

PREMIUM COLLECTION AND INVESTMENT
PATTERN OF NEPAL INSURANCE COMPANY
LIMITED AND PREMIER INSURANCE COMPANY
LIMITED



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RECOMMENDATION

This is to certify that the thesis:

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NEPAL INSURANCE COMPANY LIMITED AND PREMIER
INSURANCE COMPANY LIMITED”

Has been prepared as approved by this Department in the prescribed
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DECLARATION

I hereby declare that the work reported in this thesis entitled “Premium Collection & Investment Pattern of Nepal Insurance Company Limited and Premier Insurance Company Limited” submitted to Mahendra Multiple Campus, Tribhuvan University is my original work. It is done in the form of partial fulfillment of the requirements for the master of business studies (M.B.S) under the supervision and guidance of lecturer Mr. Rajendra Sharma.

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TABLE OF CONTENTS

	Page No.
Recommendation	i
Viva-voce sheet	ii
Declaration	iii
Acknowledgement	iv
List of tables	v
List of figures	viii
Abbreviation	ix

CHAPTER – I

INTRODUCTION **1-9**

1.1 Background of the Study	1
1.2 Statement of the Problem	5
1.3 Objectives of the Study	5
1.4 Significance of the Study	6
1.5 Limitations of the Study	7
1.6 Organization of the Study	8

CHAPTER – II

REVIEW OF LITERATURE **10-34**

2.1 Conceptual framework	10
2.1.1 Meaning of insurance	10
2.1.2 Types of insurance	11
2.1.3 Nature of insurance	13
Nepal insurance company limited	15
Premier insurance company limited	17
Services provided by NIC & PIC	17
Miscellaneous insurance	18
Sources of investment funds	21
The principle of investment	22
2.2 Review of related studies	24
2.2.1 Review of related journal & other publication	26
2.2.2 Review of thesis	29
2.2.3 Research gap	34

CHAPTER - III

RESEARCH METHODOLOGY	35-41
3.1 Research Design	35
3.2 Populations and Samples	35
3.3 Types and Sources of Data	36
3.4 Data Analysis Tools	37
3.4.1 Financial analysis tools	37
3.4.2 Statistical tools	39

CHAPTER-IV

DATA ANALYSIS & MAJOR FINDING	42-92
4.1 Data Presentation & Analysis	42
4.1.1 Evaluation of Insurance Premium Collection & Composition	42
4.1.2 Financial Analysis	43
4.1.3 Fire Premium to Total General Premium Collection	44
4.1.4 Marine Premium Collection to Total General Collection	47
4.1.5 Miscellaneous Premium Collection to Total General Premium Collection	49
4.1.6 Premium Income of Nepalese Insurance Market	51
4.2 Investment	51
4.2.1 Life Fund	52
4.2.2 General Fund	52
4.2.2.1 Investment on Govt. Saving Bonds to Total General Investment	53
4.2.2.2 Investment on Bank Fixed Deposits to Total General Investment	55
4.2.2.3 Investment on Finance Company Fixed Deposited to Total General Investment	56
4.2.2.4 Investment on Share to Total General Investment	58
4.2.2.5 Investment in Other Sectors to Total General Investment	60
4.2.2.6 Investment of NIC& PIC	61
4.2.2.7 Investment to Total Premium Collection Ratio	64

4.3 Claim Paid	65
4.3.1 Claims Paid to Premium Collection	65
4.3.1.1 Life Claims Paid to Total Life Insurance Premium Collection	65
4.3.1.2 General Claims Paid to Total General Premium Collection	66
4.4 Interest Earned to Total Investment Ratio	68
4.5 Statistical Analysis	70
4.5.1 Correlation Analysis	70
4.5.2 Correlation between Premium Collection & Investment of NIC& PIC	71
4.5.3 Correlation between Premium Collection and Claims Paid by NIC& PIC	73
4.6 t-test	75
4.6.1 Test of Hypothesis	75
4.6.1.1 First Hypothesis	75
4.6.1.2 Second Hypothesis	77
4.7 Presentation Analysis and Interpretation of Primary Data	78
4.7.1 Evaluation of the Insurer's Vies Regarding the Premium Collection Aspect	79
4.7.2 Evaluation of the Insurer Vies Regarding the Investment Pattern Aspect	86
4.8 Major Finding	90
CHAPTER – V	
SUMMARY, CONCLUSION AND RECOMMANDATION	93-94
5.1 Summary and Conclusion	94
5.2 Recommendation	95
BIBLIOGRAPHY	
APPENDICES	

LIST OF TABLES

Table 4.1:	Fire premium collection to total general premium collection of NIC	44
Table 4.2:	Fire premium collection to total general premium collection of PIC	45
Table 4.3:	Marine premium collection to total general premium collection of NIC	47
Table 4.4:	Marine premium collection to total general premium collection of PIC	48
Table 4.5:	Misc. premium collection to total general premium collection of NIC	49
Table 4.6:	Misc. premium collection to total general premium collection of PIC	50
Table 4.7:	Premium Income of Nepalese Insurance Market	51
Table 4.8:	Investment on Govt. Saving Bonds to Total General Investment of NIC	53
Table 4.9:	Investment on Govt. Saving Bonds to Total General Investment of PIC	54
Table 4.10:	Investment on Bank fixed deposits to Total General Investment of NIC	55
Table 4.11:	Investment on Bank fixed deposits to Total General Investment of PIC	55
Table 4.12:	Investment on Finance Company fixed deposits to Total General Investment of PIC	57
Table 4.13:	Investment on Share to Total General Investment of NIC	58
Table 4.14:	Investment on Share to Total General Investment of PIC	59
Table 4.15:	Investment in other sectors to Total General Investment PIC	60

Table 4.16: Total Investment of NIC and PIC	61
Table 4.17: Investment Portfolio of NIC	62
Table 4.18: Investment Portfolio of PIC	63
Table 4.19: Total Investment to Total Premium Collection (%) of NIC and PIC	64
Table 4.20: Claims Paid to Total General Premium Collection of	66
Table 4.21: Claims Paid to Total General Premium Collection of PIC	67
Table 4.22: Interest Earned to Total Investment Ratio of NIC	68
Table 4.23: Interest Earned to Total Investment Ratio of PIC	69
Table 4.24: Correlation between Premium Collection and Investment of NIC	71
Table 4.25: Correlation between Premium Collection and Investment of PIC	72
Table 4.26: Correlation between Premium Collection and Claims paid by NIC	73
Table 4.27: Correlation between Premium Collection and Claims paid by PIC	74
Table 4.28: Total Premium Collection Table	76
Table 4.29: Total Investment (based on aggregated data of in Million)	77
Table 4.30: Premium Collection System of Insurance	81
Table 4.31: Collection from premium, at present insurance market	82
Table 4.32: Insurance Company gives the Payment of the amount in time if loss damage takes place	84
Table 4.33: There may be different provision according to insurance policy	85
Table 4.34: To maintain the desire/maximum beneficial Investment Policy	87
Table 4.35: Preferences of the Investment Policy	88
Table 4.36: Gain Desired Return	89

LIST OF FIGURES

	Page no.
Figure 4.1: Trend Line of Fire premium collection to total general premium collection of NIC	45
Figure 4.2: Trend Line of Fire premium collection to total general premium collection of PIC	46
Figure 4.3: Trend Line of Marine premium collection to total general premium collection of NIC	47
Figure 4.4: Trend Line of Marine premium collection to total general premium collection of PIC	48
Figure 4.5: Trend Line of Misc. premium collection to total general premium collection of NIC	49
Figure 4.6: Trend Line of Misc. premium collection to total general premium collection of PIC	50
Figure 4.7: Trend Line of Investment on Govt. Saving Bonds to Total General Investment of NIC	53
Figure 4.8: Trend Line of Investment on Govt. Saving Bonds to Total General Investment of PIC	54
Figure 4.9: Trend Line of Investment on Bank Fixed Deposit to total General Investment of NIC	55
Figure 4.10: Trend Line of Investment on Bank fixed deposits to total General Investment of PIC	56
Figure 4.11: Trend Line of Investment on Finance Company fixed deposits to Total General Investment of PIC	57
Figure 4.12: Trend Line of Investment on Share to Total General Investment of NIC	58
Figure 4.13: Trend Line of Investment on Share to Total General Investment of PIC	59
Figure 4.14: Trend Line of Claims Paid to Total General Premium Collection of NIC	66

Figure 4.15: Trend Line of Claims Paid to Total General Premium Collection of PIC	67
Figure 4.16: Trend Line of Interest Earned to Total Investment Ratio of NIC	69
Figure 4.17: Trend Line of Interest Earned to Total Investment Ratio of PIC	69
Figure 4.18: Condition of the Premium Collection at Present Situation	80
Figure 4.19: Rate of Premium under Different Insurance Policy	80
Figure 4.20: Premium Collection System of Insurance	81
Figure 4.21: Collection from premium, at present insurance market	82
Figure 4.22: Collection of Target Premium Amount	83
Figure 4.23: Insurance Company gives the Payment of the amount in time if loss damage takes place	84
Figure 4.24: To maintain the desire/maximum beneficial Investment Policy	87
Figure 4.25: Suitable sectors for the Purpose of Investment to the Insurer	88
Figure 4.26: Preferences of the Investment Policy	89
Figure 4.27: Gain Desired Return	90

ABBREVIATIONS USED

X	: Mean
%	: Percentage
Σ	: Sum
B.S	: Bikram Sambat (Nepali Date)
Co	: Company
CV	: Co-efficient of coefficient
D/E ratio	: Dept Equity ratio
d.f	: Degree of freedom
E.g.	: Example
FY	: Fiscal year
Etc	: Et Cetera
Govt	: Government
HMG	: His Majesty's Government
i.e	: That is
Ltd	: Limited
Misc	: Miscellaneous
NIC	: Nepal Insurance Company
NLGI	: Nepal Life and General Insurance
NEPSE	: Nepal Stock Exchange
PIC	: Premium Insurance Company
PE(r)	: Probable Error of Correlation
r	: Correlation of Coefficient
RBS	: Rastriya Bima Sansthan
Rs	: Rupees
r^2	: The Coefficient of Determination
S^2	: Variance
SD	: Standard Deviation
TTD	: Temporary Total Disablement

CHAPTER – I

INTRODUCTION

1.1 General Background

All the businesses are initiated by the tendency of creating more profit and to maximize the wealth as much as it can be. Though several writers has split min their views and opinion that profit is only the means to achieve the business objectives not an end. But in this economic age it does not seemed to be much logical because can be avoid the intension of making more profit and maximizing. The government firm and individual agencies play vital role in the financial and capital market through investing the collected resources within the recognized and national sector like productive industry and financial area, yet expecting reasonable benefit themselves.

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

According to nature, characteristics and objective of the insurance company, they are also referred as financial intermediaries. Hence, insurance industry, a composite structure of insurance companies, is also regarded as financial institution bearing very different characters among various financial institutions and intermediaries. All insurance companies are capable of providing industrial finance, government finance or even personal finance. They provide different finance through their own investment policy and pattern based upon their own corporate objective and nature of the line of insurance business. In the context of Nepalese insurance companies, they provided various insurance policies and

charge premium under insured risk and nature. Insurance companies collect fund through various clients (people and organization) as premium. So, all the insurance companies are responsible for their client's interest. This study looks and analyses two different insurance company's premium collection and investment situation and sector.

Insurance does not protect the asset. It does not prevent its loss due to the peril. The peril cannot be avoided through insurance. The peril cannot be avoided through better safety and damage control management. Insurance only tries to reduce the impact of the risk on the owner of the asset and those who depend on that asset. The compensation provided by it may not be full as per the loss. Only economic or financial losses can be compensated. The love and nurturing lost to the family of a deceased person cannot be compensated.

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

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

Development of Insurance

Insurance is said to have commenced with marine insurance covering goods sent on ships, against the risks of piracy and storms. The Lloyds Coffee house in London where the traders used to gather and from where the first insurance risks were under written still exists and continues to be the center of insurance activity. Life insurance policy is said to have been issued in 1583 in England. Motor insurance a fascinating branch of insurance, had its beginning in the United Kingdom in the early part of 19th century. The first motor policy was introduced in England in 1894 to cover third party liabilities. By 1899 accidental damage to the "Comprehensive" policy along the lines of the policy issued today.

The great fire of London in 1666 caused huge damage of property and life, after that attention was given for adequate fire insurance facilities. Dr. Nicholas Barbon responded to this situation by building houses to replace those, which had been destroyed, & offering to purchase fire insurance. In 1667 he established the world's first fire insurance company, which was named as fire office.

Insurance Development in Nepal

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

The development of trade, commerce and industry, the necessity of insurance in our country was felt long ago. But there was no evidence of any organized

form of insurance in Nepal until 1947. Society was organized in an agricultural basis and the socio-economic organization took care of any problem or calamity confronted to the community. The fire insurance in Nepal, at first was started by "Mal Chalani Ra Beeme" (Transport and Insurance Company). The "National fire insurance company" of Calcutta is the first insurance company to open branch in Kathmandu in 1958, to transact fire insurance business in Nepal.

The development of trade and industry, establishment of Nepal Rastra Bank (Central Bank), Nepal Bank Ltd (Commercial Bank), Rastriya Banijya Bank (commercial bank), Agricultural Development Corporation, numerous other companies and corporations, the need of fire insurance in Nepal is growing in a manifold way. To meet ever-growing needs of fire insurance Indian branches such as "Ruby", "Oriental", "Sterling General" and "Hindustan General" and the domestic insurance company "Insurance and Transport Company" and "Rastriya Beema Sansthan" are transacting fire insurance business.

