the premium, to pay the another person called the assured a*

sum of money or its equivalent, on the happening of a specified event” (Hardy,1973, P: 3).

M. N. Mishra again defines insurance as this way,” *Insurance may be define as a consisting one party(the insurer) agrees to pay to the other party(the insured) or his beneficiary, a certain sum upon a given contingency(the risk) against which is sought”*(Mishra, 1979, P: 5).

Thus from the above definition, we came to know that insurance is only legal contract between the insurance company (the insurer) and the insured. The legal document is the policy of insurance

2.2.2 Evolution of Insurance:

The terms of insurance developed through the faith of co-operation. The origin of insurance is lost in antiquity. Evidence is on record that arrangements embodying the idea of insurance were made in Babylonia and India at quite an early period. In Rigved, the most sacred book of India, references were made to the concept of ‘Yogakshema’ for the security of the people. The codes of Hummurabi and of Manu had recognized the advisability of provision for sharing the future losses. However, there is no evidence that insurance in its present form was practiced prior to the twelfth century.

The earliest traces of insurance in the ancient world are found in the form of marine trade loans or carries contract, which included an element of insurance. Evidence shows that the marine insurance is the oldest form of insurance. Travelers by sea and land were very much exposable to the risk of losing their vessels and merchandise because the piracy on the open seas and highway robbery of caravans was very common. Besides, there were several risks. The risk to owners of such ships was

enormous and, therefore, to safeguard them, the marine traders devised a method of spreading over them the financial loss, which could not be conveniently borne by the unfortunate individual victim. The co-operative devices were voluntary in the beginning, but now in modern age it has been converted into modified shape of premium. The Bruggans sold the marine policies of the present forms in the beginning of fourteenth century, but the insurance development was not confined to the lombards and to the Hansa merchants, it spread through out Spain, France, Holland, and England.

After marine insurance, fire insurance developed in its present form. It originated in Germany in the beginning of the sixteen-century. It got momentum in England after the great fire in 1666 when the fire losses were tremendous. Gradually all the types of insurance were developed at this form.

In our society, the concept of insurance can be traced down to the Guthi system and joint family culture that has been prevalent since the ancient times. These systems have provided security and assistance to individuals and families in time of need. With the change in the economic and social perspectives and the increasing complexities of the upcoming small-scale industries, an immense need for a domestic insurance company was felt to insure against any loss that could arise due to mishaps in industries.

With the development of trade, commerce, and industry, the necessity of insurance in our country was felt long ago. However, there was no evidence of any organized form of insurance in Nepal until 1947. Society was organized in an agricultural basis and the socio-economic organization took care of any problem or calamity confronted to the community. The fire insurance in Nepal, at first was started by

“mal chalani ra Beema.” The ‘National fire insurance company’ of Calcutta is the first insurance company to open branch in Kathmandu in 1958, to transact fire insurance business in Nepal. With the development of trade and industry, establishment of Nepal Rastra Bank (central bank), Nepal Bank Ltd (commercial bank), Rastriya Banijya Bank (commercial bank), Agricultural Development Bank, co-operative Bank, Nepal industrial Development Corporation, numerous other companies and corporations, the need of fire insurance in Nepal is growing in a manifold way. To meet ever growing needs of fire insurance Indian branches such as “Ruby”, “Oriental”, Sterling General” and “Hindustan General” and the domestic insurance company “Insurance and Transport Company” and “Rastrya Beema Sansthan” are transacting fire insurance business.

Though there is no organized form of life insurance in Nepal, a kind of like which can be better termed “death insurance” is practiced since a long time. Like “insurance,” there is “Guthee,” which helps its member in facing financial burden out of death. Its policyholders are known as “Gutheear” instead of insured. Though they do not have policies in black and white, they have a kind of verbal understanding by which they can work smoothly without facing any difficulties. Gutheears pay a certain amount of money to the “Gutnee” in the same way as the insured pays premium to the insurer. Before 1951, Patna branch of Indian Life Insurance Company was exploring life insurance business. With the nationalization of “life insurance Corporation of India,” it is solely and wholly transacting life assurance business in Nepal. It established a branch office in Kathmandu in 1962. Thus, this corporation has a kind of monopoly in life insurance business. However, a need for an insurance company that would incorporate every type of insurance function was also felt at the national level. This resulted to establishment as a private company with an authorized capital of Rs.1 crore and capital issued was Rs. 25 lakh

under the Nepal Company Act, 2021. The company started its business by insuring king Mahendra's car. A year later, the company started operating with same name but under National Corporation Act, 2025. On Feb. 21, 1973, five years after its establishment life insurance was introduced.

After the introduction of Insurance Act. 1992, the number of private insurance companies came into existence. There are altogether twenty-one insurance companies are operating their operations in Nepal.

2.2.3 Risk and Insurance:

Due to the aforementioned circumstances, human beings are suffering from huge loss. No one can foresee the future. We know that life is full of risks and uncertainties, which result in fear, nervousness, and horrible outcomes in human life. It stands as a constraint in the socio-economic development. Because of it, most of the investors hesitate to initiate their business. These risks may be of losing life and properties. Risk to human being can be categorized as financial risk and non-financial risk. The outcome of financial risks can be measured in terms of monetary units whereas the outcome of non-financial risks cannot be measured in terms of monetary units. Therefore, in this modern age insurance is only one ultimate solution to avoid risk or compensate with loss. Risks may be classified in many ways; however, there are certain distinctions that are particularly important for our purposes. These include the following:

1. Financial and Non-financial Risks
2. Static and Dynamic Risks
3. Fundamental and Particular Risks
4. Pure and Speculative Risks

1.Financial and Non-financial Risks:

In its broadest context, the term *risk* includes all situations in which there is an exposure to adversity. In some cases, this adversity involves financial loss, while in others it does not. There is some element of risk in very aspect of human endeavor, and many of these risks have no (or only incidental) financial consequences. In this text, we are concerned with those risks that involve a financial loss.

Financial risk involves the relationship between an individual (or an organization) and an asset or expectation of income that may be lost or damaged. Thus, financial risk involves three elements: (1) the individual or organization that is exposed to loss, (2) the asset or income whose destruction or dispossession will cause financial loss, and (3) a peril that can cause the loss.

The first element in financial risk is that someone will be affected by the occurrence of an event. The second and third elements are the thing of value and the peril that can cause the loss of the thing of value. The individual who owns nothing of value and who has no prospects for improving that situation faces no financial risk.

Further, if nothing could happen to the individual's assets or expected income there is no risk.

2.Static and Dynamic Risks:

A second important distinction is between static and dynamic risks. Dynamic risks are those resulting from changes in the economy. Changes in the price level, consumer tastes, income and output, and technology may cause financial loss members of the economy. These dynamic risks normally benefit society over the long run, since they are the result of adjustments to misallocation of resources. Although these dynamic risks may affect a large number of individuals, they are

generally considered less predictable than static risks, since they do not occur with any precise degree of regularity.

Static risks involve those losses that would occur even if there were no changes in the economy. If we could hold consumer tastes, output and income, and the level of technology constant, some individuals would will suffer financial loss. These losses arise from causes other than the dishonesty of other individuals. Unlike dynamic risks, static risks are not a source of gain to society. Static losses involve either the destruction of the asset or a change in its possession because of dishonesty or human failure. Static losses tend to occur with a degree of regularity over time and, as a result, are generally predictable. Because they are predictable, static risks are more suited to treatment by insurance than are dynamic risks.

3. Fundamental and Particular Risks:

The distinction between fundamental and particular risks is based on the difference in the origin and consequences of the losses. Fundamental risks involve losses that impersonal in origin and consequence. They are group risks, caused for the most part by economic, social, and political phenomena, although they may also result from physical occurrences. They affect large segments or even all of the population.

Particular risks involve losses that arise out of individual events and are felt by individuals rather than by the entire group. They may be static or dynamic.

Unemployment, war, inflation, earthquakes, and floods are all fundamental risks.

The burning of house and the robbery of a bank are particular risks.

Particular risks are considered the individual's own responsibility, inappropriate subjects for action by society as a whole. They are dealt with by the individual with insurance, loss prevention, or some other technique.

4. Pure and Speculative Risks:

One of the most useful distinctions is that between pure risk and speculative risk. Speculative risk describes a situation where there is a possibility of loss, but also a possibility of gain. Gambling is a good example of a speculative risk. In a gambling situation, risk is deliberately created in the hope of gain. The term pure risk in contrast, is used to designate those situations that involve only the chance of loss or no loss. One of the best examples of pure risk is the possibility of loss surrounding the ownership of property. The person who buys an automobile, of example, immediately faces the possibility that something may happen to damage or destroy the automobile. The possible outcomes are loss or no loss.

The distinction between pure and speculative risks is an important one, because normally only pure risks are insurable. Insurance is not concerned with the protection of individuals against those losses arising out of speculative risks. Speculative risk is voluntarily accepted because of its two- dimensional nature, which includes the possibility of gain. However, not all pure risks are insurable.

2.2.4 Types of Insurance:

All the insurance companies provided certainty against the risk. When they can define in the generic concept, it will take the form like social insurance and private insurance. However, we have divided the insurance in two parts as life insurance and general insurance. Life insurance may be defined as the contract, where by the insurer in consideration of a premium, undertakes to pay a certain sum of money either on the death of the insured or on the expiry of a fixed period. Life insurance is concerned only about physical and mental accident risk. General insurance considers all insurance except life insurance. Some of experts and writers separator the insurance in different viewpoint i.e. forms the potential insurers view and other.

When viewed from professional use insurance will take broad forms as life insurance and non-life insurance.

Insurance can be classified in two type based on different point of views: they are

- ❖ Business point of view and,
- ❖ Risk point of view

2.2.4.1 Business point of view:

Insurance can be further classified into the following categories based on business point of view.

) Life Insurance:

The insurance, which is made against the risk, related to the human life, is life insurance. It is a method by which a group of people may co-operate to ease the loss resulting from the premature death of members of the group. In general “Life Insurance is the contract under which the insurer undertakes the responsibility to pay certain sum of money either on death of insured or on the expiry of fixed period in consideration of premium” (Mishra, 1979, P: 15). Therefore, life insurance is concerned with economic value of human life, which is derived from its earning capacity and the financial dependence of occurrence lives in that earning capacity from the individual point of view, life insurance is a method of creating on estate. In Nepal, there are five life insurance companies, which are shown in the **Appendix III**.

) General Insurance (Non-Life Insurance):

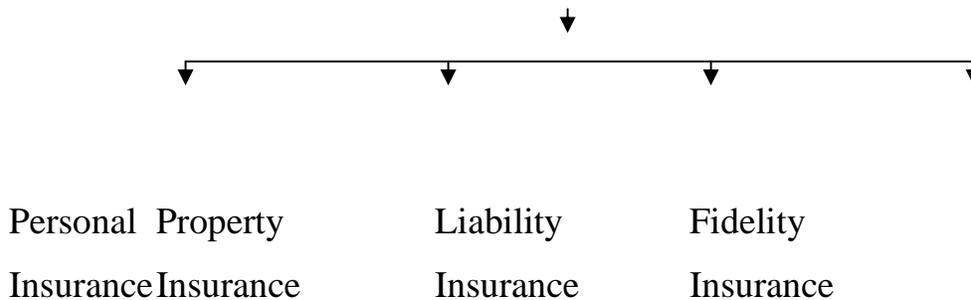
Insurance, other than life insurance is called general or non-life insurance. It is a pure insurance because it can measure any risk it terms of money. The subject matter affected under it is in nature of property. The insurance company provides indemnity to the insured. Such compensation should be based on the actual value.

The examples are fire insurance, marine insurance, aviation insurance, engineering insurance, motor insurance, crops insurance, liability insurance, theft insurance etc. in Nepal there are 17 general companies, which are shown in the **Appendix IV**.

2.2.4.2 Risk point of view:

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

Insurance



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 effected against such risks, with the objective of getting financial protection, is called personal insurance. Life insurance, personal accident insurance, and health insurance etc. are the example of personal insurance.

II. Property Insurance:

Under this insurance, insurance of the different nature property is affected to compensate the property damaged or loss. The compensation is given to the assured by the insurance company. The insurance company gives only actual compensation to an insured based on fact and event. The example of property insurance are fire, marine, crops, 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 examples of liability insurance are motor insurance, public liability insurance etc.

IV.Guarantee Insurance:

Under this 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.

2.2.5 Functions of Insurance:

Functions of insurance can be further classified into two categories: they are,

- ❖ Primary function
- ❖ Secondary function

2.2.5.1 Primary Function:

The primary functions of insurance are considered very important. Followings are the primary functions of insurance:

A. To Provide Certainty:

Insurance provides certainty whereas risk is uncertain. It is very difficult to guess that there would be any loss or not, from any risk in the future. If it would loss no one can predict how much loss, when and how will occur. Therefore, such uncertainty may create many difficulties to human. However, if it is insured, the loss of uncertainty turns into certainty.

B. To Provide Protection:

The primary function of insurance is to provide protection and security. The loss from the risk always is uncertain and the man does not know when and how much loss will be suffered. Therefore, the human wants to protect their own life and property from the perils and the insurance provides security to protect by taking the burden of compensation of the loss that may occur in future.

C. To Distribute Risk:

Another primary function of insurance is to distribute risk. The insurance distributes the risk to the community based on the principle of co-operative. The insurance company distributes in proportion the financial loss of person insured, to other persons insured whether it is greater loss or little loss, the rule is that it is to be distributed naturally to all. Thus, the insurance company is always capable to pay such amount of the small or big loss.

2.2.5.2 Secondary Function:

The secondary functions of insurance are very important which are stated below:

A. To Prevent Loss:

The insurance has carried the concept to reduce the loss. It circulates and extends the means to prevent the loss to the people. To prevent the social loss there are different organizations like educational institutions, health organizations, police office which are engaged in the protection of human life and other possible losses. Insurance companies mutually perform the public awareness programmed, trainings, and research. Therefore, insurance helps to prevent loss.

B. To Provide Capital:

Insurance company assembles small amount of money as a premium from different persons and organizations, which is a capital formation for it. Insurance company invests the capital and utilizes it in different productive sectors of the country. Most of the insurance companies of Nepal may invest in corporate bonds, government bonds, etc which enhance the economic development of the country. Similarly, it may invest in health organizations, educational institutions and other public activities in the society.

C. To Improve Efficiency:

Efficiency comes in the practice whenever the human beings are free from tension. If the business, property, and life are secured from the insurance, then the organizations and persons feel their risks are mutually shared and are free from anxiety. All because of these, efficiency of the organizations and persons will be high in their job.

D. To Decrease Social Problem:

In modern age, insurance can be used as a means to save the society from the unforeseen risks. The economic burden that may come on the society from the old age, unemployment, industrial accident or other type of event can be lessened with the help of insurance. The insurance may decrease the economic problems that may fall on the individuals from event happened in the society and it maintains the liability upon the state.

E. To Help in Foreign Trade:

Insurance assists international trade. The international trade among different countries is based on marine, airways, and land route. In the course of trade transaction, there may be different risks and uncertainties for the businesspersons. However, insurance company provides economic protection against such risks. No doubt, it increases the foreign trade and adds to the efficiency of business.

F. To Help in Economic Progress:

Insurance helps in economic progress, because the insurance companies, by insuring life and property of different person, are giving a kind of economic assistance to

them. Thus, people can work freely. New industries and trades are started in the countries, which improve the economic standard of people. It ultimately leads to the economic progress in the country.

2.2.6 Premium:

Premium is the certain amount of payment, which is paid by the insured to the insurer for bearing uncertain risk. Usually, premium is calculated under different methods as considering different considering factors. Premium can be ascertained by numerical rating system, it evaluates each item, and marks are assigned to them according to their merits and degrees of influencing risk. Insurer changes the premium differently in accordance to the nature of risk. Thus, the judgment and personal evaluation plays a vital role in premium calculation. The management and ownership are very important factors while evaluating risks for the purpose of premium rate making.

Generally, the insurer charges higher premium for higher risk insurance and lower premium for less risk insurance policy. The premium is always directly affected by the nature or risk, other expenses and time. Generally, only premium is one of the main sources of raising fund for insurer. There are different kinds of insurance premiums. The main types of insurance premium are shown in the fig 2.1 below:

Figure No. 2.1

Main types on insurance premium

Premium



We know that premium means a certain charged amount, which is paid by the insurance to the insurance for bearing future risk, and uncertainty premium is of two types: net premium and gross premium.

2.2.7 Investment:

Insurance companies collect scattered money from the community as a premium against the risk and loss, which is called insurance fund. Insurance fund is considered as the main source of capital for the economic development of a country. Insurance invests necessary funds in productive sectors. Insurance Act 2049, under section 21 and 22 has the provisions regarding to the insurance fund. Accordingly, insurance company should prepare separate account compulsorily which is defined under the section 20. The investment amount i.e. insurance fund is collected in the form of premium, interest, dividends, registration fee, capital gain, non-payment of claims.

Insurance company can invest thus collected insurance fund in government securities, and other productive sectors in return receive the interest. It can also

invest its' funds in purchasing shares of other companies from where it can collect dividends too.

