CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Nepal has adopted mixed economy system with some liberalization in recent economic plans. Privatization and globalization are also adopted in our economic policy. political instability, geographical structure, illiteracy cause our life much more hazardous .Therefore man has brought a device which assures them to protect and save them from different kinds of risk which are serious in nature in the society, that provision is known as insurance. Insurance plays very important role in providing financial security to protect people and their property. Insurance increases the productivity of economy. It also increases the individual welfare by increasing security. Insurance industry was gradually developed with the development of commercial and industrial development. Nowadays it is a systematic and well organized sector which helps to grow economic development of a nation. It protects economy and individual from various risks.

Originate of insurance is a subject of searching till now . According to the scientists 4500 years ago, insurance was prevalent in Bebilonia, Greek of Rome. In Wrigbed, Hamburwi and Manusmrits the word welfare (Yogkshem) was found which is similar to the insurance, so it is concluded that insurance was prevalent in Island before 200 year.[1]

In Nepal insurance business was not commence until 2003 B.S. by any national organization. In 2004 B.S. Nepal insurance and Transport co. ltd. was established as a subsidiary co. of Nepal bank ltd. in order to

[1] " Insurance ,"wikipedia: the free. Encyclopedia 18 Aug. 2007http://en. Wikipedia.org/wiki/ insurance.

provide security against losses caused by theft, fire etc. But it did not deal in life business. In those days foreign organization were engaged in life insurance business in Nepal. Especially Indian company was dealing in life insurance business in our country. Thus million of rupees were gone out of the country as premium payment to them. It was not desirable from national economic point of view. Therefore H.M.G. proposed to establish an "Insurance organization" in our country during the period of the five year plans.[2]

Everest Insurance Company Ltd. (EIC) is a leading insurance company of Nepal. EIC has always ensuring on world class quality services. Its policies are varied in nature and it has a wide range of non-life insurance schemes, which will ensure that we have a life of comfort, free from worries.

With an ambition of safe keeping Nepal, EIC was established in 1994 as a public limited company. EIC has come a long way in winning trust from its more than 20,000 clients and is at present one of the leading insurance companies in Nepal. The strength of the company lies in its management committee background, dynamic staff of 60 members and country wide network of 300 agents. Mission of EIC is "Security and support when you need them most."[3]

Everest Insurance Company has an authorized capital of Rs. 100 millions, issued capital of Rs. 30 millions and paid- up capital of Rs.30 millions. Head office of EIC is at Hattisar, Kathmandu. Branch offices of EIC are at Biratnagar, Birgunj, Pokhara Lalitpur,Nayasadak kathmandu. Contact offices of EIC are at Butwal, Dharan and Chitwan.

To meet the growing needs of its valued customers EIC has been constantly upgrading its portfolios to cater to the clients needs in the ever

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[2] Insurance Regulation." Beema Samiti. 14 Nov. 2007< http://www.bsib. org.np/insuranceregulation.html>.
[3] http://www.everestinsurance.com/company profile.aspx

changing and fast developing insurance sector. Main solution of EIC are as follows:

Product Liability Insurance: Product Liability refers to the liability of any or all parties along the chair of manufacture and distribution of any product for damages caused by that product. Product liability insurance covers damage or injury caused to another business or person by the failure of our product or the product we are selling. Product liability insurance indemnifies the insured against all sums which the insured becomes legally liable to pay in respect of accidental bodily injury or illness to third parties, and accidental loss of or damages to third party property, arising out of the use.

Public Liability Insurance: Public liability insurance protects from legal and medical costs that arise from an incidental of our property, even if we are not to blame it covers we for any damages that member of the public may be awarded as a result of injury or damage to them or their property caused by our business . It also covers legal fees and other expenses to do with defending any claim.

Professional Indemnity Insurance: It provides firms with a source of additional funds from which it can meet justified claims. By insuring against the risk of claims a firm is less likely to fail to meet their liabilities.

Professional such as architects, consultants, doctors, lawyers, chartered accountants and designers often also find great benefits in professional indemnity cover.

Fire and Allied Perils Insurance: This policy provides the coverage against loss or damage caused by accidental fire and lightening. On payment of accidental premium fire insurance policy can be executed to cover the loss or damage caused by other allied perils, which are earthquake, riot and strike malicious damage, terrorism, storm and flood, typhoon and aircraft and aerial damage.

Burglary and House Breaking Insurance: These days we hear incidental or burglary and house breaking. Burglary and house breaking insurance which makes our life a lot easier. Burglary and house breaking insurance means the insured item being stolen after actual forcible and violent entry into or upon the premises by the persons of felonious intention.

Marine Transit Insurance: In this insurance both imports and exports are covered. When our cargo is in the high seas, do not be tense about it.

Travel Trip Insurance: We all know that medical expenses in the west are very high. Health and medical emergency especially in a foreign land is a major cause for worry. We are not always the master of our body and falling sick cannot be ruled out.

Household Insurance: It is a combined of fire and burglary policy. This particular insurance is for the household property. The risks to house property are manifold and very difficult to illustrate.

Vehicle Insurance: This insurance protects us from loses that our vehicle may incur from various possibilities. Direct harm to the vehicle from an accidental or some other causes that may or may not be related for instance in case of a tyre burst the vehicle may spires off the road and collide with a hill causing major damages.

Personal Accidental Insurance: Accident can happen to us in this unsafe world. We don't need to be driving a car to meet with an accident. Even the most ridiculous accident can cause huge damage personal accident insurance covers death, personal total disablement temporary total disablement partial disablement.

Cash in Transit Insurance: We all know that how risky is cash handling. It is for more risky when it is transit. One loss could millions in damages. These could be anything like hard cash, band notes, drafts, postal pay bonds etc.

1.2 Focus of the Study

The study focus on the financial performance analysis of the Nepalese insurance companies by taking a case of EIC. Insurance companies plays very important role in risk management in nation. The financial management plays very significant role in the success of insurance. Nowadays insurance companies are more successful than other corporate firms listed in Nepal Stock Exchange.

1.3 Statement of the Problem

Insurance companies are reputed industries in world. People always search opportunity or way to seek solution for future uncertainty. They are eager to find means to minimize the uncertain risk and get away from the harmful result from the risk in future. While searching for the solution to minimize harmful risk, insurance business has emerged.

In Nepal, insurance companies are growing rapidly and showing the good financial result. So, many studies are regarding financial performance of insurance companies has been carried out but they have not been able to provide clear findings. So, it is felt important to carryout a field study on the matter of how the Nepalese insurance companies are performing.

In general, this study will try to analyze the financial performance of the Everest Insurance Company by using framework of IRDA. Under which it will try to analyze the following specific problem.

i) What is the pattern of gross premium, shareholder's fund growth rate, risk retention and management expenses of EIC?

ii) What is the pattern of risk and premium retention, commission, technical reserve and reinsurance of EIC?

iii) What is the pattern of profit, investment and net worth of EIC?

1.4 Objectives of the Study

The fundamental objective of the study will try to analyze the financial performance of the Everest Insurance Company. The specific objectives of the study are:

i) To analyze the pattern of shareholder's fund growth rate, gross premium, risk retention and management expenses of EIC.

ii) To measure the pattern of risk and premium retention, commission, technical reserve and reinsurance of EIC.

iii) To asses the trend of profit, investment and net worth over the year.

1.5 Significance of the Study

Insurance is continuously growing sector in Nepal. It is not yet well developed. It has to face high competition and poor monitoring services which played negative roles in financial performance. Although there are many financial tools to analyze the financial performance of insurance companies. But these tools are not able to cover the overall financial performance of insurance company. So this study in which IRDA tool will use aims to provide overall financial performance of the Everest Insurance Company. This study will encourage the management for policy making. This study will also be valuable to investors, stakeholders, capital market, government, financial institutions, finance personnel and research students.

1.6 Delimitation of the Study

This study is subject to the following delimitation:

i) The study is based only on secondary data obtained from various sources. Reliability of analysis depends on the reliability of sources of data.

ii) This study only covers the financial aspect of EIC. This study does not focus on the other aspects of EIC and also does not focus on any other insurance companies.

iii) This study period is only 7 years starting from 2000/01 to 2006/07.

1.7 Organization of the Study

This study is categorized in to five chapters. Chapter one is the introduction chapter. This chapter covers the background of the study, focus of the study, statement of the problem, objectives of the study, significance of the study, delimitation of the study.

Chapter two is concerned with review of theories and previous researches carried out in the study area. It includes a discussion on the conceptual framework regarding financial performance analysis of insurance companies. Past studies conducted by foreign and Nepalese scholars in the financial performance of insurance companies have been also presented. It also provides a brief review of legal provision regarding financial indicators of Nepalese insurance industry. Research gap is also presented in this chapter.

The third chapter describes the research methodology applied for the study. Research design, nature and sources of data, data collection techniques, data processing, data analysis tools and different financial tools are used to analyze the financial performance of EIC. Limitation of methodology is also depicted in this chapter.

Chapter four comprises presentation and analysis of data. The information obtained by data processing has been presented using figures and tables along with their interpretations. Major findings of the study are also presented in this chapter.

Chapter five presents the summary, conclusions and recommendations.

CHAPTER TWO

REVIEW OF LITERATURE

Second chapter is concerned with review of literature relevant to this study. It provides the bases and inputs to find out the effective results of the study. Each study is based on past knowledge or the previous studies, which should not be ignored because they provide the main input for the purposive study. The chapter mainly focuses on conceptual review and review of related study.

2.1 Conceptual Review

Conceptual foundation is a most important for every study. Without clear concept on subject matter the study may not go through right way. So this chapter concerns with concept, history of insurance, types of insurance and presents a review of related books. Review of legal documents about financial performance indicators is also presented. The main objective of this part is to develop theoretical foundation of the student on the study area.

2.1.1 Concept of Insurance

Insurance is one of the major risk handling method. Insurance has been grown rapidly and constitute a major economic force. Insurance is an instrument to spread the loss caused by a particular risk over a number of people or distribution of risk among various people who are interested to accept risk for certain return. Basically the objective of insurance is to spread to loss exposure or to co-operate the risk holders in case of occurrence. The terminology used for taking risk or assuring to cover loss known as insurance .Insurance is a way to reducing uncertainty of occurrence of events.[4]

Insurance companies collect huge premium with large number of customers. They can invest the money like other finance institutions but the major different of insurance company with other financial institution is it collect the premium for future probable claim of its customers.

We known that insurance is one of the risk handling methods and it is an economic institution that reduces risk by combining under one management of a group of object .Insurance is usually affected by certain legal contract under which the insurer, for consideration promises to reimbursed the insured or render services in case of certain described accidental losses suffered during the term of agreement. According to this , it is simply the risk distributing device, but it also offers a way to predict the loss that will be distributed among the members of the insured group.

Insurance is the pooling of fortuitous losses by transfer of such risk to insurers, who agree to indemnify insured for such losses, to provide other pecuniary benefits on their occurrence, or to render services connected with the risk.[5]

It is clear that insurance is a mechanism of risk management. So we can use the insurance as a total of risk management is often misleading concept "In practice insurance involves spreading loss over more than one entity within a present period. In fact, insurance distribute the cost of risk over a large group of individuals subjected to the same risk in order to reimburse the few who actually suffer from the risk."

Insurance is a very social phenomenon where large number of people from every levels of society united to fight with risks. They collect money and contribute to them who suffer loss. In other words, taking from fortunate and giving to unfortunate is insurance.

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[4] G.S.Panda. ***Principles and Practice of Insurance.(*** Kalyani Publishers)78.

[5] George E.Rejda***, Principle of Risk Management and Insurance*** (New Delhi:Dorling Kindersley India Pvt. Ltd.,2006), 40.

According to the nature, characteristics and objectives of insurance company, they are also referred to as financial intermediaries. They provide different finance through their investment policies and positions based upon their own corporate objectives and nature of lines 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 their fund through people and organizations as a premium.

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

Co-operative Concept or Functional Definition

Insurance may be defined as a system of combining many loss exposures, with the costs of the losses being shared by all of the participants.[6]

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.[7]

Insurance is a contract between two parties where by one party called insurer undertaken, in exchange for a fixed sum called premium, to pay the other party called insured a fixed amount of money on the happening of a certain event.[8]

Insurance plays the important role in the trade and commerce . It is absolutely true that expect risks are unpredictable. These risks are to be insured to protect exporters. Various forms of insurance have been existence for hundred of years, just as many of the terms used today are the same as they were many years ago.[9]

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[6] Frederick G.Crane, ***Insurance Principals and Practice***. John Willey and Sons, 1980,p.8.
[7] Joh, Brainbridge. Biography of an Ida: The Story of Mutual Fire and Causality Insurance Gardencity. New York: Doubleday and Company Inc.1952, p.15.

[8] M.N.Mishra, ***Insurance Principle and Practice***, 7th ed., (New Delhi: S. Chand and Company Ltd.,1998), p.30.
[9] Shyam K. Shrestha, ***Role of Insurance in Export Marketing***, Beema**,** Volume-3,1991, p.1.

Insurance may be defined as a system of combining many loss exposures, with the costs of the losses being shared by all of the participants.[10]

The function of insurance is to spread the loss over a large number of persons who are agreed to co-operate each other at the time of loss. The risk cannot be averted but loss occurring due to certain risk can be distributed amongst the agreed persons.

Thus, the insurance is a compensation for uncertain happening of any loss which is insured for certain which is insured for certain period of time and for specific amount; human life and property are subject to the risk of loss or damage from the various sources. The basic concept of insurance is a method of financial loss of a few from a common fund out of contribution of many who are equally exposed to the same loss.

Legal Concept or Contractual Definition

Insurance may be defined as; 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.[11]

Insurance is a contract made between two parties whereby one party (the insurer) agree in consideration of money (the premium) paid to them by another party (the insured) to indemnify against loss and /or damage as a result of an accident.[12]

Insurance is defined as a method of sharing of financial losses of a few form, a common fund formed by contribution of many who are equally

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[10] Rasik Pradhan, "Premium Collection and Investment Position of Nepal Insurance Company (NIC) and Sagarmatha Insurance Company Ltd(SIC) ", Master diss. Tribhuvan University, 2006, p.12.

[11] M.N. Mishra, ***Insurance Principle and Practice***, (New Delhi: S. Chand and Company Ltd.,1979), p.5.

[12] Bhupal Bhakta Shrestha, ***Motor Vehicle Insurance***, Nepal Insurance Surveyors Association (NISA),Year-1.Issues-1,2006, p.47.

exposed to the same risks. This is a system of spreading of loss of an individual over a group of individuals.[13]

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.[14]

Two parties are involved in insurance. One who collects premium and gives assurance for settlement in case of loss is known is insurer. Another who pays premium to the insurer is known as insured. Insurance is a legal contract between insurer and insured which should be supported by state's legislation.

Insurance is a legal contract that protects people from the financial costs; financial cost may result from loss of life, loss of health, lawsuits, or property damage. Insurance provides a mean to cope with some of the risk faced by men in their every with some of the risk faced by men in their every day life. People purchase contract of insurance, called policies, from insurance companies. According to the commission an insurance terminology of the American Risk and Insurance Association, "Insurance is the pooling of for tuition losses by transfer of such risk to insurers, who agree to indemnify insured of such losses, to provide other pecuniary benefit on their occurrence or to render services connected with their risk.[15]

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

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[13] Puspa Das Shrestha, ***Role of Surveyor in Insurance***, Nepal Insurance Surveyors Association, Souvenir,(Year-1,Issue-1,2006), p.49.
[14] E.R.Hardy and Irmay***, General Principle of Insurance Law***,(London: Butten Worths, 1979), p.3.
[15] Shayam Joshi, ***Banking and Insurance Management***,1st ed.(Kathmandu: Taleju Prakashan, 2006), pp. 217-218.

2.1.2 Concept of Insurance Regularatory and Development Authority

The Insurance Regularatory and Development Authority (IRDA) is a public authority as defined in the right to information Act, 2005. As such the IRDA is obliged to provide information to member of public in accordance with the provision of the said Act, IRDA has provided for a separate channel for lodging complaints against deficiency of services rendered by insurance companies.[16]

An act to provide for the establishment of an authority to protect the interests of holders of insurance policies, to regulate, promote and ensure orderly growth of the insurance industry and for matters connected therewith or incidental thereto and further to amend the insurance Act,1938,the life insurance corporation Act, 1956 and the general insurance Business Act 1972.

There was some sub title and commence of this Act, this act may be called insurance regularatory and development authority which extends to the whole of India. It shall come into force on such date as the central Government may by notification in the official Gazette. a point; provided that different dates may be appointed for different provisions of this Act and any reference in any such provision to the commencement of this Act shall be constructed as a reference to the coming in to force of that provision. With effect from such date as the central Government may, by notification appoint, there shall be established for the purpose of this Act, an Authority to be called the Insurance Regularatory and Development Authority. "The authority shall be a body corporate by the name aforesaid having perpetual succession and a common seal with power subject to the provisions of this Act to acquire, hold and dispose of property , both movable and immovable and to contract and shall, by the said name, sue or be sued. [17]

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[16] http://www.irdaindia.org/rti-act2005.html.
[17] http:// en.wikipedia.org/wiki/Insurance –Regularatory-and-Development-Authority.

2.1.3 Risk and Insurance

Due to the aforementioned circumstances human being 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 management is a general management function that seeks to identify, assess and address the cause and effect in certainly and risk on an organization the purpose of risk management to enable on organization to progress toward its goal and objectives in the most direct, efficient and effective path.[18]

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.

a. Financial and Non-financial Risks.
b. Static and Dynamic Risks.
c. Fundamental and Particular Risks.
d. Pure and Speculative Risks.