Though there is no organized form of life insurance in Nepal. A kind of life which can be better termed "death insurance" is practiced since a long time. Like "insurance" there was "Guthee", which helped its member in facing financial burden out of death. Its policyholders were known as "Gutheear" instead of insured. Though they had not got policies in black and white they had a kind of verbal understanding by which they could work smoothly without facing any difficulties. Gutheears used to pay a certain amount of money to the "Gutnee" in the same way as the insured pays premium to the insurer. Before 1951, Patna branch of Indian Life Insurance Company was exploring life insurance business with the nationalization of "Life Insurance Corporation of India". It is solely and wholly transacting life assurance business in Nepal. It established a branch office in Kathmandu in 1962. Thus, this corporation has got a kind of monopoly in life insurance business. However, a need for an insurance company that would incorporate every type of insurance function

was felt necessary at the national level. This resulted in establishment of Rastriya Beema Sansthan on 15th December 1968. The company was established as a private company with an authorized capital of Rs.1 crore and issued capital of Rs.25 lakh, under the Nepal Company Act, 2025. On Feb.21, 1973, five years after its establishment life insurance was introduced.

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

1.2 Focus of the Study

The study focuses on how to collect premium and invest on other organization. Institutional investors such as insurance companies are inventory in securities and spreading the risk. There are various institutions in Nepal, which help to called the unused fund from the general public and mobilize it in productive sector. Insurance companies also fall under such category. Insurance means a contract where one party in consideration of money payment called premium undertakes to protect other party against any loss or pay to that party the agreed sum of money on the happening in certain event. In business as well as private life there is danger of every kind. The aim of the insurance companies is to make provision against such danger. Insurance companies are there to compensate for the possible loss. An insurance company does not prevent risk of loss but it compensates the loss by spreading out the risk on shoulders of the community. In reality insurance is a social security. It helps to protect certain level of income of people. In today's uncertain environment it has gained huge popularity.

1.3 Statement of the Problem

Nepalese insurance companies are the successful public enterprises of Nepal, which are still running in the insurance business with out suffering any losses

from the date of establishment till now. So, the investors and businessman involved in insurance business and subsequently now twenty one insurance companies were established and operate their service and activities too. Nowadays, international insurance companies are also opened in Nepal to transact insurance business. But an overlook on the balance sheet and profit and loss account of insurance companies reflects the fact that the companies are earning profit each year; however it is not significant and satisfactory, against the volume of transaction. The volume of transaction is increasing tremendously year by year but the growth of net earning is not in the same ratio. It is because of price-cutting, under rating and cutthroat competition in the market. Therefore the study concentrates on the finding out answer of these following research questions:

- What are time consuming procedures in accepting, issuing and dispatching policy?
- Are practice of only traditional insurance policies, practices and schemes?
- Is less attention in arrangements due to budgetary constraints in refreshment to clients?

1.4 Objectives of the Study

The basic aim of this study is define current situation of Nepal Insurance Company Ltd. and Premier Insurance Company Limited and find out premium collection and investment position for this purpose, these specific objectives are spelled out as:

- i. To examine the trend and pattern of premium collection.
- ii. To examine the trend and pattern of investment.
- iii. How to insurance company settles their claims.

1.5 Significance of the Study

The process of insurance has been involved to safeguard the interest of people from uncertainty by providing certainty of payment at a given contingency. It does not serve the end of individuals but tends to pervade and to transform modern social order. From an institutional viewpoint, the insurance companies are primarily aimed at providing the security against definite risk for an individual or organization. However, as supplementary to their basic aim the insurances perform as financial intermediaries too. The insurer will have a huge amount to invest, which they collect as individual savings or as the cost of being insured. So, the study analyses premium collection and investment pattern. This will show the fund's actual scenario.

The study is needed to frame out the premium collection and investment position of Nepal insurance company and Premier insurance company. Insurance companies need to mobilize its collected fund soundly. Thus, it would be better to evaluate the condition of premium collection and investment pattern of Nepal insurance company and Premier insurance company. It is also needed to disclose the utility of insurance in Nepalese prospects. The study focuses the insurance market and possibility of future expansion in Nepal and is also concerned to trace the weak area to suggest for its improvements. This study will highlight the investment sector of insurance too. It is the study on collected premium under various policies and suggests what the weaknesses are and how to improve them.

1.6 Limitations of the Study

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

boundaries are called as limitations of this study. The limitations of this study are:

- a. The study is based on secondary data and primary data collected from the Nepal insurance company limited, Premier insurance company limited and the insurance board (Beema Samitee), Nepal Stock Exchange and website: www.nepalstock.com.np Researches based on secondary and primary data are not far from the limitation to inherent character.
- b. The study concern only six years periods of data (2002/03 to 2007/08) and conclusion drawn confines only to the limited duration.
- c. This study covers only the area of premium collection, investment and claims paid, besides this, other area is not touched.
- d. The cumulative data of investment are used in the study.

1.7 Organization of the Study

The entire study has been designed into five main chapters. They are:

Chapter 1: Introduction

It is an initial phase of the thesis (research), which is, general background of the study, statement of the problem, objective of the study, significance of the study, limitation of the study and organization of the study.

Chapter 2: Review of Literature

This chapter has included two main aspects: (i) Conceptual framework (ii) Review of related studies includes review of thesis, books, articles and reports with findings and recommendations.

Chapter 3: Research Methodology

It reveals the methodology adopted in carrying out the research work. It includes research design, population and sample, sources of data, procedure of data collection, data analysis procedure and uses of tools for analysis.

Chapter 4: Data presentation and Analysis

It is concerned with the presentation and analysis of data that has been collected through various sources. Various collected data tabulates in their sequential order and describe and analyze with statistical tools as well as findings of the study.

Chapter 5: Summary, conclusion and Recommendations

The fifth chapter includes the Summary, conclusions and recommendations of the study.

Besides this, Bibliography and Appendixes are attached at the end of the study.

CHAPTER - II

REVIEW OF LITERATURE

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

2.1 Conceptual Framework

Human, being a social animal always wants his future to be safe and secured. Human being is facing various sorts of risk from every beginning of the human civilization. Some sorts of risks are not out of their control. For reducing the risk insurance proved as an effective device that could safe guard against such unfortunate happenings.

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

2.1.1 Meaning of Insurance

Insurance is the protection against risk. Risk means uncertainty about future loss, or in other words the inability to predict the occurrence or size of loss. The things are always uncertain. Any incident may happen in a man's life. The uncertainty of loss is called risk. Insurance companies perform the task of paying compensation for financial loss, in return of little fixed amount called premium. The insurance company gives the payment of the amount if loss or damage has takes place.

The insurance business is a multidimensional business. In this age, this business is giving the benefit directly or indirectly to the organs of the society: to the person, society, agriculture, trade, transport, industry etc. every aspect of the society. In other words, it has become important part of those sectors. In these days, insurance business has appeared as a contract business. The contract is an agreement between two or more than two parties, to do or not to do something. In this way, under the modern insurance business, insurance is a contract between two or more parties in which one party, agrees in return of a certain amount to compensate another party for the possible incident that may happen in future.

2.1.2 Types of Insurance

Insurance can be divided from two angles: first from the risk point of view, and the second, from business point of view.

(A) From Risk Point of View

The insurance from risk viewpoint is classified in the following ways.

(i) Personal Insurance

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

(ii) Property Insurance

Under this, insurance of the different nature of properties are affected to compensate the property damaged or loss. The compensation is given to the assured by the insurance company. The insurance company gives only actual

compensation to an insured on the basis of fact and event. The examples of property insurance are fire, marine, crops cattle and burglary insurance etc.

(iii) Liability Insurance

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

(iv) Guarantee Insurance

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

(B) From the Business Point of view

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

(i) Life Insurance

The insurance, which is made against the risk related to the man's life is life insurance. It is a financial instrument for providing post death resources to support survivors or pay obligations of the estate of the deceased. Generally, life insurance, as a type of insurance plan conducted by the insurers, is directly related with providing assurance against the economic part of total human life. Life insurance contract may be defined as the contract, where by the insurer, in consideration of a premium undertakes, to pay a certain sum of money either on the death of the insured or on the expiry of a fixed period.

(ii) Non-Life or General Insurance

Insurance, other than life and social insurance are called non-life or general insurance. The subject matter affected under it is nature of property. The insurance company provides indemnity to the insured. Such compensation should be based on the actual value. The examples are : fire insurance, marine insurance, crop insurance, rain insurance, cattle insurance, motor insurance, theft insurance, credit insurance, liability insurance, vocal insurance, glass insurance, aviation insurance, beauty insurance, earth quake insurance, loan insurance, personal accident insurance, etc.

(iii) Social Insurance

In modern age, the social insurance has a special important place. The objective of this insurance is to provide the maximum social benefit to the society. This type of insurance is especially, useful for the worker class and the owners of factories. This sector possess high risk because the workers work in the mill and factories, from it, as the workers, officials, the owners too may suffers loss, social insurance provides the economic protection both to the official and owners. The main examples of social insurance are workmen's compensation insurance, sickness insurance, pension insurance, maternity insurance, unemployment insurance etc. Having regarded to the importance of this insurance, in every developed country, this insurance has been generally made compulsory. But this insurance was started in England. The burden of expenses of affecting this insurance does not fall only on the insured, but the government and the owner of the factories too bear the most of the portion of premium.

2.1.3 Nature of Insurance

The insurance has the following characteristics, which are generally observed in case of life, marine, and fire insurance.

(i) Sharing of Risk

Insurance is a device to share the financial loss, which might fall on individual or his family on the happening of a specified event. The event may be death of a breadwinner to the family in the case of life insurance, accident in motor insurance etc. If insured are shared by all the insured in the form of premium, the loss arising from these events

(ii) Co-operative Device

The most important feature of every insurance plan is the co-operation of large number of persons who, in effect, agree to share the financial loss arising due to a particular risk, which may be brought together voluntarily or through publicity or through solicitation of the agents. The insurer would be unable to compensate all the losses from its own capital. So, by insuring or underwriting a large numbers of persons, he is able to pay the amount of loss like all co-operative devices, there is no compulsion here on any body to purchase the insurance policy.

(iii) Valuation of Risk in Insurance

Before the insurance contract is made the insurer studies the property that is to be insured. It fixes the premium too on the basis of it, if the quantity of risk is high, premium is also high. The more risk is the more premium but if the risk is low, the premium is also low. The premium is fixed on the basis of risk. So, the analysis of risk plays significant role in insurance business.

(iv) Amount of Payment in Insurance

The payment by insurance company is very important aspect. In life insurance, compensation is paid according to the nature of premium, to the insured himself/herself, if he/She is died, then under the law, his/her family member gets the compensation. But in case of property, compensation is based on actual

loss. There may be different provisions according to the insurance policy. But to get the compensation, the insured should submit the correct and true evidences that prove the loss of his property, to the insurance company.

(v) Insurance is not Charity

Charity and insurance are separate subject matters. Where the cash and the goods are freely provided to do something to any person, it is charity. But insurance is a contract; the insured should pay the premium in fixed amount and in the time given by the insurance company. This is his/her legal obligation. The insurer too should give the compensation of that subject matter to the insured, if that property gets ruined or lost. This too is the obligation of insurance company. So, the insurance is not charity, it is a contract made between two parties.

a) Nepal Insurance Company Limited

Nepal Insurance Company was established in 1947 with the name of "Nepal Malchalani and Beema Company." Later on in 1959 it was renamed as "Nepal Insurance and Transport Company Limited". In 1991 the "Transport" has been omitted from its name. Now the company is known by the name Nepal Insurance Company Limited (NIC). The company was established under the guardianship of Nepal Bank Limited.

It was established with an objective of under taking non-life insurance business like fire, marine, motor & miscellaneous insurance in the country and abroad. During the very long period, transactions of the company were limited to Nepal Bank Limited because the company especially insured the imports of Nepal Bank Limited but at present its operating field has been spread over the country. There are seven members in the Management Committee of NIC. Mr. Bhagat Bista is the president of the committee.

The company has its six branches, in Shreepur (Birgunj), Narayangadh (Bharatpur), Baragacchi (Biratnagar), Surkhet road (Nepalgunj), Khasauli and New road (Pokhara). Similarly, seven contact offices has been set up at Lahan, Dhangadi, Birtamode, Banepa, Hetauda, Dharan and Bhairawa. Upto the end of fiscal year 2060/61 its authorized capital was Rs. 1500,00,000 its issued capital was Rs. 1500,00,000 and its paid up capital was 789,9,700.

The objectives of Nepal Insurance Company Ltd. are as follows:

- i. To protect the business from predicted risk and uncertainty by sharing and diversifying the risk with proper management.
- ii. To mobilize the internal saving through different schemes of life and non-life insurance sector.
- iii. To re-insurance the risk beyond the company's capability to other company as well as accept re-insurance policy from the company. In other words, the objective of company is to execute the re-insurance business in country and in abroad.
- iv. To provide following insurance services on non-life sector in the country and abroad.

(a) Fire Insurance

- Crash by earthquake
- Explosion
- Flood
- Storm & cyclone
- Damage in transit of aviation

(b) Motor Insurance

- Comprehensive
- Third party liability

(c) Marine cargo insurance

(d) Personal accident insurance

(e) Cash in Transit Insurance

- (f) Burglary & House Breaking Insurance
- (g) Fidelity Guarantee Insurance
- (h) Medical Aid Scheme
- (i) Contractors' all risk insurance
- (j) Engineering Insurance
- (k) Student Safety Insurance Scheme
- (l) Household Insurance
- (m) Overseas Medical & Travel Insurance
- (n) Comprehensive Shopkeeper Insurance

v. To satisfy the claims on damage of insured property as soon as possible.

b) Premier Insurance Company Limited

Premier Insurance Co. (Nepal) Ltd. was incorporated on 12th May 1994. It is situated in Tripureshwer. It is established under company Act & insurance Act. Its liability is also limited. It has also issued share to raise its capital. It is also listed in Nepal Stock Exchange. It deals with non-life insurance such as fire, marine, motor, engineering & construction insurance etc. It can't deal with life insurance. There are nine members in its management committee. Mr. Ram Lal Shrestha is the president of the committee. Upto the end of fiscal year 2061/62 its authorized capital was Rs. 200,000,000, its issued capital was Rs. 1,00,000,000 and its paid up capital was 30,000,000.