Insurance company should invest their insurance funds all because of the following reasons:

- ❖ Disbursement of claim
- ❖ To meet expenses of management
- ❖ To provide dividends and bonus
- ❖ To avoid financial deficit
- ❖ To fulfill the national interest

Similarly, the followings are the principles of investment of insurance fund:

- ❖ Principle of security
- ❖ Principle of profitability
- ❖ Principle of liquidity
- ❖ Principle of diversification
- ❖ Principle of business growth

2.2.8 Types of Non-Life Insurance Policies:

Non life insurance is also known as general insurance. It is pure insurance because it can measure any risk in terms of money. General insurance is the insurance of property and liabilities risk of insured against some specified cost i.e. the premium. General insurance considers all the risk and it provided certainty against the risk through certain sum of money. There are different types of non-life insurance policies that are significant in the economic activities of the country and in the course of business, some of them are as follows:-

2.2.8.1 Marine Insurance Policy:

The marine insurance is the oldest form of modern insurance. The modern insurance developed from marine insurance. The marine insurance policy will be written to provide the security against peril of sea. An essential part of that security is protection against loss or damage by peril of the sea. Usually, such policy will provide the assurance / insurance not only against the natural disaster, but also against piracy and other manmade disaster. Further, the modified marine insurance policy provides the protection against various risks. The marine insurance policy provides the protection against inland transit loss, which is arising in the way to seller and buyer, and protection against lading and unloading also. Marine insurance provides separate policy in whole risk of adjusted in sea. In practice, we can see following insurance policy under marine insurance.

- ❖ Ship insurance
- ❖ Cargo insurance
- ❖ Freight insurance

2.2.8.2 Fire Insurance Policy:

Fire insurance had been originated in Germany in the beginning of sixteenth century. Fire insurance policies are issued to indemnify owners of property, whether buildings or contents, against destruction or damage caused by fire and lightning. In generic form fire, insurance provides indemnity for loss or damage caused by the fire.” Basic form of fire insurance offers protection to the insured against the destruction of physical property as a result of fire” (Welshman and Melcher, 1980, P: 213). There may be various causes to extent an accident by fire. Insurer only responsible to provide the indemnity against the 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, Riot and strike, damage, terrorism, explosion, landslide or else. Insurer may charge higher premium as per the nature of risk and insurance policy.

2.2.8.3 Aviation Insurance Policy:

Aviation insurance is related with the risk occurring due to the peril, hazards 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 (plane) 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, the aviation insurance is essential and important in aviation field. Aviation insurance covers the hull insurance, aircraft liability insurance and medical payments too.

2.2.8.4 Automobile Insurance Policy:

Automobile insurance policy is related to the risk of vehicles. It provides certainly against the risk of accident 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 assistance to the insured to remit the third party liability occurring due to the damage caused by the vehicle. The automobile insurance covers the full comprehensive policy and third party liability insurance too.

2.2.8.5 Burglary Insurance Policy:

The burglary insurance provides the certainty against the case of criminal nature. Under this policy, the insured gets financial assurance against the losses by theft, burglary, and house breaking. Thus, the burglary insurance covers the house and house breaking, theft, burglary and other criminal natures of insurance.

2.2.8.6 Money in Transit Insurance Policy:

This type of policies is generally required for bank and financial institutions that involves in the functions of receiving and sending cash from one place to another. If the cash is lost during transit period then the policy of money in transit insurance provides the indemnity to the insured.

2.2.8.7 Personal Accident Insurance Policy:

Under this policy, the insured gets the financial assurance against being handicapped from any accidents. This policy may be written for the temporary disabilities, for permanent disabilities, or for comprehensively all disabilities, too. Under this policy, the payment of the insurance amount will be up to the limit prescribed for each level of disabilities like 50% of insured amount for the damage of one leg or hand etc.

2.2.8.8 Household Policy:

Under this policy insurer writes the insurance against the risk of personal house/building and other properties. In this policy, the loss occurred due to the natural disaster like earthquakes windstorm, lightning, and the loss occurred due to the other

disasters like vandalism, riot is financially protected from the insurer if this insurance policy is written.

2.2.8.9 Medical Aid Scheme Insurance:

Under this policy insurer provides the financial support against the health problem to the insured. In this policy, insurer will be responsible to pay the all-medical expenses for the insured if the insured needs medical treatment unexpectedly within the insurance written period.

2.2.8.10 Fidelity Guarantee Insurance:

The world stays at the faith. However, fidelity guarantee insurance is attended in the case of fraud and dishonesty. Under this policy the owner of the firm, organization gets the guarantee against the fraud or betrays or dishonesty caused by the employees like accountants, cashiers distributors etc. the insurer fulfills the loss occurring due to the discard of the fidelity of the beloved person.

2.2.8.11 Workmen's Compensation and Employers Liability Insurance:

This insurance is a means of motivation to the worker because a firm/ organization give the indemnity to the worker if they get occupational accident. For this purpose, the owner of the firm on behalf of the worker will purchase workmen's compensation and employers' liability insurance. In this policy, the insurer provides the financial support if the worker meets with the accident within the working place and time. This scheme will be written by the owner of the firm to secure from the unexpected claims occurring due to the occupational accident that took place on the work place.

2.3 Review of Master's Dissertations in Nepal:

This part covers a review of past studies conducted by other researchers, various experts, authorities, and MBS students on related topic, which are as follows:

Brihaspati Raj Pant (1978) has objectives of his thesis that to recommend probable corrective measures relating to the improvements of the premium collection and investment aspect. He has concluded that fire insurance plays a vital role in the development of commerce and industry and has great significance in developing the country. It has a very good prospect. He recommended that most of the people are ignorant about fire insurance and also its importance and benefit. For this, more publicity is needed. Advertisement through newspaper, radio, televisions should be made to acquaint the people about fire insurance and its branch should be extended in different cities.

Rajendraman Joshi (1978) has the objective of his study is to analyze the management opinion instance's premium collection and investment system. He has conducted by found that the premium charged by Rastriya Beema Sansthan seems to be high and recommended to the corporation for having policy of low premium to increase business and the premium should be reviewed carefully. The huge amount of outstanding premium is lying, which shows the corporation's inefficiency to collect the outstanding premium and recommended to collect immediately for the protection of increasing bad debt.

Rajan Bahadur Poudel (1995) has conducted his study by entitling 'Insurance companies in Nepal' was among those few. Poudel's study was descriptive and diagnostic one and was interested to cover every policy and practical issues relating

the insurance business. In his study, Poudel had attempted to analyze the status of the insurance companies. For this purpose, he had set the objectives like assessing the status of the industry, analyzing policy issues examining the liability structure and investment portfolio, and to review major policy issues of the insurers. To attain the objective he had used descriptive research design based upon the secondary data only. He had used qualitative rather than quantitative analysis. Throughout the study, the research was concentrated on analyzing the regulatory provision and its impact on the practice among the insurers. In the study, Poudel had analyzed every provision relating the formation, working, and governance of the insurance companies. As a part of his study, he had also provided in sight upon the investment of the insurers and the provisions governing the investment function. His all over findings and conclusion was that the basic laws are not sufficient. The excess power on the hand of the insurance committee was advantageous to some extent but it was much costly in many cases.

His conclusion relating the investment was that the regulatory provisions were not welcoming rather they were much restricting. The classification between the portfolios on 'Compulsory' and 'Optional' caused hindrance to the insurers in their investment management process, but the limited number of allowed portfolios as "Optional Sectors" causes more hardness. Further suggested that to divert the insurance from investing in the traditional fields of investment a conducive investment environment need to be created and it can be formed through adding more investment alternatives in "Optional" fields rather than increasing its share. Hence, this study was descriptive rather than analytical. The qualitative analysis might not be enough to present the exact picture of the status of the insurance companies. Further, the research revolved around the policy issues rather than practical issues. The analysis of investment aspect among the insurers was a part of

his research but he had given less emphasis to the investment aspect among the insurance companies. Further, the investment return and investment performance was also ignored in the study. Further, the views and perception of practicing manager regarding the investment and its performance had also been ignored in his study.

Bin Bahadur Raut (1995) conducted a thesis entitled ‘A Study on the Financial Performance of National Life and General Insurance Co. Ltd’. He has analyzed the various financial ratios of it. He had analyzed liquidity ratio, premium turnover ratio, return on shareholder’s equity, earning per share, dividend per share, investment on total assets ratio, fixed assets to total ratio. He had also analyzed financial performance of different insurance business.

Raut found the following major findings from the study:

- I. Regarding liquidity management, the NLGI is not in sound position. The current ratios come to a highest of 0.3 in 1988/89 to a lowest 0.17 in 1992/93 taking derivation from average standard i.e. 0.89 times.
- II. The company’s outstanding premium in the five years period jumped from Rs. 5.22 million in 1988/89 to Rs. 15.68 million in 1992/93.
- III. We found that the return on net-worth of NLGI is satisfactory because return on net worth is in increasing trend. The return on net-worth increased from 8.35% in 1988/89, 30.29% in 1992/93.
- IV. Return on shareholder’s equity is also in better position because it shows improving trend. In the base year 1988/89, it was 9.19% and now it is 55.32% in 1992/93.
- V. The trends of earning per share are fluctuating. It deviates from minimum level of Rs. 7.72 per share in 1988/89 to maximum Rs.55.28 per share in

1992/93; it proves that there is no constant return on the investment to shareholders during the study periods.

- VI. The NLGI declared the dividend in increasing trend. The data shows that the company's dividend paying ability increased from 10 million-bonus share in 1993/94. Bonus share affected the market price of a share because it reduced the market price of a share from Rs.780 in 1992/93 to Rs. 630 in 1993/94. Thus, bonus share reduced the market price of a share.
- VII. Investment of NLGI is not less than fifty percent of the total assets in every year of the study period. Therefore, it was continuously increasing except the F.Y. 1989/90 and 1992/93. Investment to total asset ratio was minimum 1:1.6 in 1989/90 to maximum 1:9.9 times in 1991/92.

Premium earning of NLGI in insurance has increased day by day. The net premium earning of Rs.43.68 million for the year 1992/93 against the net premium earnings of Rs. 7.99 million for the year 1988/99 suggest successfulness of insurance business in Nepal.

Ramesh Raj Bhattarai (1998) has conducted by on "Insurance Board in Nepal its effectiveness in regulation and controlling insurance companies." This study was focused on how to control the insurance companies by government on itself. He defined the measures of regulating and controlling system. It has a descriptive analysis. The conclusion drawn by him in his studies was the majority of the respondent fell under the group of 41 years and above. Most of them were married and majority of them had a master's degree. The respondent of the insurance board was experienced in other field than insurance. It might be due to the part time nature responsibility in the board.

He has taken specific activities of the insurance companies into consideration for respondent's board member and the insures identified legal reserve regulation as effective one than that of capitalization. He had found the tariff rate too high. He pointed that the recent regulation of the board was less effective in safeguarding the interest of the insuring. He had found that the policy form approval was time consuming and delay that create unhealthy competition. He has recommended modifying the existing tax rate in his study. The board should strictly check if the company really completed and set aside funds for their reserve to over come the problem on legal reserve.

VIII.

Shree Ram Gelal (1998) has covered the periods of 5 years from 1988/89 to 1992/93. This study only deals with National Life & General Insurance Co. Ltd. There is no comparison between other insurance companies and industry. This study is emphasis with financial tools (mainly with ratios). This study ignores the importance of statistical tools.

Gelal had prepared comparative study of financial performance between Nepal Insurance Company Ltd and National Life & General Insurance Co. Ltd.

This study finds the following:

- I. Data reveal, total percentage in fixed assets is more in NLGI compared to NIC¹ while vice-versa in percentage in current assets. Growth in fixed assets was in slower rate in NIC¹. However, investment in current assets was decreasing in both the companies.
- II. NIC¹ increased its share capital up to 2049/50 B.S. and decreased up to 2052/53 B.S, whereas NLGI showed decreasing trend in share capital percentage to total assets during this study period.

- III. The reserve of both the companies followed increasing trend during the study period.
- IV. The net profit percentage of NIC¹ found better than NLGI.
- V. Current ratio of both the companies is able to meet the standard form i.e.2:1.
- VI. Cash to current liabilities ratio shows insufficient cash balance in both companies because cash to current liabilities ration of both companies found less than standardform.
- VII. The liquidity position of both NIC¹ and NLGI found better means above the standard form.
- VIII. Leverage ratio shows the level of risk. Having overview in this ratio, NIC¹ is found risky than NLGI. D/E ratio of NIC¹ ranged 57% to 118% whereas the same ratio of NLGI ranged 42% to 70% only during the study period.

2.4 Review of Related Journals and Other Publications:

Insurance contributes to society by favorably affecting the apportionment of the factors of production, engaging in loss prevention activities, indemnifying losses, serving as a channel for investible funds. **Robbert I. Mehr and Emerson** Cammack outlined the insurance as, Insurance policies are written by business organizations caked “Insure.” In order to function properly, these insurance must have a large number of policyholders, who are obtained either by direct representative, or through against (Robbert and Emerson, 1972).

The essence of the insurance scheme is that, it is a social device, which involves the accumulation of funds, that it involves a group of risks, and that each person of firm who becomes a member of the group transfers his risks to the whole group (James L. Athearn, 1981). The purpose of insurance is to reduce the uncertainty and worry

caused it becomes aware of the possibility of loss. It does this by spreading the economic burden of losses among members of the group. Insurance does not prevent loss but it relieves the financial burden.

Robert I. Mehr outlined about the insurance through his book as, insurance is a useful device for solving complex social problem. Compensating victims of industrial accident is handled by compulsory worker's compensation insurance, automobile accident victims is handled to some extent by providing financial responsibility as per the insurance laws, by the company by furnishing evidence of ownership of automobile liability insurance. Social insurance is used to help, death ad medical care for the aged (Robert I. Mehr, 1986). Insurance is affected with the public interest and is consequently subject to government regulation, mostly by the states.

Insurance, in its pure insurance function (ignoring for the moment its efforts at prevention) may be linked to the springs of vehicle. It absorbs the shock and distributes its over all risks insured in the same class. It absorbs freer functioning of credit and industry generally but does not eliminate loss. The retarding effect of risk removed, but the cost and retarding effect of loss are still present. The burden of loss is still on society (Albert and Ralph, 1995).

David L. Bickhaput has stated about the general legal requirement of insurance as, the right and obligation of the parities to an insurance agreement are determined largely by reference to the general laws, which govern contracts.. The insurance contract need not be in writing, but as a matter of business practice such agreement are ordinarily written. Even social insurance, such as workers compensation, are written, through the terms appear in a state rather than in private agreement.

John H. Magee outlined life insurance as financial uncertainties arising from the nature contingencies, old age, and death and to bring about a compatible certainty in the case of possible misfortunes injure and sickness, then is to furnished protection against the financial demand occasioned by disability, old age, and death. It has sometimes been termed “Income replacement insurance” because it provides such necessities as food, shelter and clothing if illness, injure or death cuts off the income of the breadwinner. It is all of this and, as well presently is noticed much more (John H.Magee, 1958).

Leading American journal (Journal of Finance) has thrown enough light on risk and return subject. Therefore, this thought to be relevant to review an article from the same.

“Robert utilized the CAPM assumption and additional assumption that corporation can borrow and lend at risk- free interest rate. He has presented theoretical relationship of systematic risk, the firm’s leverage, accounting beta, earning variability, dividend or payout and growth. Shortly his findings are as follows:

- ❖ Systematic risk of levered firm is equal to the systematic risk of the same firm without leverage.
- ❖ Between earning variability and market, risk there is no direct relationship.
- ❖ There is no any theoretical relationship between size and growth of the firm and systematic risk.
- ❖ There is no any theoretical relationship between dividend and systematic risk and theoretical basis for relationship of dividend payout and beta.
- ❖

This study shows that there is a theoretical relationship between systematic risk and firm’s accounting beta and systematic function is not a function of earning

variability, dividend policies and size and growth of firms(Bowman,1979,P: 617-628)

The study that testing the CAPM with time varying risk and return from monthly observation on total equity return for firm's listed in NYSE and monthly treasury bill yields. The estimation period cover 1926-1985. They used time series returns for five value-weighted portfolios as assets priced by CAPM and the market return that they used is the CRPs value weighted market return.

The conditional CAPM provides a convenient way to incorporate the time varying conditional variance and covariance and allows risk premium vary overtime because of time variation in three components: The market conditional co-variance between the assets risk premium. In the conditional CAPM, an assets beta is the ratio of the conditional co-variance between assets and market returns and the conditional variance of the market's return. (Bodurtha and Mark, 1991, P: 1418-1503).

Insurance has direct role to play in a developing country because of the fact that the government is utilizing its entire mean and resources for the all round development of the country (Bhattari, 1993, P: 17)

Insurance plays the important role in the trade and commerce. It is true that export trade is more risky than domestic. Most of the export risks are unpredictable. These risks are to be insured to protect exporters. Various forms of insurance have been in existence for hundred of years, just as many of the term used today are the same as they were many years ago (Shrestha, 1994, P: 1-4)

Nepalese insurance companies continued to face a growing magnitude of the problem in the collection of outstanding premium from the period of the company's establishment to the present years (Shrestha, 1991, P, 12-18)

On the liquidity position of the National & General, Insurance Co. Ltd. M.K. Shrestha's view is that- "The management is varying caution on matching the current assets with current liabilities. In addition, he has mentioned in his study about the profitability position of NLGI that it is not satisfactory. He has further mentioned the management does not consider shareholders interests (Shrestha, 1991).

Kiran Nepal has mentioned about the current market of insurance industry in Nepal. The article is a complete study of potentials of insurance in Nepal and problems facing by the insurance companies in Nepal. He reveals that there is keen competition in general insurance. There are 16 general insurance companies in the small country like Nepal. Therefore, they are competing with each other to capture other's market without creating their own market and going to other sectors of insurance behind the traditional functioning. However, the 90% of life insurance market remains untouched. The life insurance companies are far from reach to the majority public. There is potential in the life insurance in Nepal (Nepal, 2002, P: 38-45).