2.1.4 Historical Development of Insurance

There is no any fixed date of evolution of insurance .It is developed through the faith of co-operation. The evolution of insurance can be traced back to very beginning of human civilization, when the idea of sharing

[18] Williams Smith and Young, ***Risk Management and Insurance***, (Singapore: Mc.Graw-llill,1995), p.27.

pleasure and pain, loss and gain among them originated. Certain activities, which may be regarded as forerunners of insurance, existed before insurance as it is understood today was first transacted.

Evidence is on record that agreements embodying the idea of insurance were made in Babylonia and India at quite an easy period.[19]

It is believed that insurance was first developed insurer and Babylonia (both in present Iraq) beginning about 3000 B.C. The merchants and traders of these societies transferred and pooled their money to protect themselves from losses of cargo form thieves and pirates.

In the late 1680s, Mr. Edward Lloyd opened a coffee house which became popular place to ship owners, merchants and ship's captains, and thereby a reliable source of the latest shipping news. It became popular meeting place for parties to insure cargoes and ships, and those willing to underwrite such ventures. Today, Lloyds' of London is leading market for marine and other specialist types of insurance.[20]

Economic expansion in the 1800s found more life insurance ready for business. The Pennsylvania Company for the Insurance Olives established in 1809 AD., The New England Mutual Life Insurance Company established in 1836, and Mutual Life Insurance Company of New York established in 1843 to cream the market. The beginning of scientific auctorial mortality tables appears and life insurance quadrupled in decade following the civil war.[21]

The history of insurance goes back to 500 year with the practice of risk sharing among Chinese merchants.[22]

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[19] Gosh M.K. and Agrawal A.N.; ***Insurance Principle Practice and Legislation,*** (Allahabad: The Indian Press ,1959), p.21.
[20] "Insurance," Wikipedia: The reeEncyclopedia,14Aug.2006<http;//en.wikipedia.org/wiki/ Insurance>.
[21] David L.Bickelhaupt***, General Insurance*** (Homewood Illinois: Richard D.Irwin Inc.,1983),p.73.
[22] W.A.Dinsdale, Element of Insurance,(London: Pitman Press,1958), p.4.

At present time, the practice of insurance has become so general that almost every contingency, which may arise as a result of accident or unforeseen circumstance, may be covered.[23]

In Nepal, Nepal Bank limited was established as a first bank of country in 1994 B.S. However, there was the lack of insurance company. Insurance business was conducted by the insurance companies of India the need to stop the outflow of domestic capital was urgently felt. In ordered to achieve this objective, Nepal Insurance and Transport company was established under the company Act, and under the ownership of Nepal Bank Limited 13 2004 B.S. this company has been working as Nepal Insurance Company of the country.

After 2007, B.S. economic activities in the country began to grow, and organized industries such as jute, match, and sugar, began to establish beside, activities in the sector such as education, trade and transport also began to increase. To take benefit of these development's Indian Insurance companies , such as Ruby General Insurance company, Fine and General Insurance Company, Sterling General Insurance Company and Life Insurance Corporation of India started to work in Nepal. There was dominance of but only one insurance company of the country was conducting limited business.

In order to fill the vacuum, Rastriya Beema Sansthan Private Limited was established in 2004 B.S. this company was converted into Rastriya Beema Sansthan (National Insurance Corporation) in 2005 B.S. after enactment of Beema Ain 2025. Initially this company also used to undertake commercial and marine insurance. This company has started life insurance business only since 2029 B.S. thus , this corporation has been conducting both life and non-life insurance business. The main objectives of this company are to mobiles economic resource for economic

[23] Sunil Timilsina, "Introduction, Evolve and Importance of Insurance ",(***Nepal Insurance Company, Souvenir***-2054), P.109.

development. Its main function is to undertake life and other insurance business. However, in non-life, insurance business the government has 51% share and general public has 49% share.

Beema Samiti (Insurance Board) was also established in 2025 B.S. as made provision in Beema Ain 2025 with an objective to regulate and manage insurance business. The main function of this Board is to regulate control and supervise the insurance business. Deposit Insurance and credit Guarantee corporation was established in 2031 B.S. National Life and General Insurance Company Limited was established in 2044 B.S. It is the first private sector insurance company of Nepal.[24]

After the political change in 2047, B.S. the government initiated economic liberalization in the country. Consequently, Beema Ain 2049 was enacted and enter was opened to new insurance companies. As a result, at present there are twenty- two insurance companies in Nepal.

2.1.5 Types of Insurance

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

1. Business point of view and,
2. Risk point of view

1. Business point of view:

Insurance can be further classified into the following categories on the basis of 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 cooperate to ease the loss resulting from the premature death of members of the group.

[24] Nepal Insurance Act 2049, Section 2.

There are two parties in a life insurance contract. One of them is insurer and another id insured. The insurer promises to pay a fixed sum to the insured if he alive and obtain a particular age or to the nominee in case of his dying earlier. The promise is made in consideration of some price called premium, which may be paid in human in a number of installment.
A contract where by the insurer in consideration of a premium paid by the insured promises to pay a stipulated sum to the later if surviving at the end of a specified period or to his nominee in the event of his death earlier than the period.[25]

Life insurance is a cooperative risk-sharing plan where by large number of people can set aside a portion of their earning to provide funds against the hazards of loss of income either by death, disability or retirement.[26]

There is an assumption by an insuring organization of a risk of death of a policyholder. In other word, the contract made by a person with the life company with a view to get financial protection from the life related risk is known as life insurance.[27]

Life Insurance is the contract, which the insurer undertakes the responsibility to pay sum of money either on death of insured or on the expiry of fixed period in consideration of premium.[28]

In Nepal there are nine life insurance companies including composite insurance i.e. Rastriya Beema Sansthan in operation.:

To regulate the insurance business in Nepal, the insurance act of 2049 has been made in Nepal. It has defined life insurance as "The contract o insurance affected on human life on the basis of age to pay a fixed sum to the assured or his nominee on death or on the happening of any

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[25] R.P.Rajbahak, Y.S.Pradhan, ***Introduction of Insurance***, (Kathmandu: Edu.Ent, Pvt.Ltd. ,1965), p.3.
[26] World University Encyclopedia volume-8 Books , Inc. Washington D.C. 1968, p.2556.
[27] Shayam Joshi, ***Banking and Insurance Management*** , (Kathmandu: Taleju Prakashan, 2006),pp.291- 292.
[28] M.N.Mishra, Insurance Principles and Practice, (New Delhi: S. Chand and Company Ltd.,1979), p.24.

contingency dependent to human life in consideration of payment of a fixed installment premium by the assured"[29]

We can see following policy of life insurance provided by insures according to insured interest and desired in Nepal:-

- Whole life insurance policy
- Term life insurance policy
- Endowment life insurance policy

Whole Life Insurance Policy

Whole life insurance policies promise to pay the beneficiary whenever death occurs. "Till death does us part "is the insurer's promise. In addition, whole life policies promise to pay the insured in the event that the insured reaches 100. When an insurer must make a claim payment, the policy is said to have matured. The insurer knows for a certainty that it must eventually pay a claim on every whole life policy that remains in force. [30]

Term Life Insurance Policy

Term life insurance policy for a short period of years ranging from 3-month to7years. Sum assured is payable only in the event of death of the life assured occurring during the period. However, the assurance comes in to end, should the life assured survive. The selected term premiums are usually payable through out the term of the policy or until the prior death of the life assured .Term insurance policy or till the prior death of life assured. Term life insurance is the cheapest policy .

The term insurance policies are useful to those I)Who need extra –protection for a short duration or II)who need protection for long duration but are unable to purchase for the time-being due to ill-death or lesser income, III)a young businessman can take the policy to save the business –

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[29] Nepal Insurance Act 2049, Section 2.
[30] Mark S.Dorfman, ***Introduction to Insurance 3rd ed***.(New Jersey: Prentice – Hall, Inc.,1987), p.170.

disaster during initial stage of the business ,IV)a mortgagor of the property may be benefited by this scheme ,VI) a father can take this policy during the period of education of his child, and VII) any such persons who are willing to provide insurance for a shorter period. [31]

Endowment Life Insurance Policy

An endowment life insurance policy creates two rights for the insured. The first is to have beneficiary paid if the insured dies before the policy matures or "endows." The second is for the insured to collect the endowment if he or she is alive when the policy matures .An endowment period may be chosen to endow at a specified age. Thus, one may purchase a 10-15 or 20-years endowment or one may purchase an endowment to age 60-65. The general rule is that the shorter the endowment period, the higher the premium for a given amount of insurance. [32]

General Insurance (Non –Life Insurance)

Insurance other than life insurance is called general insurance or non- life insurance. It is pure insurance because it can measure any risk in term of money. General insurance is the insurance of property and liabilities risk of insured against some specified cost is known is premium. General insurance responsible to payment of an amount to insured. But when the ancient is held by negligent of insured where the insurer does not responsible to pay any amount against the risk, damage or loss of property. Insurer and insured may agreed to accept every kind of risk under the contract and risk transfer through the assurance. But " The coverage written by the property and labiality insurance insurers may be divided into five types:-Physical damage or loss, loss of income and extra expenses resulting from physical damage to property, liability, health and security."

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[31] M.N.Mishra, ***Insurance Principle and Practice 7^th^ed***. (New Delhi, Ram Nagar, S.Chand and Company Ltd.,1998), p.66.
[32] Mark S. Dorfman, ***Introduction to Insurance,*** 3rd ed.(New Jersey: Prencice –Hall, Inc.,1987), p.178.

There are sixteen non-life insurance in operation in Nepal.

Insurance Board of Nepal has classified general insurance business in six major sectors. They are Marine insurance, Fire insurance, Motor insurance, Aviation insurance, Engineering insurance and miscellaneous insurance.[33]

Marine Insurance

Marine insurance is the oldest form of modern insurance. "Marine insurance is a contract whereby the insurance undertakes to indemnify the assured in the manner and the extent thereby agreed, against marine losses, the losses incidental to a marine adventure."[34] i.e. on the happening of a marine peril. The marine insurance policy provides the protection against inland transit loss, which is arising on the way to seller and buyer and protection against loading and unloading also. There are cargo insurance, freight insurance and liability insurance that are concerned with the destruction of ship, cargo, freight ,accidental etc.

Fire Insurance

"The basic intension of the fire policy is to provide compensation to the insured person on the event of there being damage to the property insured."[35]

Fire insurance came into existence only after the Great Fire of London in 1066 A.D. Fire destroyed many houses and other properties in London in 1066 A.D. People felt the necessary of protection against the calamities of fire. Fire insurance policy is for the protection against loss of properties from fire. It is a contract on which two parties agree to insure the property and the other party accepts the risk of fire and subject to payment of loss in

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[33] "Insurance Act ,"Beema Samiti, 14 Nov. 2006http://www.bsib.org.np/insuraceat.html.

[34] M.N.Mishra (from Fundamental of Insurance, Gyan Bahadur Dahal /Binita Manandhar) edition 2060(2003), p.78.

[35] Julia Holyoake /Bill Weipers (from Fundamental of Insurance, Gyan Bahadur Dahal/ Binita Manandhar) edition 2060 (2003), p.78.

case of fire. Also the field of fire insurance can be modified or extended to include a number of perils closely allied to fire like wind, stor5m, earthquake, riot and strike, damage, terrorism, explosion, landslide etc.

Motor Insurance

The rate of premium is standardized in Nepal because the business is based on prescribed tariff by the insurance board. No insurer can charge lower rates than the tariff rates and no insurance can grant benefits exceeding than those arranged by tariff. Vehicles are classified by motor tariff in three categories i.e. private cars, commercial vehicles and two wheelers.

Aviation Insurance

Aviation insurance is the insurance of aircraft and related aircraft activities. One aspect of aviation insurance is Aircraft Hull. Another aircraft is aircraft operation carrying passenger that may incur public liability for which Aircraft liability insurance is required. Airports can also incur liability; this is termed Airport Owners and Operations Liability insurance.[36]

Engineering Insurance

Contractor's All Risk insurance covers for civil works like building and marine works like bridges, dams, sea walls etc. It also covers plant and machinery used for construction as well as temporary structure set up to support the construction .It further covers for natural calamines , third party liability and covers for entire period of construction that may spread over a numbers of years.

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[36] " Glossary," The South African Insurance Association , 27 August 2007 http://www.saia.co.za/ consumer issues/ ci-glossary. html.

Miscellaneous Insurance

Miscellaneous insurance policy covers the vast categories of insurance policy. However, this practically important policy cannot be neglects. “A number of coverage's written by casually insurance are available that can not be classified neatly as liability auto or crime insurance but nevertheless are important to those with the exposure that these forms are designed to project. They are discussed under the heading of 'Miscellaneous Coverage' and are written by property and liability insurance.”

Miscellaneous insurance policy includes following insurance policy;

Fidelity Guarantee Insurance Policy

We know that honesty is the best policy. The word stays at the forth and trust. But fidelity guarantee insurance covers the loss arising due to fraud and dishonesty of the employees or third party. The insurer fulfil the loss occurred due to the discard of the fidelity of the beloved person and loan association and other business in which employee have excess to large sum of money in variably carry fidelity bonds for protections. It is further sub divided into fiduciary insurance , credit insurance , and privilege insurance.

Workmen Compensation Insurance Policy

Worker's compensation insurance policy protects on employer against legal liability. It is also a means of motivation to the workers because an organization gives the indemnity to the worker if they get occupation accident. In this policy the insurer provides financial support for medicine, surgical and hospitably requirement as determinants as determined by the compensation law of state, if the worker meets with the accident within the working place and time.

Others: There are plenty of policies except above as Medical Insurance , Accidental Insurance, Burglary Insurance , Money in transit Insurance ,Machinery Breakdown Insurance, Household Insurance, Cattle Insurance, Crop Insurance ,Boiler Insurance, Credit Insurance, Terrorism Insurance etc.

2. Risk Point of View

The insurance can be categories into following ways from the risk point of view:

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 objectives of getting financial protection, is called personal insurance . Life insurance, personal accidental insurance and health insurance etc. are the example of personal insurance.

Property Insurance

Under this insurance, insurance of the different nature property is affected to compensate the property damaged or loss. The insurance company gives the compensation to the assured. The insurance company gives only actual compensation to an insured on the basis of fact and event. The example of property insurance are fire, marine, crops, cattle. and burglary insurance etc.

Liability Insurance

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

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 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.

2.1.6 Benefit of Insurance

The benefits of insurance are as follows;

Source of Investment Funds

Insurance collects scattered money from the community as a premium against the risk and loss, which is called insurance fund. Insurance fund is considered as a 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 provision regarding to the insurance fund. According, insurance company should prepare separate account compulsorily which is defined under the section 20. The insurance fund is collected in the form of premium, interest, dividends, registration fee, capital gain, non –payment of claims.

Indemnification for Loss

All remembers of society are facing different risks. If risks are insured, all losses occurred from unexpected risks are indemnified. Indemnification permits individual and families to be restored to their former financial position after a loss occurs. As a result, they can maintain their financial security. [37]

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[37] Hirday Bir Singh, ***Banking and Insurance***, 2nd edition ", (Kathmandu: Asia Publication, Pvt..ltd., Bagbazar, 2063), p. 24.

Reduction of Worry and Fear

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

2.1.7 Cost of Insurance

Insurance business provides financial protection to the member of society. The insurance industry provides jobs to thousand of workers. However, it is not without cost. It cost much to the society. Insured are the member of society, who have to bear not only for the contribution for indemnity, but for the also administration, selling and running cost of insurance business. In the view point of insured, uncertainty concerning the payment of covered loss is reduced because of insurance. Although the cost of doing insurance is not necessarily wasteful, the payment of premium is waste of money if no loss occurs from the risk in a given period. Although the cost of doing insurance industry provides enormous economic benefits to society, the society has to bear unnecessary cost for insurance. The major social costs of insurance are given below:

Cost of Insurance Business

To provide insurance facilities to the society, insurance companies should be established. It needs huge funds to establish and operate an insurance company .They consume many financial resources of the society. An insurance company needs capital, land , lobour, building, and other administrative expenses. Such precious resources can be used in other productive sector in the society. In financial terms, it is an important cost of doing insurance business. Actually, some more amounts are added to the pure premium to cover the incurred by insurance companies in their daily operations. Such additional amount is loaded to pay all administrative expenses, commission, profits etc. In general, fore sales and administrative expenses of property and liability, insurers consume about 25 percent of each premium whereas operating expenses of life insures cover more than 10 percent of total expenditure. Such expenditure is extra burden for the insured. As a result, total costs to society are increased.[38]

Cost of Fraudulent Claims

Insurance is a risky business. There is a great chance of fraud claims and over claims. The insurer must take enough precautions in admitting the claims of clients. A second cost insurance comes from the submission of fraudulent claims. In many cases, surveyors and evaluators are misled while determining the value of loss. Undue influence may affect in this respect. The payment of such fraudulent claims results in higher premium to all insured. The existence of insurance also prompts some insured to deliberately cause a loss to profit from insurance. These costs fall directly on society.

Cost of Inflated Claims

Inflated claim is another important over cost on society. Premium must be increased to pay the additional expenses occurred by inflated claims. As a result, additional resource of insured should be paid as premium. Although the loss is not intentionally caused by the insured, the insured , the amount of the claim may exceed the actual financial loss.[39]

2.1.8 Function of Insurance

Function of insurance can be categorized in two forms:They are;

- Primary Function
- Secondary Function

[38] Ibid.
[39] Ibid.

Primary function

Following are the primary function of primary function

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 occurs. Therefore, such uncertainty may creates many difficulties to human. Though if it is insured, the loss of uncertainty turns into certainty.