Services Provided by NIC and PIC

Nepal Insurance Company and Premier Insurance Company don't provide life insurance. It provides non-life insurance services. This company provides the following types of insurance business services.

General Insurance

Nepal Insurance Company and Premier Insurance Co. Ltd. indemnify the insured by compensating the damage within the period of insurance policy. As

such it is developing as a basic tool for the development of commerce and industry of the country. Under the General Insurance, Nepal Insurance and Premier Insurance, Provides the following type of insurance business:

❖ **Fire Insurance**

Fire insurance policies are issued to indemnify owners property, building or contents against destruction or damage caused by fire and lightning. In generic, fire insurance provides indemnity for loss or damage caused by the fire. Basic form of fire insurance offers protection to the insured against the destruction of physical property as a result of fire. There may be various causes to extent an accident by fire. Insurer is only responsible to provide the indemnity against the risk, which was held at accordance to policy. The field of fire insurance can be modified or extended to include a number of peril closely allied to fire like wind, storm, earthquake, riot and strike, damage.

❖ **Marine Insurance**

Marine insurance policy will be written to provide the security against peril of sea. An essential part of that security is protection against loss or damage by peril of the sea or through the hazards of transit generally. Usually, such policy will provide the assurance/insurance not only against the natural disaster, but also against piracy and other manmade disaster. Further the modified marine insurance policy provides the protection against various risks, which does not belong to sea. The marine insurance policy provides the protection against inland transit loss, which arises in the way to seller and buyer, and protection against loading and unloading also.

❖ **Miscellaneous Insurance**

Under the miscellaneous insurance, Nepal insurance company and premier insurance company provides the following types of insurance as:

▪ **Personal Accident Insurance**

This insurance provides payment of compensation in the event of the insured's accidental death/disablement by bodily injury resulting solely/directly from accident caused by external violent and visible means. Individuals or groups including employees, students and professionals can be insured against death, permanent total/partial disablement, temporary total disablement (TTD). This cover can also be extended to include medical expenses incurred.

▪ **Aviation Insurance**

It deals with Hull and Liabilities insurance. Hull indemnity is available either for Total Loss or Constructive Total Loss for Partial Loss. Insurance coverage is also available for Spares, Components and Equipment. Hull deductible cover is also available.

Liability coverage includes Third Party Liability, Passenger Legal Liability, passengers' Baggage and others including Cargo, Freight and Mail.

▪ **Automobile Insurance**

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

▪ **Cash in Transit Insurance**

This cover is intended for banks, business houses, manufacturing organizations who deal in cash, periodically providing indemnity in respect of loss of such

money (cash) carried by authorized employees whilst in actual transit from one place to another as specified in policy, i.e., from the time money is taken out from one place until delivered at other place (Money in transit by employees). Thus risks covered are robbery, accident or fortuitous cause and riot/strike.

▪ **Workmen Compensation Insurance**

This provides compensation to all workmen engaged in any particular work against injury in the course of and out of employment. This cover could also be extended to cover medical expenses incurred.

▪ **Fidelity Guarantee Insurance**

This cover is intended to provide indemnity to employer/insured for financial loss sustained as a result of forgery, embezzlement, larceny, fraudulent conversion of money and goods committed by salaried employees in course of performance of their duties.

▪ **Burglary/ Housebreaking Insurance**

This is intended to cover loss/damage of stock/cash in safe by burglary/house breaking including damage to premises caused by burglars during such an attempt. Burglary/house breaking stand for theft involving entry into/exit from insured premises by violent, forcible means, assault/threat to the insured/employee/members of family. Risk of theft can also be extended in specific cover.

▪ **Public Liability Insurance**

Negligence of worker or defect in premises resulting into third party personal injury and property damage can be covered.

- **Contractor's all risk Insurance**

NIC and PIC also Serves the contractor by providing contractor's all risks insurance. In this policy the insurer provides indemnity for contractor (insured) for damage to their sites e.g. bridges, buildings, culvert, walls etc.

- **Engineering Insurance**

This insurance is designed to pay indemnity for the insured for the breakdown and damage of their large plant & Machines. Large industrial companies are much benefited for this insurance because they have large plant & machineries that cost very high.

- **Others**

Besides these, other services are also provided by Nepal Insurance Company and Premier Insurance Company Ltd. such as Hospitalization/Medical Insurance, Comprehensive Household Insurance, and Loss of Profit Insurance etc.

Sources of Investment Funds

The sources of investment fund of insurance companies are:

- **Premium**

The main source of funds is the premium collected by the insurers. The premium may be single premium, level premium or considerations. Exceeding of this premium over the needed premium for meeting claims and expenses is the source of funds.

- **Interest**

The second source of fund is the interest earned over the assumed rate of interest. The assumed rate is lesser than the actual rate in most of the cases.

- **Capital**

Funds obtained from the sale of share and debentures are included under capital.

- **Savings in Expenses**

Saving in expenses loading, bonus loading or mortality savings are also contributing to the funds of the insurers.

- **Non-payment of Claim**

In pure endowment or term insurance, the claims may not arise, therefore, the premium paid for such benefits are saved. Sometimes, in certain cases, the claimants do not come for payment at all. Thus, the saved money forms the apart of the funds of insurers.

The Principles of Investment

The canon of investment is safety, profitability, liquidity, diversification and marketability. (Mishra, 1979)

- **Safety**

The securities in which the funds of insurer are to be insured should never at anytime fall in their face values, otherwise the liability will be more than its corresponding assets. The primary purpose of investment is not to earn maximum profit but to maintain a complete security. Therefore, speculative investments are not suitable for life insurance funds. Security of principal amount is more important consideration.

Safety includes safety of principle amount and interest there on. It means that the principal and interest must not fall, below the expected level at any time. This principle is the keystone of investment.

- **Profitability**

The insurer must earn at least the assumed rate of interest; otherwise they will suffer loss. The investment, so, should be made in such securities, which yield the highest return consistent with the principle of safety. The insurer can reduce his future premium by earning higher interest and thus will be able to increase his business. It has been realized that the safety and the profitability principles are fully opposite to each other. The principle of profitability is important for insurer's investment.

- **Liquidity**

The principle of liquidity is important for the insurance investment. Insurer has no information about when they need to pay the claim of their client. So, at any unseen time there will be the requirement of fund. Thus, the insurer needs to invest under the principle of liquidity.

Liquidity represents convertibility of investment into cash without undue loss to capital. The insurer needs to maintain working cash and bank balance in order to carry out the normal transaction of receiving payments and making disbursements. Further, they need to finance the unforeseen claims occurring in the form of matured contracts. Therefore, insurer needs to maintain the liquidity at their investment. The principle of liquidity is against the principle of profitability, because the idle cash will earn nothing and invested cash will have no liquidity.

- **Diversification**

An insurer should not lay all the eggs in the same basket. This saying is very important to the insurer and so he/ she should be always careful not to grant investment in only one sector. To minimize the risk, an insurer must diversify his/her investment in different sectors.

Diversification of investment helps to sustain loss according to the law of average because if securities of a company are deprived, there may be appreciation in the securities of other companies. In this way the loss can be recovered and the company may be able to earn more profit. The diversification provides maximum security with high yield and better liquidity provided the diversification is done taking into account of all these factors.

- **Marketability**

Marketability is an important principle of investment policy. The principle of marketability suggests the insurer to invest in that sector where easy possibility of cash convertibility exists. Insurer may not have any information about the requirements of the funds to pay the claim of the insured. So, they need to invest in those sectors where marketability exists. Therefore, the convertibility or marketability principle must match with other principle as well as with the line of insurance business and the nature of the required fund.

2.2 Review of Related Studies

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

He again stated that Insurance is a technical business involving the skills of statistics, financial analysis, engineers; physicians, economists, lawyers and others. Contract must be carefully drafted, underwriting conditions must be determined, rates must be equitably established and funds must be prudently

invested. Since insurance is affected with the public interest, it is closely regulated (Robbert and Emerson, 1972).

The essence of the insurance scheme is that, it is a social device, which involves the accumulation of funds, that it involves a group of risks, and that each person of firm who becomes a member of the group transfers his risks to the whole group. (James L. Athearn, 1981) The purpose of insurance is to reduce the uncertainty and worry caused when it becomes aware of the possibility of loss. It does this by spreading the economic burden of losses among members of the group. Insurance does not prevent loss but it relieves the financial burden.

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

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

David L. Bickhaupt has stated about the general legal requirement of insurance as, the rights and obligation of the parties to an insurance agreement are determined largely by reference to the general laws, which govern contracts.

The agreement by which insure is consideration of the payment if specified. Sum by the insured agrees to make good the losses suffered through the happening of designated unfavorable contingency. The insurance contract need not be in writing, but as a matter of business practice such agreements are ordinarily written. Even social insurance, such as workers compensation, are written, through the terms appear in a state law rather than in private agreement.

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

2.2.1 Review of Related Journal & Other Publications

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

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

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

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

Kiran Nepal has mentioned about the current market of insurance industry in Nepal. The article is a complete study of potentials of insurance in Nepal and problems facing by the insurance companies in Nepal. He reveals that there is keen competition in the general insurance. There are 16 general insurance companies in the small country like Nepal. So, they are competing with each other to capture other's market without creating their own market and going to other sectors of insurance behind the traditional functioning. But the 99% of life insurance market remains untouched. The life insurance companies are far from reach to the majority public. There is future potential in the life insurance in Nepal (Nepal, 2002:38-45).

Ramesh Raj Bhandari explained that insurance is a key in the economic development of a country. Insurance companies not only shift the risk but also collect small-scattered capital and inject these in the development activities of long-term nature. It has direct role to play in a developing country because of the fact the government is utilizing its entire means and resources for the all-sound development of the country. A slight mistake on the regulating of Insurance activities will create an adverse effect in the over all economy of the country. Hence, the supervision of insurance through regulation is a must in order to accelerate the pace of economic growth. A sound insurance regulation

is a means to provide for insurance to stable and strength the national insurance market. Thus, insurance regulation facilities are necessary control of insurance activities (Bhattarai, 1993).

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

The government properties including corporation is insured to Government Company in priority basis, it is difficult to pursue in such corporation and government offices, so the environment is not very positive. Only lip service from government, the economic growth of the country is very slow. People cannot afford to pay insurance premium. The sense for insurance unawareness and unconscious mass is very high. Thus insurance business is very-very challenging. One has to create the market. Tremendous market potentiality and opportunity is felt due to the right person. After the formation of Nepal Insurance Association, the companies can plead their problem jointly to the government and should look forward for the interest and benefit of insures. This platform should be taken as an opportunity (Shrestha, 1991).

Dr. Raghab D. Pant on the flow of funds in Nepal has analyzed the flow of funds of Rastriya Beema Sansthan since 1975 to 1991. He found that the small

volume of credit transaction of Rastriya Beema Sansthan in areas other than government bonds means that it has influence in determining the structure of demand in the economy. The savings that it has managed to mobilize, especially through life insurance is considerable. It has, however, been used to finance government budget deficit or to further increase fixed deposit liability of the commercial banks, which in many occasions, has excess liquidity at their disposal. Rastriya Beema Sansthan however, has no alternative either (Pant, 1995).

2.2.2 Review of Thesis

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

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

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

Ramesh Raj Bhattarai (2006) has conducted by on "Insurance Board in Nepal its effectiveness in regulation and controlling insurance companies". This study was focused on how to control the insurance companies by government on itself. He defined the measures of regulating and controlling system. It has a descriptive analysis. The conclusion drawn by his studies were: The majority of the respondent fell under the group of 41 years and above. Most of them were married and majority of them had a master's degree. The respondent of the insurance board was experienced in other field than insurance. It might be due to the part time nature responsibility in the board.

He had taken specific activities of the insurance companies into consideration for respondent's board member and insures identified legal reserve regulation as effective one than that of capitalization. He had found the tariff rate too high. He pointed that the recent regulation of the board was less effective in safeguarding the interest of the insuring. He had found that the policy form approval was time consuming and delay that create unhealthy competition.

He has recommended modifying the existing tax rate in his study. The board should strictly check, if the company really completed and set aside funds for their reserve to over come the problem on legal reserve.

Rajan Bahadur Poudel (1995) has conducted by entitling 'Insurance companies in Nepal' was among those few. Poydel's study was descriptive and diagnostic one and was interested to cover every policy and practical issues relating the insurance business. In his study Poudel had attempted to analyze the status of the insurance companies. For this purpose he had set the objectives like assessing the status of the industry, analyzing policy issues examining the liability structure and investment portfolio, and to review major policy issues of the insurers.

To attain the objective he had used descriptive research design based upon the secondary data only. He had used qualitative rather than quantitative analysis.

Through out the study the research was concentrated on analyzing the regulatory provision and its impact on the practice among the insurers. In the study Poudel had analyzed every provision relating the formation, working and governance of the insurance companies. As a part of his study he had also provided in sight upon the investment of the insurers and the provisions governing the investment function. His all over findings and conclusion was that the basic laws and by-law are/were not sufficient. The excess power on the hand of the insurance committee was advantageous to some extent but it was much costly in many cases.