Ramesh Raj Bhandari explained that insurance is a key in the economic development of a country. Insurance companies not only shift the risk but also collect small-scattered capital and inject these in the development activities of long-term nature. It has direct 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 over all economy of the country. Hence, the supervision of insurance through regulation is necessary in order to accelerate the pace of economic growth. A sound insurance regulation is a means to provide for insurance to stable and strength the national insurance market. Thus, insurance regulation facilities are necessary to control of insurance activities (Bhattarai, 1993).

Dr. Shrestha, on changing investment portfolio of Rastriya Beema Sansthan, attempted to analyze the investment portfolio holding pattern and its effect to financial performance of R.B.S. He found, the dominant part of total volume of investment portfolios in development bonds of Nepal Government and a very negligible figure of total investment in share of other companies, due to his fact, the portfolio is a dominant part. The creation of a sound investment project is very crucial to R.B.S. to minimize return rather than always-taking same traditional policy of investing in government securities fixed deposits, certificates and others. However, the time has come for the *Snasthan* to cope with increasing competition to tap profitable investment opportunities by taking initiation in new industrial ventures for encouraging capital formation in the country (Shrestha, 1992).

The government properties including corporation is insured to Government Company in priority basis, it is difficult to pursue in such corporation and government offices, so the environment is not very positive. Only lip service from government, the economic growth of the country is very slow. People cannot afford to pay insurance premium. The sense for insurance unawareness and unconscious mass is very high. Thus, insurance business is very challenging. One has to create the market. Tremendous market potentially and opportunity is felt due to the right person. After the formation of Nepal Insurance Association, the companies can plead their problem jointly to the government and should look forward for the

interest and benefit of insures. This platform should be taken as an opportunity (Shrestha, 1991)

Dr. Raghav D. Pant on the flow of funds in Nepal has analyzed the flow of funds of Rastriya Beema Sansthan since 1975 to 1991. The savings that it has managed to mobilize, especially through life insurance is considerable. (Pant, 1995).

In twentieth century, **Philip Zorin and William N. Goetzman** has studies about global stock market. To estimate for the long run expected return on equity in international base is the main purpose of this study. About the implication of this study, they mention “In a famous article Mehra and Prescott (1995) argue that standard general equilibrium models cannot explain the size of the risk premium on US equities which average about 6% over the 1978/89 periods. They show that one would need a very large difference of risk aversion. This result has sparked a flurry of theoretical research that explains alternatives performance structure; including dropping the expected utility assumption and introducing habit function” (Zorin and Goteman, 1999, P: 95).

2.5 Research Gaps:

As we know that research means to carry out the real problem on the particular field on a particular topic.

Previous research was related only focus on premium collection and investment pattern but this research depends on premium collection, investment and claim paid of NIC¹, UIC, NIC, SIC, and AIC, the management opinion instance’s premium collection and investment system and identify interest earning in the investment.

This research has probable corrective measures relating to the improvement of the premium collection and investment aspect. It has concluded that fire insurance plays a vital role in the development of commerce and industry and has great significance in developing the country. It has a very good prospect. Therefore, it is different from previous studies.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction:

Research Methodology is a systematic way to solve the research problem .Thus, research Methodology describe the method and process applied in the entire aspect

of the study. “Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objective in view” (C.R. Kothari, 1989)

This study aims at presenting, evaluating and finding about the investment pattern, premium collection condition and investment return of NIC¹, UIC, NIC, SIC & AIC. The study will draw an actual scenario of investment pattern and premium collection condition of NIC¹, UIC, NIC, SIC & AIC. To accomplish this goal, the study follows the research methodology described in this chapter as:

3.2 Research design:

A research design is a framework to research objectives. It is planning and procedure to solve a phenomenon. “ A research design is the arrangement of condition for collection and analysis of data, in a manner that aims to combine relevance to the research purpose with economy in procedure .” research design is the plan, structure and strategy of investigation conceived, so as to obtain answers to research question and to control variances. Research design is the starting point of the research; therefore, a research cannot obtain any fact result with out consulting the research design.

To achieve the objective of this study descriptive research designs have been used. The research is designed that the analysis and interpretation of the secondary data relates to the evaluation of past behavior of the insurers relating the investment of the industry. Collection of premium and the analysis and interpretation of the primary data relates to finding and predicting about forth coming behavior of the insurers relating to the premium collection and investment with in the industry.

3.3 Population and Sampling:

The completely insurance industry consists of twenty -one insurers in Nepal. Among them, five of the insurers are involved in life insurance business along with non life insurance business. For the purpose of the study, five insurance companies are taken as sample from the population. They are as follows:

- ❖ Nepal Insurance Company Limited
- ❖ United Insurance Company Limited
- ❖ Neco Insurance Company Limited
- ❖ Sagarmatha Insurance Company Limited
- ❖ Alliance Insurance Company Limited

3.4 Data Period Covered:

This study has covered the overall 7 years period from financial year 2056/2057 to 2062/2063.

3.5 Methods and Sources of Data Collection:

For the fulfillment of above-mentioned objective, a definite series of analysis is introduced. The research is based upon the description of the primary and secondary data for the historical performance assessment and the future prediction of planning and upcoming policy and implementation among the insurers. Hence, the primary and secondary data are for the analysis and drawing a valid conclusion.

3.5.1 Primary Data and Its Source:

The primary data is collected from various insurance companies for the opinion on investment of insurance fund, its policy and premium and other relevant factors. Primary data for the purpose of this study is collected using pre-set questionnaire, which is supported by the study is collected using pre-set questionnaire, which is the relevant authorities. The schedule of questionnaire mentioned in **Appendix V**.

3.5.2 Secondary Data and Its Source:

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

- ❖ Published or unpublished annual reports of the respective insurer,
- ❖ Published or unpublished financial statements of the respective insurers,
- ❖ Various Brochure, Journals as well as Bookies published by the insurers,
- ❖ Publications of the insurance committee,
- ❖ Various publications of the Government agencies and Bodies relating to the field,
- ❖ Books relating the subject,
- ❖ Periodicals, newspapers, and magazines.

3.6 Tools and Techniques Used:

Further arising the aforementioned objectives following tools and techniques are used in this study, which are applicants in analysis phase.

3.6.1 Financial Analysis Tools:

Generally, the financial analysis tools are used for the purpose of the assessment of the financial position to a particular organization. There are various tools in financial sector. However, for the purpose of this study and in accordance to the studies objective ratio analysis is performed in this study. Certainly, ratio analysis can show the position of investment return and its contribution on overall performance.

Ratio Analysis:

The term refers to the numerical or quantitative relationship between the two components or variables. Ratio can be expressed as percentage, fraction, and stated comparison between numbers. In simple word, ratio analysis or financial ratio express the relation between the accounting figures mathematically. It is an indicator yardstick or measuring rod for evaluating the financial position and performance of a firm.

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

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

$$\text{❖ Investment to total premium} = \frac{\text{Total Investment}}{\text{Total Premium}}$$

$$\text{❖ Govt. saving bond to total investment} = \frac{\text{Govt. Saving Bond}}{\text{Total Investment}}$$

$$\text{❖ Fixed deposits to total investment} = \frac{\text{Fixed Deposits}}{\text{Total Investment}}$$

- ❖ Investment on share to total investment = $\frac{\text{Investment on Share}}{\text{Total Investment}}$
- ❖ Staff welfare fund to total investment = $\frac{\text{Investment on SWF}}{\text{Total Investment}}$
- ❖ Return on premium = $\frac{\text{Return}}{\text{Premium}}$
- ❖ Claim paid to premium collection = $\frac{\text{Claim Paid}}{\text{Total Premium}}$
- ❖ Investment on bank fixed deposit to total investment = $\frac{\text{Investment on BFD}}{\text{Total Investment}}$
- ❖ Investment of share to total investment = $\frac{\text{Investment on Share}}{\text{Total Investment}}$
- ❖ Investment on staff provident fund (fixed) to total investment = $\frac{\text{Investment on SPF (fixed)}}{\text{Total Investment}}$
- ❖ Investment on SPF (GTB) to total investment = $\frac{\text{Investment on SPF(GTB)}}{\text{Total Investment}}$
- ❖ Premium collection on marine insurance to total premium collection = $\frac{\text{Premium on Marine Insurance}}{\text{Total Premium}}$
- ❖ Premium collection on fire insurance to total premium collection = $\frac{\text{PCFI}}{\text{Total Premium}}$
- ❖ PCAI to total premium collection ratio = $\frac{\text{Premium on Aviation Insurance}}{\text{Total Premium}}$
- ❖ Premium collection of motor insurance = $\frac{\text{PCMI}^1}{\text{Total Premium}}$

3.6.2 Statistical Analysis Tools:

Generally, the statistical tools are used for attaining accuracy on analysis and study. According to this studies objective here, mean, standard deviation, coefficient of correlation, trend analysis are performed.

Trend Analysis:

In order to draw the valid conclusion of investment and premium aspect, some statistical tools are used. As a statistical tool, trend analysis is used to show the basic tendency of investment and premium components.

Co-efficient Of Correlation:

To attain the relationship between ‘premium collection and investment’, co-efficient of correlation is used. “The correlation is the statistical tool that is used to describe the degree to which one variable is linearly related to another” (Richard & David, 1991, P: 505). The coefficient of correlation measures the degree of relationship between two sets of figures. Among the various methods of finding of correlation, Karl Pearson’s (product moment) method is applied in this study. The result of co-efficient of correlation is always between ‘-1’ to ‘+1’. For the purpose of decision making under correlation, decision is based on following interpretation.

- ❖ When $=+1$, there is perfect positive correlation.
- ❖ When $=-1$, there is perfect negative correlation.
- ❖ When $=0$, there is no correlation.
- ❖ When ‘ ’ lies between 0.7 to 0.999 (or -0.7 to -0.999), there is a high degree of positive (or negative) correlation.

- ❖ When 'r' lies 0.5 to 0.669, there is a moderate degree of correlation.
- ❖ When 'r' is less than 0.5, there is low degree of correlation.

The product moment formula is calculated as:

$$r = \frac{\sum xy}{\sqrt{\sum x^2 \sum y^2}}$$

Probable Error (P.E.):

The Probable Error (P.E.) is used to measure the reliability and test of significance of correlation coefficient. Probable error of correlation is calculated by the following formula:

$$P.E. (r) = 0.6745 \times \frac{r}{\sqrt{n}}$$

Where, r = the value of correlation coefficient

n = number of pairs of observations

P.E. is used in interpretation whether the calculated value of 'r' is significant or not.

- ❖ If $r < P.E.$, it is insignificant, i.e., there is no evidence of correlation.
- ❖ If $r > 6P.E.$ it is significant.
- ❖ If $P.E. < r < 6P.E.$ nothing can be concluded.

Mean:

The simple arithmetic mean is the sum of total values to the number of values in the sample. Thus,

$$\text{Mean} = \frac{\text{Sum of Total Value}}{\text{Number of Values}} = \bar{X} = \frac{\sum X}{n}$$

Standard Deviation (S.D.):

The standard deviation measures the absolute dispersion. The greater the amount of dispersion, greater the standard deviation. A small standard deviation means a high degree of uniformity of the observations as well as homogeneity of a series. It is denoted by σ (sigma) and calculated as:

$$\text{S.D.} (\sigma) = \text{for an individual series} = \sqrt{\frac{\sum f(x - \bar{x})^2}{n}}$$

Co-efficient of Variation (C.V.):

The co-efficient of variation is the relative measure of dispersion, comparable a cross distribution which is defined as the ratio of the standard deviation to the mean expressed in percentage. It is used for comparing variability of two series or set of data with the same or different units and is expressed in percent since it is independent of units. It is calculated as follows:

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

Co-efficient of Determination: (R²)

The coefficient of determination is a measure of the degree of linear association or correlation between two or more independent variables and a dependent variable.

Generally, coefficient of determination (R^2) measures the percentage total variation in dependent variable explained by independent variables.

CHAPTER FOUR

PRESENTATION AND ANALYSIS OF DATA

4.1 Introduction:

Data analysis and major findings is the most important chapter of this study. For the purpose of study and analysis, secondary and primary data are used. Based upon the data analysis and study, major finding are concluded. This data presentation and analysis chapter is divided in to two parts, as evaluation of premium collection and composition through financial tools and evaluation of investment practices and composition through financial tools and statistical analysis.

It has been already mentioned the methodology to be in third chapter. This chapter has been focused on the analysis of investment practices of selected insurance

companies. It considers various variables that are important and reflect the premium and investment of these companies. Premium is the main source of investment for these companies. It plays vital role in the transaction of insurance. It is the main income of the insurance companies. Moreover, investment is the outflow of the company to get more return. An insurance company is also a financial institution, it always thinks for profit. This chapter is dealt with data and its analysis.

Company Profile:

Introduction to Nepal Insurance Co. Ltd.:

Nepal Insurance Co. Ltd is the first insurance company of Nepal. The company specializes general insurance business. It was developed by Nepal Bank Limited in 1947 AD with the name of 'Nepal Mal Chalani and Beema Company'. At that time, it had done general insurance and custom clearing of Nepal Bank Ltd. In 2016, BS the name of this company changed into 'Nepal Insurance and Transport Company Limited'. Later on in 2048 BS, this company was renamed as 'Nepal Insurance Company Limited'. It is mandated by 51% of Nepal Bank Limited and 49% of the public. Regarding the insurance business, it is involved non life insurance business only. It provides an insurance business as fire, marine, motor, contractor's risk and engineering, personal accident, cash in transit, storehouse, worker's group accident, households etc.

Introduction to United Insurance Co. (Nepal) Ltd.:

It is also a native insurer operating in the field of non life insurance business. It was a joint venture with Pragati Insurance of Bangladesh. Although, it was organized in

the year 2049 but it started its operation in around 2050, presently it has seven branches and some contact offices all over the country. This company covers fire insurance, motor insurance, aviation insurance, cash- in- transit insurance, fidelity guarantee insurance, student protection liability insurance etc.

Introduction to Neco Insurance Co. Ltd.:

It is also a major non-life insurance company operating in Nepalese insurance industry. It was organized as on the year 2051 BS, but started its operation 2 years later in the year 2053 BS. This company covers engineering insurance, personal and group accident insurance, public liability insurance, workmen's compensation insurance, medical scheme etc.

Introduction to Sagarmatha Insurance Co. Ltd.:

It is a native insurer operating in the field of non-life insurance business. It was organized as on the year 2051 but started its operation in the year 2053. It is joint-ventured with Calico Insurance Co. Ltd of Sri-Lanka. It provides an insurance business as fire, marine consequential loss, theft, cash-in-transit, fidelity guarantee, worker's group accident, public liability, aviation etc.

Introduction to Alliance Insurance Co. Ltd.:

It is also an insurer operating within the Nepalese insurance industry. It was organized as on the year 2052 but started its operation one year later 2053. Presently it has eight branches. Regarding the insurance business, it is also involved in non-life insurance only. This includes fire insurance, motor insurance, aviation insurance, employee insurance, burglary, and house breaking insurance, employee groups insurance, goods in transit insurance.

4.1.1 Evaluation of premium Collection and Composition through Financial Tools:

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

All the theoretical concept of premium is mentioned in the above chapter, which may be enough for the theoretical idea. There fore, here, only quantitative analysis is described, which is related to the premium collection and its composition. For the purpose of the evaluation of the premium of the premium collection condition and composition among the portfolios, the trend analysis, 'F' test, Mean, Standard deviation and, coefficient of variation are used. For the comparison of all the respective matter on premium collection, various ratio analysis are computed which will give the actual proportion to the particular insurance company of premium in total collected premium sum. This evaluation chapter is also separated into two parts as financial analysis and statistical analysis like evaluation of investment patterns chapter.

Under this chapter various chapter financial ratio, which are related to premium collection are studies to evaluate and analyze the performance of sampled insurer and Nepalese insurance industries. These important ratios are calculated and their respective trend presented as follows. All data mentioned in percentage.

4.1.1.1 Return on Premium:

It is a rate of average premium income. This ratio shows the portion of return on total premium collection. It is just the calculation of average rate of premium return. Return always shows the performance of the particular companies and industry too. Therefore, here we compute the return on premium to show the percentage rate of return on premium collection of particular insurer.

The income amount mentioned in the profit and loss account and total premium arise from adding all policies premium amount, which is mentioned in the P/L account of particular insurance policy. The higher return indicates the higher or better performance of the company.