To Provide Protection

The primary function of insurance is to provide protection and security. The loss from the risk always is uncertain, the man does not know when, and how loss will be suffered. So, 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.

To Distribute Risk:

The insurance distributes the risk to the community on the basis of the principle of co operation. The insurance company distribute in proportion the financial loss of person insured, to other persons ensured 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.

Secondary function:

The secondary function are;

To Provide Capital

The insurance provides capital to the society .The accumulated funds are invested in productive channel. The dearth of capital of society is minimized to a great extent with the help of investment of insurance

.The industry , the business and the individual are benefited by the investment and loans of the insurers.[40]

To Prevention of Loss

The insurance joins hands with those institutions which are engaged in preventing the losses of the society because the reduction in loss causes lesser payment to the assured and so more saving is possible which will assist in reducing the premium. Lesser premium invites more business and more business causes lesser share to the assured. So again premium is reduced to, which will stimulated more business and more protection to the masses. Therefore the insurance assist financially to the health organization , fire brigade, educational institutional and other organizations which are engaged in preventing the losses of the masses from death or damage.[41]

To Improve Efficiency

The insurance eliminates worries and miseries of losses at death and death and destruction of property. The carefree person can devote his body and soul together for better achievement. It improves not only his efficiency, but the efficiencies of the masses are also advanced. [42]

To Help in Economic Progress

The insurance by protecting the society from huge losses of damage, destruction and death, provides an initiative to work hard for the betterment of the masses. The next factor of economic progress, the capital, is also immensely provided by the masses. The property, the valuable assets, the man the machine and the society cannot lose much at the disaster.[43]

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[40] M.N.Mishra, ***Insurance Principle and Principle*** ,7th ed.(New Delhi: S.chand and Company ltd. Ram Nagar, 1998), p.4.
[41] Ibid.
[42] Ibid.
[43] Ibid.

2.1.9 Evolution of Insurance

The origin of insurance is lost in antiquity. The earliest traces of insurance in the ancient world are found in the form of marine trade loans or carriers contracts which include and element of insurance. Evidence is on record that arrangements embodying the idea of insurance were made in Babylonia and India at quite an early period. In Rigveda, the most sacred book of India, references were made to the concept 'Yogakshema' more or less akin to the well- being and security of the people. The codes of Hummurabi and 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.

There is no fixed date of evolution of insurance .It is developed through the faith of co-operation. The evolution of insurance can be traced back to very beginning of human civilization, when the idea of sharing pleasure and pain, loss and gain among them originated. The history of insurance goes back to 5000 years with the practice of risk sharing among a theme merchant. But, certain activities which may be regarded as forerunners of insurance existed before insurance as it is understood today was first transacted. "Evidence is on record that agreements embodying the idea of insurance were made In Babylonia and India at quite an easy period.[44]

But, evidence is show that Marine insurance as marine trade loans or carriers contract is the oldest form of insurance. Travelers by sea and land were very much exposable to the risk of loosing their merchandise because piracy on the open seas and highway robbery of caravans was very common. Therefore, the safeguard that kind of risk, 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-

[44] Gosh M.K. and Agrawal A.N., ***Insurance Principle, Practices and Legislation***, (Allahagad: The Indian Press,1959), p.21.

operative device were voluntary in the beginning but now it has been charged into modified shape of premium. The Brugians sold the marine policies of the present form in the beginning of fourteenth century. The first policy of modern marine insurance in a vessel was written on the Santa Clara at Geon ,Italy on 1347.[45]

Not only the Marine Insurance but also Life Insurance too can be traced to ancient civilization such as Rome: Burial Funds were common in those days .But after Marine Insurance; Fire Insurance developed in systematic way in Germany in the beginning of 16^{th} century. Fire Insurance began for all practical purpose, after the great fire of 1666 in London. Similarly, economic expansion in the 1800 found more life insurance ready for business. Life insurance has undergone significance since 1900. Many new companies have competed for the growing needs of a prosperous economy until life insurance business.

The expansion of the railways, the advent of the automobile age, the mass production technique, the wars, introduction to the motorized flight and the changing social structure, all of these factors of the 21^{st} century numbers of fire offices were formed and Lloyds too had commenced Fire Insurance and transportation risks changed as the railways encountered competition from the motor truck and airlines industries. New chemicals, radioactive material and industrial passes have caused continual risk analyses, innovations for property insurance.

In conclusion:-The oldest form of insurance was Marine Insurance. On the passage of time, life insurance and at a much later date other numerous insurance schemes were executed to safeguard the business and social life of complete modern world.

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[45] Mehr Robert I. and Commack Emerson, Principle of Insurance ; Homewood Illinois: Richard D. Irwin , 1972, p.47.

2.1.10 Insurance in Nepal

In the context of Nepal, it is difficult to predict about emerge of the concept of insurance .But it is said that the concept of insurance can be traced down to the Guthi Systems, seems to be similar to the system of insurance. The concept of Guthi is a concept of life insurance .These system has provided security and assistance to individual and families in times of need. But the situation does not remain same with the change in the economic and social environment and the increasing complexity of the cities of the upcoming small scale industries, and immense need for a domestic insurance companies was felt to insure against future uncertain risk or losses with the development of trade of commerce, the necessity of only organized form of insurance in Nepal before 2003. Due to the establishment of Nepal Bank Limited and Ropeway, Nepal insurance and transportation company Ltd. wholly owned by Nepal Bank Limited was established in 2004. But generally, the insurance activities of Nepal were executed by the Indian insurance companies prior to the 2007. However, the history shows the introduction of insurance company named "Mal Chalani R. Beema Co." in 2004. It was later on converted into Nepal insurance and transport Co. P. Ltd. in 2016 which was again renamed as Nepal Insurance Company in 2048. Basically,the company is concentrated on non- life insurance companies are operating in the country from last several years. Such as Rubi General Insurance Co. Ltd, Oriental and Fire Insurance Company Limited, Life Insurance Co. Ltd.[46]

To compete with the organized Indian companies and considering the insurance business in the expansion of economic activities and alarming outflow of money from the country, the government introduced "Rastriya Beema Corporation" under the Insurance Act 2025. It started general insurance business from the very time and life insurance business was started in 2029. In private sector, 'National Life and General Insurance

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[46] Insurance Act 2049, Section 3,Sub-section (c).

Co. P. Ltd were established in 2044 on the basis of Insurance Act 2025. As the country was following economic liberalization, the previous act was amended and new insurance act was introduced. After the introduction of new act, number of insurance companies have been established.

As we know that, insurance policy or rules and regulation of country play a vital role to development the insurance business in a country. In every country due to the establishment insurance industry, different organizations could be found operating at industry level. It is important to understand the various functions that have to be under taken by the government. Government has to be mostly being responsible for the legislative framework, authorizing insurance companies and supervising them to development the insurance business in Nepal. Insurance act 2049 stands as milestone in our country. It has also formed on insurance board to systematize, regularizes, develop and control the insurance business. Function, duties and power of board are:

- To offer necessary suggestion to HMG to formulate policies for systematizing regularizing, developing and controlling the insurance business.
- To formulate policies and fixed priority sectors for investing the insurance process.
- To register and renew (the certificates) insurance, insurance agents or surveyors and cancel such registration or make agreements for doing so.
- To formulate necessary criteria for protecting the interest of the insured and
- To perform the acts of making arrangement for performing other necessary function related to the insurance business.

2.1.11 Insurance Regulation in Nepal:

Historians traced the beginnings of governmental regulation of insurance businesses with the early development of marine insurance in medieval Europe. The earliest records of insurance supervision date from the insurance code of several northern Mediterranean cities at the beginning of the 14th century. In 1401, an insurance statute was passed in Genoa, which provided for the taxation of insurance. A more extensive legislation was promulgated in Barcelona in 1435.

Since it attained independence in 2007 B.S. (1950) Nepal has made remarkable progress in the developmental activities of the country. It is indeed an arduous tasks to determine as to when His Majesty's Government began considering the establishment of an insurance company of our own in the public sector. No traces could be made in this direction although there are various materials wherein there is a slight thought of the feasibility and possibility of establishing an insurance company.

Beginning fiscal year 1963/64 many advisors attached to H.M.G. offices recommended the initial initiative in insurance industry. The total premium of that period accounted for some 55 lacs of rupees.

In order to tap and mobilize our own internal resources, then the policy madder passed remarks to some foreigners about H.M.G.'s desire to run insurance industry. The letter written by the Director of the Anthony Gibbs Sons Ltd., dated November 20, 1963 has been recorded as the oldest one . It was addressed to the chairman of the council of Ministry and the Minister of foreign affairs.

Individual initiative could also be regarded as timely step in adding better prospect of insurance business in Nepal in this case a letter which dated back December 30,1963 addressed to the Honorable Minister , Ministry of Industry and commerce By Mr. S.C. Kumar of the Mahendra Sugar and General Industries (PVT) Ltd. stated that there was a possibility of establishing an insurance company in the country with the backing up of some British Assurance Company.

In Nepal, mostly foreign (Indian) insurance companies met the insurance need of the past. Nepal Insurance and Transport Company established in the year 1947 by Nepal Bank Limited (a commercial bank) as its subsidiary company was the only national insurance concern at that time where outside business was not accepted. After the nationalization of life insurance business in India, Life Insurance Corporation of India began to take their due share in India , Life Insurance Corporation of India began to take their due share in Nepal and had the greatest amount of premium income of 40,000,000 rupees. The year 2024 B.S. could be well noted as the golden year in the history of Nepalese insurance business. This was the golden year in the history of Nepalese insurance business. This was the year when on August 13, 1967(29/04/2024 B.S) a committee of Life Insurance corporation was launched by His Majesty's government. The committee then was entrusted to submit a status report of the forming of life insurance in the country within 45 days. However , due to the changes in the government officials (mainly ministers and secretaries) it was only on October 25, 1968 that a government owned insurance company named Rastriya Beema Sansthan (National Insurance Corporation)was established by His Majesty's Government under company Act, 1968 A.D. (2025 B.S.).[47]

Prior to the enactment of Insurance Act, 2025 B.S. (1968) insurance matters were regulated by the Act of Commerce. This act did not provide for any government supervision over insurance companies. There were hardly any records of insurance co0mpanies during that time. The only available sources of information about insurance could be found in the tax department.

[47] Insurance Act," Beema Samiti, 17 Dec.2006 http://www.bsib.org.np/insuraceat.html.

An account was given in the said department showed that life and non- life insurance business were already of considerable magnitude in Nepal at that time. There were five foreign (Indian) companies, which maintained regional offices in Kathmandu (the capital) and branches at few other key points in the industrial towns outsides Kathmandu valley. The locally capitalized insurer, Nepal Insurance and transport company limited its business of a commercial bank. Hence, the profit arising from the insurance thus all went to the parent companies abroad . There was no separate body to regulate insurance business in Nepal.

2.2 Research Review

This section contains the review of journal and review of different thesis.

2.2.1 Review of Journal

Insurance Regulatory and Development Authority (IRDA) is a national agency of the government on India , based in Hyderabad . It was formed by an act of Indian parliament known as IRDA Act 1999, which was amended in 2002 to incorporate some emerging requirement. Mission of IRDA as started as stated in the act is "to protect the interests of the policyholders ,to regulate promote and ensure orderly growth and ensure orderly growth of the insurance industry and for matters connected therewith or incidental theret. [48]

Insurance Regulatory and Development Authority (IRDA) was constituted in 1999 by an Act of parliament to protect the interest of the policyholders and to regulate promote and ensure orderly growth of the insurance industry. IRDA consists of the ten members team that comprises a chairman five hole-time members and four part-time members.

IRDA allows registration of new players in the insurance field. It also has the authority to renew, modify, withdraw, suspend or cancel such

[48] http.//www.irdaindia.com/finance/insurance/html

registration. IRDA ensures protection of the interests of the policyholders in matters concerning assigning of policy, nomination by policyholders, insurable interest, settlement of insurance claim, surrender value of policy and other terms and other terms and conditions of contracts of insurance. It specifies requisite, qualifications, code of conduct and practical training for intermediary or insurance intermediators and agents. After creation of IRDA, insurance sector has been tremendous growth. Before IRDA came in to force there were only players in the insurance field, namely life insurance corporation of India(LIC) and General insurance corporation of India(GIC).Since then 23 new players have entered in the insurance sector.[49]

2.2.2 Review of Different Thesis

In course of preparing this study, the researcher has reviewed some relevant studies to make by former researcher various authorities, experts, PhD. Students .It studies and reviews different of thesis, research articles and project reports. Such a review should include the name of the researcher, year of research, research objectives, brief description of the methodology followed, and major findings of the research.

Raut has submitted a thesis on the topic of "A study on financial performance of National Life and General Insurance Company Ltd." The general objectives of this study were to evaluate the financial performance pf NLGI and to suggest recommendations based upon it. The specific objective objective was to analyze the financial performance by taking the relevant variables of NLGI. He has analyzed the various financial ratio of this company. i.e. Liquidity ratio, premium turnover ratio, return on shareholder's equity, earning per share, dividend per share , investment to total assets ratio, fixed assets to total ratio. He had analyzed financial performance of different insurance business. This study only based on

[49] http://www.iloveindia. com/finance /Insurance/irda .html

financial tools and it ignores the importance of statistical tools. Major finding of this study were, regarding the liquidity management the NLGI was not in sound position, the return on net worth of NLGI was satisfactory because return on net worth was in increasing trend, return on shareholders equity was also in better position, the NLGI declared the dividend in increasing trend, premium earning of NLGI in insurance business had increased day by day, trend of chain was in increasing trend.[50]

Basnet has conducted a field work report on the topic of "Management System of National Life and General Insurance Company Ltd" (With Reference to Life Insurance).The objectives of his study was to priest how does life insurance department functions to insure an individual, Describe how claim section settles claim, Describe how agent are competed, Show the market share of NLGI in life insurance. Percentage index is used as the major data analysis tool for the study. Secondary data are tabulated as per the need of study along with the percentage change and index figure. Major findings of his study were the amount of gross premium earned seems to be increasing but it was manipulated, group insurance covers more as a percentage of premium collected, level of satisfaction of performance of NLGI regarding life insurance was found well ,regarding the ratio of premium of life insurance of NLGI was same as that of RBS, procedure for insuring and claim was easy, agency business is beneficial because it has helped to reduce semi-unemployment.[51]

Sunar submitted a thesis on the topic of "A Comparative Study on Dividend Policy of National Life and General Insurance Company Limited and Everest Insurance Company ". His objectives were, to examine the influence of financial indicators on share price.

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[50] Bin BahadurRaut,"A Study on Financial Performance of National Life and General Insurance Company Ltd.,." M.B.S. diss.,Tribhuvan University, 1995.

[51] Aswin Kumar Basnet,"Management System of National Life and General Insurance Company Ltd,(with reference to life insurance),"A field word report ,public youth campus , kathmandu,December2002.

to show the relationship between dividend per share and other financial indicator, to check the consistencies among DPS, EPS, D/P ratio etc of the sample Ted insurance companies, to identify the dividend policy undertaken by each company and the appropriateness of the policy under taken, to provide useful suggestion to formulate optimum dividend policy and maximum stock price on the basis of finding. He was used both statistical and financial tools as the course of his study. The major finding of the study regarding the dividend policy, which needs potentiality to improve the dividend policy of the insurance companies and to rise the value of share by maintaining amicable relation with shareholders.[52]

Shrestha has submitted a thesis on the topic of "An Assessment of Life Assurance Business In Nepal." The main objectives of his study was to evaluate the life assurance contracts. The other objectives were, to apprehend the historical prospective of life assurance business in Nepal, to find out the major weakness of life assurance business in Nepal and to make recommendation to improve it, to check views of insurance agents regarding the present method of life insurance, to draw attentions of the authority concerned towards the need of motivating agents etc. Descriptive and Survey Research Design were followed in this study. Descriptive research design has used to describe and analyze the phenomenon analyze the trend of life insurance business. Survey research design was used to accumulate and analyzed views and reaction of agents, clients and prospective clients. The major findings of his study were the relationship between the expenditure on advertisement and publicity and gross premium was a moderate degree of inverse correlation, the amount of gross premium earned seems to be increasing, level of satisfaction of the R.B.S. regarding life insurance was found low as prospective was not satisfied.

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[52] Govinda Sunar, "A Comparative Study on Dividend Policy of National Life and General Insurance Company Limited and Everest Insurance Company Limited.," Master diss. May ,2003.