His conclusion relating the investment was that the regulatory provisions were not welcoming rather they were much restricting. The classification between the portfolios on 'Compulsory' and 'Optional' caused hindrance to the insurers in their investment management process, but the limited number of allowed portfolios as "Optional Sectors" causes more hardness. Further suggested that to divert the insurance from investing in the traditional fields of investment a conducive investment environment need to be created and it can be formed through adding more investment alternatives in "Optional" fields rather than increasing its share.

Hence, this study was descriptive rather than analytical. The qualitative analysis might not be enough to present the exact picture of the status of the insurance companies. Further, the research revolved around the policy issues rather than practical issues. The analysis of investment aspect among the insurers was a part of his research but he had given less emphasis to the investment aspect among the insurance companies. Further, the investment return and investment performance was also ignored in the study. Further the views and perception of practicing manager regarding the investment and its performance had also been ignored in his study.

Bin Bahadur Raut (1995) conducted a thesis entitled 'A Study on the Financial Performance of National Life & General Insurance Co. Ltd'. He has analyzed the various financial ratios of it. He had analyzed liquidity ratio, premium

turnover ratio, return on net worth, return on shareholder's equity, earning per share, dividend per share, investment on total assets ratio, fixed assets to total ratio. He had also analyzed financial performance of different insurance business.

Raut found the following major findings from the study:

- i. Regarding liquidity management, the NLGI is not in sound position. The current ratios come to a highest of 0.3 in 1988/89 to a lowest 0.17 in 1992/93 taking derivation from average standard i.e. 0.89 times.
- ii. The company's outstanding premium in the five years period jumped from Rs. 5.22 million in 1988/89 to Rs. 15.68 million in 1992/93.
- iii. We found that the return on net-worth of NLGI is satisfactory because return on net worth is in increasing trend. The return on net-worth increased from 8.35% in 1988/89, 30.29% in 1992/93.
- iv. Return on shareholder's equity is also in better position because it shows improving trend. In the base year 1988/89 it was 9.19% and now it is 55.32% in 1992/93.
- v. The trends of earning per share are fluctuating. It deviates from minimum level of Rs. 7.72 per share in 1988/89 to maximum Rs 55.28 per share in 1992/93; it proves that there is no constant return on the investment to shareholders during the study periods.
- vi. The NLGI declared the dividend in increasing trend. The data shows that the company's dividend paying ability increased from 0 million bonus share in 1993/94. Bonus share affected the market price of a share because it reduced the market price of a share from Rs. 780 in 1992/93 to Rs. 630 in 1993/94. Thus bonus share reduced the market price of a share.
- vii. Investment of NLGI is not less than fifty percent of the total assets in every year of the study period. So, it was continuously increasing except the F.Y. 1989/90 and 1992/93. Investment to total asset ratio was minimum 1:1.6 in 1989/90 to maximum 1:9.9 times in 1991/92.

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

Shree Ram Gelal (2007) has covered the periods of 5 years from 2001/02 to 2006/07. This study only deals with National Life & General Insurance Co. Ltd. There is no comparison between other insurance companies and industry. This study is emphasis with financial tools (mainly with ratios). This study ignores the importance of statistical tools.

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

This study finds the following:

- (a) Data reveal, total percentage in fixed assets is more in NLGI compared to NIC while vice-versa in percentage in current assets. Growth in fixed assets was in slower rate in NIC However, investment in current assets was decreasing in both the companies.
- (b) NIC increased its share capital upto 2049/50 B.S. and decreased up to 2052/53 B.S; where as NLGI showed decreasing trend in share capital percentage to total assets during this study period.
- (c) The reserve of both the companies followed increasing trend during the study period.
- (d) The net profit percentage of NIC found better than NLGI.
- (e) Current ratio of both the companies is able to meet the standard form i.e. 2:1.
- (f) Cash to current liabilities ratio shows insufficient cash balance in both companies because cash to current liabilities ration of both companies found less than standard form i.e. comparatively NLG is having better than ration than NIC.
- (g) The liquidity position of both NIC and NLGI found better means above the standard norm.

(h) Leverage ratio shows the level of risk. Having overview in this ratio, NIC is found risky than NLGI. D/E ratio of NIC ranged 57% to 118% whereas the same ratio of NLGI ranged 42% to 70% only during the study period.

Narendra Dev Adhikari, (2005) had conducted complete study on premium collection and investment of the whole insurance industry of Nepal.

Adhikari concluded the following major findings:

- a) Regarding the portfolio wise investment return, non-life insurance industry got higher return from government securities and Bank fixed deposits than life insurance industry in aggregate. It might be the outcome of the investment being made on the middle of the fiscal year and the return had not yet been received.
- b) Regarding the life insurance industry major proportion of investment was invested in the head 'Government securities' and 'Bank fixed deposits'. Falling into the classification 'compulsory'. Only a very small proportion of investment was invested in the others.
- c) The return from the 'Government Securities' was highest and the return from the 'policy loan' was lowest and 'bank fixed deposits' was more stable than others.
- d) Non-life insurance industry and insurer also the major portion of investment was invested within the head 'Government securities' and 'Bank Fixed Deposits rather than the classification 'Others'.

2.2.3 Research Gap

Previous research was related only focus on premium collection and investment pattern but this research depends on premium collection, investment and claim paid of NIC and PIC, the management opinion instance's premium collection and investment system and identify interest earning in the investment. So it's different from previous studies.

CHAPTER - III

RESEARCH METHODOLOGY

"Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objective in view". (C.R Kothari, 1989) Therefore, Research Methodology is a systematic way to solve the research problem. Thus, Research Methodology describes the methods and process applied in the entire aspect of the study.

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

3.1 Research Design

Research design is a purposeful scheme of action proposed to be carried out in a sequence during the process of research focusing on the problem to be tackled. Research design is the preplan of any research or project work.

To achieve the objective of this study descriptive and analytical research design has been used. The research is so designed that the analysis and interpretation of the secondary and primary data relate to the evaluation of past behaviors of the insurers relating to the premium collection and investment position of NIC and PIC.

3.2 Population and Sample

According to the NEPSE there are 25 insurance companies functioning to underwrite insurance business. But this study undergoes to research the premium collection & investment pattern of Nepal Insurance Company and Premier Insurance Company Ltd.

3.3 Types and Sources of Data

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

• Primary Data and Its Source

The primary data is collected from the employees of NIC and PIC and also from the customers of these two companies for the opinion on investment of general investable fund, its policy and premium and other relevant factors. Primary data for the purpose of this study is collected using pre-set questionnaire, which is supported by the direct interview with the relevant authorities. The questionnaire is mentioned in appendix no: I.

• Secondary Data and Its Source

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

- Published or unpublished annual reports of the respective insurer.
- Published or unpublished financial statement of the respective insurer.
- Various Journals as well as booklets published by the insurer.
- Publications of the insurance committee.
- Various publications of the government agencies and bodies relating to the field.
- Books relating to the subject.
- Periodicals, Newspapers and Magazines.

3.4 Data Analysis Tools

Further arising the aforementioned objectives following tools and techniques were used in this study. This was an application in analysis phase.

3.4.1 Financial Analysis Tools

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

Ratio Analysis

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

Simply an arithmetical relationship between two figures is known as ratio. A ratio is defined as "The relation between two amounts determined by the numbers of times one contains the other." In accountancy, it is defined as "The relationship between two accounting figures expressed mathematically" of premium collection & investment and its performance as compared with the overall position and performance of NIC and PIC. In order to analyze premium collection & investment position of NIC and PIC, the following ratios are used.

First Life Premium Collection to Total Life Premium Collection:

$$= \frac{\text{First life premium collection}}{\text{Total life premium collection}}$$

Fire premium collection to total general premium collection:

$$= \frac{\text{Fire premium collection}}{\text{Total general premium collection}}$$

Marine Premium Collection to Total General Premium Collection:

$$= \frac{\text{Marine premium collection}}{\text{Total general premium collection}}$$

Miscellaneous premium Collection to Total General Premium Collection:

$$= \frac{\text{Misc. premium Collection}}{\text{Total General premium Collection}}$$

Investment on Govt. saving Bonds to Total General Investment

$$= \frac{\text{Investment on Govt. Saving bonds}}{\text{Total General Investment}}$$

Investment on Bank Fixed Deposits to Total General Investment

$$= \frac{\text{Investment on Bank Fixed Deposit}}{\text{Total General Investment}}$$

Investment on Finance Company Fixed Deposits to Total General Investment

$$= \frac{\text{Investment on Finance Company Fixed Deposit}}{\text{Total General Investment}}$$

Investment on Total Premium Collection

$$= \frac{\text{Investment}}{\text{Total Premium Collection}}$$

Interest Earned to Total Investment

$$= \frac{\text{Total Interest}}{\text{Total Investment}}$$

Claims paid to Total Premium Collection

$$= \frac{\text{Claim paid}}{\text{Total Premium Collection}}$$

3.4.2 Statistical Analysis Tools

Generally the statistical tools were used for attaining accuracy on analysis and study. According to this studies objectives here, mean, standard deviation, coefficient of correlation, trend analysis and 't'- test were performed.

Trend Analysis

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

Co-efficient of Correlation

To attain the relationship between 'premium collection and investment', 'Premium collection and claim paid' and investment and net income earns; co-efficient of correlation is used. "The correlation is the statistical is the statistical tool that can be used to describe the degree to which one variable is linearly related to another". The co-efficient of correlation measures the degree of relationship between two sets of figures. Among the various methods of

findings out co-efficient of correlation, Karl Person's (product moment) method was applied in this study. The result of co-efficient of correlation is always between '+1' and '-1' other relevant decision matter mentioned respective chapter. The product moment formula was calculated as.

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

Probable error of correlation was calculated by the following formula:

$$PE (r) = 0.6745 \times \frac{[1 - (r)^2]}{\sqrt{n}}$$

Mean

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

$$\text{Mean} = \frac{\text{Sum of Total Value}}{\text{Number of Values}}$$

$$\bar{X} = \frac{\sum x}{N}$$

Standard Deviation (S.D.)

The measurement of the scatter ness of the mass of figures in a series about an average is known as dispersion. The standard deviation measures the absolute dispersion. The greater amount of dispersion, greater the standard deviation. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of a series, a large standard deviation of different ratio were calculated.

Co-efficient of Variation (C.V.)

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

$$C.V. = \frac{\sigma}{X} \times 100\%$$

T-Test

T-test is generally used to find out the relationship between the two variables. It was used to examine the significance of the difference between two-sample mean at the same time. The t-test enables us to test the significance difference between two-sample mean.

CHAPTER – IV

DATA ANALYSIS AND MAJOR FINDINGS

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

4.1 Data Presentation and Analysis

It has been already mentioned the methodology to be used in third chapter. This chapter has been focused on the analysis of premium collection and investment pattern of Nepal Insurance Company (NIC) and Premier Insurance Company Ltd (PIC). It considers various variables which are important and reflect the premium and investment of these companies. Premium is the main source of investment for these companies. It plays vital role in the transaction of insurance. It is the main income of the insurance companies. And investment is the outflow of the company to get more return. As insurance company is also a financial institution, it always thinks for profit. This chapter is dealt with data and its analysis.

4.1.1 Evaluation of Insurance Premium Collection & Composition

Premium is the main source of investment of an insurance company. It shows the performance of the insurance company. Higher premium tends the higher volume of transaction. Entire insurance companies try to collect higher premium because, if they succeed on it, they can earn more income from investment. All theoretical concept of premium is mentioned in the above chapter, which may be enough for theoretical idea. Therefore, here only

quantitative analysis is described which is related to the premium collection and its composition. For the purpose of the evaluation of the premium collection condition and composition among the portfolios, the trend analysis, 't- test', mean, standard deviation and coefficient of variation are used. For the comparison of all the respective matter on premium various ratio analysis are computed which will give the actual proportion of premium in total collected premium sum. This evaluation chapter also supports to financial analysis and statistical analysis and evaluation of investment pattern chapter.

4.1.2 Financial Analysis

Financial Analysis includes various financial ratio which are related to premium collection, are studied to evaluate and analyze the performance of Nepal Insurance Company (NIC) and Premier Insurance Company (PIC). These important ratios are calculated as follows:

Life Insurance

Premium collection on the first life premium collection to total Life premium collection. First premium of life insurance hold significant importance in total life premium collection because life policyholder should pay premium unit before the expiry of the policy period. If he paid first premium to start his life insurance, the ratio measures the weight of first premium to the total life premium collection. It is the ratio, which is used to measure the weight of premium collection on first life premium to total life premium. It shows the contribution of first life premium in total life premium collection. It is computed using the following equation:

Premium on first life premium collection to Total life premium collection.

$$= \frac{\text{First Life Premium Collection}}{\text{Total Life Premium Collection}}$$

General Insurance

Nepal Insurance Co. Ltd and Premier Insurance Co. Ltd are non life insurance companies. But it has general insurance. General insurance is classified into: fire insurance, marine insurance and miscellaneous insurance. In this study all the other insurance rather than fire and marine are included in miscellaneous insurance. So this study analyzed three types of general insurance premium: fire premium, marine premium and miscellaneous premium.

4.1.3 Fire Premium to total General Premium Collection

It is the ratio used to measure the contribution of fire premium collection to total general premium collection. It reveals the weight of the fire premium collection over the total general premium collection of Nepal Insurance Company and Premier Insurance Company. It is measured using the following equation.