Table No: 4.1

Return on premium (in %)

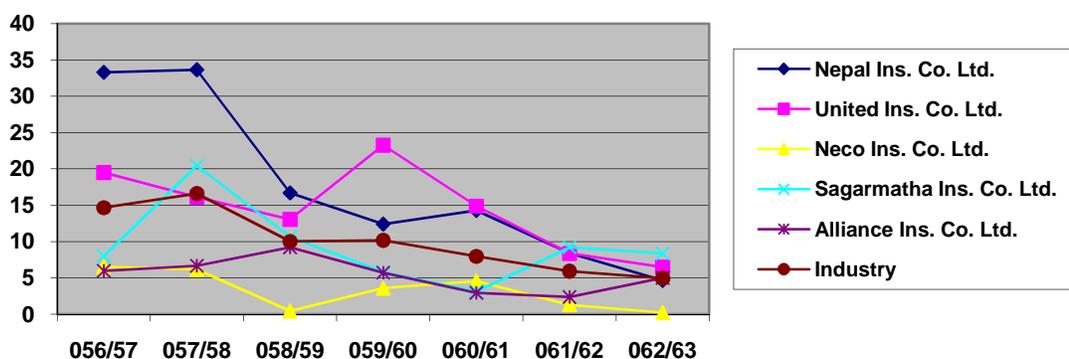
Insurer	Fiscal Year 31 Ashad...							Mean	S.D.	C.V.
	056/57	057/58	058/59	059/60	060/61	061/62	062/63			

NICL ¹	33.30	33.65	16.69	12.41	14.29	8.42	4.66	17.63	11.51	65.27
UICL	19.51	16.13	13.09	23.29	14.90	8.37	6.50	14.54	5.90	40.57
NICL	6.55	6.19	0.46	3.60	4.59	1.32	0.25	3.28	2.64	80.62
SICL	8.01	20.46	10.69	5.83	3.15	9.23	8.38	9.39	5.46	58.14
AICL	5.97	6.66	9.21	5.72	2.93	2.37	5.00	5.41	2.31	42.67
Industry	14.67	16.62	10.03	10.17	7.97	5.94	4.96	10.05	4.31	42.92

Source: Appendix VIII

Figure No: 4.1

Return on Premium



Source: Table No: 4.1

This table shows the ratio of return on premium of particular sampled insurer and industry. According to this table, we can see that Nepal Insurance Company Limited earns more return (17.63%) with comparison to premium collection and Neco Insurance Company Limited earns less return among the sampled insurers. Nepal Insurance Company has earned more return in the fiscal years 056/57, 057/58, 058/59. United Insurance Company in the fiscal years 059/60, 060/61 and Sagarmatha Insurance Company in the fiscal years 061/62, 062/63 earned more

return on premium respectively. The entire sampled insurers have fluctuating trend in income generation in which is shows by the C.V.

Regarding the return on premium ratio of industry, the higher return earns at the fiscal year 057/58 and least return earn at fiscal year 062/63. According to C.V. 42.92, we can say that an industry also has the fluctuation.

4.1.1.2 Claim Paid to Premium Collection Ratio:

The all insurers are responsible to pay a certain claim when the risk is accrued. If there is no risk than there is no presence of insurance. The large amount of claim forces the insurer to bear the loss. Therefore, the claim paid determines the insurers' profit and loss. However, claim paid to premium collection ratio shows the rate of average claim paid on premium. It is the extent to the ratio if cash outflow from claim in comparison to the premium collection. The ratio of claim paid to premium collection measures the performance of risk evaluation and fusibility study of policy and premium charged calculation. Thus, claim paid to premium collection ratio represents the whole insurers' decision performance. Generally, low ratio seems the good performance and high ratio seems bad performance of the insurer. The amount of claim paid is mentioned in the profit and loss account of particular insurance policy and total premium is calculated (accumulated) through profit and loss account. Therefore, it is directly related to the profit and loss of particular insurer. Hence, this ratio also represents the performance of the insurer. If the insurer paid high claim then the ratio will be high and low claim paid seems low ratio. However, low ratio is preferable to the particular insurer and industry too.

Table No: 4.2

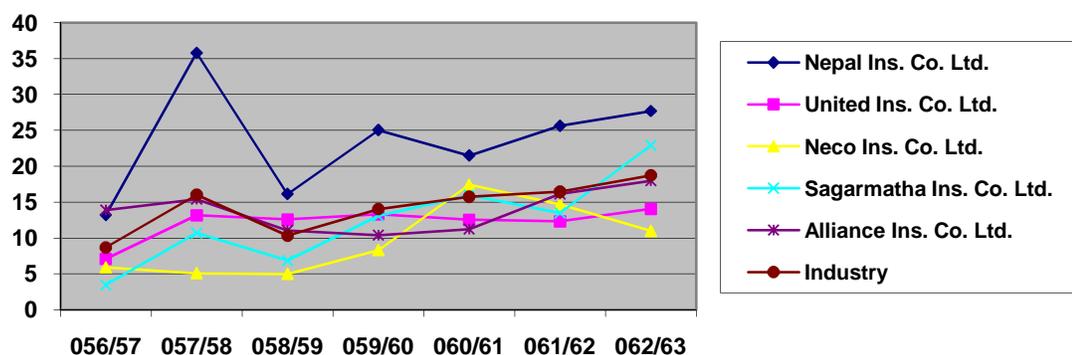
Claim Paid to Premium Collection (in %)

Insurer	Fiscal Year 31 Ashad...							Mean	S.D.	C.V.
	056/57	057/58	058/59	059/60	060/61	061/62	062/63			
NICL ¹	13.18	35.81	16.13	25.04	21.49	25.63	27.69	23.57	7.54	31.98
UICL	7.07	13.14	12.56	13.30	12.53	12.30	14.04	12.13	2.31	19.04
NICL	5.88	5.08	4.97	8.29	17.42	14.69	10.98	9.62	4.94	51.34
SICL	3.44	10.68	6.86	13.06	15.98	13.48	22.90	12.34	6.31	51.10
AICL	13.88	15.41	11.04	10.39	11.23	16.13	17.96	13.72	2.92	21.28
Industry	8.69	16.02	10.31	14.02	15.73	16.45	18.71	14.28	3.57	25.01

Source: Appendix IX

Figure No: 4.2

Claim Paid to Premium Collection



Source: Table No: 4.2

From the above table we find that the claim paid ratio is at least rate in comparison to premium collection. According to the table presented in the above Nepal Insurance Company is paid more claim with comparison its collected total premium

and Neco Insurance paid least claim among them which is shows by the average. The United Insurance Company has least fluctuation among the sample insurer over the study period as revealed by C.V.

Regarding the claim paid to total premium collection ratio of industry, the industry paid higher claim in fiscal year 062/63 and least claim in fiscal year 056/57. The industry has C.V. 25.01, which indicates that it has also fluctuation trend in claim paid ratio.

4.1.1.3 Premium Collection on Marine Insurance to Total Premium Collection Ratio:

All insurers write various policies in the insurance business. Marine insurance is one of the insurance policies among them. Nepal is a landlocked country therefore there is no higher transaction of marine insurance. Generally, marine insurance based the export, import business. The ratio of premium collection of marine insurance is low due to the lack of highly transaction of its policy in insurance field. Although marine insurance has low transaction, it plays vital role in collection of the premium because it is a one of the source of premium collection. The premium collection on marine insurance to total premium ratio shows the proportion or average of marine premium. The amount of marine insurance premium is mentioned in the P/L account of the respective companies. The ratios show the share of marine insurance premiums in total premium as percentage.

Table No: 4.3

Premium Collection on Marine Insurance to Total Premium Collection Ratio (in %)

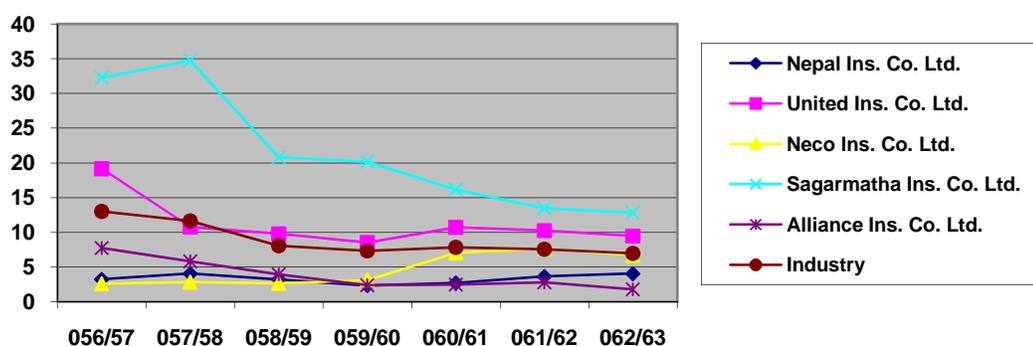
Insurer	Fiscal Year 31 Ashad...							Mean	S.D.	C.V.
	056/57	057/58	058/59	059/60	060/61	061/62	062/63			

NICL ¹	3.26	4.07	3.22	2.35	2.72	3.66	4.05	3.33	0.65	19.49
UICL	19.19	10.80	9.81	8.55	10.74	10.28	9.49	11.27	3.58	31.77
NICL	2.63	2.85	2.68	3.15	7.08	7.67	6.72	4.68	2.34	49.92
SICL	32.26	34.75	20.80	20.18	16.16	13.47	12.85	21.50	8.77	40.79
AICL	7.75	5.84	3.95	2.40	2.48	2.80	1.80	3.86	2.18	56.48
Industry	13.02	11.66	8.09	7.33	7.84	7.58	6.98	8.93	2.39	26.76

Source: Appendix X

Figure No: 4.3

Premium Collection on Marine Insurance to Total Premium Collection



Source: Table No: 4.3

Above table shows the average premium of marine insurance of particular insurance companies and industry. According to the table, Sagarmatha Insurance has the highest premium and Nepal Insurance has the least premium collection from the marine insurance policy at seven years period. Among the all sampled insurance companies, according to C.V. the higher and least fluctuation has Alliance Insurance Company and Nepal Insurance Company respectively.

Regarding the premium collection on marine insurance to total premium collection ratio of industry, the above table clearly shows that, the highest premium collected

by industry is in fiscal year 056/57 and the least premium collected at in the fiscal year 062/63. The C.V. of industry is 26.76%, which indicates that there is fluctuation in premium collection trend. The premium collection ratio on marine insurance of industry is in increasing form in fiscal year 056/57, thereafter, which has decreasing trend.

4.1.1.4 Premium Collection on Fire Insurance Policy to Total Premium Collection Ratio:

The fire insurance policy is also one of the major sources of premium collection of insurance industry. The amount of premium on fire insurance is also mentioned in P/L account of a particular insurer like other policies. This ratio measures the proportion of fire insurance premium on total collected premium. This ratio is the rate of average of fire insurance premium collection. Therefore, it shows the share of fire insurance premium in total premium collection.

Table No: 4.4

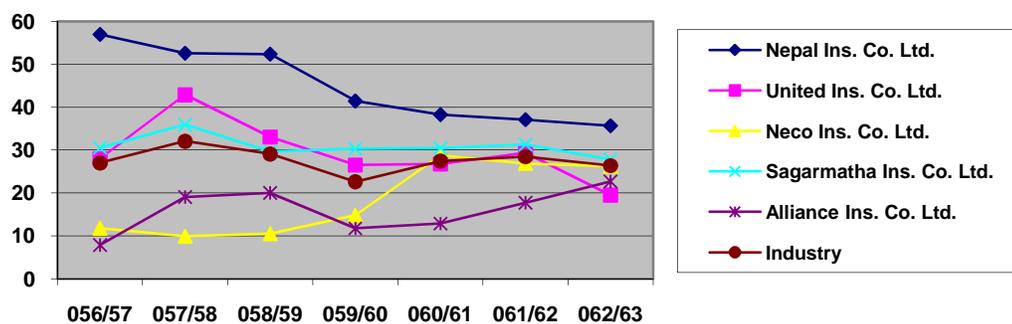
PCFI to Total Premium Collection (in %)

Insurer	Fiscal Year 31 Ashad...							Mean	S.D.	C.V.
	056/57	057/58	058/59	059/60	060/61	061/62	062/63			
NICL ¹	56.96	52.60	52.33	41.43	38.30	37.10	35.67	44.91	8.77	19.53
UICL	27.99	42.90	33.05	26.52	26.74	29.31	19.49	29.43	7.20	24.47
NICL	11.77	9.90	10.50	14.81	28.78	26.87	26.26	18.41	8.49	46.13
SICL	30.52	35.93	29.63	30.30	30.44	31.29	27.80	30.84	2.50	8.09
AICL	7.88	19.04	19.99	11.77	12.88	17.69	22.67	15.99	5.26	32.90
Industry	27.02	32.07	29.10	22.61	27.43	28.45	26.38	27.58	2.88	10.44

Source: Appendix X

Figure No: 4.4

PCFI to Total Premium Collection



Source: Table No: 4.4

Above table shows the average of fire insurance premium of particular insurer and industry too. According to the table, Nepal Insurance has the highest premium and United Insurance has the least premium collection from the fire insurance policy at seven years period of time, which is, shows the mean. As for C.V., Neco Insurance has higher and Sagarmatha Insurance has least fluctuation in premium collection. Regarding the fire insurance premium to total premium ratio to industry, we can see that the highest premium is collected in fiscal year 057/058 and least premium collected in fiscal year 059/60. According to table, the premium collection trend has fluctuation. This is indicated by the C.V.

4.1.1.5 Premium Collection on Aviation Insurance Policy to Total Premium Collection Ratio:

It is a rate of average premium collection on Aviation insurance policy. This ratio measures the percentage rate of premium collection on aviation insurance policy of a particular insurer and industry .

Table No: 4.5

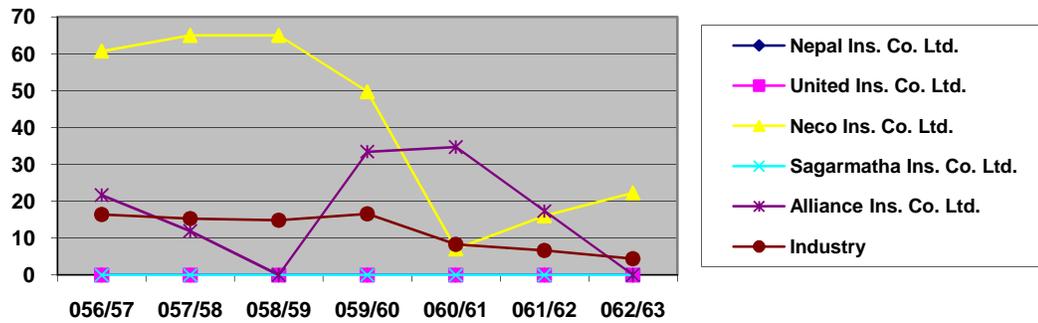
Premium Collection on Aviation Insurance Policy to Total Premium Collection Ratio (in %)

Insurer	Fiscal Year 31 Ashad...							Mean	S.D.	C.V.
	056/57	057/58	058/59	059/60	060/61	061/62	062/63			
NICL ¹	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
UICL	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
NICL	60.73	64.97	65.01	49.70	7.13	16.13	22.29	40.85	24.94	61.05
SICL	0.00	0.00	9.37	0.00	0.00	0.00	0.00	0.00	0.00	0.00
AICL	21.66	11.91	0.02	33.48	34.74	17.33	0.00	17.02	14.21	83.48
Industry	16.48	15.38	14.88	16.64	8.37	6.69	4.46	11.84	5.15	43.53

Source: Appendix X

Figure No: 4.5

Premium Collection on Aviation Insurance to Total Premium Collection



Source: Table No: 4.5

From the above table, we can see that Neco Insurance has higher ratio of Aviation premium. It can collect more than 40% premium from Aviation insurance policy. Sagarmatha Insurance Company does not have any ratio of aviation premium. Likewise United Insurance Company and Nepal Insurance Company do not have any collection of premium from Aviation insurance. According to C.V., Alliance Insurance Company has higher and Neco Insurance Company has least fluctuation in premium collection on aviation insurance.

4.1.1.6 Premium Collection on Motor Insurance to Total Premium Collection Ratio:

Motor insurance is the popular policy for the all people who belong to the motor business. However, we have a low position of motor insurance performance in Nepal. The motor insurance premium to total premium ratio shows the average premium of motor insurance in total premium. This ratio measures the percentage rate of premium collection on motor insurance policy of particular insurer and industries, for a particular year. The premium amount of motor insurance is mentioned in the profit and loss account of respective policy and total premium would get from all policies.

Table No: 4.6

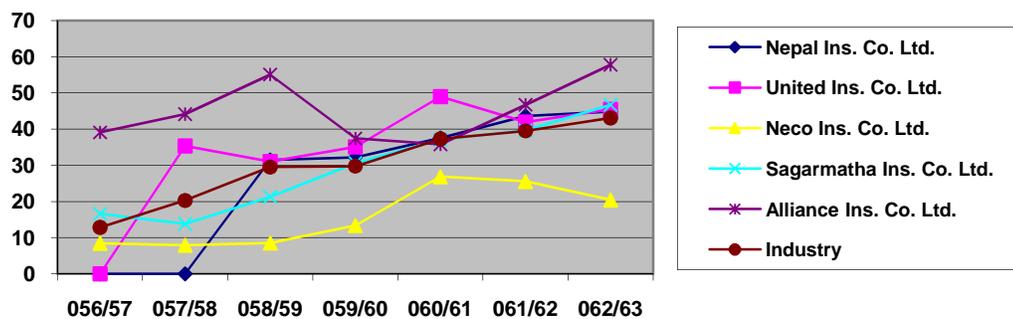
Premium of Motor Insurance to Total Premium Ratio (in %)

Insurer	Fiscal Year 31 Ashad...							Mean	S.D.	C.V.
	056/57	057/58	058/59	059/60	060/61	061/62	062/63			
NICL ¹	0.00	0.00	31.45	32.20	37.58	43.59	44.86	27.10	19.20	70.83
UICL	0.00	35.38	31.07	35.10	49.02	41.96	45.53	34.01	16.28	47.86
NICL	8.49	7.96	8.58	13.38	26.89	25.56	20.45	15.90	8.29	52.16
SICL	16.59	13.80	21.30	30.60	37.10	39.64	46.69	29.39	12.50	42.53
AICL	39.09	44.15	55.11	37.41	35.77	46.74	57.80	45.15	8.63	19.12
Industry	12.83	20.26	29.50	29.74	37.27	39.50	43.07	30.31	10.83	35.72

Source: Appendix X

Figure No: 4.6

Premium of Motor Insurance to Total Premium



Source: Table No: 4.6

Above table shows the motor insurance premium ratio of sampled insurer and the industries. According to the table, Nepal Insurance Company has started motor insurance premium from the fiscal year 058/59. Among all the sampled insurers, Alliance Insurance Company has heights and stable ratio of motor premium which is clearly shows by the C.V. Sagarmatha Insurance Company has as C.V. is lowest (42.53%) which is indicate the fluctuating trend, likewise Neco Insurance too. Regarding the motor premium to total premium ratio of industry, industry success to collect more premium from motor insurance fiscal year 062/63 (43.07%) out of total premium collection. However, C.V. is 35.72%, which indicated the calculating trend of premium collection exists.