Regarding the motivation of Nepalese people for insuring prospective states that they were not well motivated, towards the purchasing of life policy, R.B.S. was not getting life business through agent satisfactory, agents were not actively working.[53]

Bhattarai had prepared thesis on "A study on prospect of Life assurance business in Nepal". His basic objective of the study was to find out the extent of popularity of life assurance business in Nepal. Other objectives were to analyze the present situation of life assurance business in Nepal with a view of finding out the prospect of this business in future, to suggest suitable marketing promotion measures, to analyze the income and number of life policy in force relationship by testing the hypotheses and examine its popularity to date in the country, to analyze and interpret the various ratio to see the financial position of the Life Insurance Department and to draw some conclusions about its trend. On the course of his study he had used financial tools like current ratio, debt to equity ratio return on shareholders investment and return on equity capital etc. His major findings of his study were Life assurance business was increasing day by day. Its market was not developed, as it ought to be due to low income of people and the infancy stage of corporation. The future of the corporation is purely depends upon the materialization of the business through its agent because the agent are the direct link between the corporation and the people. He suggested to promote life insurance business from rural area also and to utilize the fund in attractive area like business industry and agriculture sector by which it can make high rate of return.[54]

Suwal had carried out thesis word on "Study of Life Insurance Business in Nepal". The objectives of the study was to find out the pros

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[53] Nepal Man Shrestha, " An Assessment of Life Assurance Business in Nepal ,"Master diss., Tribhuvan University, 2035.
[54] Ramesh Raj Bhattari, "A Study on the Prospects of Life Insurance Business in Nepal," Master diss., Tribhuvan University,1978.

and cones of life insurance business specially undertaken by R.B.S. and to show the performance in respect of life insurance business and expire the cause for lack of popularity of such business in Nepal. Other objectives were to asses the historical prospective of life assurance business in Nepal, to examine the investment pattern of RBS, to examine the life insurance fund for the future obligations etc. In this study, methodology adopted to pursue the case analyses comprises of the review of the state of the art of life assurance in general and its business in particular, strategic sorutenization of the available data, facts and figures, general interviews and private communications. He had used secondary data. Major findings of his study were, promotional activities and efforts of RBS to expand the life insurance business did not seem to be satisfactory. Tendency of RBS activities were limited towards urban areas. Income of people and cost of living of general people were not into due consideration .Rate of premium charged by RBS was low than LIC of India.[55]

Shrestha had carried out thesis word on" Dividend policy of insurance companies in Nepal". His main objective of study was to analyze the dividend policy of insurance companies in Nepal. The specific objectives were to analyze the impact of dividend per share on market price of stock, to determine the determinants of dividend policy of Nepalese insurance companies, to analyze the target payment ratio of the Nepalese insurance companies. To analyze this objective he had used EPS, DPS, Dividend in percent , DPR, Price earning ratio, Earning yield, Dividend yield ,Market value per share, pooled average (financial tool), and Multiple regression(statistical tool).Major findings of his study were earning power and dividend paying capacity of insurance companies were deteriorating year by year. The insurance companies did not care their growth rate, liquidity position and profitability while designing the

[55] Puspa Singh Suwal, "Study on Life Insurance Business in Nepal," Master diss., Tribhuvan University,1991.

dividend policy. The Nepalese insurance companies had a low target payout ratio.[56]

Rizal had submitted the thesis on "Diagnosis of financial health of Himalayan general insurance company Ltd. in the framework of IRDA". His fundamental objective of the study is to diagnose the financial health of HGI. The specific objectives of the study were to analyze the trend in gross premium, shareholder's fund growth rate and expenses of management in HGI, to measure the pattern in risk and premium retention, commission, technical reserves and reinsurance in HGI, to examine the profitability pattern of HGI. In order to achieve the objective, he had used descriptive and analytical research design. The analytical research design was used to access and analyze the financial indicators of HGI. The descriptive design had used to explore and find out the exiting condition and necessary suggestion in solving the basic problem encountered by the company. Major findings of his study were HGI and insurance industry were growing in terms of gross premium. Shareholder's fund is in growing trend from 1993/94 to 2004/05 except 2001/02.General reserve was in growing trend. The technical reserve to net premium ratio showed the reserve amount set aside for future unexpected events. The underwriting balance ratio measured the profit/loss in comparison to net premium. Operating profit ratio was positive throughout 1993/94 to 2004/05. Net profit was in increasing trend throughout the study period except 2001/02and 2004/05. Net premium was growing continuously etc. [57]

Pokherel conducted research on the topic of "A Survey on the status of insured on life insurance in pokhara sub- metropolitan city". His objective of his study was to analyze the average income, other economic condition, academic qualification, relation between the education status and economic status of insured. To achieve the objective he has used

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[56] Rabindra Shrestha ,"Dividend Policy of Insurance Companies in Nepal". Master diss.,2063

[57] Umesh Raj Rizal, "Diagnosis of Financial Health of Himalayan General Insurance Co. Ltd. in the Framework of IRDA". Master diss., 2063

mathematical and statistical tools. Major finding of his study was the economic and educational status of insured of the study is good. Most insured families have expenditure according to their income but they have not been working with full capacity and potentiality etc.[58]

2.2.3 Theoretical Prescription for Performance Evaluation of Insurance Company

Investment: Since insurance policies guard against future events, insurance premium payments are arranged prior to the insurance period. During the time between premium collection and claim payment, a huge fund is reserved for future claims. This fund is available for investment and returns from such investment are a major source of income for non-life insurance companies. Insurance companies cannot invest such investment anywhere they like. To safeguard the policyholder's fund, regulatory authority provides clear guidelines for investment.

Underwriting profit: Underwriting is the process of issuing insurance policies. It determines coverage and pay figuring out how risky the business and people are. It limits the risk exposure and fixes the premium for insurance policy. Each company has its own set of underwriting guidelines. Underwriting profit is obtained by selecting less risky business and avoiding the risky ones.

Profit gained or lost in its underwriting operations is underwriting profit. The most common measure for non-life insurance is underwriting profit that compares premium receipts to claims and expenses. It is the primary focus of non life insurance operations. Profit after loss payments, loss adjustment expenses, underwriting expenses and other operating expanses is underwriting profit. Underwriting profit is the measure of underwriting success of the company. Underwriting profit depends mostly

[58] Surya Prasad Pokherel," A Survey on the Status of Insured on Life Insurance in Pokhara Sub-Metropolitan City". Master diss., 2064

on selection of business. It does not include money earned or lost in the investment activities.

Claim Expenses: Claim is the major expense of the insurance company. Revenue account of each class of business shows claim payment to the insured is expenses and claim received from reinsurance is income.

Reserve for Unexpired Risk: Insurance company collects premium in advance and its liability to the risk remains applicable until expiry period. At the end of fiscal year, there remain risks still unexpired and company makes provisions of reserve for such risks. This is reserve for unexpired risk. It is intended to cover potential exposure to risk, in connection with general insurance policies still in force.

Operating Profit: Operating profit is the measure of a company's earning power from ongoing operation. Operating profit covers both underwriting and income or loss from investment activities. The broad picture that covers earned premium, losses, operating expenses and income or loss form investment activities is operating profit. Sometime underwriting operation alone may suffer loss but with the help of income from investment , company may be able to gain profit.

Gross Premium: Gross premium is the premium that is directly collected by the company from its policyholders. Company makes calculation to cover expenses, estimated loss cost etc. for determining gross premium rate. Company collects premium in two ways. One way is marketing sales force, agents and other employees sell insurance product to the consumer and collects premium. Another way is accepting the reinsurance of other company's business. The combined premium of direct is sales turnover of the company. It is recognized as income based on returns received by the corporation.

Reinsurance: Reinsurance is defined as 'insuring the insurer.' Just as an individual wants to spread the risk of loss, an insurance will need similar protection and will seed reinsurance for the largest and most difficult risks, or will seek to cover his whole account to protect himself against unexpected losses and catastrophes.

Actually, reinsurance is the shifting of part of all of the insurance originally written by one insurer to another insurer. The insurer that initially writes the business is called the ceding company. The insurer that accepts part or all of the insurance from the ceding company is called the reinsurer. The amount of insurance retained by the ceding company for its own account is called the retention limit net retention. The insured has no involvement in the contract for reinsurance. The reinsurance agreement is between the insurer and the reinsurer. The insured has a claim only against the insurer. The insured will be unaware of the existence of any reinsurance agreement.

Shareholder's Fund: It is the fund, which is shown in the shareholder's account. It consists of profit and loss, general reserve and paid up capital appropriation account.

Profit and loss is important segment of shareholder's fund, in which revenue of each class of business generates profit or loss which is transferred to the balance sheet.

Another important segment of shareholder' fund is general reserve . Every year's reserve is accumulated into balance sheet. It is the portion of company's profit that is separated for shareholder's account.

Paid up capital is the portion of authorized capital which is fully paid by its shareholders and falls into shareholder's fund. It is the amount of shareholder capital that has been paid in full by shareholders.

Net Premium: Net premium is the premium retained with company after reinsurance ceded. First companies accept the risks and collect the gross analysis is based on risk analysis, trend and their own experience. They fix the proportion of risk and premium of reinsurance ceded is net premium.

Commission: Generally, insurance premium is collected through agents and company them commission. Commission is both income and expense. It can be found in revenue account of each class of business. Commission is expense when company pays to its agents to provide them agent commission. It is also income when Reinsurance Company gives commission to insurance company for providing them re-insurance business. The rate of reinsurance commission fluctuates depending upon the performance of the insurance company.

Management Expenses: Generally these are the expenses necessary to operate business. Monthly expenses and other types of exzpenses that are necessary to operate come under management expenses, salary, provident fund, gratuity, allowance, leave encashment, printing, conveyance, renewals, maintenance, office development, advertisement, magazines, guest relationship, annual general meeting expense, telephone, telex , fax , water supply and electricity , insurance , bank commission , management fee, training , rent, audit fee, legal expense, , gift, donation, technical service expenses are allotted as management expenses in insurance companies.

Net Earning: Net Earning is also called profit after tax. It is calculated by adding operating profit with miscellaneous income then deducting tax.

2.3 Research Gap

As we know that research means to carry out the real problem on the particular field on a particular topic. Regarding the objectives I had selected the topics of this thesis. In reference to the other dissertations most of them were research only on the overall performance of the insurance companies, comparative study on the performance of the insurance companies, premium collection and investment position of insurance companies. Concerning this matter no one has done the dissertation in financial performance of Everest Insurance Company Ltd. in the framework of IRDA. Therefore I selected the topic "**Financial Performance of Everest Insurance Company in the Framework of IRDA.**"

CHAPTER THREE

RESEARCH METHODOLOGY

This chapter mainly covers the methods and technique which supports to determining financial performance of Everest Insurance Company. It deals the research design, nature and source of data, data collection techniques, data analysis tools and procedure of analysis of data.

3.1 Research Design

Research design is the process by which research is conducted employing different tools and techniques according to the objective of the topic. This study is of only one insurance company. So this study is a case study. The fundamental objective of the study is to analyze the financial performance of the Everest Insurance Company .In order to achieve the objective, descriptive and analytical research design has been used.

3.2 Nature and Source of Data

The research work is mainly based on secondary data which covers the only one insurance company so this study is a case study. The necessary data such as balance sheet, profit and loss account and other statement of accounts as well as the annual reports of Everest Insurance Company are obtained from company's head office. Other related information are collected from the publication and website of company. However, necessary suggestions are also taken from formal and informal talks with the senior staff of EIC which were helpful for the solution of related problems.

3.3 Data Collection Techniques

As the study is depends on the secondary sources, the regarding financial indicators are directly collected from the audited annual report of Everest Insurance Company. The researcher has directly met the head office and collected information and data. Formal and informal talks with senior staff of EIC helped to gather the information of existing financial pattern and future improvements. The IRDA framework has been collected from the website of IRDA. Other related information are collected from the website of Beema Samiti, Nepal Stock Exchange and concerned company. Other literature reviews are collected from the Central Library of TU and Western Regional Library.

3.4 Data Processing

The collected data from the different sources were in the form of table and index. Then necessary method is used to analysis and interpretation. The collected data has been entered into computer and presented systematically in the format of table and diagram. Thereafter the researcher has added required statement, ratios, percentage, indices in appropriate space with the help of Microsoft Word and Excel computer program.

3.5 Data Analysis Tools

Insurance Board is the supreme body authorized by the government to manage, regulate and control the insurance business within the country. So it has provided some ratio to determine the financial performance of insurance companies but these ratios are not sufficient to cover the overall financial performance of insurance companies. So, the ratios of IRDA are used to easily determine the financial performance of Everest Insurance Company. Along this graphical presentation are also used to present the data to understand the study easily.

3.5.1 Financial Tools

The study is based in secondary data. The available data are collected by concerned company in the form of table, indexes etc. and collected from the annual records of company, head office, website of beema samiti, website of company, website of IRDA etc. Then data are classified to get financial ratios. Ratio analysis is used to calculate gross premium growth ratio, gross premium to shareholder's fund ratio, shareholder's funds growth ratio, net retention ratio, net commission ratio, expense of management to gross premium ratio, combined ratio, technical reserve ratio, underwriting balance ratio, operating profit ratio, net earning ratio, return on net worth, reinsurance ratio.

Ratio analysis is powerful tool of financial analysis. The relationship between two accounting figure, expressed mathematically is known as financial ratio. A ratio helps to make qualitative judgment about the company's financial position and performance. The systematic use of ratio to interpret the financial statement so that the strengths and weakness of a firm as well as past performance and present financial condition will be analyzed. For analyzing financial performance of company, the researcher has applied the ratios as follows.

Gross premium Growth Ratio (GPGR): Gross premium growth ratio is the numerical relationship between gross premium for the current year and gross premium for the previous year measuring growth rate of gross premium .Positive growth is good for financial status of the company. There is no standard available for growth of premium. It helps to measure the premium and its growth. Since premium shows the company's ability to perform efficiently on the market. It shows the company's present condition and future prospect. It is calculated by following formula.

$$\text{GPGR} = \frac{\text{Gross Premium for the Current Year}}{\text{Gross premium for the Previous Year}}$$

Gross Premium to Shareholder's Fund Ratio (GPSFR): Gross premium to shareholder's fund ratio shows the relationship between the total gross premium and shareholders fund. It is used to measure financial soundness closely. It is calculated by following formula.

$$\text{GPSFR} = \frac{\text{Gross Premium}}{\text{Shareholder's Fund}}$$

Gross Premium to Shareholder's Fund (GPSF): Growth rate of shareholder's fund is the relationship between shareholder's fund as at the current balance sheet date and shareholders' fund as at the previous balance sheet date . It measures growth of shareholders fund of the company. Since shareholder's fund comprises share capital, general reserve and profit and loss account. It is true picture of company's performance during each fiscal year. It is calculated by following formula.

$$\text{GPSF} = \frac{\text{Shareholder' Fund as at Current Balance Sheet}}{\text{Shareholders' Fund as at Previous Balance Sheet}}$$

Net Retention Ratio (NRR): Net retention ratio indicates the relationship between net premium and gross premium. It is used to appraise the risk retention of the insurance company and how much is being passed to reinsures. To determine the net retention ratio, following model is used .

$$\text{NRR} = \frac{\text{Net Premium}}{\text{Gross Premium}}$$

Since, there are different systems for reinsurance for each class of business, the researcher has tried to calculate net retention ratio segment wise.

Net Commission Ratio (NCR): Net commission ratio is another tool to appraise the financial position of the insurance company. It reflects the working efficiency of the insurance company. It shows the relationship between net commission and net premium. It measures the commission relative to premium. To determine the expression of net commission ratio, following model is used

$$\text{NCR} = \frac{\text{Commission Net of Reinsurance}}{\text{Net Premium}}$$

Since, a huge portion of premium goes to reinsurance companies and they provide commission to insurance companies. Commission is the major source of earning for insurance companies. At the same time, they need to provide commission that is call net commission is compared with net premium to calculate earning available for insurance company. It is separately calculated segment wise for different class of business.

Expenses of Management to Gross Premium Ratio (EMGPR): Expenses of management to gross premium ratio indicates the relationship between expenses of management and gross premium. It measures the expenses relatives to premium. The lesser the ratio the better is the performance. As gross premium grows management expenses grows automatically. So the management expenses should be in limit as prescribed by regulators. The ratio is obtained by following model.

$$\text{EMGPR} = \frac{\text{Expenses of Management}}{\text{Gross Premium}}$$

Combined Ratio (CR): The major expenses of company are claims paid and expenses when it is compared with gross premium; it measures the profitability of insurance operations. It measures expenses and claims relative to premium. The major expenses of company are claims paid and expenses when it is compared with gross premium. It does not take account of income from investment. If the combined ratio is less than 100% insurance is making profit from operation. Combined ratio is obtained by following model.

$$\text{CR} = \frac{\text{Expenses of Management Plus Claims Paid}}{\text{Gross Premium}}$$

Technical Reserve to Net Premium Ratio (TRNPR) : Technical reserve to net premium ratio indicates the relationship between technical reserve and net premium . Generally, reserve for unexpired risk is for future unexpected event and reserve for outstanding claim is for losses that are reported but not settled. These two reserves are given to protect the company and for its sustainability. So technical reserves to net premium ratio measures the company's sustainability is case of huge loss taking place. The higher the reserve ratio, the company's financial performance is assumed better and it is calculated by following formula.

$$\text{TRNPR} = \frac{\text{Technical Reserve}}{\text{Net Premium}}$$

In this case,

Technical reserve = Reserve for unexpired risk+ Reserve for outstanding claims +Premium deficiency reserve

Underwriting Balance Ratio (UBR): Underwriting balance ratio shows the relationship between underwriting profit/loss and net premium. It shows the percentages of company's net premium that goes toward underwriting expenses. It measures the underwriting efficiency of the company. It is worked out by using the following model.

$$\text{UBR} = \frac{\text{Underwriting Profit}}{\text{Net Premium}}$$

Operating Profit Ratio (OPR) : Operating profit ratio emphasizes the relationship between underwriting profit plus investment income and net premium. It measures the efficiency management. A higher ratio is prescribed for the company. Following formula is used to determine the operating profit ratio.

$$\text{OPR} = \frac{\text{Underwriting Profit Plus Investment Income}}{\text{Net premium}}$$

Net Earning Ratio (NER): Net earning ratio is the expression of relationship between profit after tax and net premium. It reveals how much earning is gained in comparison to net premium. It is calculated by using following formula.

$$\text{NER} = \frac{\text{Profit After Tax}}{\text{Net Premium}}$$

Return on Net Worth (RONW): Return on net worth indicates the relationship between profit after tax and net worth. It tells how much profit a company earned in comparison to the total amount of shareholder equity. It is the final justification of profitability to evaluate overall return. The following model is prescribed for this ratio.

$$\text{RONW} = \frac{\text{Profit After Tax}}{\text{Net Worth}}$$

Reinsurance Ratio (RR): Reinsurance ratio shows the relationship between risk reinsured and gross premium. It measures how much of the risk is reinsured and how much retained. It can be determined by following model.

$$\text{RR} = \frac{\text{Risk Reinsured}}{\text{GrossPremium}}$$

3.5.2 Graphical Presentation

Graphical presentation of data in any sector makes the study to understand easily which is visual. There are various types of diagrams that can be used depending upon the nature of the data.