Fire premium collection to total general premium collection

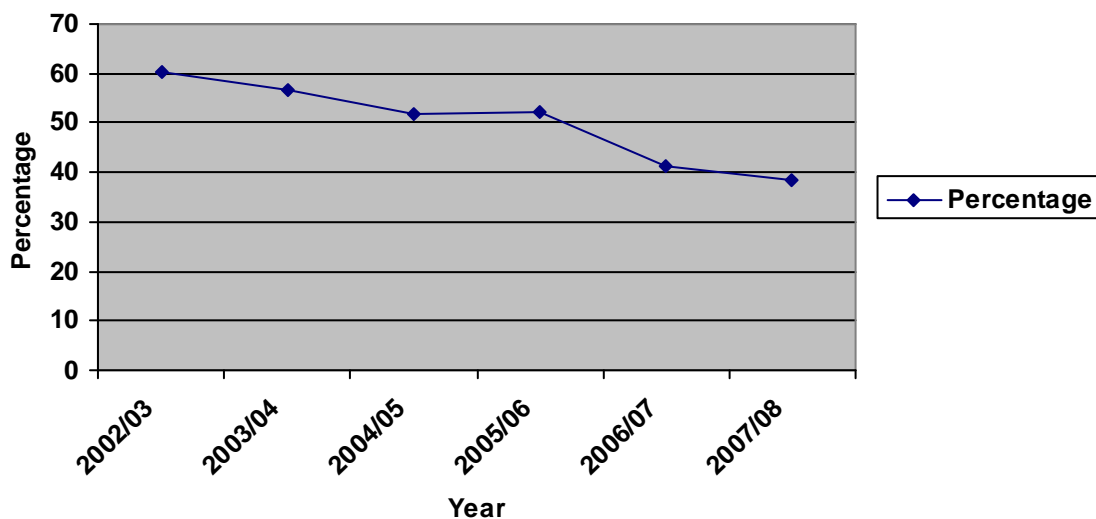
$$= \frac{\text{Fire Premium Collection}}{\text{Total General Premium Collection}}$$

Table 4.1: Fire premium collection to total general premium collection of NIC

FY	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	C.V
Ratio	60.40%	56.45%	51.76%	52.33%	41.38%	38.30%	50.1%	0.17

Source: Appendix II

Figure 4.1: Trend Line of Fire premium collection to total general premium collection of NIC



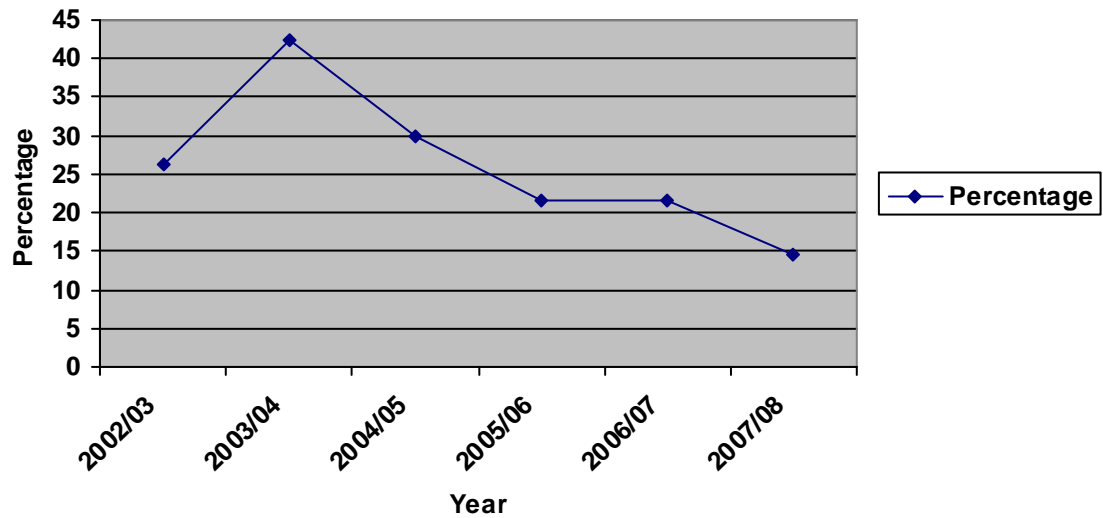
Above table shows the fire premium contribution to total general premium collection of NIC from 2002/03 to 2007/08. The highest contribution of it was in 2002/03, which was 60.94%, and then after, its contribution started decreasing respectively. Company was able to maintain its average ratio at 50.10% level. The calculated C.V which is 0.17 shows less fluctuation trend.

Table 4.2: Fire premium collection to total general premium collection of PIC

FY	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	C.V
Ratio	26.29%	42.49%	29.89%	21.47%	21.65%	14.69%	26.08%	0.365

Source: Appendix II

Figure 4.2: Trend Line of Fire premium collection to total general premium collection of PIC



The above table shows the percentage of fire premium collection to total general premium collection of PIC. In 2002/03 its contribution was 26.29% and then it increased to 42.49% in 2003/04, which was the highest contribution within 2002/03 to 2007/08. After that it started decreasing. It was 29.89% in 2004/05, 21.47% in 2005/06, it increased a little to 21.65% in 2006/07 and again decreased to 14.69% in 2007/08. This indicates that the ratio were fluctuating, moreover the fire premium collection ratio is in decreasing trend.

Company was able to maintain mean ratio at 26.08%. Again the calculated C.V is 0.365 indicated that there was no consistency and stability in the calculated ratio.

When we compare both company NIC and PIC, NIC is more favorable then PIC because the C.V. of NIC was 0.17 but the C.V. of PIC was 0.365 which indicated that NIC was suffering from least risk than PIC.

4.1.4 Marine Premium Collection to Total General Premium Collection

This ratio is used to measure the contribution of marine premium collection to total general premium collection of the company. It reveals the percentage of share hold by marine collection in total general premium collection. The following equation is used to measure it.

Marine premium collection to total general premium collection

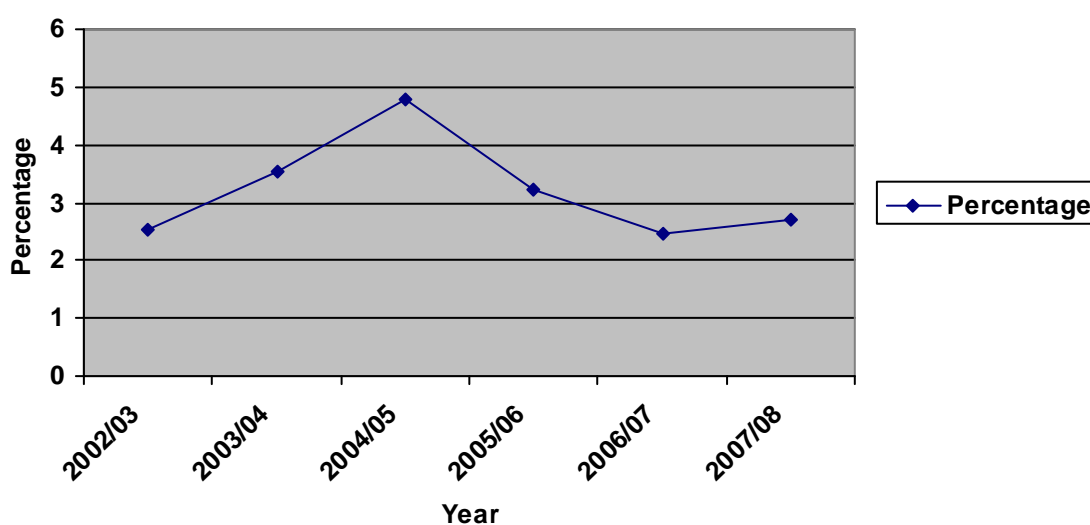
$$= \frac{\text{Marine Premium Collection}}{\text{Total General Premium Collection}}$$

Table 4.3: Marine premium collection to total general premium collection of NIC

FY	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	C.V
Ratio	2.54%	3.54%	4.79%	3.22%	2.45%	2.72%	3.21%	0.27

Source: Appendix II

Figure 4.3: Trend Line of Marine premium collection to total general premium collection of NIC



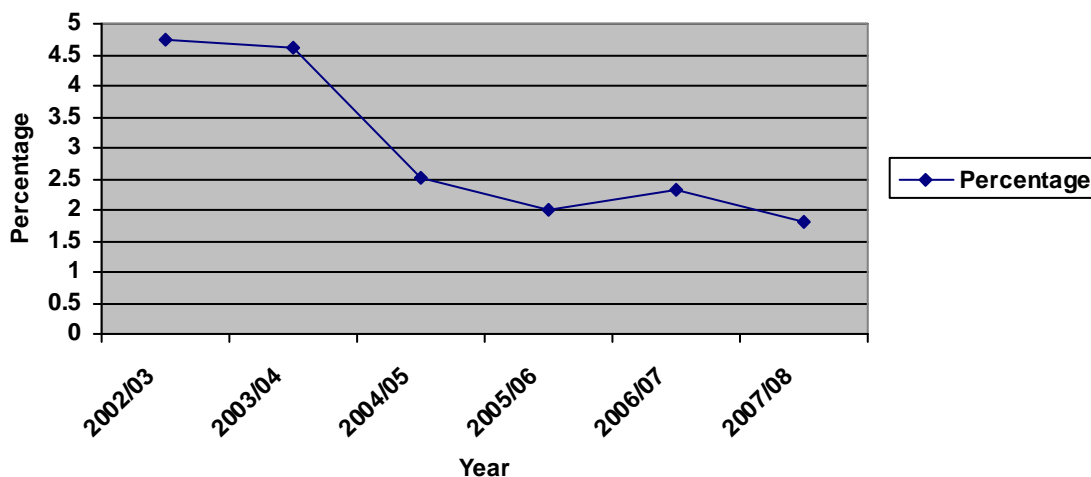
From the above table; we can conclude that marine premium collection contributed least to the total general premium collection of NIC. Its contribution was highest in 2004/05 i.e. 4.79% and then again it decreased simultaneously to 3.22% in 2005/06, 2.45% in 2006/07 and it increased a little to 2.72% in 2007/08. The calculated C.V. i.e. 0.27 indicated that there was inconsistency in the calculated ratio. The company should try to make the ratio stable and consistent.

Table 4.4: Marine premium collection to total general premium collection of PIC

FY	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	C.V
Ratio	4.73%	4.62%	2.53%	2.01%	2.38%	1.8%	3.03%	0.44

Source: Appendix II

Figure 4.4: Trend Line of Marine premium collection to total general premium collection of PIC



From the above table, it was found that marine premium collection contributed the least to the total general premium collection by PIC. It contributed 4.73% in 2002/03, which was the highest contribution. Then decreased to 4.62% in 2003/04, 2.53% in 2004/05, 2.01% in 2005/06. It increased a little in 2006/07, which was 2.33 and decreased again to 1.8% in 2007/08.

The calculated C.V. of 0.44 shows the higher inconsistency in the calculated ratios. When we compare both the companies, NIC seems to be more favorable due to its lesser C.V.

4.1.5 Miscellaneous Premium Collection to total General Premium Collection

Miscellaneous Premium Collection to total General Premium Collection ratio is used to measure the weight of MISC. To calculate Misc. Premium Collection to total General Premium Collection of NIC and PIC following ratio is used.

Misc. premium collection to total general premium collection

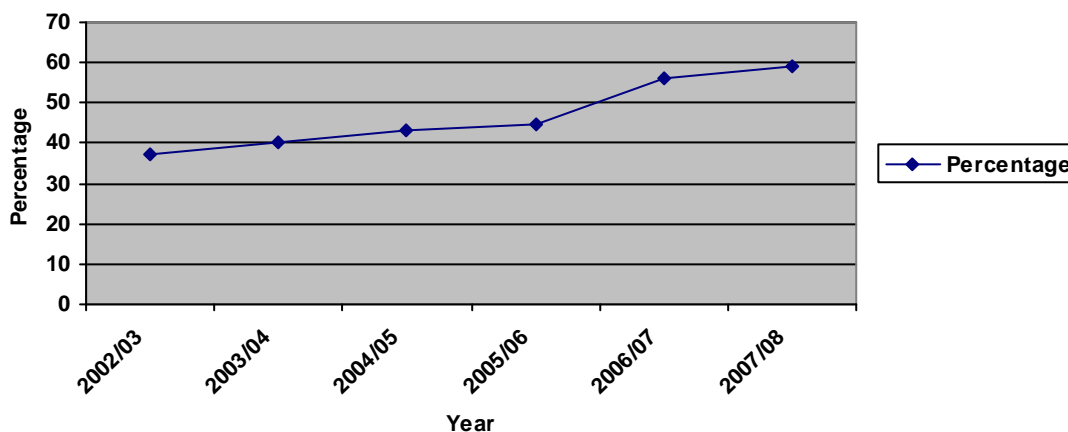
$$= \frac{\text{Misc. Premium Collection}}{\text{Total General Premium Collection}}$$

Table 4.5: Misc. premium collection to total general premium collection of NIC

FY	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	C.V
Ratio	37.07%	40.02%	43.41%	44.44%	56.27%	58.98%	46.7%	0.13

Source: Appendix II

Figure 4.5: Trend Line of Misc. premium collection to total general premium collection of NIC



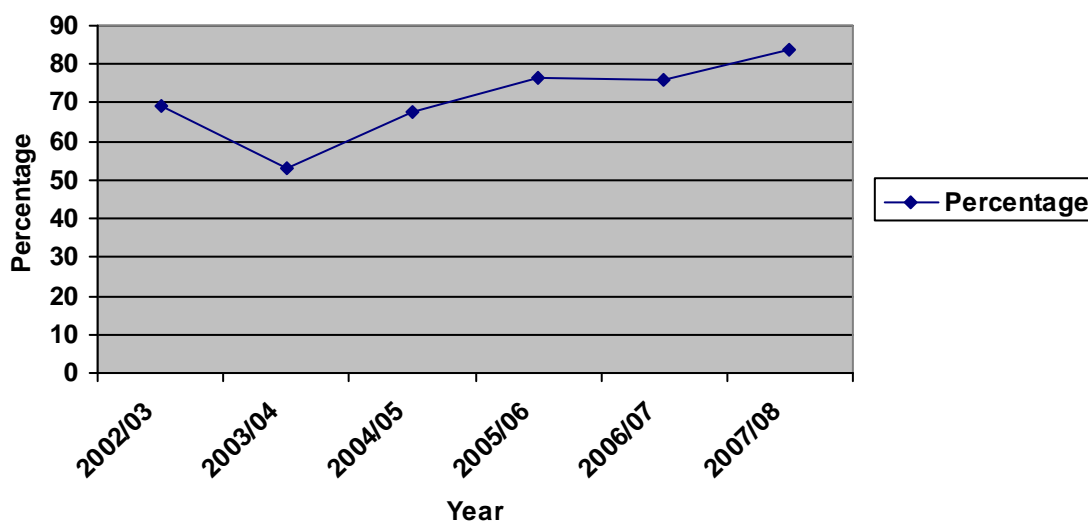
From the above table we may be able to see the ratio as miscellaneous premium in total premium collection of NIC. According to the table, NIC had collected more miscellaneous premium in 2007/08, among the sampled year, which was 58.89%. It can also be noticed that miscellaneous premium collection trend is being increased respectively. It is because motor insurance premium is also included in it. The calculated C.V. i.e. 0.19 shows the consistency in the Misc. premium collection ratio of NIC.