4.1.1.7 Premium Collection on Engineering Insurance to Total Premium Ratio:

It is a rate of average premium collection on engineering insurance policy. It shows the ratio or proportion of engineering policies premium with comparison to total premium collection. This ratio measures the engineering premium collection ratio in terms of percentage. The engineering policies premium is also mentioned its profit and loss account like other policies.

Table No: 4.7

Engineering Insurance Premium to Total Premium Ratio (in %)

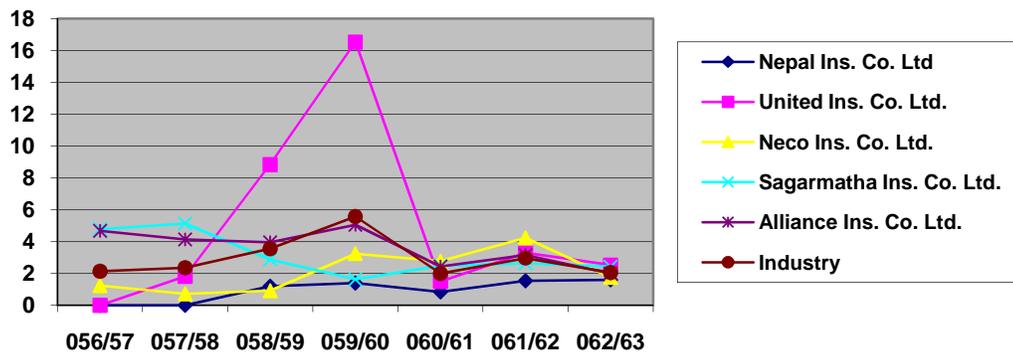
Insurer	Fiscal Year 31 Ashad...							Mean	S.D.	C.V.
	056/57	057/58	058/59	059/60	060/61	061/62	062/63			
NICL ¹	0.00	0.00	1.19	1.40	0.84	1.54	1.60	0.94	0.69	73.28
UICL	0.00	1.81	8.84	16.54	1.49	3.30	2.53	4.93	5.84	118.38
NICL	1.23	0.72	0.92	3.24	2.77	4.23	1.75	2.12	1.32	62.27

SICL	4.78	5.13	2.88	1.64	2.48	2.63	2.43	3.14	1.30	41.46
AICL	4.67	4.14	3.95	5.06	2.43	3.15	1.99	3.63	1.14	31.51
Industry	2.14	2.36	3.56	5.58	2.00	2.97	2.06	2.95	1.29	43.74

Source: Appendix X

Figure No: 4.7

Engineering Insurance Premium to Total Premium



Source: Table No: 4.7

From the above table we see that Nepal Insurance and United Insurance have just started to collect premium from engineering insurance policy. According to the table, United Insurance Company has higher premium collection rate and Nepal Insurance Company has least collection. The calculated C.V. seems that United Insurance has higher and Alliance Insurance has least fluctuation trend in premium collection.

4.1.1.8 Premium Collection on Miscellaneous Insurance Policy to Total Premium Ratio:

It is an average of miscellaneous premium. This ratio shows the proportion of miscellaneous premium in total premium collection. Insurer considers various policies in miscellaneous insurance. Therefore, it is a major source of premium collection.

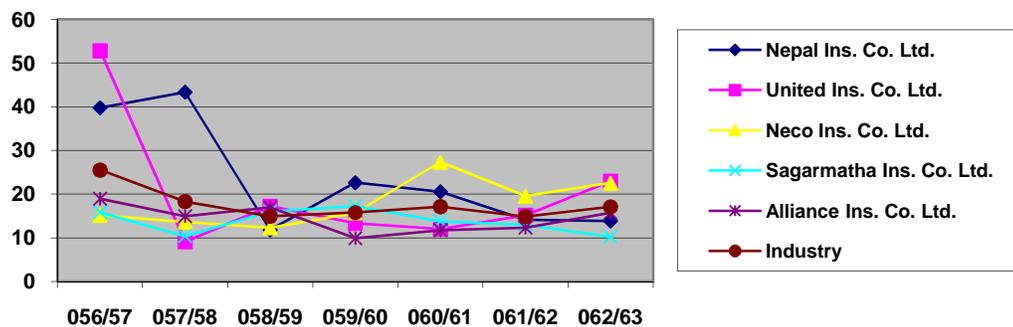
Table No: 4.8
PCMI to Total Premium Ratio (in %)

Insurer	Fiscal Year 31 Ashad...							Mean	S.D.	C.V.
	056/57	057/58	058/59	059/60	060/61	061/62	062/63			
NICL ¹	39.78	43.33	11.81	22.62	20.55	14.11	13.83	23.72	12.82	54.04
UICL	52.82	9.11	17.24	13.30	12.01	15.16	22.96	20.37	14.96	73.46
NICL	15.16	13.60	12.30	15.72	27.35	19.55	22.54	18.03	5.41	30.00
SICL	15.86	10.40	16.01	17.28	13.82	12.97	10.23	13.80	2.78	20.11
AICL	18.96	14.93	16.98	9.88	11.70	12.29	15.73	14.35	3.21	22.34
Industry	25.52	18.27	14.87	15.76	17.09	14.82	17.06	17.63	3.70	21.01

Source: Appendix X

Figure No: 4.8

PCMI to Total Premium



Source: Table No: 4.8

From the above table we may be able to see the ratio as miscellaneous premium in total premium collection of all sampled insurer and industry too. According to the table, Nepal Insurance Company has more premium collection in comparison (respective total premium) and Sagarmatha Insurance Company has the least premium collection among the sampled insurers. The entire insurer C.V. shows fluctuation in premium collection wherever highest fluctuation in United with 73.46% C.V. and the lowest in Sagarmatha with 20.11%.

Regarding the miscellaneous premium to total premium ratio of industry, in the fiscal year 056/57 industry has more premium collection from miscellaneous premium insurance policy. The C.V. 21.01% shows the low fluctuation trend in premium collection industry too.

4.1.2 Evaluation of Investment Pattern and Composition through Financial Tools:

All the concept of insurance and insurance industry in Nepal is already mentioned in above chapters; which may show the detail idea of insurance business. Here, only quantitative analysis is mentioned which are related to the investment and investment practices.

For the purpose of the evaluation of the investment pattern and composition among the portfolios, the trend analysis are used. For the comparison of all respective matter on investment, the mean, standard deviation, and coefficient of variance is also used. Likewise, to evaluation the return on respective portfolio and investment amount, the ratio analysis is also used. To attain the objectives of the study purpose all the concerned studies and analysis are used. This evaluation chapter is separated into two parts as financial analysis and statistical analysis. The purpose of this part is to study, evaluate, and analyze those major matters, which are related to the investment pattern and composition of Nepalese insurance companies. This analysis

moves along with studies objective, therefore only those ratios are calculated and analyzed which are very important to evaluate in investment policy.

4.1.2.1 Return on Investment:

It is a rate of average investment income. It shows the proportion of return with respect to investment. It is just the calculation of average rate of investment insurer and industries too 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 investments optional and compulsory sectors and the net income carried from profit and loss account.

Table No: 4.9

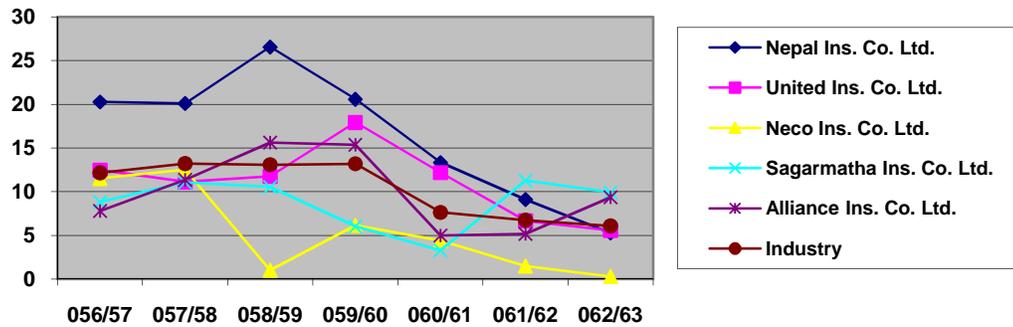
Return on Investment Ratio (in %)

Insurer	Fiscal Year 31 Ashad...							Mean	S.D.	C.V.
	056/57	057/58	058/59	059/60	060/61	061/62	062/63			
NICL ¹	20.27	20.09	26.56	20.58	13.34	9.10	5.27	16.46	7.48	45.45
UICL	12.46	11.11	11.75	17.93	12.18	6.65	5.56	11.09	4.09	36.92
NICL	11.51	12.51	1.02	6.14	4.41	1.49	0.29	5.34	5.00	93.62
SICL	8.84	11.07	10.53	6.03	3.28	11.27	9.92	8.71	2.99	34.31
AICL	7.79	11.37	15.63	15.37	4.98	5.15	9.35	9.95	4.40	44.27
Industry	12.17	13.23	13.10	13.21	7.64	6.73	6.08	10.31	10.31	32.17

Source: Appendix XI

Figure No: 4.9

Return on Investment



Source: Table No: 4.9

The table shows both particular sampled insurance and industries return on investment ratio. It might be the outcome if the use of the riskier investment components bearing varied rate of return. Among all the sample insurers, Neco Insurance's return on investment has higher fluctuation and Sagarmatha Insurance has lower fluctuation and has more return than all the insurers.

4.1.2.2 Investment to Total Premium Collection Ratio:

It is a rate of average premium investment. It shows the ratio or proportion of investment with comparison to premium collection. This ratio measures the investment ratio in percentage. This ratio helps to show, what proportion of collected premium is invested in different sectors in aggregate. However, perhaps the starting time the entire insurer invests their fund (capital) in different sectors that is why the ratio cannot calculate exact for investment portion in collected premium. Here, the total investment consists of all investment portfolios and total premium consists of the entire premium, which is collected from various policies.

Table No: 4.10

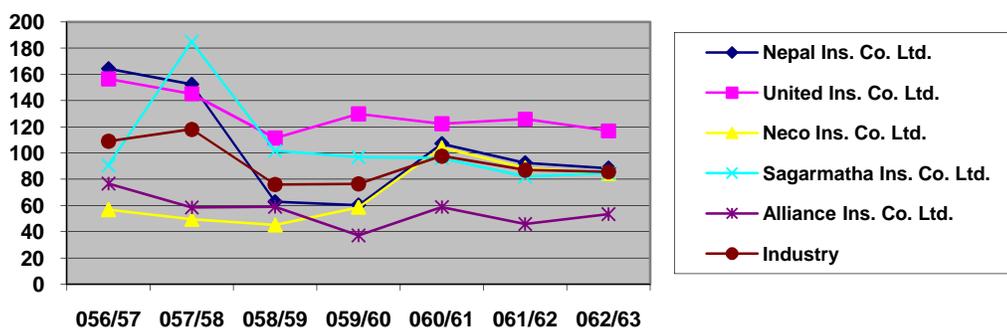
Investment to Total Premium (in %)

Insurer	Fiscal Year 31 Ashad...							Mean	S.D.	C.V.
	056/57	057/58	058/59	059/60	060/61	061/62	062/63			
NICL ¹	164.29	152.32	62.85	60.30	107.15	92.50	88.47	103.98	40.74	39.18
UICL	156.63	145.27	111.40	129.88	122.32	125.89	116.93	129.76	15.99	12.32
NICL	56.93	49.50	45.19	58.64	104.09	88.67	84.47	69.64	22.56	32.40
SICL	90.55	184.84	101.52	96.78	96.00	81.93	84.52	105.16	35.81	34.06
AICL	76.66	58.57	58.91	37.19	58.85	45.98	53.45	55.66	12.31	22.13
Industry	109.01	118.10	75.97	76.56	97.68	86.99	85.57	92.84	16.12	17.37

Source: Appendix XII

Figure No: 4.10

Investment to Total Premium



Source: Table No: 4.10

Above table shows the investment to total premium ratio of five sampled insurance companies and industries. The investment ratio is shows the higher than each year's premium, it is because the insurer invested the fund firm capital and others source. The entire insurer invested more than their premium collection but Neco Insurance and Alliance Insurance Company invested its fund less than its premium collection. This table clearly shows the fact that the entire insurer uses different sources for investment.

The entire insurer investment trend is fluctuation among them Nepal Insurance Company has more fluctuation on investment. From the fiscal year 056/57 to 059/60, the investment ratio going in downward direction of Nepal Insurance Company. In the first year, it has higher investment ratio than it slope start to downward.

Among all the sampled companies, United Insurance has constant ratio of investment. It has less fluctuation therefore C.V. has less than other insurers. To compare the entire sampled insurer, United Insurance has good performance in investment. Regarding the investment to total premium, ratio of industry, the table shows wide fluctuation in investment. The C.V. of industry clearly seems the fluctuation trend of investment in insurance industry.

4.1.2.3 Investment on Government Saving Bond to Total Investment Ratio:

This ratio is the average government saving bond investment. It shows the proportion of investment on government saving bond. The entire insurer invests their fund to making separate portfolio. It is known as secured investment instrument. The ratio measures the percentage of investment of particular insurer in government saving bond.

This ratio helps to know the average proportion on govt. saving bond of particular insurance companies and industry on aggregate.

Table No: 4.11

Government Saving Bond to Total Investment (in %)

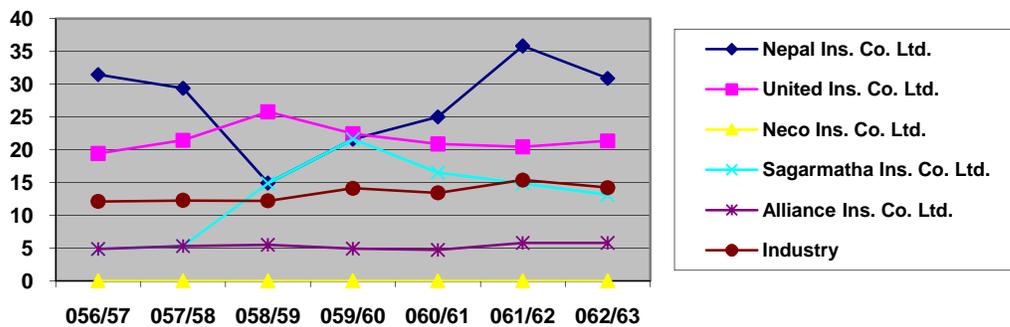
Insurer	Fiscal Year 31 Ashad...							Mean	S.D.	C.V.
	056/57	057/58	058/59	059/60	060/61	061/62	062/63			
NICL ¹	31.45	29.35	14.88	21.60	25.00	30.88	30.88	27.00	7.05	26.13
UICL	19.41	21.43	25.78	22.43	20.86	21.34	21.34	21.67	2.04	9.41

NICL	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
SICL	4.85	5.28	14.88	21.60	16.50	13.08	13.08	13.00	6.04	46.49
AICL	4.85	5.28	5.48	4.89	4.70	5.78	5.78	5.25	0.45	8.55
Industry	12.11	12.27	12.20	14.10	13.41	15.37	14.22	13.38	1.25	9.37

Source: Appendix XIII

Figure No: 4.11

Government Saving Bond to Total Investment



Source: Table No: 4.11

Above table shows the average percentage of government bond in total investment. According to the table, Neco Insurance Company does not have invested in government saving bond. Comparing the proportion of investment of Nepal Insurance Company has higher investment its fund on government saving bond than others. Sagarmatha Insurance Company has higher fluctuation due to the variance in investment. In between all sampled insurer, comparative Alliance Insurance has low fluctuation in investment, is clearly shown by the C.V.

Regarding the government saving bond to total investment of industry, the calculated coefficient of variation is 9.37%, which is greater. Therefore, we can say the investment of industry has wide fluctuation on investment in government bond.

4.1.2.4 Investment on Bank Fixed Deposits to Total Investment:

The banks fixed deposits is the main investment sector of Nepalese insurer. The entire insurer deposits their fund in banks fixed deposits. The investment on bank fixed deposits to total investment ratio is the average of investment on bank fixed deposits. It shows the proportion of fixed deposits of particular insurer and industries too, for a particular year in aggregate. The bank's fixed deposits are the secured investment sector therefore, almost all insurer invest their higher fund in fixed deposits.

This ratio helps to show the proportion investment in fixed deposits of particular company and aggregate industry too.