3.6 Limitation of the Methodology

This study only covers the financial aspects of EIC. It is not cover the other aspects of EIC. There are many ratio analysis by which we can evaluate the financial performance of any company, but this study depends upon the financial indicator of IRDA. The study does not cover the other sector of EIC and other insurance company.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

This chapter focuses over various aspects of data presentation and analysis.

4.1 Data Presentation and Analysis

Data presentation and analysis is the main body of the research study. In this chapter the researcher has used the different financial ratios prescribed by the Insurance Regularatory and Development Authority to analyze the collected data. Likewise, graphical presentations are used to make the study peaceful and clear to understand the financial performance of EIC. In this chapter major findings are also included.

4.1.1 Shareholder's Fund Growth Ratio

It is the main important financial tool which measures the financial performance of insurance Industry. Shareholder's fund growth ratio is the expression of numerical relationship between shareholder's fund as at the current balance sheet date and shareholder's fund as at the previous balance sheet date .This ratio more than 1 indicates the positive growth. It measures growth of shareholder's fund of the company.

Table 4.1: Shareholder's Fund Growth Ratio

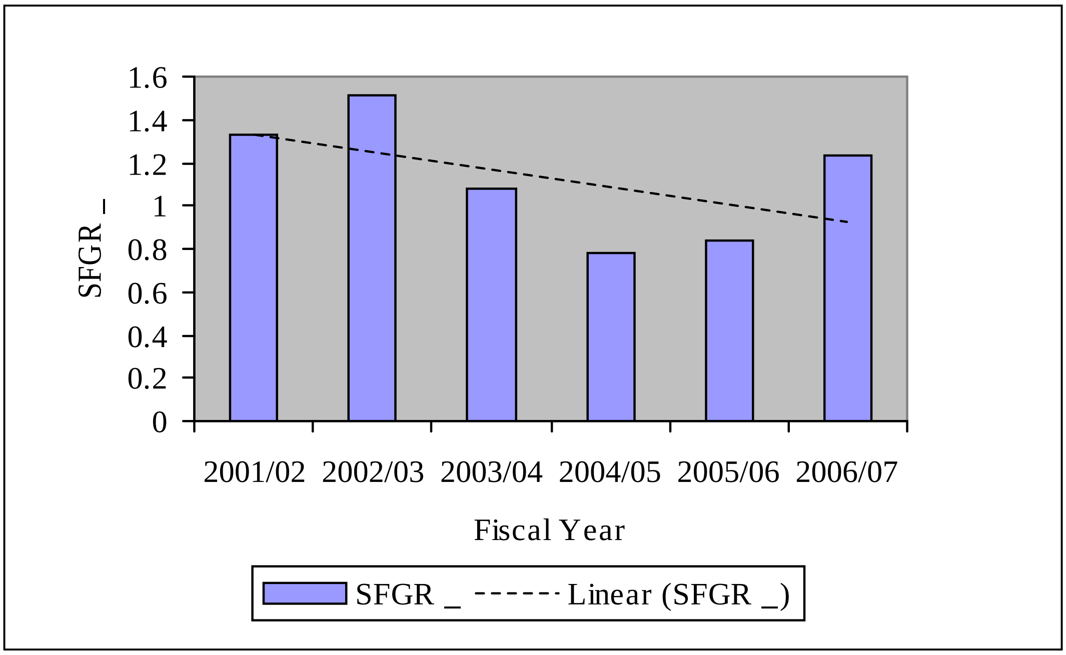
(Rs. in million)

FY	Paid up Capital	General Reserve	P/L Appropriation	Shareholder's Fund	SFGR
2000/01	30.0000	11.6790	18.3151	59.9941	_
2001/02	30.0000	30.0000	19.5602	79.5602	1.3261
2002/03	30.0000	71.5863	18.5223	120.1006	1.5095
2003/04	30.0000	82.2544	17.1650	129.4194	1.0776
2004/05	30.0000	61.4734	10.1219	101.5953	0.7850
2005/06	30.0000	42.4368	12.5424	84.9792	0.8364
2006/07	30.0000	52.5796	22.0889	104.6685	1.2317

Source: Annual Report of EIC.

Table 4.1 shows the trend of shareholders fund growth ratio. In the fiscal years except in FY 2004/05 and 2005/06 shareholder's fund growth ratio have meet the positive growth. The highest SFGR is marked in 2002/03.Overall, there was positive growth in all years except two years in SFGR, which measures the good health of an insurance company.

Figure 4.1: Shareholder's Fund Growth Ratio



4.1.2 Gross Premium to Shareholder's Fund Ratio

Gross premium to shareholders fund ratio shows the relationship between the total gross premium and shareholders fund. It is used to closely measure financial soundness of shareholders fund. Growth in this ratio indicates the growth in gross premium in comparison to shareholder's fund and this is mostly used to check the shareholder's strength.

Table 4.2: Gross Premium to Shareholder's Fund Ratio

(Rs. in millions)

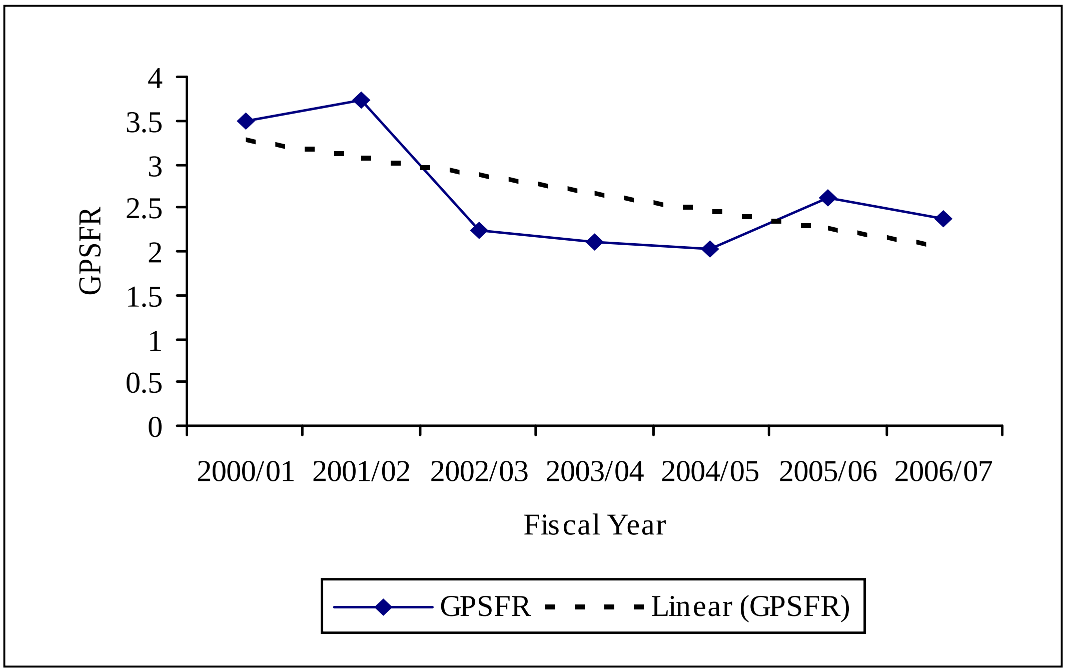
FY	Gross Premium	Shareholder's Fund	GPSFR
2000/01	209.2107	59.9941	3.4872
2001/02	297.8408	79.5602	3.7436
2002/03	267.7775	120.1006	2.2296
2003/04	274.3139	129.4194	2.1195
2004/05	207.0393	101.5953	2.0378
2005/06	222.9756	84.9792	2.6238
2006/07	248.6860	104.6685	2.3760

Source: Annual report of EIC.

In this table, GPSFR is highest in FY 2001/02 and it is decreasing continuously. The lowest GPSFR is in FY 2004/05.This ratio is approximately in same figure after 2002/03. GPSFR implies the strong financial position of shareholder's of EIC.

The trend of gross premium to shareholder's fund ratio during the study period is presented in figure.

Figure 4.2: Gross Premium to Shareholder's Fund Ratio



4.1.3 Gross Premium Growth Ratio

Gross premium growth ratio is the numerical relationship between gross premium for the year and gross premium for the previous year. It measures the growth rate of gross premium of insurance company. Since premium shows the company's ability to perform efficiency on the market. It shows the company's present condition and future prospect. It helps to measure the premium and its growth. There is no standard available for growth of premium.

Table 4.3 shows the overall gross premium growth in increasing trend for EIC.The ratio more than 1 indicates that EIC is growing in terms of gross premium. In fire insurance there is high growth except in 2001/02. In marine insurance gross premium was decreasing. In motor insurance there is growing trend in gross premium. There was fluctuation in GPGR in engineering insurance. Decrease in aviation insurance was also seen in later years for EIC but in the final year it was in more than 1 which indicates the high growth. In miscellaneous insurance there was always more than 1 in EIC.

Even though, the gross premium growth ratio is in growing trend, which implies the good soundness of company.

Table 4.3: Gross Premium Growth Ratio

(Rs. in million)

FY	Fire	Marine	Motor	Engineering	Aviation	Misc.	Total
	Growth Rate %	Growth Rate %	Growth Rate %	Growth Rate %	Growth Rate %	Growth Rate %	Growth Rate %
2000/01	-	-	-	-	-	-	-
2001/02	1.0877	0.7422	1.2800	1.3517	1.8673	1.3596	1.4237
2002/03	1.0169	1.1560	1.0763	0.1647	1.0311	1.0977	0.8990
2003/04	1.2967	1.3530	1.3353	0.8549	0.8297	1.1225	1.0245
2004/05	1.0318	0.9788	1.1615	1.2146	0.2818	1.1940	0.7548
2005/06	1.1261	0.9152	0.9742	1.1997	1.3649	0.9678	1.0768
2006/07	1.1149	0.9270	1.2275	1.2252	1.0044	1.1748	1.1153

Source: Appendix I and V.

4.1.4 Net Retention Ratio

Net retention ratio indicated the relationship between net premium of company and gross premium of company. It is used to appraise the risk retention of the insurance company. It measures how much of the risk is being carried out by the company and how much is being passed to reinsures.

Table 4.4: Net Retention Ratio

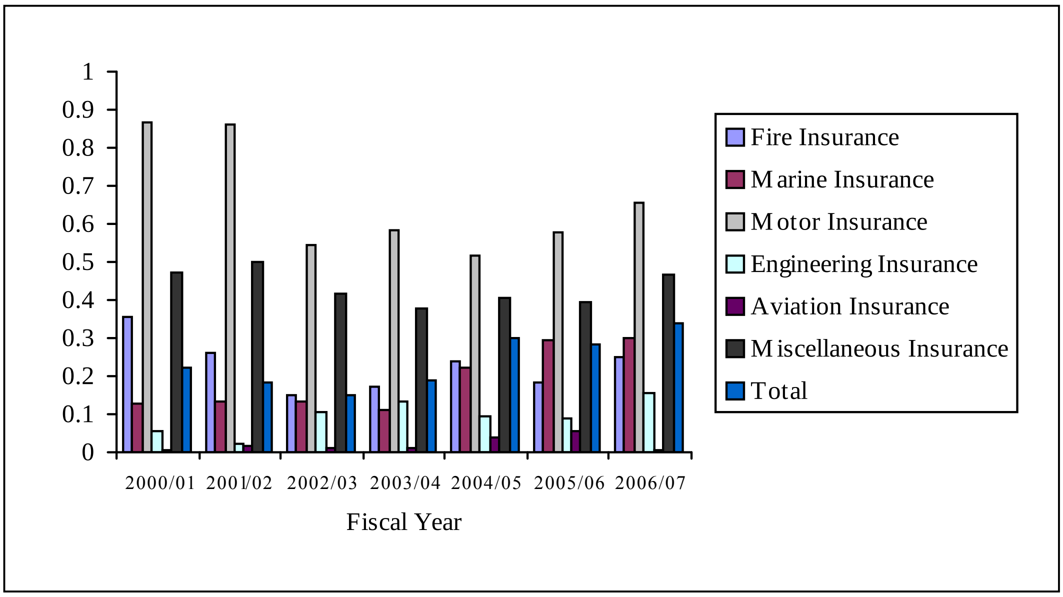
FY	Fire Insurance	Marine Insurance	Motor Insurance	Engineering Insurance	Aviation Insurance	Miscellaneous Insurance	Total
2000/01	.3539	.1296	.8669	.0544	.0062	.4748	.2250
2001/02	.2606	.1326	.8606	.0205	.0178	.4988	.1832
2002/03	.1493	.1338	.5434	.1079	.0115	.4194	.1521
2003/04	.1744	.1130	.5843	.1318	.0115	.3783	.1869
2004/05	.2385	.2201	.5194	.0935	.0412	.4082	.2989
2005/06	.1814	.2972	.5772	.0904	.0533	.3955	.2842
2006/07	.2475	.2993	.6532	.1571	.0080	.4661	.3392

Source: Appendix I and II.

Risk retention ratio largely depends on the nature of risk on experience of the company. NRR of fire insurance has in fluctuating trend in all over the study period. This ratio is highest in FY 2000/01, which is 35.39 %. In marine insurance NRR is in growing trend which lies between 12.96% and 29.93%. NRR in motor insurance has in fluctuating trend, but it has highest retention ratio than other insurance. This ratio is between 51.94% and 86.69% in this insurance. NRR of engineering insurance is around 10%.The highest ratio is marked in FY 2006/07 which is 15.71%. In aviation insurance net retention ratio is in very few percentages in two FY 2001/01 and 2006/07 which are below 1%. Highest retention ratio of aviation insurance is in FY 2005/06 which is 5.33%. In misc. insurance this ratio is in comparatively good condition.

High retention ratio implies EIC is retaining high risk and it is a good performance.

Figure 4.3: Net Retention Ratio



4.1.5 Expenses of Management to Gross Premium Ratio

Expenses of management to gross premium ratio indicate the relationship between expenses of management and gross premium. It measures the expenses relative to premium. The lesser the ratio the better the performance.

Table 4.5: Expenses of Management to Gross Premium Ratio

(Rs. in million)

FY	Expenses of Management	Gross Premium	Expenses of Management to Gross Premium
2000/01	16.6200	209.2107	.0794
2001/02	18.2019	297.8408	.0611
2002/03	20.6336	267.7775	.0770
2003/04	24.4777	274.3139	.0892
2004/05	28.2363	207.0393	.1364
2005/06	29.1560	222.9756	.1307
2006/07	28.4000	248.6860	.1142

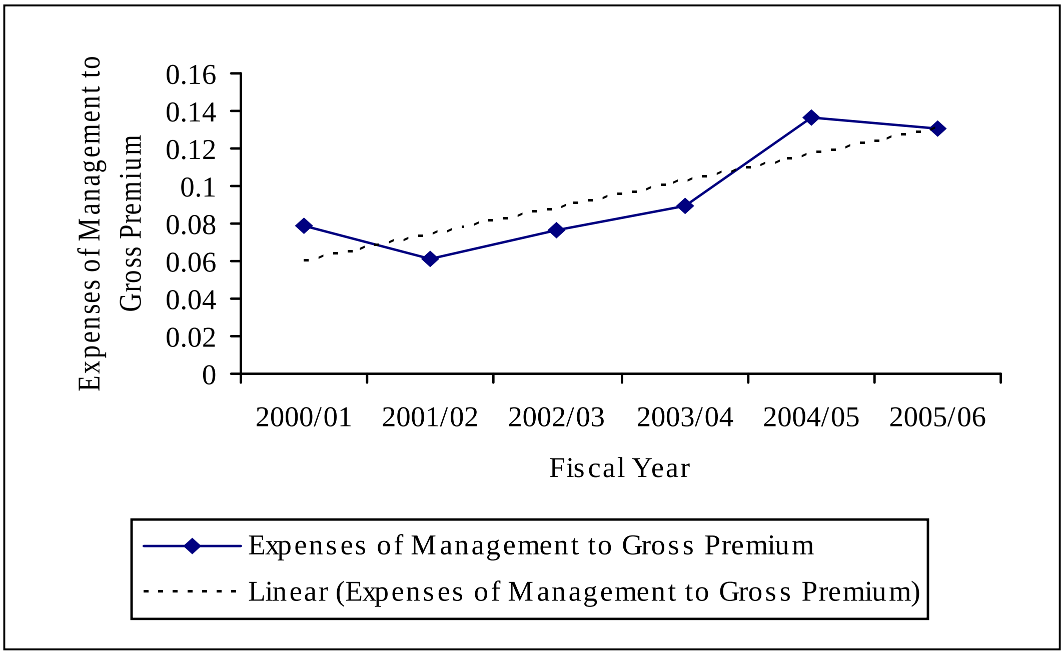
Source: Annual Report of EIC

As lesser the ratio better the result, in FY 2001/02 the expenses of management to gross premium ratio is 6.11% which is lowest ratio than other. In the FY 2000/01 this ratio is 7.94%. This ratio is highest in the FY

2004/05 which is 13.64%. Overall, the expenses of management to gross premium ratio lied between 6% and 13%. This is good performance of EIC.

The trend of expenses of management to gross premium ratio can be presented in the figure.