Table 4.6: Misc. premium collection to total general premium collection of PIC

FY	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	C.V
Ratio	68.97%	52.89%	67.59%	76.51%	76%	83.50%	70.91%	0.15

Source: Appendix II

Figure 4.6: Trend Line of Misc. premium collection to total general premium collection of PIC



From the table above, we can see the ratio of misc. premium collection to total general premium collection of PIC. There is an increasing trend of the ratio year by year. In 2002/03, it was 68.97% which decreased to 52.89%, in 2003/04, then again it increased to 67.59% in 2004/05, it was 76.51% in 2005/06, 76% in 2006/07, and the highest 83.50% was in 2007/08. The C.V. of 0.15 shows lower fluctuation in the ratio.

When we compare NIC & PIC, PIC seems to be more favorable in misc. premium collection case, as because C.V. of PIC is lower than that of NIC.

4.1.6 Premium Income of Nepalese Insurance Market

Table 4.7: Premium Income of Nepalese Insurance Market

(In 10 million NRs)

Fiscal Year	Life	Non-life						Non-life total	Grand Total
		Fire	Marine	Aviation	Motor	Contractor all risk & Eng.	Misc.		
2003/04	65.46	38.60	16.13	34.20	30.91	8.69	25.26	153.79	219.25
2004/05	136.26	48.27	17.26	69.71	39.27	13.42	27.07	215.00	351.26
2005/06	172.61	47.38	18.42	70.08	50.23	11.33	34.10	231.54	404.15
2006/07	208.38	57.65	21.33	50.08	61.99	9.88	36.00	236.93	445.31
2007/08	291.78	69.60	25.99	48.60	79.17	19.74	44.25	287.35	579.13

Source: Beema Samiti Report, 2008

4.2 Investment

Insurance company is also one of the financial institutions. It collects investment fund in the form of premium and invest in various sectors for profit. But it has to follow the rules and regulations of investment regulated by insurance Board of Nepal. They have to invest 75% of their investible fund in "Compulsory" and rest to "Other Sectors". Every insurance company has to maintain this rule of investment otherwise the board punishes them. NIC and PIC also invest its investment fund as per rules and regulation set by the insurance board. It invests its investment fund in government saving bonds; banks fixed deposits, and financial fixed deposits, corporate securities and other sectors. The following ratios may help to get solution for it.

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

For the purpose of the evaluation of the investment pattern and composition among the portfolios, the trend analysis and 't' test are used. For the comparison of all respective matter on investment, the mean, standard deviation and coefficient of variance is also used. Like wise, to evaluate the return on respective portfolio and investment amount the ratio analysis is also used. To attain the objectives of the study purpose all the concerned studies and analysis are used. Basically this evaluation chapter is separated into two parts as financial analysis and statistical analysis.

4.2.1 Life Fund

This ratio mostly is used in Life Insurance Company. NIC and PIC is non-life insurance company as that this ratio is not used in NIC and PIC.

Investment on Govt. saving Bonds to total life Investment

$$= \frac{\text{Investment on Govt. Saving Bonds}}{\text{Total Life Investment}}$$

4.2.2 General Fund

There is no any provision in general insurance of returning the premium amount to the policyholders. After paying the claim amount, the residual premium is the solid income for general insurance company. The insurance company invests it in different sectors for better return.

4.2.2.1 Investment on Govt. Saving Bonds to total General Investment

This ratio measures the portion of investment that goes to govt. saving bonds to total general investment made by the company. The following equation is used to measure it.

Investment on Govt. Saving Bonds to Total General Investment

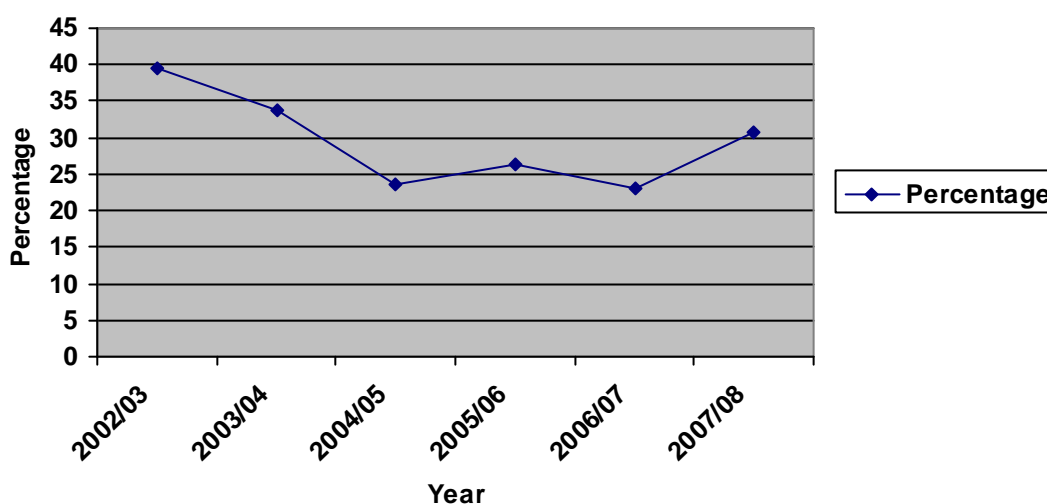
$$= \frac{\text{Investment on Govt. Saving Bonds}}{\text{Total General Investment}}$$

Table 4.8: Investment on Govt. Saving Bonds to Total General Investment of NIC

FY	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	C.V
Ratio	39.38%	33.75%	38.77%	23.67%	26.29%	23%	30.81%	0.24

Source: Table 4.17

Figure 4.7: Trend Line of Investment on Govt. Saving Bonds to Total General Investment of NIC



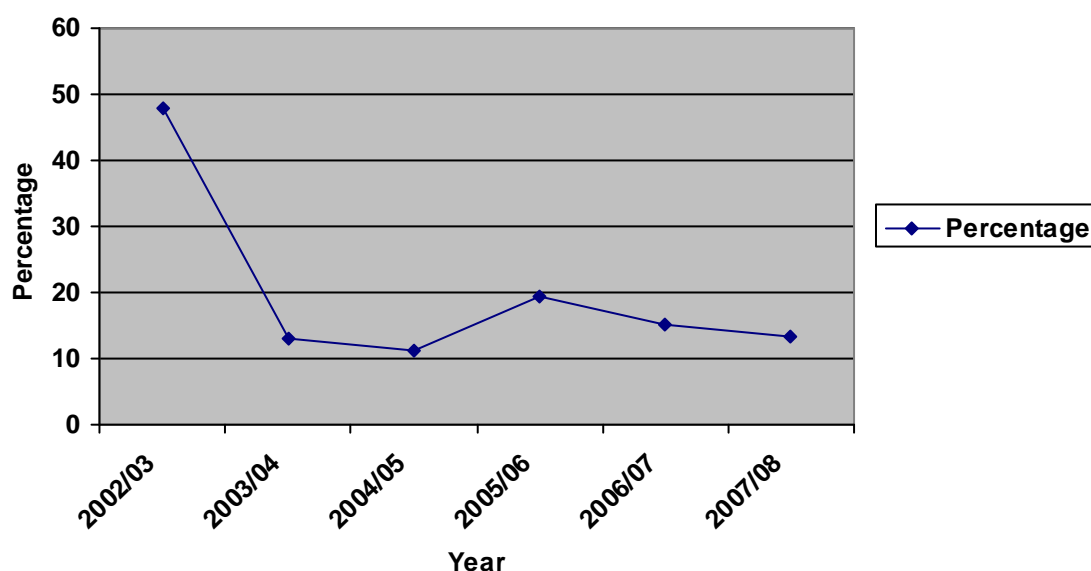
Above table shows the average percentage of investment in govt. saving bond in total investment. According to the table, NIC has higher investment in govt. saving bonds on 2002/03 and 2007/08 and then after its investment portion on govt. saving bond started decreasing. On 2007/08 its portion was only 23% of the total general investment.

Table 4.9: Investment on Govt. Saving Bonds to Total General Investment of PIC

FY	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	C.V
Ratio	47.98%	12.88%	11.08%	19.40%	15.21%	13.44%	19.99%	0.699

Source: Table 4.18

Figure 4.8: Trend Line of Investment on Govt. Saving Bonds to Total General Investment of PIC



From the table, it is clear that there was fluctuation in the investment in govt. saving bonds made by PIC of its total general investment. It ranged 11.08% to 47.93% with in the six years period. The average investment was 19.99. The C.V. of 0.699 indicated the inconsistency in its investment on Govt. saving bond.

When we compare NIC and PIC, NIC seems to be more favorable, as its CV is lower than that of PIC.

4.2.2.2 Investment on Bank Fixed Deposits to total General Investment

It is the ratio that measures the weight of bank fixed deposit investment to total general investment made by the company. It is computed here using the following equation.

Investment on Bank fixed deposits to Total General Investment

$$= \frac{\text{Investment on Bank Fixed Deposits}}{\text{Total General Investment}}$$

Table 4.10: Investment on Bank fixed deposits to Total General Investment of NIC

FY	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	C.V
Ratio	36.9%	40.6%	61.22%	55%	52.5%	53.4%	50%	0.19

Source: Table 4.17

Figure 4.9: Trend Line of Investment on Bank Fixed Deposit to Total General Investment of NIC

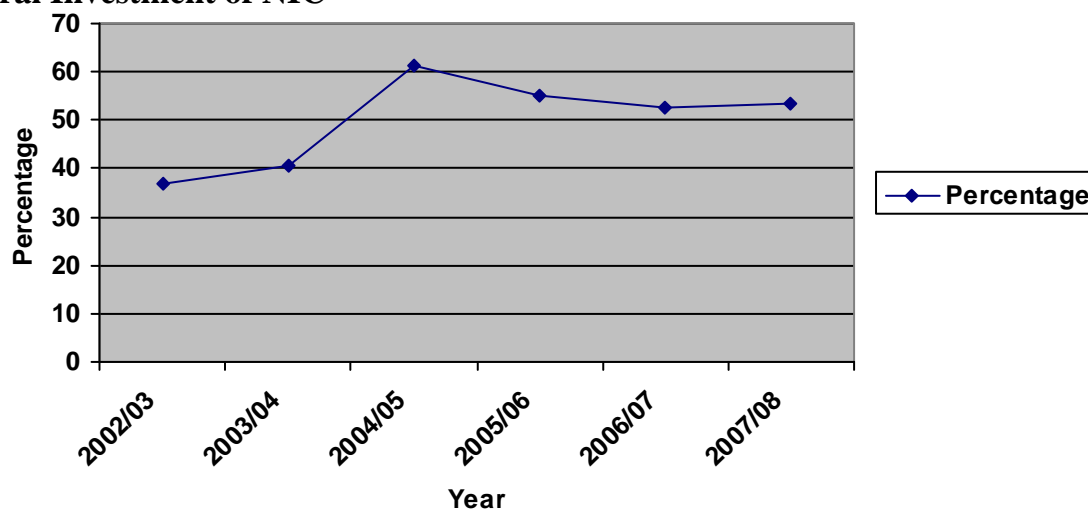
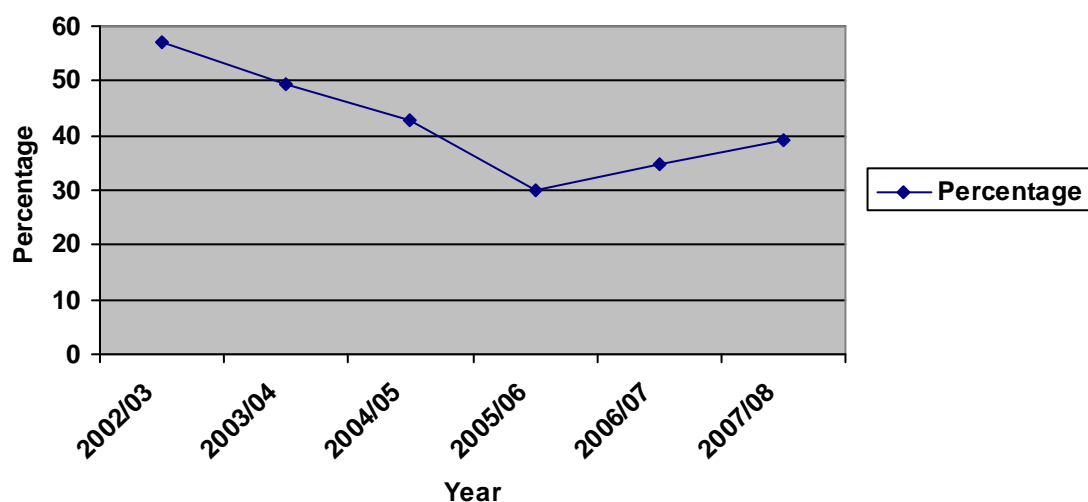


Table 4.11: Investment on Bank fixed deposits to Total General Investment of PIC

FY	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	C.V
Ratio	57.1%	49.48%	42.78%	29.92%	34.83%	39.29%	42.23%	0.23

Source: Table 4.18

Figure 4.10: Trend Line of Investment on Bank fixed deposits to Total General Investment of PIC



Investment in bank fixed deposit of PIC was higher than investment in govt. saving bonds. But the ratio of investment in bank fixed deposit to total general investment is fluctuating. Its contribution was 57.1% in 2002/03 which then after came to be 29.92% in 2005/06. It again started increasing and came to 39.29% in 2007/08. The average investment was 42.23%. The C.V. was 0.23, which indicated consistency of its investment.