Table No: 4.12

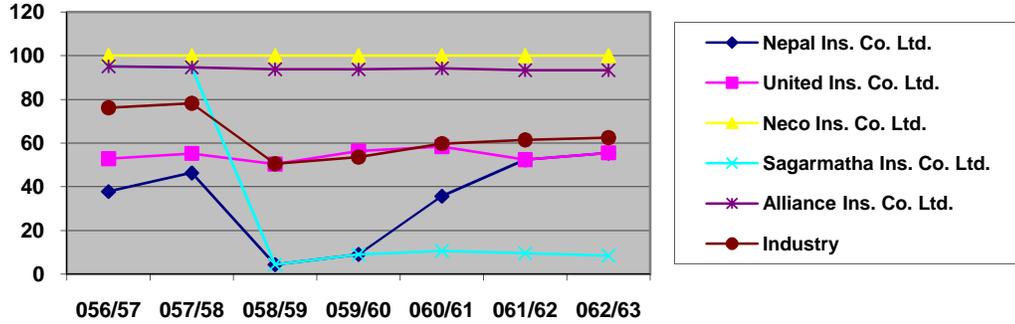
Fixed Deposits to Total Investment Ratio (in %)

Insurer	Fiscal Year 31 Ashad...							Mean	S.D.	C.V.
	056/57	057/58	058/59	059/60	060/61	061/62	062/63			
NICL ¹	37.84	46.34	4.38	9.03	35.67	52.32	55.42	34.43	20.26	58.86
UICL	52.80	55.25	50.32	56.32	58.42	52.37	55.52	54.43	2.74	5.04
NICL	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	0.00	0.00
SICL	95.15	94.71	4.38	9.03	10.64	9.56	8.44	33.13	42.26	127.57
AICL	95.15	94.71	93.78	93.72	94.25	93.33	93.33	94.04	0.70	0.74
Industry	76.19	78.20	50.57	53.62	59.80	61.52	62.54	63.21	10.49	16.59

Source: Appendix XIII

Figure No: 4.12

Fixed Deposits to Total Investment Ratio



Source: Table No: 4.12

The above comparative table shows the fixed deposits to total investment ratio of five sampled insurer and industry also. Almost insurers have investment their fund in fixed deposits in higher proportion with Neco Insurance being number one with 100% fund (investment) in fixed deposits. Alliance Insurance also has higher percentage of investment in fixed deposit. From the above table it is seems that the Neco Insurance, Sagarmatha Insurance, United Insurance, and Alliance Insurance have their fund invested in fixed deposit at higher rate where as Nepal Insurance has the least investment in fixed deposits of all.

According to C.V., Neco Insurance has no any fluctuation in investments. Sagarmatha Insurance has higher fluctuation in investment with comparison to other insurer, which is indicating the calculated C.V. However, Nepal Insurance also has increasing trend of investment in fixed deposits. Regarding the fixed deposits to total investment ratio of industry, the table shows same proportion or stable

proportion every year. Therefore, C.V. also indicates there is no higher fluctuation of investment in fixed deposits each year. The calculated C.V. was 16.59%, which was hardly maximum. Therefore, the industries investment trend is going smoothly.

4.1.2.5 Investment on Share to Total Investment:

It is an average of share investment. This ratio shows the percentage of investment in share. Generally, we cannot find the investment of all insurers in share but very few insurers invest their fund in share. This ratio shows different company's share in total investment of particular insurer and insurance industries. This ratio helps to clear the proportion of share in total investment or investment portfolio.

Table No: 4.13

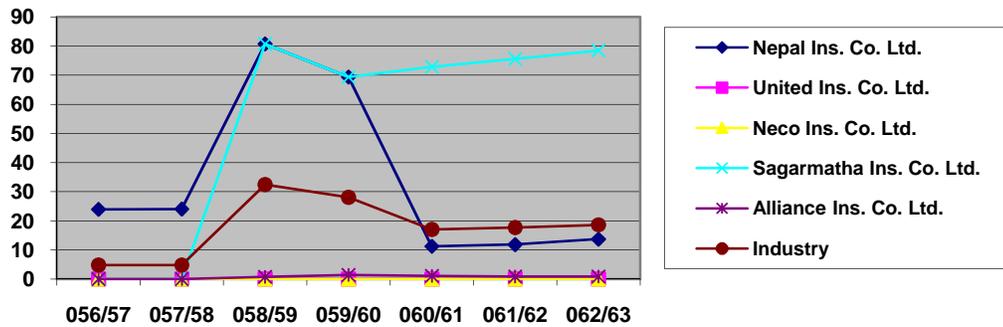
Investment on Share to Total Investment Ratio (in %)

Insurer	Fiscal Year 31 Ashad...							Mean	S.D.	C.V.
	056/57	057/58	058/59	059/60	060/61	061/62	062/63			
NICL ¹	23.91	23.99	80.74	69.37	11.23	11.84	13.70	33.54	29.03	36.57
UICL	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
NICL	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
SICL	0.01	0.01	80.74	69.37	72.87	75.61	78.48	53.87	36.98	68.64
AICL	0.01	0.01	0.74	1.39	1.05	0.89	0.89	0.71	0.52	73.27
Industry	4.79	4.80	32.44	28.03	17.03	17.67	18.61	17.62	10.47	59.45

Source: Appendix XIII

Figure No: 4.13

Investment on Share to Total Investment



Source: Table No: 4.13

From the above table, it is clear that United Insurance, and Neco Insurance has not investment in share, it means they have ignored the share in market from investment portfolio. However, Nepal Insurance, Sagarmatha Insurance, and Alliance Insurance only have invested their fund in share market. According to the table, it seems that Nepal Insurance and Sagarmatha Insurance only has regularly and highest investment of fund in market. Sagarmatha Insurance Company has invested its fund in some equal ratio in share market each year therefore; it has minimum fluctuation in investment trend.

Regarding the investment on share to total investment ratio of industry, the table shows more fluctuation in investment trend. However, it also clears that a minimum percentage of investment is made in share market from insurance industry.

4.1.2.6 Investment on Staff Provident Fund (Fixed) to Total Investment Ratio:

It is the ratio used to measure the share of staff provident fund in total investment. It shows the average of share and what proportion of investment engage in staff provident fund clearly. The invested amount of staff provident fund is mentioned

in balance sheet and total investment amount also carried from balance sheet. This calculated ratio helps to show the proportion of investment on staff provident fund in total investment.

Table No: 4.14

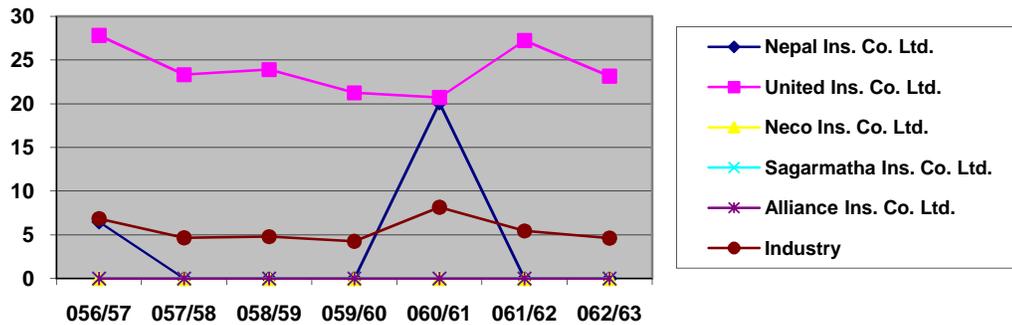
Staff Provident Fund to Total Investment Ratio (in %)

Insurer	Fiscal Year 31 Ashad...							Mean	S.D.	C.V.
	056/57	057/58	058/59	059/60	060/61	061/62	062/63			
NICL ¹	6.49	0.00	0.00	0.00	20.10	0.00	0.00	3.80	7.58	199.59
UICL	27.80	23.32	23.90	21.25	20.72	27.21	23.14	23.91	2.71	11.35
NICL	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
SICL	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
AICL	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Industry	6.86	4.66	4.78	4.25	8.16	5.44	4.63	5.54	1.44	26.01

Source: Appendix XIII

Figure No: 4.14

Staff Provident Fund to Total Investment



Source: Table No. 4.14

From the above table it is clear that Neco Insurance Company, Sagarmatha Insurance Company, and Alliance Insurance Company have not invested their fund in staff provident fund. United Insurance Company has invested higher proportion of fund in staff provident fund. Among sample, insurers dropped its fund to invest in staff provident fund from the fiscal year 057/58. However, in the fiscal year 060/61 it invested 20.10% so, there is a high fluctuation.

4.1.2.7 Investment on Staff Welfare Fund to Total Investment Ratio:

The staff welfare fund is also one of the investment sectors of investment portfolio for Nepalese insurer. This staff welfare fund to total investment ratio shows the proportion of welfare fund in total investment. It is an average of staff welfare fund. This clearly shows what percentage of investment is invested in staff welfare fund of particular insurer and industry as well.

Table No: 4.15

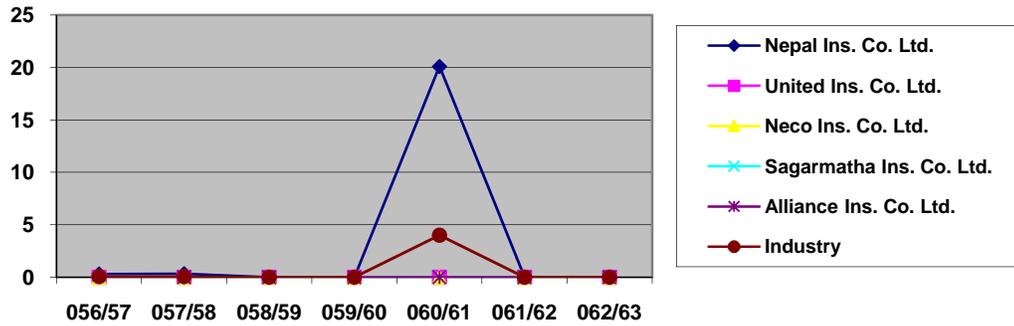
Staff Welfare Fund to Total Investment (in %)

Insurer	Fiscal Year 31 Ashad...							Mean	S.D.	C.V.
	056/57	057/58	058/59	059/60	060/61	061/62	062/63			
NICL ¹	0.31	0.34	0.00	0.00	20.10	0.00	0.00	2.96	7.56	255.33
UICL	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
NICL	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
SICL	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
AICL	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Industry	0.06	0.07	0.00	0.00	4.02	0.00	0.00	0.59	1.51	256.19

Source: Appendix XIII

Figure No: 4.15

Staff Welfare Fund to Total Investment



Source: Table No. 4.15

The table shows the ratio of investments staff welfare fund on total investment. According to the table, United Insurance Company, Neco Insurance Company, Sagarmatha Insurance Company, and Alliance Insurance Company do not have invested their fund in staff welfare fund. Only Nepal Insurance Company has invested its fund in S.W.F but the ratio investment in S.W.F. of Nepal Insurance Company is nominal. Moreover, the investment trend is also in decreasing trend. The C.V. is 255.33% of Nepal Insurance Company shows the higher fluctuation trend in investment.

Regarding the investment on staff welfare fund to total investment ratio of industry shows the industry has little investment in staff welfare fund with comparison to investment portfolio. The calculated C.V. of industry is 256.19%, which seems to be in fluctuating trend but with very high variation.

4.1.3 Statistical Analysis:

Under this chapter various statistical mathematics are studied which are related to decision making for premium collection and investment pattern. The Trend analysis, Coefficient of correlation, and are used for the purpose to find out tendency, relation and distinguish between premium collection and investment. For this purpose, following measures are analyzed.

4.1.3.1 Correlation Analysis:

The statistical tools, correlation analysis is preferred in this study to identify the relationship between premium and investment, whether the relationship is significant or not. For detail calculation sample of the above correlation see in the **Appendix XIV**.

Table No: 4.16

Correlation between Premium & Investment of Sampled Insurance Company

Insurer		Relationship	R ²	P.E.	6×P.E.	Sig/Insig.
NICL ¹	0.211	Low Degree of +ve Correlation	0.045	0.243	1.458	Insignificant
UIC	0.968	High Degree of +ve Correlation	0.937	0.016	0.096	Significant
NIC	-0.303	Low Degree of -ve Correlation	0.092	0.231	1.386	Insignificant
SIC	0.989	High Degree of +ve Correlation	0.978	0.006	0.036	Significant
AIC	0.736	High Degree of +ve Correlation	0.542	0.107	0.642	Significant

Industry	0.760	High Degree of +ve C	0.578	0.108	0.648	Significant
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Source: Appendix XIV

The above table shows the relationship between premium and investment of five sampled insurance companies. The coefficient of correlation between premium and investment of Nepal Insurance, United Insurance, Neco Insurance, Sagarmatha Insurance, and Alliance Insurance Company Limited 0.211, 0.968, -0.303, 0.989, 0.736, and 0.760 respectively. High degree of positive correlation exists in case of United Insurance, Sagarmatha Insurance, and Alliance Insurance. Except Nepal Insurance and Neco Insurance all the insurer correlation is nearly to +1, therefore the correlation indicates that the relationship between premium and investment is significant at 5% level of significance. Thus, this implies that investment of insurer is highly affected by premium collections. It means premium is the strongest matter for investment.

The coefficient of determination (R^2) is a measure of the degree of linear association or correlation between two variables. One of which is the independent variable and other, dependent variable. In case of this study, collected premium is the independent variable and investment is the dependent variable. The coefficient of determination between premium and investment of Nepal Insurance, United Insurance, Neco Insurance, Sagarmatha Insurance, and Alliance Insurance are 0.045, 0.937, 0.092, 0.978, 0.542, and 0.578 respectively. In case of Nepal Insurance, the R^2 is 0.045, which means that the variation in independent variable (premium) explains 4.5% of the variation in investment and so on. Generally, probable error is used to measure the significance of the relationship between two dependent and independent variable. In case of this study, the significance of the relationship

between premium and investment is measured by calculating probable error of correlation coefficient.

From the above table, we can conclude that the relationship between premium and investment of Nepal Insurance and Neco Insurance Company is insignificant since the coefficient of correlation ‘ ’ is smaller than $6 \times PE$ (). However, in case of United Insurance, Sagarmatha Insurance, and Alliance Insurance Company, since the coefficient correlation () is greater than $6 \times PE$ (). We can conclude the relationship to be significant.

In case of Nepalese insurance industry, the coefficient of correlation is 0.760; therefore, the positive relationship exists in case of industry. It shows the relationship between collected premium and investment has highly positive degree. It means investment of industry depends on premium collection. If premium collection is higher then the investment also is higher and vice-versa.

The coefficient of determination, R^2 of industry is 0.578. It clears that the variation in independent variable (premium) explains 57.8% of the variation exists in investment, which again justifies that the investment depends on premium collection. Likewise, the $6 \times PE$ () of industry is 0.648, which is lesser than coefficient of correlation therefore, the relationship to be significant. It indicates that industry invests the fund as per the collection of premium.

Table No: 4.17

Correlation Coefficient between Premium Collection and Claim Paid of Sampled Insurer

Insurer		Relationship	R^2	P.E.	$6 \times P.E.$	Sig/Insig.
NICL ¹	0.790	High Degree of +ve Correlation	0.624	0.096	0.576	Significant
UIC	0.965	High Degree of +ve	0.931	0.018	0.108	Significant

		Correlation				
NIC	-0.703	High Degree of –ve Correlation	0.494	0.129	0.774	Insignificant
SIC	0.928	High Degree of +ve Correlation	0.861	0.035	0.210	Significant
AIC	0.772	Low Degree of +ve Correlation	0.596	0.103	0.618	Significant
Industry	0.912	High Degree of +ve Correlation	0.832	0.043	0.258	Significant

Source: Appendix XIV

The coefficient of correlation between premium and claim paid is to measure the degree of relationship between total premium and net claim paid. Generally, the amount of claim paid depends on premium amount. If the transaction of insurance (premium collection) is higher, than automatically its claim paid will be also higher. Therefore, it may have any negative or positive relation. For finding out the relation, the coefficient of correlation is determined. In this study, we assume premium to be the independent variable and claim paid to be depended variable due to its nature. To find out the correlation, various calculations are performed.

The above table shows the relationship between premium collection and claim paid of five sampled insurer and industry too. The coefficient of correlation between collected premium and net claim paid of Nepal Insurance Co., United Insurance, Neco Insurance, Sagarmatha Insurance, and Alliance Insurance Co. are 0.790, 0.965, -0.703, 0.928, and 0.772 respectively. Among the sampled insurer, high degree of positive relation exists. In case of Neco Insurance, there is high degree of negative correlation between two variables. The Alliance Insurance Company's correlation

has lower degree, which indicates that the company paid lesser claim with comparison to premium collection and other insurer.

The coefficient of determination measures the degree of linear association or correlation between premium and claim paid. In case of this study, the coefficient of determination between collected premium and net claim paid of Nepal Insurance, United Insurance, Neco Insurance, Sagarmatha Insurance, and Alliance Insurance are 0.624, 0.931, 0.494, 0.861, and 0.596 respectively. All the coefficient of determination in percentage explains the variation of independent variable (premium) with respect to dependent variable i.e. claims paid.

In case of this study, the probable error is used to measure the significance of the relationship between premium and claim paid. According to above table, we can see that the relationship between premium collection and claim paid of all insurers except Neco Insurance Company is significant, which provides from the comparison of ' ' and $6 \times PE ()$.