Figure 4.4: Expenses of Management to Gross Premium Ratio



4.1.6 Net Commission Ratio

Net commission ratio is the relationship between net commission and net premium. It is the ratio which is used to appraise the financial position of the insurance company.

Table 4.6: Net Commission Ratio

FY	Fire Insurance	Marine Insurance	Motor Insurance	Engineering Insurance	Aviation Insurance	Miscellaneous Insurance	Total
2000/01	0.4132	2.2490	-0.1592	1.1341	8.8695	0.1385	0.3401
2001/02	0.8355	2.1354	-0.1582	3.1057	2.2909	0.1341	0.3547
2002/03	1.0119	1.9687	-0.0862	1.4667	4.5889	0.2436	0.5142
2003/04	0.7929	1.7890	-0.0963	.6170	4.1852	0.2619	0.3807
2004/05	0.5640	.7705	-0.0787	.8888	1.0441	0.2918	0.2609
2005/06	0.7177	.5638	-0.0932	1.3296	1.0667	0.2947	0.2726
2006/07	0.4768	.4281	-0.0649	.4050	5.4594	0.2168	0.1569

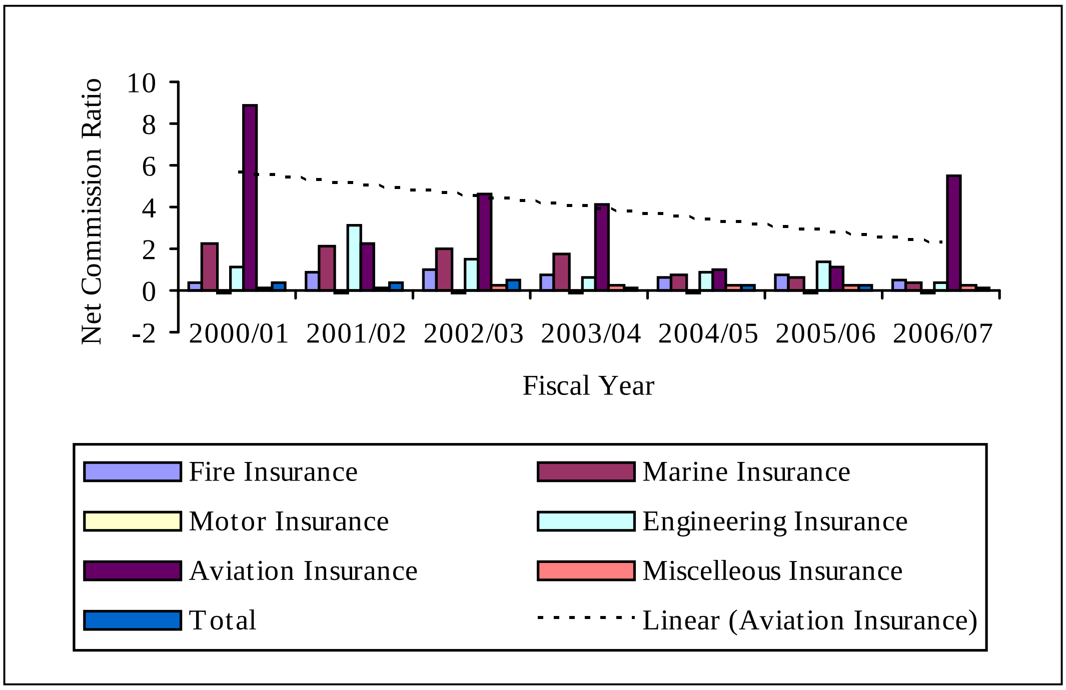
Source: Appendix II and IV.

Net commission ratio of fire insurance is in fluctuating trend in all over the study period which is less than 1 except FY 2002/03. This ratio is more than 1 time in marine insurance in first 4 years. After 2003/04 this ratio is in decreasing trend. Net commission ratio of motor insurance is lies between 6% to 15 %, but it is in negative form. Net commission ratio of engineering insurance has high fluctuating during study period. In aviation insurance net commission ratio is above 1 time up to 8 times. Net commission ratio of miscellaneous insurance is in increasing trend up to FY 2005/06.

Commission is expenses for company but this ratio shows EIC has higher commission income and this is not good performance. It shows the poor performance as an insurance company but good performance as an agent.

The trend of net commission ratio during the study period is presented in figure.

Figure 4.5: Net Commission Ratio



4.1.7 Combined Ratio

The combined ratio measures relationship between expenses of management and claims with gross premium. The major expenses of company are claims paid and management expenses when it is compared with gross premium. It measures the profitability of measures Company.

Table 4.7: Combined Ratio

(Rs. in millions)

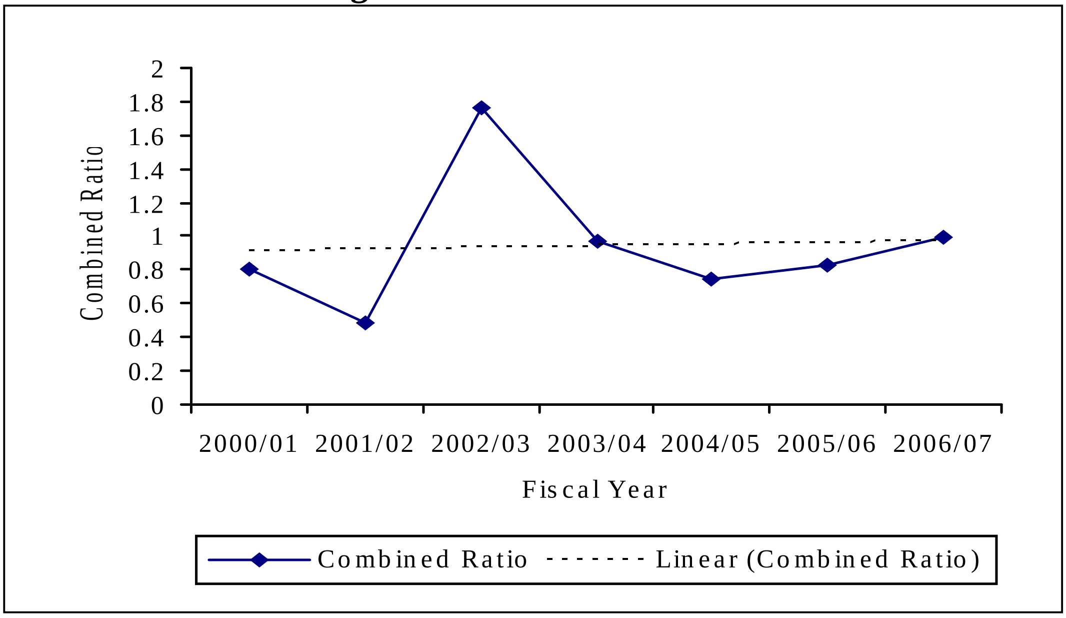
FY	Expenses of Management	Direct Claims Paid	Gross Premium	Combined Ratio
2000/01	16.6200	150.7303	209.2001	0.7999
2001/02	18.2019	126.4193	297.8432	0.4855
2002/03	20.6336	452.2529	267.7651	1.7661
2003/04	24.4778	242.3535	274.3154	0.9727
2004/05	28.2360	126.4991	207.0612	0.7473
2005/06	29.1560	154.4232	222.9700	0.8233
2006/07	28.4000	218.6193	248.6800	0.9933

Source: Annual Reports of EIC.

From the table, it is show that in FY 2000/01 combined ratio is around 80%. In second year it is decreased by around 31%. In 2002/03 combined ratio is more than 100% due to high claim paid. After this year combined ratio is in fluctuating trend. Highest combined ratio is marked in FY 2002/03 which is 1.7661 and lowest combine ratio is marked in FY 2001/02 which is 48.55%.

The trend of combined ratio of the study period can be shown in figure.

Figure 4.6: Combined Ratio



4.1.8 Technical Reserve Ratio

Technical reserve to net premium ratio indicates the relationship between technical reserve and net premium. There are two reserves given to protect the company and for its sustainability, they are reserve for unexpired risk and reserve for outstanding claims. Generally, reserve for unexpired risk is for future expected event and reserve for outstanding claim is for losses that are reported but not settled.

The higher the technical reserve ratio, the better the company's financial performance.

Table 4.8: Technical Reserve to Net Premium Ratio

(Rs. in millions)

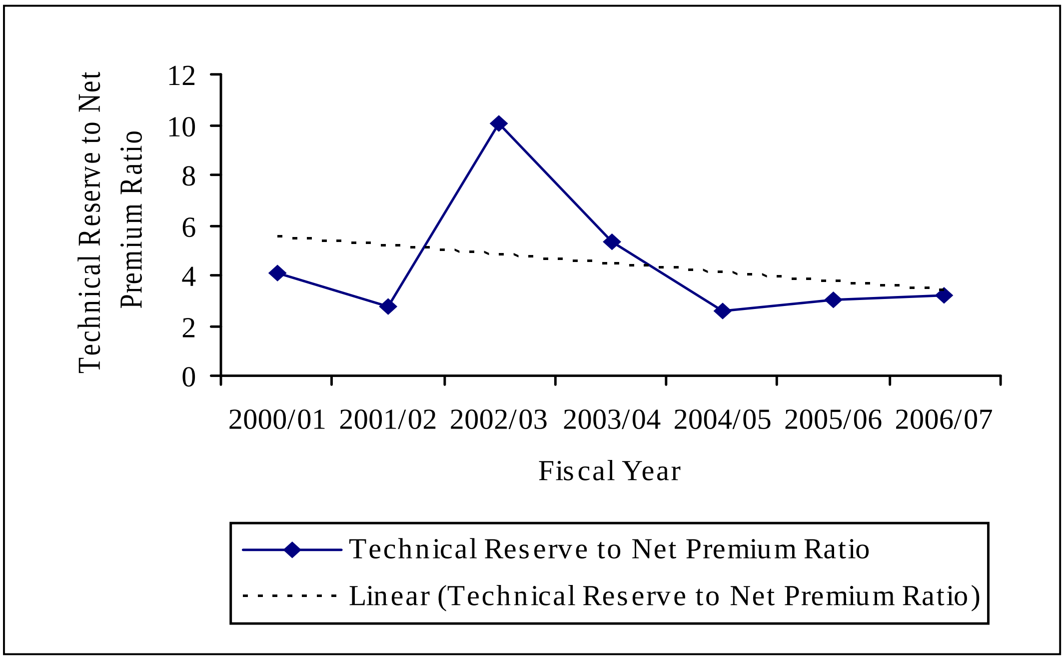
FY	Reserve For Unexpired Risk	Reserve For Outstanding Claims	Net Premium	Technical Reserve to Net Premium Ratio
2000/01	42.5432	150.7303	47.0700	4.1061
2001/02	25.4970	126.4193	54.5591	2.7844
2002/03	23.4925	452.2529	40.7400	10.0368
2003/04	28.9905	242.3535	51.2712	5.2923
2004/05	34.3195	126.4991	61.9015	2.5979
2005/06	36.5334	154.4232	63.3876	3.0125
2006/07	48.8922	218.6193	84.3613	3.1710

Source: Annual Reports of ECI.

As higher the technical reserve ratio better the financial performance of the insurance company there is highest technical reserve ratio is marked in FY 2003/04 which is 5.2923. In the first FY 2000/01 this ratio is 4.1061 which is second highest technical reserve ratio. Overall there is fluctuating trend in the technical reserve ratio around the study period.

The trend of technical reserve ratio during the study period of EIC is presented in figure.

Figure 4.7: Technical Reserve to Net Premium Ratio



4.1.9 Underwriting Balance Ratio

Underwriting balance ratio shows the relationship between underwriting profit/loss and net premium for the respective class of business. It shows the percentages of company's net premium that goes toward underwriting expenses. It measures the underwriting efficiency of the company.

Table 4.9: Underwriting Balance Ratio

FY	Fire Insurance	Marine Insurance	Motor Insurance	Engineering Insurance	Aviation Insurance	Miscellaneous Insurance	Total
2000/01	0.6498	1.3360	0.1979	0.2304	-5.3913	0.5844	0.4096
2001/02	1.2365	1.4947	0.1850	1.0192	-1.2254	0.6526	0.5017
2002/03	1.4555	1.4866	0.3656	1.4222	-2.2147	0.8256	0.6551
2003/04	0.7013	1.4258	0.1313	0.2021	-3.8222	0.8462	0.3809
2004/05	0.6547	0.5164	-0.0347	0.2593	-1.4519	0.4477	0.2581
2005/06	0.5088	0.5389	-0.0074	-0.8298	-0.7833	0.6431	0.2592
2006/07	0.7093	0.6518	0.1391	0.4300	-7.1892	0.4984	0.5345

Source: Appendix II and III.

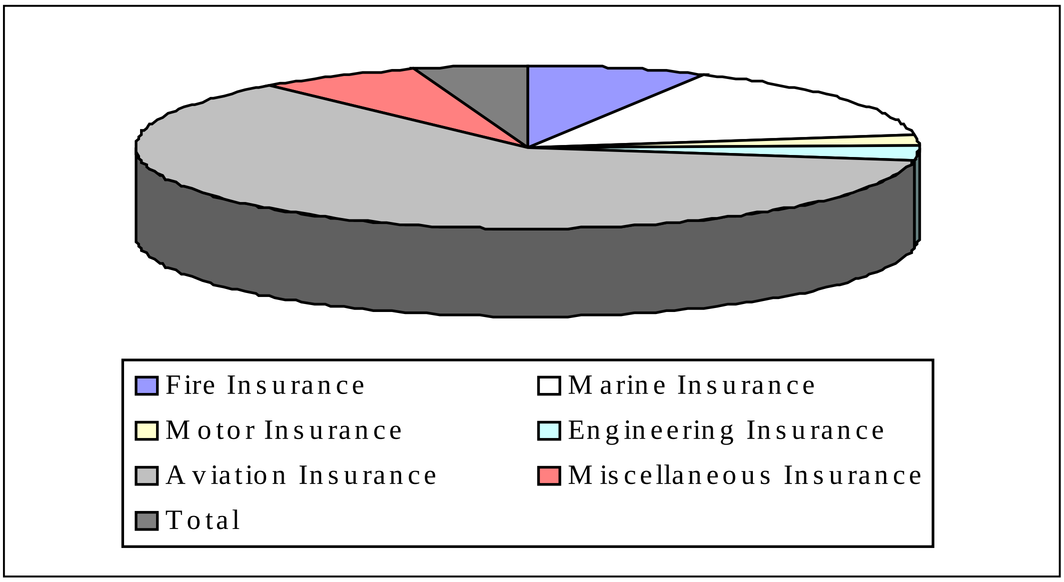
In fire insurance, underwriting balance ratio was positive in all study period. This ratio is also positive in marine insurance. Underwriting balance ratio is positive in motor insurance except FY 2004/05 and 2005/06. In engineering insurance this ratio is in positive form except

2005/06. In aviation insurance UBR is negative for all the years due to low amount of net premium and high amount of underwriting loss. In miscellaneous insurance there was no negative UBR.

Overall, underwriting balance ratio is positive and stable. It shows the good performance of EIC.

The trend of UBR is shown in the figure.

Figure 4.8: Underwriting Balance Ratio



4.1.10 Operating Profit Ratio

Operating profit ratio measures the efficiency of management. Higher the operating profit ratio better the financial performance of the company. Operating profit ratio is the relationship between underwriting profit and investment income with net premium.

Table 4.10: Operating Profit Ratio

(Rs. in million)

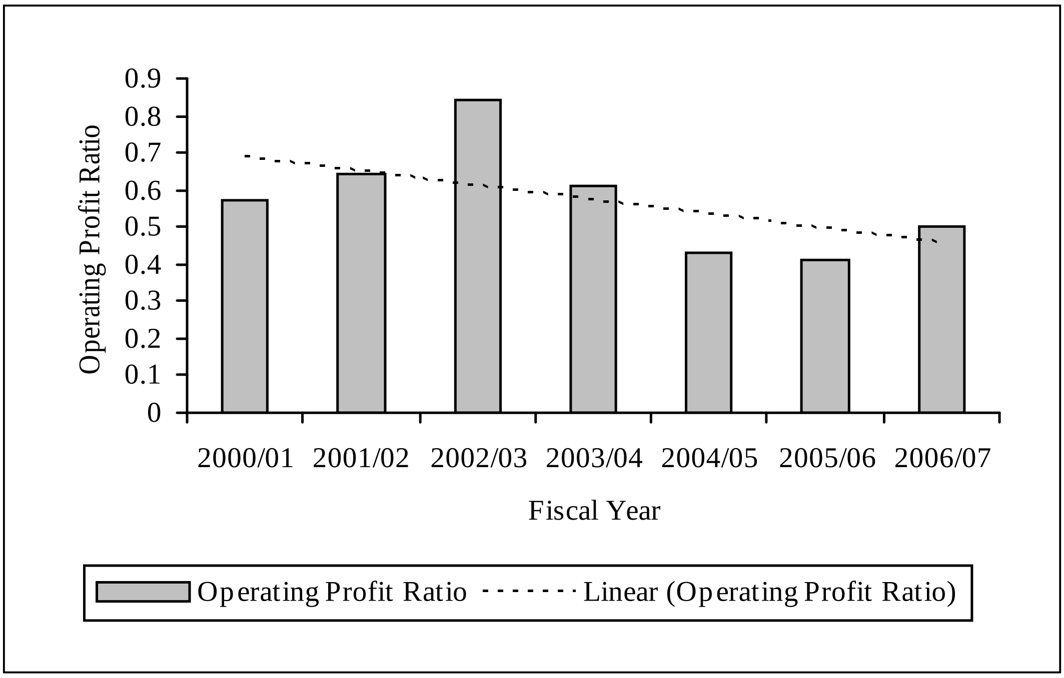
FY	Underwriting Profit	Investment Income	Net Premium	Operating Profit Ratio
2000/01	19.2803	7.7701	47.0700	0.5746
2001/02	27.3751	7.7232	54.5591	0.6433
2002/03	26.6962	7.5823	40.7400	0.8412
2003/04	19.5381	11.8541	51.2712	0.6120
2004/05	15.9821	10.6314	61.9015	0.4298
2005/06	16.4303	9.8161	63.3876	0.4140
2006/07	29.9155	12.4272	84.3613	0.5017

Source: Annual Reports of EIC.