When we compare NIC and PIC, NIC seems to be more favorable, as its CV is lower than that of PIC.

4.2.2.3 Investment on Finance Company Fixed Deposit to Total general Investment

The ratio of investment of financial company fixed deposits to total general investment measure the weight of investment in finance company fixed deposits to total general investment made by the company. It is computed using the following equation.

Investment on Finance Company fixed deposits to Total General Investment

$$= \frac{\text{Investment on Finance Company Fixed Deposits}}{\text{Total General Investment}}$$

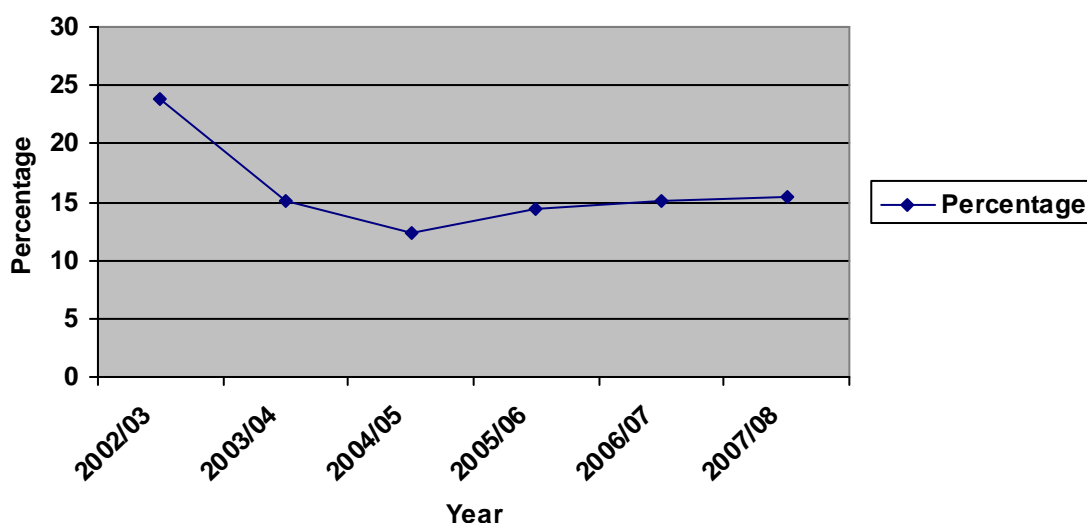
NIC had not invested in finance company fixed deposits. So, we cannot calculate the ratio. But PIC had investment on finance company fixed deposits. Therefore, the ratio of PIC's investment on finance company fixed deposits to total general Investment is as:

Table 4.12: Investment on Finance Company fixed deposits to Total General Investment of PIC

FY	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	C.V
Ratio	23.89%	15.06%	12.29%	14.42%	15.09%	15.42%	16.03%	0.25

Source: Table 4.18

Figure 4.11: Trend Line of Investment on Finance Company fixed deposits to Total General Investment of PIC



From the above table, it was clear that Investment in Finance Company fixed deposits was fluctuating. It was 23.89% in 2002/03, which was the highest share of it and then after it decreased to 15.06% in 2003/04, it again decreased to 14.42% in 2005/06. In 2006/07, its share increased a little to 15.09% and it was 15.42% in 2007/08. The average of 16.03% of total general investment went to financial company fixed deposit. The C.V. of 0.25 showed the consistency of investment on it.

4.2.2.4 Investment on Share to Total General Investment

The above ratio measures the weight to investment in corporate securities or share to total general investment made by the company. Corporate securities mean ordinary share, right share, debenture and bonds of private enterprises. The ratio reveals the portion of investment that goes to corporate securities from total general investment. The following equation is used to measure.

Investment in Share to Total General Investment

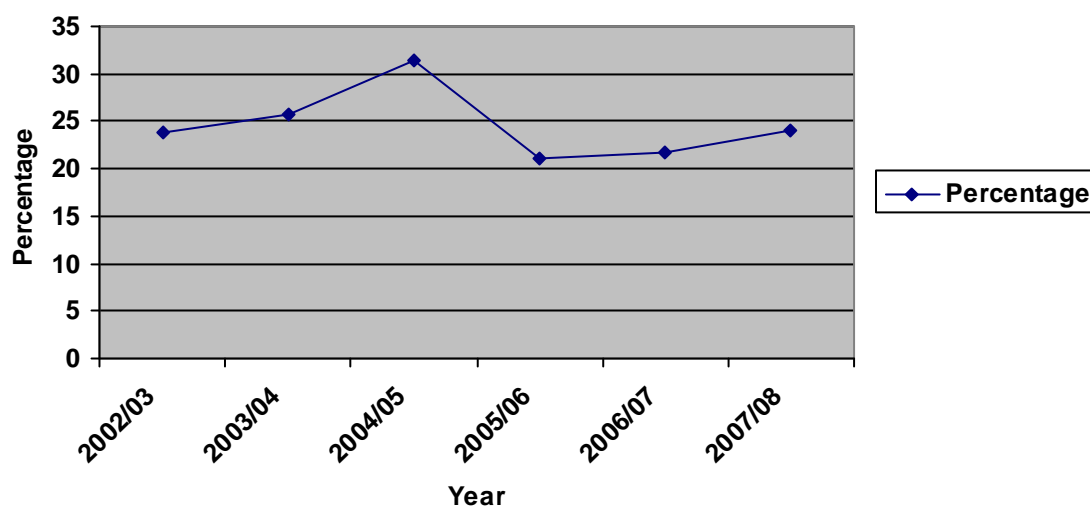
$$= \frac{\text{Investment on Share}}{\text{Total General Investment}}$$

Table 4.13: Investment on Share to Total General Investment of NIC

FY	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	C.V
Ratio	23.72%	25.66%	31.5%	21.1%	21%	21.75%	24%	0.17

Source: Table 4.17

Figure 4.12: Trend Line of Investment on Share to Total General Investment of NIC



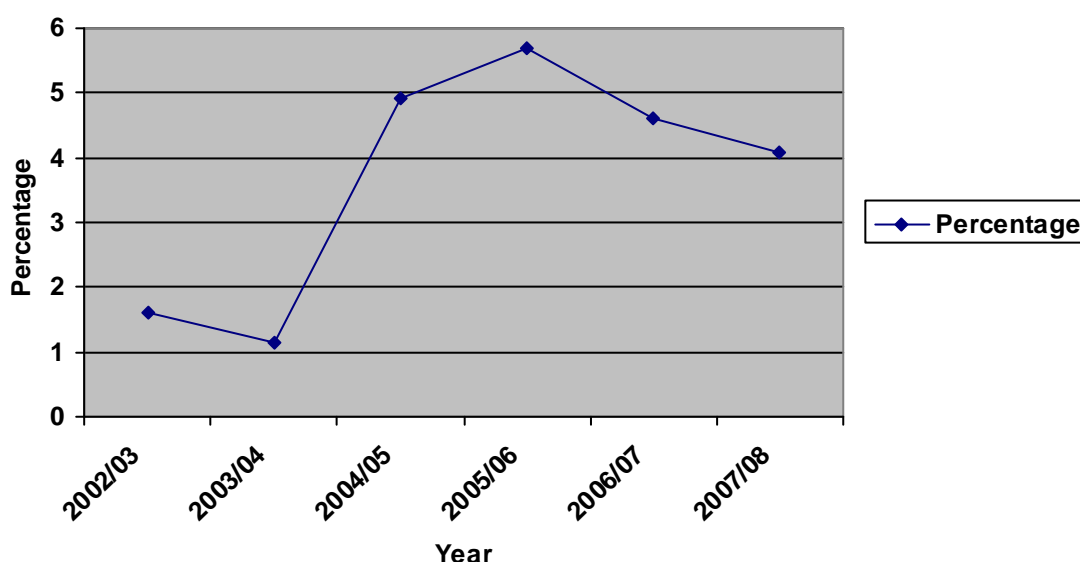
From the above table, it is clear that NIC has regular investment of fund in shares. It has invested its fund in some equal ratio in share market each year. Therefore, it has minimum fluctuation in investment trend.

Table 4.14: Investment on Share to Total General Investment of PIC

2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	C.V
1.6%	1.15%	4.92%	5.7%	4.61%	4.08%	3.68%	0.51

Source: Table 4.18

Figure 4.13: Trend Line of Investment on Share to Total General Investment of PIC



The above table is prevailed the Investment in corporate securities which mean investment in shares. Its investment was also fluctuating. The company invested 1.6% of its total general investment in 2002/03, 1.15% in 2003/04, 4.92% in 2004/05, 5.7% in 2005/06, 4.61% on 2006/07 and 4.08% in 2007/07. The highest contribution was in 2005/06 which was in 2005/06 which was 5.7% and the lowest was in 2003/04 i.e. 1.15% respectively. The average investment was 3.68% and C.V. was 0.51%. the C.V. showed the highly inconsistency of the investment.

When we compare both companies, NIC seems to have stability in investment in shares.

4.2.2.5 Investment in other sectors to Total General Investment

The investment sector other than the above is called other sectors. It is the ratio that measures the weight of other sectors investment over the total general investment made by the company. The following equation is used to compute it.

Investment in other sectors to Total General Investment

$$= \frac{\text{Investment on Other sectors}}{\text{Total General Investment}}$$

Investment in others sectors to Total General Investment of NIC: NIC had not invested in other sectors till 2006/07. It had invested in other sectors in 2007/08, so the ratio of it on 2007/08.

$$= \frac{\text{Rs.35,71,429}}{\text{Rs.20,03,54,579}}$$

$$= 1.78\%$$

Investment in other sector to Total General Investment of PIC:

PIC also started its investment in other sectors only from 2006/07, so their ratios are:

Table 4.15: Investment in other sectors to Total General Investment of PIC

FY	2006/07	207/08	Average	C.V.
Ratio	5.89%	6.23%	6.06%	0.04

Source: Table 4.18

From the above table 14, it was known that investment in other sectors of PIC is increasing, through started very late. The average of the two years was 6.06%. and C.V. 0.04 shows the lower fluctuation trend in investment.

4.2.2.6 Investment of NIC and PIC

Table 4.16: Total Investment of NIC and PIC

(Rs. In Million)

Company	2002/03		2003/04		2004/05		2005/06		2006/07		2007/08	
	Rs.	%	Rs.	%	Rs.	%	Rs.	%	Rs.	%	Rs.	%
NIC	168.66	77.6	178.83	76	143.90	70.35	208.50	73.27	201.00	73.63	200.35	68.94
PIC	48.80	22.4	56.7	24	60.35	29.65	76.04	26.73	71.98	26.37	90.25	31.06
Total	217.46	100	235.54	100	204.53	100	284.54	100	272.98	100	290.61	

Source: Annual Report of NIC and PIC of various years.

The above table reveals that, the investment of NIC is higher than the investment of PIC in each year. There is a fluctuation in investment amount in both the companies. But it can be seen that the investment of PIC increased in 2007/08 then in previous year but investment of NIC has decreased in 2007/08 then in previous year.

Table 4.17: Investment Portfolio of NIC

F.Y. Sectors	2002/03		2003/04		2004/05		2005/06		2006/07		2007/08	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Government	66416000	39.38	60350000	38.75	55800000	38.77	49360000	23.7	52850000	26.3	46300000	23.1
Saving Bonds												
Bank Fixed Deposits	62250000	36.9	72600000	40.6	88100000	61.22	115150000	55.2	105500000	52.5	106900000	53.4
Finance Co. Fixed Deposits												
Shares	40000000	23.72	45882055	25.66	45364250	31.5	43992432	21.1	42653755	21.2	43583150	21.8
Other Sectors											3571429	1.7
Total Investment	168666000	100	17832055	100	143900000	100	208502432	100	201003755	100	200354579	100

Source: Annual Report of NIC of various years.

Table 4.18: Investment Portfolio of PIC

F.Y. Sectors	2002/03		2003/04		2004/05		2005/06		2006/07		2007/08	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Government Saving Bonds	20835600	47.98	7810600	12.88	8429100	11.08	13965000	19.40	13725000	15.21	13725000	13.44
Bank Fixed Deposits	24800000	57.10	30000000	49.48	21535000	42.78	21535000	29.92	31435000	34.83	40135000	39.29
Finance Co. Fixed Deposits	10388030	23.89	9129135	15.06	10382307	12.29	10382307	14.42	13616000	15.09	15755234	15.42
Shares	682781	1.6	695981	1.15	4101981	4.92	4101981	5.7	4164981	4.61	4164981	4.08
Other Sectors	-		-		-		22000000	30.56	27311429	5.89	28361423	6.23
Total Investment	56706411	100	60635716	100	76046364	100	71984288	100	90252410	100	102141644	100

Source: Annual Report of PIC of various years.