In case of Nepalese insurance industry, the coefficient of correlation is 0.912, it shows the high degree of relationship between premium, and claim paid exists in case of industry. The relationship justifies that these claim paid depends up on the premium collection, if the collected premium is in high range than the claim paid ratio will also be higher and vice-versa.

The variation in independent variable premium explains 83.2% of the variation exists in net claim paid in case of Nepalese insurance industry. The $6 \times PE ()$ 0.258 is lesser than correlation ' ' therefore the relationship is significant.

Table No: 4.18

Correlation Coefficient between Investment and Net Profit Earned of Sampled Insurer

Insurer		Relationship	R ²	P.E.	6×P.E.	Sig/Insig.
NICL ¹	0.192	Low Degree of +ve Correlation	0.037	0.246	1.476	Significant
UIC	-0.144	Low Degree of -ve Correlation	0.021	0.250	1.500	Insignificant
NIC	-0.784	High Degree of -ve Correlation	0.615	0.098	0.588	Insignificant
SIC	0.692	High Degree of +ve Correlation	0.479	0.133	0.798	Insignificant
AIC	-0.362	Low Degree of -ve Correlation	0.131	0.222	1.332	Insignificant
Industry	-0.620	High Degree of -ve Correlation	0.384	0.157	0.942	Insignificant

Source: Appendix XIV

The coefficient of correlation between investment and net profit earned is used to measure the degree of relationship between total investment and net profit earned. Generally, the profit earned strongly depends upon the investment. If the investment amount is higher then defiantly the amount of profit will be higher. The role-played by the investment to earn profit and the relation between investment and profit earned is shown by the correlation in this calculation (correlation). Investment is assumed as an independent variable and net profit is dependent variable.

The above table shows the relationship between investment and net profit earned of five sampled insurer and industries. The coefficient of correlation between investment and net profit earned of Nepal Insurance, United Insurance, Neco Insurance, Sagarmatha Insurance and Alliance Insurance is 0.192, -0.144, -0.784,

0.692, and -0.620. Among the sampled insurer, negative relation exists in case of United Insurance, Neco Insurance, and Alliance Insurance. This correlation indicates that the investment do not play vital role in income generation. Moreover, the profit earned does not fully depend upon the investment amount.

In case of this study industries coefficient of correlation is -0.620, it is nearly '-1', so, it has negative relationship. It shows that the profit earned ratio does not depend upon the investment in the respect of industry. The coefficient of determination forecasts the variation in dependent variable of independent variable. Investment explains 38.4% of the variation in profit earned. The $6 \times PE$ () is higher than correlation i.e. $0.942 > -0.620$ so there exists insignificant relation between investment and profit earned of the insurance industry. It clears that the profit earned hardly depends upon the investment in case of industry too.

4.2 Presentations, Analysis, and Interpretation of Primary Data:

This chapter concentrates on using the aforementioned methodology to meet the objectives of the study and set forth a logical and qualitative framework to recommended probable solution to the problems that is in hereon within investment and premium collection aspect of the insurance industry. For this purpose, some the collected questionnaire answers are analyzed and studied. The questioner was distributed to the management and the respective insurers. The respondents were regarded as the representative of the entire management for the purpose of analysis and classification of the primary data, a simple ranking method used wherever felt appropriate. While ranking, Rank '1' was assumed as top most prioritized and the last number imparted for the query was assumed as last prioritized. Where the ranking was not possible or necessary, a simple objective (Yes/No) question was

used. For classification of the views, percentage method was used, considering the total number of respondent as 100% further, such classification was supported with the graphical and tabular presentation, wherever (felt appropriate) necessary.

A sample of questioners is included in the **Appendix V**. The number of respondents for the queries has differed due to the differentiation regarding the formation of the insurers. So the number of respondents for each query is shown in sample questionnaire separately.

This chapter is separated into two parts for the purpose of separate study of premium and investment aspect. These are as follows:

4.2.1 Evaluation of the Insurer's Views, Regarding the Premium Collection Aspect:

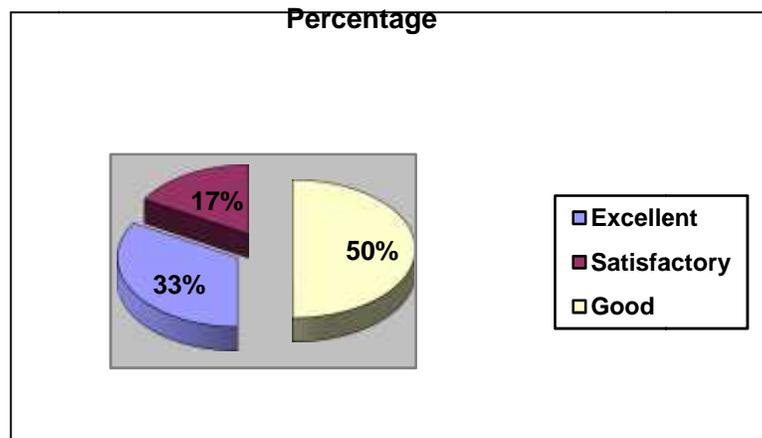
To evaluate the insurer views relating to the premium collection aspect of the insurers, a set of questioners was used, which contents some questions relating to the premium and its collection system and other relevant system. These questioners' aims to take insurer view on present premium collection system, premium rate and collected premium ratio etc. In this aspect, the queries and the views of respondents regarding those queries are presented as such.

What is the Condition of the Premium Collection (of insurer) at Present Situation?

This query was intended to find out the condition of premium collection of Nepalese insurers. There is higher competition in insurance business. Therefore, the

competition has directly affected the premium collection. According to view of insurer, we can find the actual condition of premium collection. Among the viewers around 50% of the insurer were in favor of option 'Good', around 33.33% were in favor of the option 'Excellent' and 16.67% of the insurer were in favor of option 'Satisfactory', which is shown in the following chart:

Figure: 4.16 (Condition of the Premium Collection)



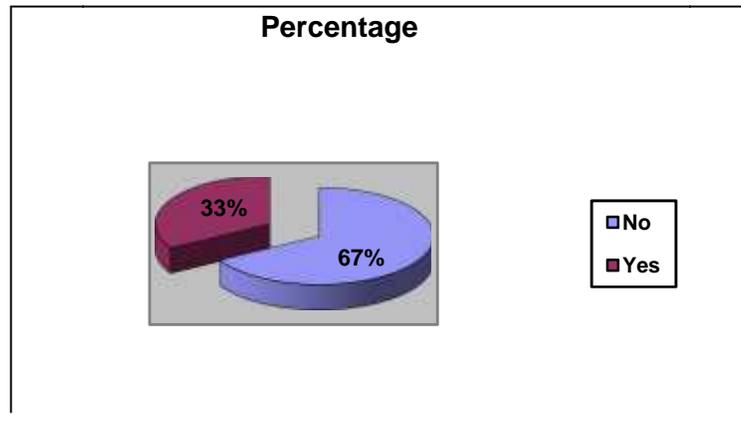
This above chart shows the percentage of three options. The highest percentage is for option 'Good', it means the premium collection of insurer is not excellent overeagerly only for right because few of insurers were favor have excellent.

Rate of Premium under Different Insurance Policy

This query aims to identify view of insurer regarding the rate of premium. Beema Samitee directly regulates per premium rate of insurance policy. Hence, the Authority of Government (Beema Samitee) published the rate of premium and forces to follow all the insurers. To follow them however this question aims to know view of respondents as for premium rate. Among the viewers, around 66.67% of

insurer were in favor of options 'No' and around 33.33% of the insurer were in favor of option 'Yes' which is shown in the figure below:

Figure: 4.17 (Rate of Premium under Insurance Policy)

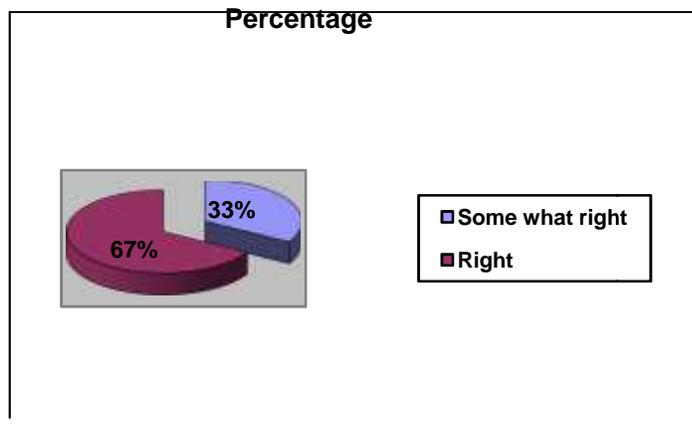


This chart clearly shows that almost of the insurer disagree to the rate of premium as establish had by Beema Samitee they want to change positively on premium rate.

Premium Collection System of Insurance Companies

This query was intended to find out the condition of premium collection system of Nepalese insurer. This question is based on theoretical aspect. There are so many factors, which the question was attended. Among the entire viewer, 66.67% were in favor of first option 'Right' and around 33.33% were in favor of second option 'Some what right'. It required corrective measures. This data, we can plot following chart:

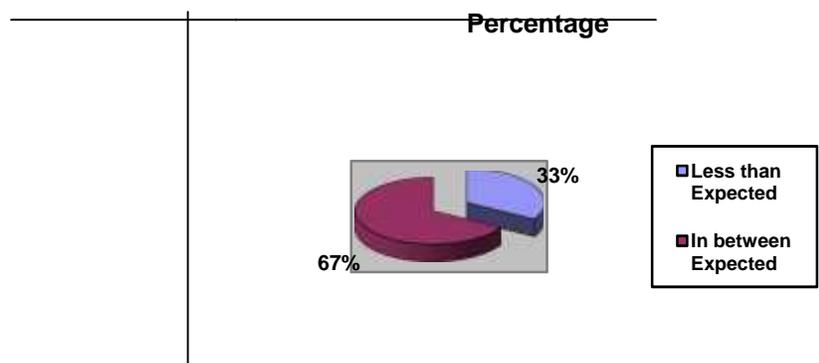
Figure: 4.18 (Premium Collection System)



Collection from Premium, at Present Insurance Market

This query was intended to find out the collection trend and present collection ratio of premium at Nepalese insurer from market. Among the viewers, around 66.67% of insurers were in favor of option 'In between Expected' and 3.33% of insurers were in favor of option 'Less than Excepted', which is shown in the chart below:

Figure: 4.19 (Collection from Premium)

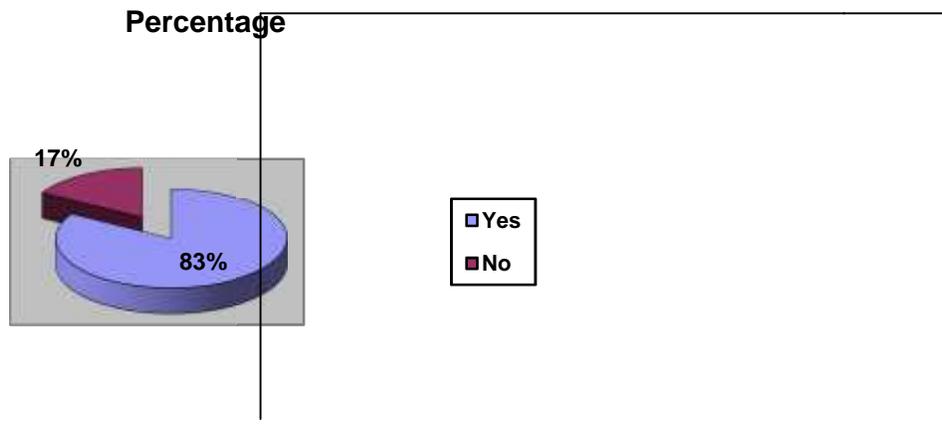


This chart clearly shows that most of the insurers were successful in collecting premium in between their expectation. It indicates that the collection ratio of premium is satisfactory.

Collection of Target Premium Amount

This query was meant to identify the premium collection rate is as per the target or not. Among the viewers around 83.33% were in favor of option ‘Yes’ and around 16.67% were in favor of option ‘No’. From this query, we can say that the industry average collection is in right position, which is more clearly from this chart below:

Figure: 4.20 (Collection of Target Premium)



This above chart shows the percentage of respondent’s view. The first option ‘Yes’ got the 83.33% of view among total viewers. It means Nepalese insurance is successful in collecting good premium from market.

4.2.2 Evaluation of the Insurer Views Regarding the Investment Pattern Aspect

To evaluate the insurer’s views, relating the investment aspect of the insurers, a set of questioners is used which contain 8 questions relating to the investment aspect of

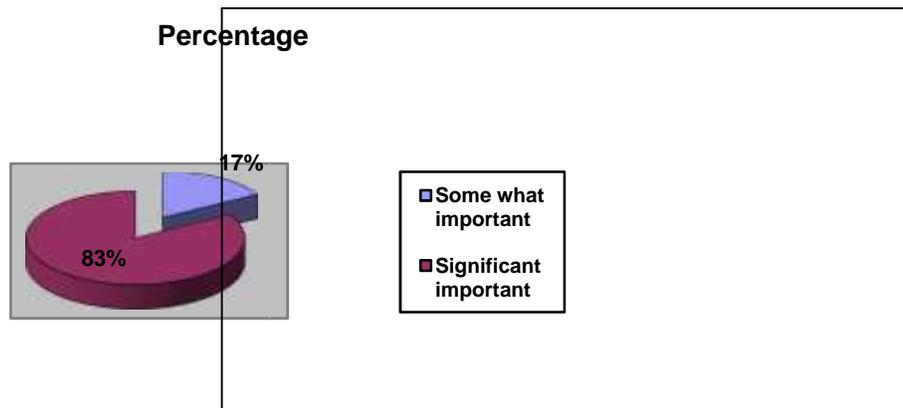
the insurer business. The questioners include the insurer views relating to the present practices, policies, system, performance, and conditions of investment.

This part was objected to find out the view and practices of insurer about investment practices. In general, this part of the study was concentrated to find out what a practice is being in insurer's investment management and what condition had in investment position and return. In this aspect, these were the queries and the views of respondents regarding those queries:

Importance of Investment Policy

The question was intended to find out the weight given by the insurer to the importance of investment policy as for investing a fund. Through the classification of views of the respondents, this result was generated. Here, a major portion of the insurers showed their concentration regarding the investment policy and accepted if important for investing (fund). The following figure justifies it:

Figure: 4.21 (Importance of Investment Policy)



Regarding this query, around 83.33% were in favor of the option ‘Significant important’ and around 16.67% were in favor of the option ‘Somewhat important’, however major portion was in favor of significant important. It is thus, clear that the investment policy is highly preferable for the insurer at the time of investing fund.

Concerned with Investment Management

This question was intended to find out the weight given by the insurer to their functioning as financial institution through investment management. The views of the insurers were not differentiating. Regarding this query, all of the insurers showed their concern regarding the investment management 100% of the observed insurers were in favor of the option ‘Significant concern’. It means all of the insurers invest their fund according to the investment management.

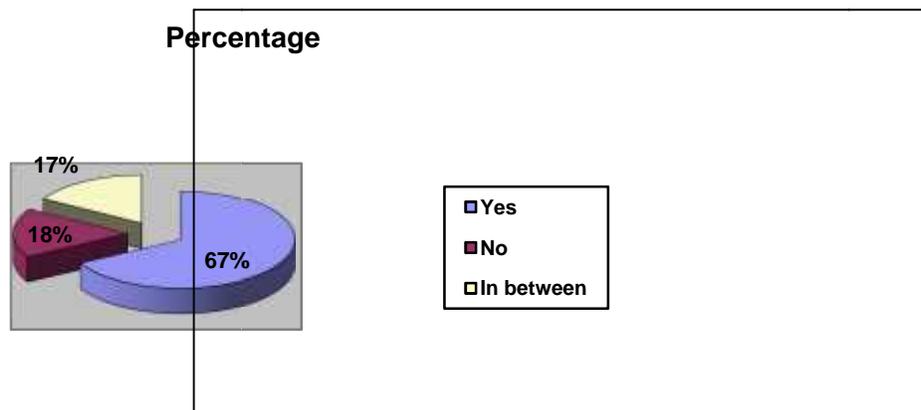
Essential of Portfolio, while Investing a Fund

This question aims to find out the weight given by the insurer to the essentiality of portfolio when investing a fund. For this questioner, again, the entire insurers were in one lift. The views of the insurer were not differentiating for this matter. It means the entire insurer accepts the importance and essentiality of portfolio. While investing a fund, 100% of the views were in favor of option ‘Significant essential’, which clearly shows the favor of portfolio.

To Maintain the Desired/ Maximum Beneficial Investment Policy

This question was intended to find out the present status of the insurer relating to the investment policy and their perception regarding the present environment. Here, a major portion of the insurer showed their view for favorable result (Yes) and some insurer showed their view for other result, which is shown in the chart below:

Figure: 4.22 (Maintain the Desired Investment Policy)

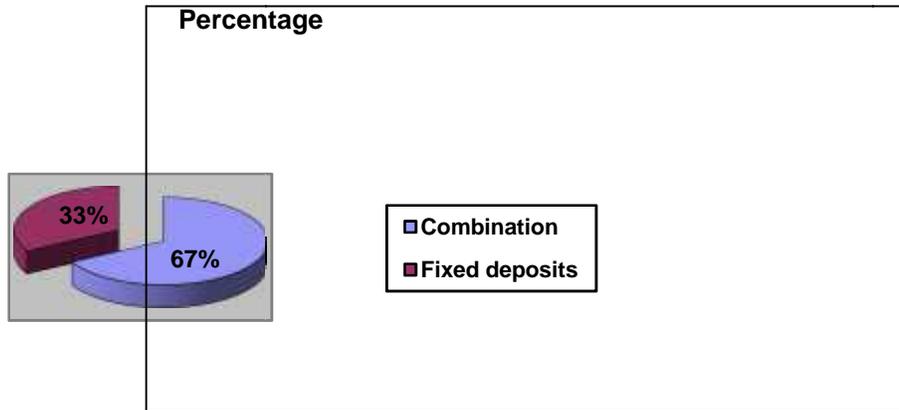


Regarding the query around 67% was in favor of the option (Yes), 16.5% were in favor of option (No), and around 16.5% were in favor of option in between. It means most of the insurer can maintain the desired minimum beneficial investment policy. Few of the insurers could not maintain maximum beneficial investment policy.