From the table 4.10 operating profit ratio has gradually grown from 57.46% to 84.12% from 2000/01 to three consecutive years. It is decreased than after since 2005/06 up to 41.40%. In FY 2006/07 the operating ratio is 50.17%. The highest operating ratio is marked in the 2002/03 which is 84.12%. During the study period operating profit ratio lies between 41.40% to 84.12%.

In average as operating profit ratio is in growing trend .This shows good performance of EIC.

Figure 4.9: Operating Profit Ratio



4.1.11 Net Earning Ratio

Net earning ratio is the expression of relationship between profit after tax and net premium. It reveals how much earning is gained in comparison to net premium.

Table 4.11: Net Earning Ratio

(Rs. in millions)

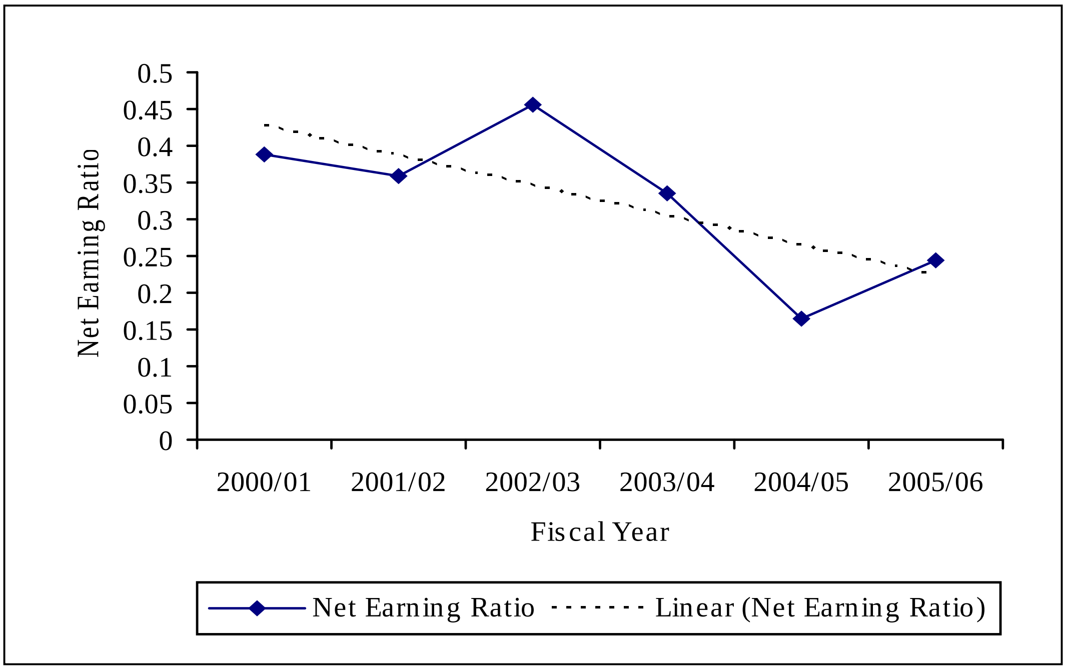
FY	Net Profit After Tax	Net Premium	Net Earning Ratio
2000/01	18.3151	47.0700	0.3889
2001/02	19.5602	54.5591	0.3585
2002/03	18.5222	40.7400	0.4546
2003/04	17.1650	51.2712	0.3347
2004/05	10.1219	61.9015	0.1635
2005/06	15.5424	63.3876	0.2452
2006/07	22.0889	84.3613	0.2617

Source: Annual Reports of EIC.

The highest net earning ratio has marked in FY 2002/03 with 45.46% and lowest has marked in FY 2004/05 with 16.35%. The overall net earning ratio shows the growing trend and it is good performance of EIC.

The trend of net earning ratio during the study period is depicted in figure.

Figure 4.10 Net Earning Ratio



4.1.12 Reinsurance Ratio

Reinsurance means the insurer may re-insure the risks which are in express from the risks assumed by it. Reinsurance ratio shows the relationship between risk reinsured and gross premium. It measures how much of the risk is reinsured and how much is retained.

Table 4.12: Reinsurance Ratio

(Rs. in millions)

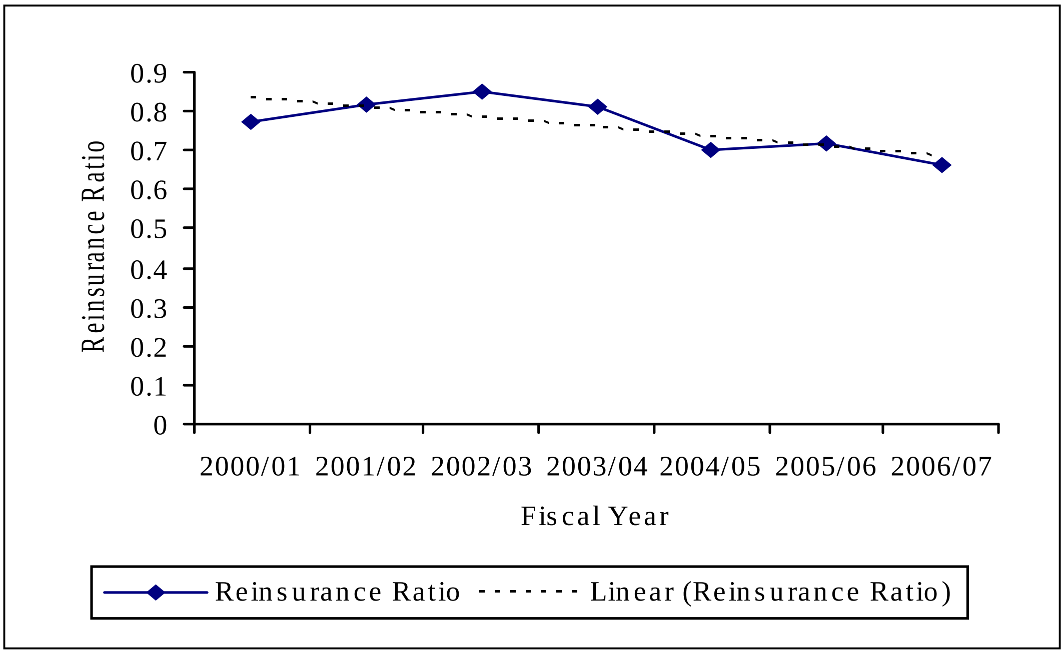
FY	Risk Reinsured	Gross Premium	Reinsurance Ratio
2000/01	162.1334	209.2107	0.7750
2001/02	243.2841	297.8408	0.8168
2002/03	227.0257	267.7775	0.8478
2003/04	223.0332	274.3139	0.8130
2004/05	145.1301	207.0393	0.7009
2005/06	159.5919	222.9756	0.7157
2006/07	164.3710	248.6860	0.6609

Source: Annual Reports of EIC.

Reinsurance ratio is 77.50% in the FY 2000/01. It has reached up to 84.78 % in FY 2002/03. Then after it has decreased slightly in FY 2003/04. From table, it shows that this ratio covers the low percentage in recent years. As we know that high risk is high performance of any company. By observation, it shows that EIC is not retaining high amount of risk.

The trend of reinsurance ratio is shown in figure.

Figure 4.11: Reinsurance Ratio



4.1.13 Return on Net Worth

Return on net worth indicated the relationship between profit after tax and net worth. It tells how much profit a company earned in comparison to the total amount of shareholder's equity. It is the final justification of profitability to evaluate overall return.

Table 4.13: Return on Net Worth

(Rs. in millions)

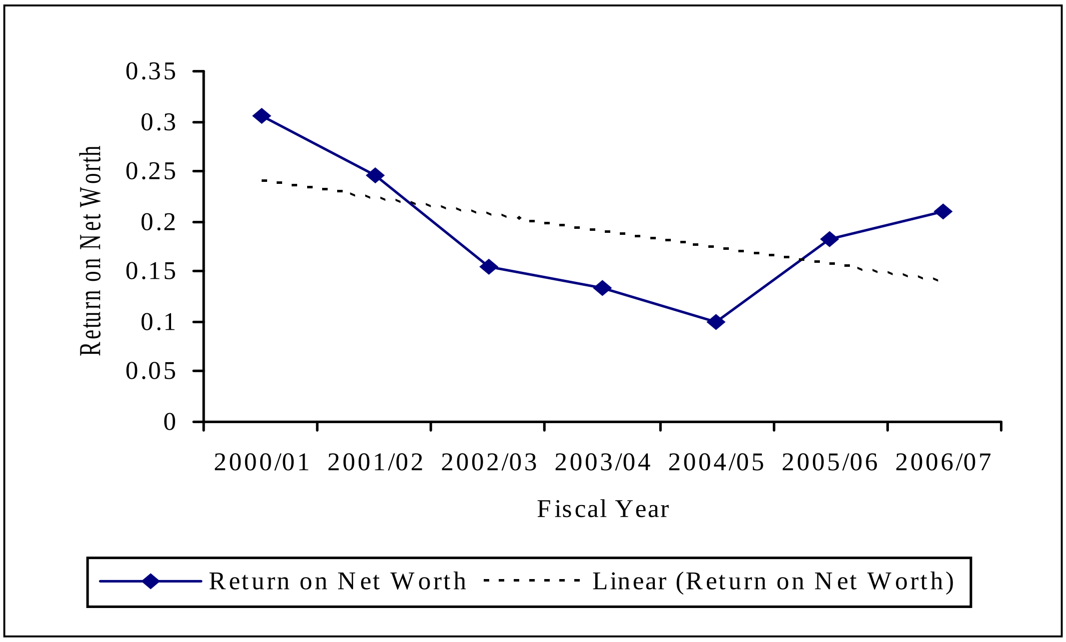
FY	Profit After Tax	Net Worth	Return on Net Worth
2000/01	18.3151	59.9941	0.3053
2001/02	19.5602	79.5602	0.2458
2002/03	18.5222	120.1006	0.1542
2003/04	17.1650	129.4194	0.1326
2004/05	10.1219	101.5953	0.0996
2005/06	15.5420	84.9792	0.1829
2006/07	22.0889	104.6685	0.2110

Source: Annual Reports of EIC

From the table it is shows that net worth ratio in first year is 30.53% which is decreasing continuously up to FY 2004/05. After FY 2004/05 this ratio is growing continuously. By this figure it is shows the return is significant for shareholders of EIC and it implies good performance.

The growing trend of net worth ratio is clearly shown in figure.

Figure 4.12: Return on Net Worth



4.2 Major Finding of the Study

On the basis of facts, figures, obtained data the study observes the following findings:

4.2.1 Shareholder's fund growth ratio is in fluctuating trend in all over the study period. This ratio is highest in FY 2002/03 with 1.5095 and lowest in 2004/05 with 0.7850. Both general reserve and P/L account are positive but in fluctuating trend.

4.2.2 When gross premium increases the GPSFR is automatically increases. The highest ratio is marked in the FY 2001/02 and lowest ratio is marked in the FY 2004/05. This ratio is in fluctuating trend in all over the study period.

4.1.3 The company is in growing trend in terms of gross premium. In fire insurance the highest SPGR is marked in FY 2003/04 with 1.2967 and lowest in 2002/03 with 1.0169. In marine insurance, highest and lowest SPGR are marked in FY 2002/03 and FY 2001/02 respectively. This ratio is highest in the FY 2003/04 in motor insurance. It is in fluctuating trend in both Engineering and aviation insurance.

4.1.4 The highest retention ratio is 33.92% in FY 2006/07 and lowest retention ratio is 15.21% in FY 2002/03. Among other insurance motor insurance retained highest rate. After that, miscellaneous insurance has second highest rate. Engineering and aviation insurance covers the lowest rate.

4.1.5 The expenses of management to gross premium ratio is in fluctuating trend over the study period. The highest ratio has marked in FY 2004/05 with 13.64% and lowest has marked in 2001/02 with 6.11%. From this data we can find that this ratio is in very low percentage than other ratio which indicates that EIC has control the expense.

4.2.6 In fire insurance, the highest commission ratio has seen in 2002/03 with 1.0119 and it is lowest in 200/01 with 0.4132. In marine insurance highest commission ratio is 2.2490 in 2000/01 and lowest is in 2006/07 and has shown decreasing trend. Due to high retention ratio in motor insurance it can be seen as expenses. In engineering insurance highest commission ratio is 3.1056 in FY 2001/02 and lowest commission ratio is 0.4050. Highest commission ratio is seen on aviation insurance in 2000/01 with 8.8695 and it is lowest in 2004/05 with 1.0441. Highest commission ratio of miscellaneous insurance is seen on 2005/06 with0.2947 and lowest has seen in 2001/02 with 0.1341.

4.2.7 By the observation, the combined ratio is in very fluctuating trend due to the claim paid. Highest combined ratio is marked in FY 2002/03 with 1.7661 and lowest combined ratio is marked in FY 2001/02 with 0.4855.

4.2.8 The technical reserve to net premium ratio shows the reserve amount set aside for future unexpired events. This ratio is 10.03 is in FY 2002/03 which is highest technical reserve ratio among all fiscal year. Reserve for outstanding claims are higher than reserve for unexpired risk for all study period.

4.2.9 Underwriting balance ratio shows the relationship between underwriting profit /loss and net premium. This ratio is lowest in 2004/05 with 25.81% and highest in 2002/03 with 65.51%. Underwriting profit is maintained by company. Fire, marine, and aviation insurance have very smart underwriting profits. Motor insurance has underwriting profits except in 2004/05 and 2005/06. Engineering insurance also has underwriting profit except 2005/06. Aviation insurance has never gained underwriting profit.

4.2.10 Operating profit ratio is in growing trend in first there year then it is in fluctuating trend The highest operating profit ratio is 84.12%

in FY 2002/03 and lowest operating profit is 41.40% in FY 2005/06.

4.2.11 By the observation, lowest net earning ratio is 16.35 % in and highest net earning ratio is 45.46% in 2004/05 and 2002/03 respectively. Growing trend of net earning ratio in recent fiscal years shows that company has gained profit.

4.2.12 The highest reinsurance ratio is 84.76% in 2002/03 and lowest reinsurance ratio is 52.90%. It shows that more than 53% in average of gross premium goes to reinsurance companies.

4.2.13 Highest profit after tax is highest in FY 2006/07 with 22.0889 and lowest in FY 2004/05 with 10.1219. Net worth is similar to shareholder's fund which is highest in 2003/04 with 129.4194 and lowest in 2000/01 with 59.9941. Return on net worth is highest with 30.53% in FY 2000/01 and lowest with 9.96% in FY 2004/05.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

Insurance is a financial arrangement that redistributes the cost of unexpected losses. The insurance arrangement involves the transfer of many different exposures to loss to one insurance pool which combines the numerous exposures.

Insurance is a contract or an agreement between the insured on one hand and insurer on the other hand, whereby the insured pays the premium ,in consideration of which, the insurer agrees to make good the financial loss suffered by the insured in the event of the insured property sustaining loss or damage, due to insured perils .

In Nepal, there is a tremendous scope to develop the insurance market, so the potential of Nepal's insurance market is large. It has majority of middle class population and industrialization process is going on. So the researcher was conducted a thesis on the topic of "Financial Performance of Everest Insurance Company Limited in the framework of IRDA", which is the academic requirement of master of business studies. The fundamental objective of this study was to analyze the financial performance of EIC. The specific objectives of the study were to analyze the pattern of gross premium, shareholders fund growth rate, pattern in risk and premium retention, commission, technical reserve, reinsurance, trend of profit, management expenses of EIC.

Insurance is a newly emerged business for Nepal. So it is difficult to predict about emerge of the concept of insurance. As the first insurance company, Nepal Mal Chalani Tatha Bima Company Ltd. was established in 2004 B.S. It was later converted into Nepal Insurance and Transport Company Pvt. Ltd. in 2016 B.S. This was again renamed as Nepal Insurance Company in 2048 B.S. As a private insurance company with limited capital, the Nepal Mal Chalani Tatha Bima Company was not successful to provide all types of insurance facilities all over the country. Foreign large insurance companies were doing well business in Nepal through agents. United India Insurance , Hindustan General Insurance ,Starling Insurance ,Ruby General Insurance ,Oriented Fire Insurance had branches in Nepal to provide insurance facilities until 2024 B.S.

Considering the role of insurance business in the expansion of economic activities and alarming outflow of money from the country, the government of Nepal felt the need of large and well organized insurance company within the country. Then immediately the HMG established Rastriya Bima Sansthan under the Insurance Act 2025. This insurance company is totally financed by the government to provide all type of insurance perils, which is essential for economic development. This insurance facility for about two decades in Nepal.

After reestablishment of democracy, Nepal also implements the policy of privatization and economic liberalization and globalization. As the country was following economic liberalization, the previous acts were amended and new Insurance Act 2049 was introduced. Some of the key features of the Acts are minimum paid capital of Rs. 4 tariff board, classification of life and non- life insurance policies, etc. As a result, number of insurance companies have been established, after this period and can be considered as the golden period in the insurance business history of Nepal. Insurance Board is the independent institution established by the HMG under the Insurance Act 2049. Insurance Board is the supreme body authorized by the government to manage, regulate and control the insurance business within the country. According to this Act, there are 25 insurance companies in Nepal.

The researcher was reviewed different type of materials to build up the conceptual foundation. Concept of insurance, risk and insurance, historical development of insurance, types of insurance, benefits of insurance, cost of insurance, functions of insurance, evolution of insurance in Nepal, insurance regulation in Nepal were reviewed as conceptual review. Review of different thesis of master degree and review of related journal of IRDA and other publications were included for review of related studies.

For the study purpose, Everest Insurance Company Limited was taken as study unit. The research covers the seven years period from 2000/01 to 2006/07. The required data were collected from head of EIC as secondary sources. As a primary data were also used by interview with concerned staff of concerned company. The IRDA insurance ratio has been collected by the visiting the website of IRDA.

The study was within the framework of IRDA with descriptive and analytical research design and analysis has been made in the same way. Financial tools were used to analyze shareholder's fund growth ratio, gross premium to shareholder's fund ratio, gross premium growth ratio, net retention ratio, net commission ratio, expenses of management ratio, combined ratio, technical reserves ratio, underwriting profit ratio, operating profit ratio, net earning ratio, return on net worth and reinsurance ratio of EIC. Graphical presentation is also included to make clear the study.

5.2 Conclusion

5.2.1 Shareholder's fund is directly relates with profit. Profit is distributed to shareholder by fluctuating trend. So the shareholders fund is in fluctuating trend. Shareholder's fund growth rate is in also fluctuating trend.

5.2.2 Gross premium to shareholder's fund ratio is the relationship between gross premium and shareholder's fund. This ratio is in fluctuating trend in all over the study period.

5.2.3 Net retention ratio measures how much of risk is being carried out by the company. Premium retention capacity of EIC is very low. It implies that large portion of business goes outside the country. Only in motor insurance, EIC is able to retain high premium.

5.2.4 However the expenses of management are in growing trend, the management expense to gross premium ratio is in fluctuating trend. It is due to the fluctuating trend in gross premium. EIC is concerned with expense control.

5.2.5 Generally commission is expenses for insurance company but in case of EIC, it has been found as income due to reinsurance operation. On the basis, we can conclude that ECI is working as an agent for reinsurance company. Except motor insurance, EIC is working as an insurance company.

5.2.6 Due to fluctuating trend in claim paid, combined ratio is in also fluctuating trend. It is difficult to predict the claims. Claims have dominant role in financial management of company.

5.2.7 Reserve for unexpired risk is less than reserve for outstanding claims. By this we can conclude that the company is not able to select good risk or business.

5.2.8 EIC has gained profit allover the study period. Aviation insurance had faced underwriting loss. Mostly motor and engineering insurance have gained underwriting profit. Fire, marine, and miscellaneous insurance have gained totally profit every year of the study period.

5.2.9 Both underwriting profit and investment are income for EIC. So EIC is gained operating profit throughout the study period. As profit is in growing trend, it shows that the company has successful management.

5.2.10 Reinsurance ratio is high in EIC which shows high performance of risk goes to reinsurance companies and risk-bearing capacity of EIC is very low.

5.2.11 Return of net worth is decreasing trend on first five year. But in recent years it is growing trend that shows the strength of equity holders is growing and they are able to gain profit compared to their own investment.

5.3 Recommendations

5.3.1 As shareholder's fund is directly relates with profit, the company seems necessary to increase its paid up capital by which the confidence and development of risk –bearing capacity will increase to shareholders.

5.3.2 Since the gross premium of growth of EIC is less than that of insurance industry, the company should increase its gross premium.

5.3.3 Risk retention in all insurance except motor insurance should be increased. EIC should retain more premiums to save policyholder's money from outgoing.

5.3.4 Expenses of management of company should be control. EIC should try to reduce the type of expenses.

5.3.5 As commission is expenses of company, it is income for EIC due to reinsurance operation which is good point of company. So the company can follow it.

5.3.6 Combined ratio is the profitability of insurance. This ratio is in fluctuating trend because of this type of trend in claim paid. EIC should try to reduce the fluctuating in claim by selecting good risk.

5.3.7 Technical reserve should be increased which would help EIC to gain policy holders confidence over company.

5.3.8 EIC should increase its share over fire, marine, motor, engineering and miscellaneous insurance rather than aviation.

5.3.9 As operating profit is in growing the company has successful management, EIC should maintained it, it should try to increase investment income.

5.3.10 High performance of risk of EIC goes to reinsurance companies, as reinsurance ratio is high. So the company should reduce it.

5.3.11 As, return on net worth shows the strength of equity holders, EIC should increased it to gain the confidence of shareholders and all stakeholders.

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APPENDIX I

Gross Premium

(Rs. in millions)

FY	Fire Insurance	Marine Insurance	Motor Insurance	Engineering Insurance	Aviation Insurance	Miscellaneous Insurance	Total
2000/01	35.34	19.51	22.32	37.44	73.15	21.44	209.2
2001/02	38.44	14.48	28.57	50.61	136.59	29.15	297.84
2002/03	39.09	16.74	30.75	8.34	140.84	32	267.76
2003/04	50.69	22.65	41.06	7.13	116.86	35.92	274.31
2004/05	52.71	22.17	47.69	8.66	32.94	42.89	207.06
2005/06	59.36	20.29	46.46	10.39	44.96	41.51	222.97
2006/07	66.18	18.81	57.03	12.73	45.16	48.77	248.68

Source: Annual Reports of EIC.

APPENDIX II

Net Premium

(Rs. in millions)

FY	Fire Insurance	Marine Insurance	Motor Insurance	Engineering Insurance	Aviation Insurance	Miscellaneous Insurance	Total
2000/01	12.51	2.53	19.35	2.04	0.46	10.18	47.07
2001/02	10.02	1.92	24.59	1.04	2.44	14.54	54.55
2002/03	5.84	2.24	16.71	0.9	1.63	13.42	40.74
2003/04	8.84	2.56	23.99	0.94	1.35	13.59	51.27
2004/05	12.57	4.88	24.77	0.81	1.36	17.51	61.9
2005/06	10.77	6.03	26.82	0.94	2.4	16.42	63.38
2006/07	16.38	5.63	37.35	2	0.37	22.73	84.46

Source: Annual Reports of EIC.

APPENDIX III

Underwriting Profit/ Loss

(Rs. in millions)

FY	Fire Insurance	Marine Insurance	Motor Insurance	Engineering Insurance	Aviation Insurance	Miscellaneous Insurance	Total
2000/01	8.13	3.38	3.83	0.47	-2.48	5.95	19.28
2001/02	12.39	2.87	4.55	1.06	-2.99	9.49	27.37
2002/03	8.5	3.33	6.11	1.28	-3.61	11.08	26.69
2003/04	6.2	3.65	3.15	0.19	-5.16	11.5	19.53
2004/05	8.23	2.52	-0.86	0.21	-1.96	7.84	15.98
2005/06	5.48	3.25	-0.2	-0.78	-1.88	10.56	16.43
2006/07	11.53	3.67	5.18	0.86	-2.66	11.33	29.91

Source: Annual Reports of EIC.

APPENDIX IV
Commission Net of Reinsurance

(in Million Rs.)

FY	Fire insurance				Marine insurance				Motor insurance				Engineering Insurance			
	Direct Comm.	**Add: Comm. on Reins. accepted**	**Less: Comm. on Reins. ceded**	Net Fire Comm.	**Direct Comm.**	**Add: Comm. on Reins. accepted**	**Less: Comm. on Reins. ceded**	Net Marine Comm.	**Direct Comm.**	**Add: Comm. on Reins. accepted**	**Less: Comm. on Reins. ceded**	Net Motor Comm.	**Direct Comm.**	**Add: Comm. on Reins. accepted**	**Less: Comm. on Reins. ceded**	Net CAR & Engineering Comm.
2000/01	**3.79**	**1.46**	**10.42**	**5.17**	**2.84**	**-**	**8.53**	**5.69**	**3.08**	**-**	**-**	**(3.08)**	**1.81**	**0.01**	**4.56**	**2.74**
2001/02	**4.06**	**2.07**	**14.50**	**8.37**	**2.11**	**-**	**6.21**	**4.1**	**3.89**	**-**	**-**	**(3.89)**	**2.60**	**0.009**	**5..84**	**3.23**
2002/03	**2.82**	**0.22**	**8.95**	**5.91**	**2.30**	**0.02**	**6.73**	**4.41**	**2.55**	**-**	**1.11**	**(1.44)**	**0.57**	**0.003**	**1.89**	**1.32**
2003/04	**3.43**	**0.47**	**10.91**	**7.01**	**3.31**	**0.02**	**7.91**	**4.58**	**3.73**	**0.001**	**1.42**	**(2.31)**	**0.94**	**-**	**1.52**	**0.58**
2004/05	**3.10**	**0.59**	**10.78**	**7.09**	**3.40**	**0.02**	**7.18**	**3.76**	**3.98**	**0.003**	**2.03**	**(1.95)**	**1.09**	**-**	**1.81**	**0.72**
2005/06	**3.44**	**0.66**	**11.83**	**7.73**	**1.85**	**0.06**	**5.31**	**3.4**	**3.93**	**-**	**1.43**	**(2.5)**	**0.84**	**0.007**	**2.10**	**1.25**
2006/07	**4.77**	**0.76**	**13.34**	**7.81**	**2.38**	**0.13**	**4.92**	**2.41**	**6.07**	**-**	**1.34**	**(4.73)**	**1.60**	**0.09**	**2.50**	**0.81**

FY	Miscellaneous insurance				Aviation insurance				Total			
	Direct Comm.	**Add: Comm. on Reins. accepted**	**Less: Comm. on Reins. ceded**	Net Misc. Comm.	**Direct Comm.**	**Add: Comm. on Reins. accepted**	**Less: Comm. on Reins. ceded**	Net Aviation Insurance	**Direct Comm.**	**Add: Comm. on Reins. accepted**	**Less: Comm. on Reins. ceded**	Total
2000/01	**2.92**	**0.07**	**4.41**	**1.41**	**0.22**	**-**	**4.30**	**4.08**	**14.66**	**1.54**	**32.22**	**16.01**
2001/02	**2.92**	**0.18**	**5.66**	**1.95**	**0.31**	**-**	**5.90**	**5.59**	**15.89**	**2.259**	**32.27**	**19.35**
2002/03	**3.53**	**0.14**	**6.50**	**3.27**	**-**	**-**	**7.48**	**7.48**	**11.77**	**0.383**	**32.66**	**20.95**
2003/04	**3.09**	**0.04**	**6.87**	**3.56**	**-**	**-**	**5.65**	**5.65**	**14.5**	**0.531**	**34.28**	**19.07**
2004/05	**3.87**	**0.28**	**9.26**	**5.11**	**-**	**-**	**1.42**	**1.42**	**15.44**	**0.893**	**32.48**	**16.15**
2005/06	**3.74**	**0.32**	**8.90**	**4.84**	**-**	**-**	**2.56**	**2.56**	**13.8**	**1.047**	**32.13**	**17.28**
2006/07	**3.84**	**0.32**	**9.08**	**4.92**	**-**	**-**	**2.02**	**2.02**	**18.66**	**1.3**	**33.2**	**13.24**

***Source*: Annual Reports of EIC.**

APPENDIX VI

Profit and Loss Account

(Rs. in millions)

FY	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
Expenses							
Operating loss	2.48	2.99	3.61	5.16	2.82	2.86	2.66
Depreciation	1.01	3.92	3.33	4.78	6.58	5.53	4.3
Loss on fixed assets	0.09	0.02	0	0.002	0	0	0.1
Interest on loan	0.46	1.12	1.4	0.52	0.07	0.73	0.79
Provision for bonus	2.32	2.66	2.59	2.18	1.18	1.52	3.2
Provision for income tax	4.86	6.8	6.7	6.44	3.66	4.55	9.36
Profit c/d	18.31	19.56	18.52	17.16	10.12	12.54	22.08
Special fee	0	0.02	0.67	0.33	0.16	0.24	0
Provision for bad debt	0	0	0	0	4.82	0	2.49
Provision for loss on investment	0	0.77	1.06	0	0	1.12	0
Total	29.55	38.08	37.88	36.57	29.41	29.09	44.98
General Reserve	11.68	0	0	0	0	11.33	11.04
Interim dividend	0	0	0	0	0	0	0
Final devidend	6	0	0	0	0	0	0
Net profit transferred to B/S	3.93	23.06	11.58	22.25	1.47	1.1	0.2
Loss on income tax	0	0.43	0	4.99	0.9	0	0.1
Proposed bonus share	0	0	30	0	30	0	11.25
Tax on bonus share	0	0	0	1.5	0	1.57	0.6
Total	21.61	23.49	41.58	28.74	32.37	14	23.19
Income							
Operating profit	21.76	30.36	30.31	24.72	18.81	19.3	32.58
Interest on investment	7.56	7	5.57	4.13	5.32	7.86	9.75
Miscellaneous income	0.23	0.67	1.97	7.22	4.75	1.9	2.58
Dividend income	0	0.05	0	0.02	0.04	0.07	0.07
Profit on sale of fixed assets	0	0	0.04	0	0.52	0	0
Profit on investment	0	0	0	0.48	0	0	0
Total	29.55	38.08	37.88	36.57	29.41	29.09	44.98
Previous years profit	3.3	3.93	23.06	11.58	22.25	1.46	1.11
This year's profit b/d	18.32	19.56	18.52	17.16	10.12	12.54	22.08
Total	21.62	23.49	41.58	28.74	32.37	14	23.19

Source: Annual Reports of EIC.

APPENDIX VII

Balance Sheet

(Rs. in millions)

FY	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
Capital and Liabilities							
Paid up capital	30	30	30	30	30	30	30
General reserve	30	30	30	30	30	41.33	52.38
Reserve for fund	26.9	29.73	23.49	28.99	34.32	36.53	48.9
P/L approtiation a/c	3.93	23.06	11.58	22.25	1.47	1.1	0.2
Other current liabilities	139.67	180.03	174.31	163.43	119.09	172.34	185.18
Proposed bonus share	0	0	30	0	30	0	11.25
Bonus share	0	0	0	30	30	60	60
Total	230.5	292.82	299.38	304.67	274.88	341.3	387.91
Assets							
Fixed assets	26.9	23.36	26.54	45.28	53.66	50.13	46.99
Investment	85.34	127.39	115.77	114.56	113.85	141.68	132.31
Current assets	118.26	142.07	157.07	144.82	107.37	149.5	208.6
Total	230.5	292.82	299.38	304.66	274.88	341.3	387.91

Source: Annual Reports of EIC.

ENDIX VIII

List of life insurance companies working in Nepal

S.N.	Name of company	Established Year	phone	Fax. No.	Address
1	Rastriya Beema sasthan	2024	4262565 4262520	4262610	bema@wlink.com.np
2	NationalLife Insurance Co. Ltd	2044	4412625 4418113	4416427	nlgi@mail.com.np
3	Nepal life insurance Co. Ltd	2058	4223440 4241212	420143	nlic@mos.com.np
4	Life Insurance corporation (Nepal)Ltd	2058	4229688, 4243352	4229689	lic@licnepal.com
5	American life insurance Co. Ltd.	2058	5555166	5555170	American.life@alico.com.np
6	Asian Life Insurance Co.Ltd	2064	-	-	-
7.	Surya Life Insurance Co. Ltd.	2064	-	-	-
8.	Gurans Life Insurance Co. Ltd.	2064	-	-	-
9.	Prime Life Insurance Co. Ltd.	2064	-	-	-

Source: Rastriya Beema Sansthan.

APPENDIX IX

List of Non-Life Insurance Companies Working In Nepal

S.No	Name of the Company	Established Year	Phone No	Fax NO	Address
1.	Everest Insurance Co. ltd.	2051	4444717, 4444718	4444366	**eveninso@mos.com.np**
2.	Nepal Insurance Co.Ltd.	2004	4245565	4225446	nic@wlink.com.np
3.	Oriental Insurance Company Ltd.	2004	4267826, 4250137	4423419	oriental@wlink.com.np
4.	National Insurance	2030	4250710, 4266681	4266682	nationsur@ccsl.com.np

to be contd…

	Co. Ltd.				
5.	Himalayan General Insurance Co.Ltd.	2050	4231788	4241517	ktm@hqi.com.np
6.	United Insurance Company (Nepal) Ltd.	2050	426686	426687	uic@mail.com.np
7.	Premier Insurance Co.Ltd.	2051	4259567	4259708	premier@picl.com.np
8.	Neco Insurance Co.Ltd	2053	4444717, 4444718	4444366	-
9.	Sagarmatha Insurance Co.Ltd.	2053	4247941, 4241245	4247947	sagarmatha@insurance.com.np
10.	Alliance Insurance Co. Ltd.	2053	4253166, 4230625	4241411	aic@wlink.com.np
11.	N.B. Insurance Co. Ltd.	2053	4444717, 4444718	4444366	nbic@mos.com.np
12.	Prudential Insurance Co.Ltd.	2051	4212940	4219527	prudential@wlink.com.np
13.	Shikhar Insurance Co.Ltd.	2061	4784515, 4784514	4219527	shikharins@mos.np
14.	Lumbini General Insurance Co.Ltd.	2062	4784514, 4784515	4411692	lqic@mos.np
15.	N.L.G. Insurance Co.Ltd	2062	42587766 4256190	4257776	nlgi@mail.com.np
16.	Siddhrtha Insurance Co.Ltd.	2062	42587766 4256190	4257776	sil@info.com.np

Source: Rastriya Beema Sansthan.