Suitable Sectors for the Purpose of Invest to the Insurer

This question was meant to find out weight given by the insurer to investment sector. There are various investment sectors but government classified the investment sector in two parts optional and compulsory regarding this query 67% of the look was in favor of first option ‘Fixed Deposits’ and others favored the ‘Combination’ of mentioned all options, which is shown in below chart:

Figure: 4.23 (Suitable Sectors to Invest)

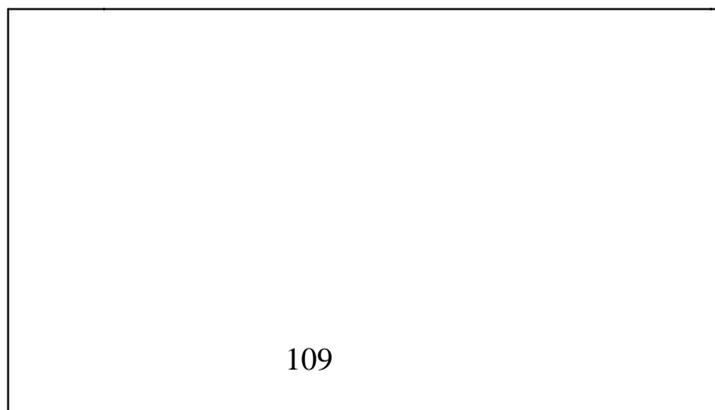


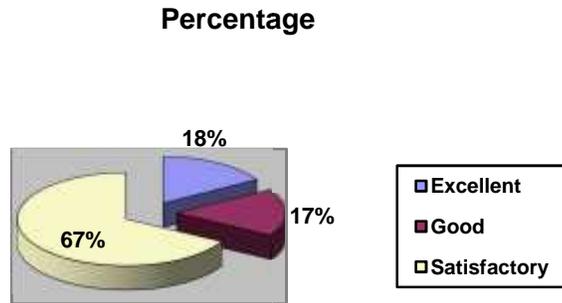
This figure clearly shows that more of the respondent preferred the fixed deposits for investment and few are in favor of combination of all sectors.

Current Investment System of Nepalese Insurance Companies

This question intended to find out the weight given by the insurer to the current investment system of Nepalese insurance companies. Now a day we face the critical situation of National economy, which is directly affected by investment system also. For this matter, this query helps to analyze the view of Nepalese insurers. Among the observed query around 67% were in favor of the option ‘Satisfactory’, 16.5% were in favor of the option ‘Good’ and 16.5% were in favor of excellent which shown in the following chart:

Figure: 4.24 (Current Investment System)



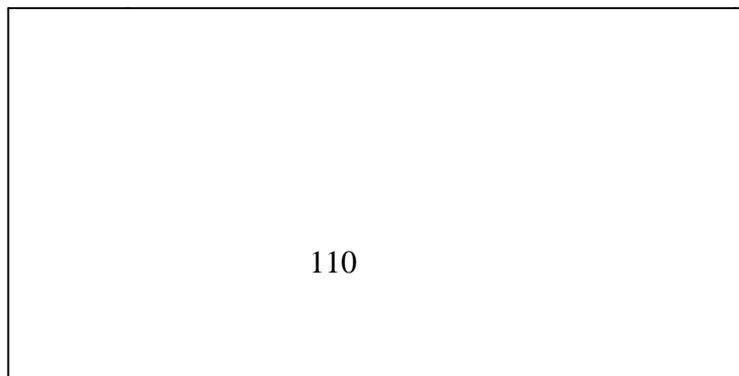


This observation and figure clearly shows that the current investment systems of Nepalese insurer are not so bad. Hence, satisfactory indicate the investment system performance is not in excellent motion that only right.

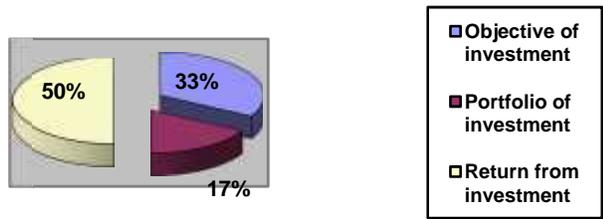
Preferences of the Investment Policy

This question was intended to find out the concentration of the insurer on particular aspect of the investment, while forming the investment policy. The option was give as portfolio of investment, return from investment, and objective of investment. Among them around 50% respondents were in favor of option 'Return from investment' 33.33% were in favor of option 'Portfolios of investment', which is shown in the figure below.

Figure: 4.25 (Preferences of the Investment Policy)



Percentage

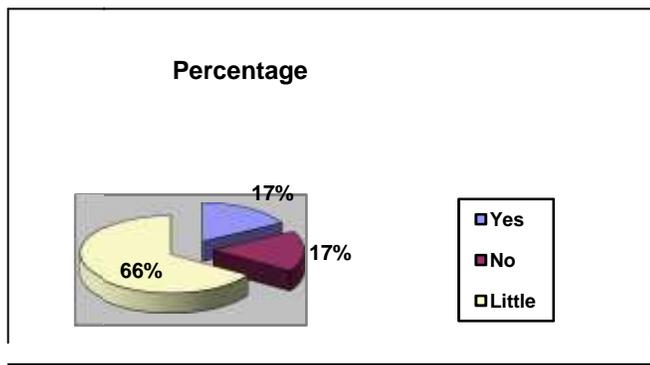


From this above figure and query we can conclude that most of the insurer preferred the return from investment, which forming the investment policy.

Gain Desired Return

This question objective was to know view of respondent to gain desired return from investment. According to viewers, answer came to know present status and income generating of viewers name in favor of option 'Little' 66.5% each were in favor of option 'Yes/No' which is shown in below chart:

Figure: 4.26 (Gain Desired Return)



It shows that almost all of the insurers investment was not effective & appropriate as most of the respondents were in favor of option little.

4.3 Major Findings of the Study

This chapter is the consequence of the whole studies and analysis and a result and achievement of entire study too. Therefore, this chapter concentrated on drawing the conclusion of all analysis and providing suggestive package of premium collection aspect of Nepalese insurance industry. Regarding the conclusion and findings drawn from the detailed analysis of primary and secondary data separately and at last some recommendation also arrives.

In this section, findings are presented in accordance with the analysis as different analysis tools are used in the process of analysis for the collected primary and secondary data. In accordance to the study and analysis of ‘Investment pattern and composition’ and ‘Premium collection and composition’, it will be clear that the Nepalese insurance industry were not following generally accepted principles of investment and the investment components. Likewise, they have not similarity in premium chargeable rate and collection rate too, under different policies since establishment to till now. The main findings, which are, conclude from this analysis as follows:

- ❖ The premium collection rate of Nepalese insurance industry has been fluctuating trend under all respective policy in each year and differentiation in investment amount with respective investment sector (optional and compulsory). However, almost of the insurer invest their major portion fund of in Bank fixed deposits. In addition, the insured chargeable rate of premium is based on Beema Samitee’s regulation. However, as for life insurance, premium is calculates personal character sticks of insured person under based on Beema Samitees regulation and policy.

- ❖ The insurance industry has not consisted in the investment proportion of various investment sector and investment portfolio too but they have similarly in investment sectors, however the return on premium seems to the decreasing trend, however the claim paid ratio and premium collection ratio of insurance industry are increasing trend in study period.
- ❖ Among the insurance policy, the ratio of premium collection is higher in fire insurance and lower in engineering policy.
- ❖ The coefficient of correlation between premium and investment of Nepalese insurance industry has high degree of positive correlation with significant relationship.
- ❖ The analysis of correlation between premium collection and claim paid of sampled insurer and industry has positive relationship. However, Neco Insurance Company Limited has high degree of negative relationship and the probable error shows insignificant relationship between premium collection and claim paid.
- ❖ The coefficient of correlation between investment and net profit earned seems to be high degree of negative, in case of United, Neco, and Alliance too. However, it is positive in case of Nepal Insurance and Sagarmatha Insurance companies. However, the probable error shows the insignificant relationship between investment and net profit earned of all insurance companies except the Nepal Insurance Company Limited.
- ❖ The trend analysis on aggregate premium collection and investment shows that there is increasing trend in premium collection and investment amount but has fluctuating trend in respective policy.

- ❖ However, in case of United, Sagarmatha, and Alliance Insurance Company Limited there is not linear relationship between profit, premium, and investment. It indicates that the profit is hardly depends upon the premium collection and investment pattern.
- ❖ Almost of the insurer followed the investment policy at investing a fund but some insurer give less importance on investment policy and they invest their fund only accordance to government rules and regulation and management desire, although all the insurer concerns with investment management and they heartily accepted if too.
- ❖ All the insurer or insurance industry prefers the portfolio to investment a fund and they accept its essence in investment. However, only 67% of insurer utilizes the maximum beneficial investment policy among the insurer. Among the investment sectors 67% of the insurer addressed their importance in fixed deposits and 33% favored to make combination of investment sectors. Their view shows the higher preference to bank fixed deposits of insurer.
- ❖ The collected view shows the only satisfactory position of the current investment system of Nepalese insurance industry. However, among the query 16.30% were able to gain desired return, 16.30% were not gain desired return and 67% were able to gain little return from the investment.
- ❖ In the case of premium collection of Nepalese insurer, there are variation in their view 50% of the insurer are side of good, 16.67% are side of satisfactory and 33.33% are side of excellent. However, almost of the insurer can collect the premium under their target only 16.67% of the insurer can not collect under target but almost of the insurer are not agree to the premium rate which is issued by Beema Samitee (Government of Nepal).

CHAPTER FIVE

SUMMARY, RECOMMENDATION & CONCLUSION

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 21st century business age, it plays a vital role through risk bearing and providing certainty. Therefore, insurance is an assist of a world's economy.

Among the 21 insurance companies, this present study has been taken to evaluate the premium collection and investment pattern of industry through the sample base. The study analyzed the annual report of seven years starting from 056/057 to 062/063 has been taken into consideration for the purpose of the study.

All the study is analyzed reviewing the secondary data from journal articles, annual report of the company and other relevant sources as well as primary data too. To

reveal the problems financial as well as statistical tools are applied. The recommendation is provided based on findings from analysis.

In the context of Nepal, insurance business is one of the business, which has not any loss and it suffered at profit from establishment date to till now. However, the trend of premium collection investment and profit earned are fluctuated. There is no informality. The rate of premium of insurance policy, which regulates by government (Beema Samitee), is also unscientific. It is needed to restudy and reanalyzed as for present condition and situation. The insurance act aimed regulation should be clear enough to guide the investment-related matter to a direction. The regulatory limits relating the investment should be promptly changed according to the change in over all macro economy and money capital condition.

Although, Nepalese insurance industry runs smoothly with profit, they faced various problems. The main problem is cut throat competition due to liberalization and privatization thus under rating and price cutting and unhealthy competition between each other (insurance companies). Terrorism, inflation, and recession are also the main problems of insurance business in Nepal. Likewise, insurance company, insured also has some problems in different situation. In about claim received, time consuming procedures in accepting, issuing, and survey report, submission procedures is not clear to clients, insufficient document submission by client. Thus, delay in claim settlement. Moreover, per-capita income and the purchasing power of people are not so good due to the political condition of nation.

After the formation of Nepal Insurance Association, the companies can place their problems jointly to the government and go forward for the interest and benefit of insurer. This platform should be taken an opportunity. Now a days insurer are try to

formation a reinsurance agency in Nepal, if they success for it, than they could take high benefit as well as national economy also grow up.

5.2 Conclusion

From the analysis of the available data, the researcher has been able to draw certain conclusion. This study is mainly focused on the comparative study on premium collection and investment position of Nepal Insurance Company Limited, United Insurance Company Limited, Neco Insurance Company Limited, Sagarmatha Insurance Company Limited, and Alliance Insurance Company Limited. This chapter is very important in the sense that

-  It compares the premium collection and investment pattern of five sample insurance companies.
-  It inspects relationship between dependent and independent variables.
-  It analyzes the management and customers opinions on premium collection and investment position.

Almost of the insurer followed the investment policy at investing a fund but some insurer give less importance on investment policy and they invest their fund only accordance to government rules and regulation and management desire. The entire insurer concerns with investment management and they heartily accepted if too. All the insurer or insurance industry prefers the portfolio to investment a fund and accept its essence in investment. However, only 67% of insurers utilize the maximum beneficial investment policy among the insurer. Among the investment sectors 67% of the insurer addressed their importance in fixed deposits and 33% favored to make combination of investment sectors. Their view shows the higher preference to bank fixed deposits of insurer.

Furthermore, to increase the performance level for better operation provided to the insured, the companies should establish research and development unit, enhance the capacity of the personnel by providing various training programmed/refreshments, as well as the personnel should be co-operative which may help to boost up the service sectors of the insurance companies too. Until today, people of Nepal are not aware of insurance due to their less seriousness about risk. Hence, the insurance business could promote its business through various options like personal selling, mass advertisement, sales promotion, and other different kinds of methods.

5.3 Recommendation

The recommendations are made as per the analysis of primary, secondary, and valid findings from study as well as relating information about Nepalese insurance industry. Since, the insurance directly related to premium collection and investment aspect and its management, they would 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 correctives action needs to be introduced:

a. The company should collect more general premium:

Generally, in these days, general insurance is classified into five types; and they are fire insurance, marine insurance, motor insurance, engineering insurance, and

miscellaneous insurance. Miscellaneous insurance covers all the insurance business rather than fire, marine, motor, and engineering.

From the analysis of premium, collection of five sample insurers it can be concluded that all of these companies should try to increase the premium collection. In the case of fire premium, the collection trend has been decreasing in comparison to the previous years. It goes the same for the marine, engineering, and miscellaneous except motor insurance. In the case of motor insurance, all companies have the excellent premium collection.

b. The company should collect investment fund:

Insurance company is also one of the financial institutions. It collects investment fund in the form of premium and invests in various sectors for the profit motive. However, insurance company itself could not invest their funds as it is directed by the insurance board of Nepal. They must have invested 75% of their fund in 'compulsory sectors' and rest for 'other sectors'. The sample insurance companies should also invest its investment fund as per the rules and regulations formulated by the insurance board of Nepal. Regarding its investment pattern there is an inconsistency in the government saving bonds and corporate securities but the investment pattern of the bank fixed deposits seems to be good compared to the previous year for all companies.

c. The company should increase investment in policy loans:

Insurance company always thinks about profit or return. It invests its fund in different sectors eager for better return from it. All the insurance companies should increase investment in policy loan.

d. Claim should be paid in time:

Settlement of claims should be made in time. Delay in the settlement of claims may affect the business and company may lose its goodwill as well as reliability. From the analysis of the claims paid by insurance companies, the general insurance seems becoming more risky because the rate of claims paid has been increasing every year.

e. The company should establish R & D unit:

The company should set up a separate research and development department. This department looks the present and potential business opportunities in the market. This department calculates the risk involved in the every insurance business because insurance business is becoming more risky than the previous. The major portion of general insurance goes to claims paid. This department suggests for issuing new policies. If the company follows our suggestion, it would be able to find more reliable and worthy policyholder towards the company. The company will be able to take the profitable opportunities.

f. The company should increase the efficiency of employees:

The company should provide the development programs in the country for their employees. Training programs for all levels of employees should be organized within the country for enhancement of their capacity and efficiency. Obviously, it may be productive if the companies should provide such training programs.

g. Service sector should be effective:

Analysis shows the details about the services executed by the insurance companies. Based on the result, it can be concluded that services provided by Nepal Insurance Company Limited seems higher than the other does. Hence, all insurance companies should take care for the existing services provided by them.

h. Employers should be cooperative:

From the analysis, it shows the details about the co-operation of people from sample insurers. Based on the result presented, it can be seen that co-operation in Nepal Insurance Company Limited seems higher than the co-operation of people in others. It may reduce the goodwill and reliability of the company, which may harm the company. Hence, the employers of Nepal Insurance Company Limited should be more cooperative in the future.

i. Insurance companies should do promotion:

The world is changing into the global village due to networking business and communications. Therefore, it is necessary that each business should do promotion and from this insurance business could not remain out of it. Therefore, the insurance business could promote its business through various options like personal selling, mass advertisement, sales promotion, and other various kinds of methods.

j. New types of insurance policy should be developed:

Most of the insurance companies are still running under the same condition as before how they used to run. However, the world is changing into the small market as in the concept of globalization. Companies should bring advance and modern concepts that can bring most of the people within the periphery of insurance business. Similarly, some fields in which insurance could not reached due to the high risks. They have such as agriculture, hatchery, and poultry sectors though they are the most important fields of developing country like Nepal. Hence, companies should bring new policies to cover such fields.

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