4.2.2.7 Investment to Total Premium Collection Ratio

It is a rate of average premium investment. It shows the ratio or proportion of investment with comparison to premium collection. This ratio measures the investment ratio in percentage. This ratio helps to show, what proportion of collected premium is invested in different sectors in aggregate. This ratio is computed by using the following equation.

Total Investment to Total Premium Collection Ratio

$$= \frac{\text{Total Investment}}{\text{Total Premium Collection}}$$

Table 4.19: Total Investment to Total Premium Collection (%) of NIC and PIC

Insurer	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	C.V
NIC	164.55%	150.78%	112.95%	145%	120.5%	106.86%	133.44%	0.17
PIC	148.6%	122.9%	87.58%	74.20%	72.09%	76.84%	97%	0.32

Source: Annual Report of NIC and PIC of Various Years

Above table shows the investment to total premium ratio of NIC and PIC. The investment ratio is higher than each year's premium. It is because the insurer invested the fund also from capital and other sources. NIC has invested more than its premium collection in each year. But we can see that PIC invested more than its premium collection only in 2002/03 and 2003/04. After that, its investment to premium collection ratio has decreased.

Between the two companies, NIC has constant ratio of investment. It has less fluctuation therefore, NIC has lesser C.V. than the PIC. The C.V. of NIC is 0.17 and that of PIC is 0.32.

4.3 Claims Paid

Insurance Company ensure compensation that if the accident, damage, death, disablement happen to property and life of the policy holders within the policy period. The compensation paid is called claim in insurance terms. It holds significant importance in any insurance company because if the policy holder gets the reasonable compensation quickly, then only they renew the policy, otherwise goes to some other insurance company. On the other hand, if claims paid held the majority part of the total premium collection, insurance company cannot arrange other management expenses and return to owners.

4.3.1 Claims Paid to Premium Collection

It is the ratio that measures the claims paid to premium collection. It shows the portion of claims paid from the premium collection. The ratio reveals the degree of risk involve in premium collection. The ratio is computed using the following equation. Claims paid o premium collection.

$$= \frac{\text{Claims Paid}}{\text{Premium Collection}}$$

4.3.1.1 Life claims paid to total life insurance premium collection

It is the ratio that measures the life claims paid portion to total life premium collection. The ratio reveals the risks involved in life insurance business undertaken by insurance companies. It is computed using the following equation.

Life Claims Paid to Total Life Premium Collection

$$= \frac{\text{Life Claims Paid}}{\text{Total Life Premium Collection}}$$

We cannot calculate this ratio for NIC and PIC because both of these companies are non-life insurance.

4.3.1.2 General Claims Paid to Total General Premium Collection

Similarly, to the above ratio, this ratio measures the percentage of claims paid to general insurance to total general premium collection. This ratio prevails the risk involve in underwriting general insurance business. This can be computed using the following equation:

General Claims Paid to Total General Premium Collection

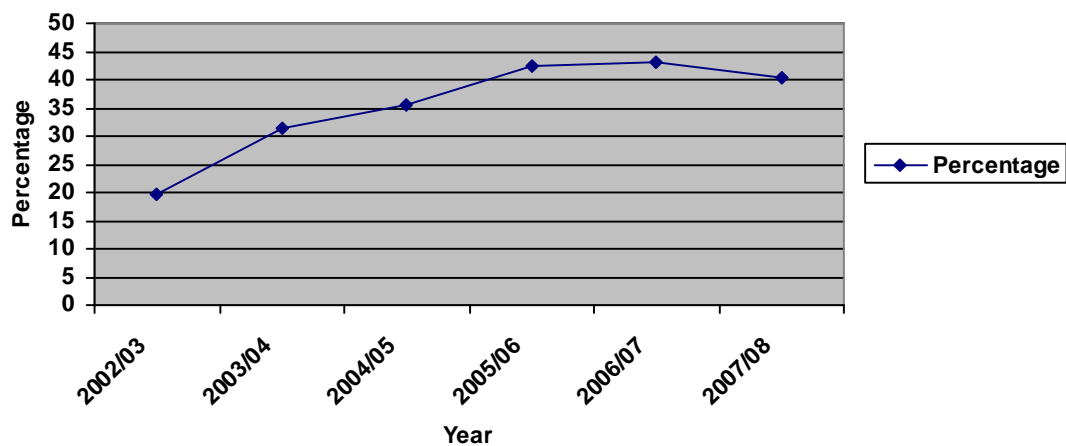
$$= \frac{\text{General Claims Paid}}{\text{Total General Premium Collection}}$$

Table 4.20: Claims Paid to Total General Premium Collection of NIC

FY	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	C.V
Ratio	19.54%	31.27%	35.59%	42.41%	43.23%	40.42%	35.4%	0.25

Source: Appendix VIII and IX

Figure 4.14: Trend Line of Claims Paid to Total General Premium Collection of NIC



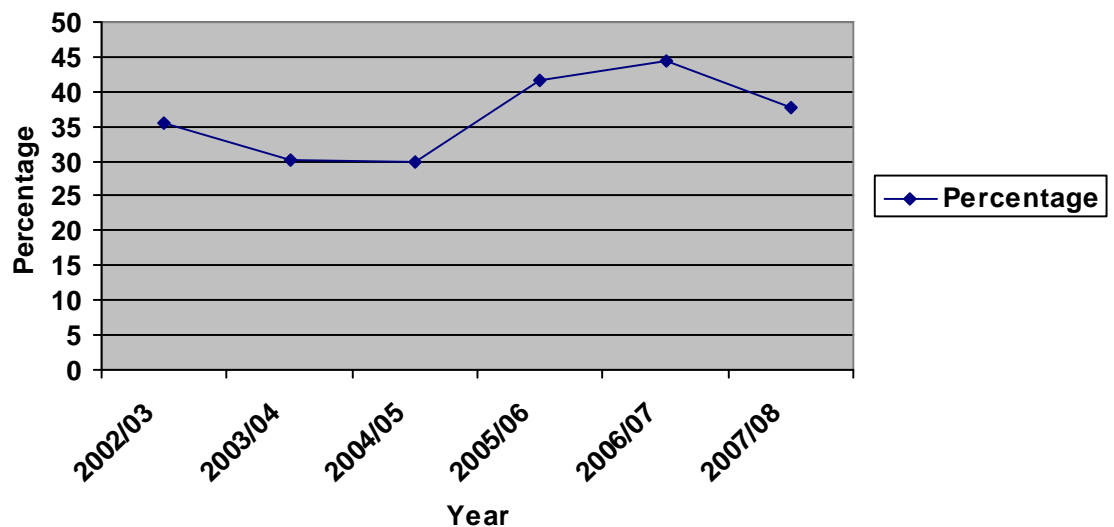
The above table revealed that the total claim paid held 19.54% in 2002/03, 31.27% in 2003/04, 35.59% in 2004/05, 42.41% in 2005/06, 43.23% in 2006/07 and 40.42% in 2007/08. The above data shows that the ratio of claim paid to the total premium collection is in increasing trend every year. It concludes that general premium collection is becoming riskier. The average claim to total premium ratio seems to be 35.4% the C.V., indicates in consistency in general claims paid by the company.

Table 4.21: Claims Paid to Total General Premium Collection of PIC

FY	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V
Ratio	35.59%	30.23%	30%	41.63%	44.45%	37.58%	37.58%	5.88%	0.16

Source: Appendix VIII and IX

Figure 4.15: Trend Line of Claims Paid to Total General Premium Collection of PIC



The above table revealed that the total claims paid held the large portion of general collection. Claim paid held 35.59% in 2002/03, 30.23% in 2003/04, 30% in 2004/05, 41.63% in 2005/06, 44.45% in 2006/07 and 37.58% in 2007/08. The lowest claim paid is in 2004/05. These revealed the fluctuation of claims paid. The

average of 36.58% of general premium collection went to claims paid. The C.V. of 0.16 indicates consistency in general claims paid by the company.

4.4 Interest Earned to Total Investment Ratio

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

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

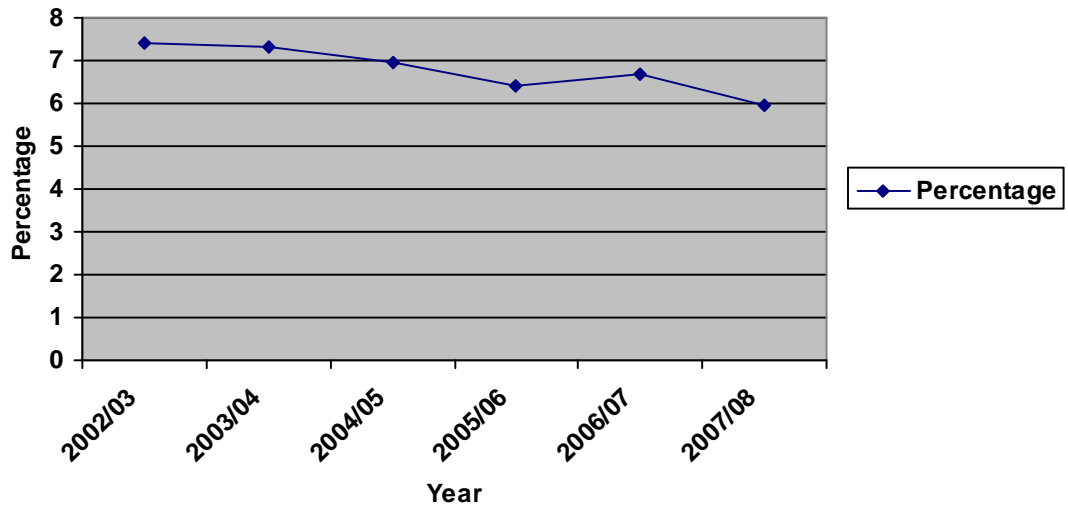
From this ratio, NIC's and PIC's average of interest earned on total investment can be known. It shows the earning ratio from interest on investment portfolio.

Table 4.22: Interest Earned to Total Investment Ratio of NIC

FY	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	C.V
Ratio	7.4%	7.32%	6.96%	6.43%	6.7%	5.94%	6.19	0.08

Source: Annual Report of NIC of Various Years

Figure 4.16: Trend Line of Interest Earned to Total Investment Ratio of NIC



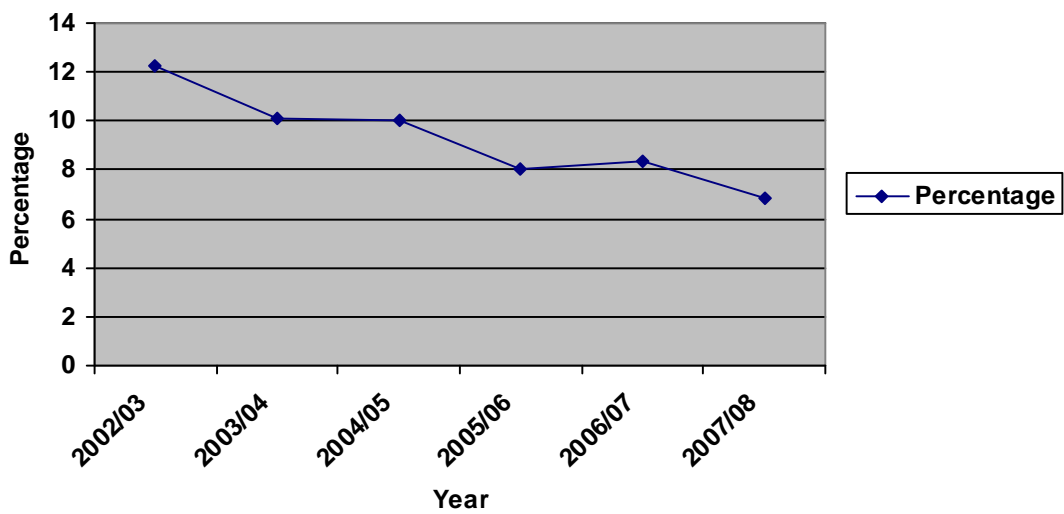
The above table shows the interest earned to total investment ratio of NIC. According to the table, NIC's ratio is in decreasing trend. According to the calculated C.V. it can be concluded that NIC have less fluctuation.

Table 4.23: Interest Earned to Total Investment Ratio of PIC

FY	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	C.V
Ratio	12.23%	10.1%	10%	8.04%	8.39%	6.84%	9.27%	0.20

Source: Annual Report of PIC of Various Years

Figure 4.17: Trend Line of Interest Earned to Total Investment Ratio of PIC



The above table describes interest earned to total investment ratio of PIC. According to the table, the ratio is in decreasing form. The calculated C.V. 0.20, denotes fluctuation trend in interest earned to total investment of PIC. The average interest to investment ratio was 9.27%.

4.5 Statistical Analysis

Under this chapter various statistical mathematics are studied which are related to decision making for premium collection and investment pattern. The trend analysis, co-efficient of correlation and 't' test are used for the purpose to find out tendency, relation and distinguish between premium collection and investment. For this purpose following measures are analyzed.

4.5.1 Correlation Analysis

In this analysis, product moment method has been used to find out the relationship between premium collection and investment. Generally, the correlation analysis is used to describe the degree to which one variable is related to another. Hence, in statistics, it is used in order to depict the co-variation between two or more variables. It helps to determine whether (1) a positive or a negative relationship exists (2) the relationship is significant or insignificant and (3) establish cause and effect relation, if any. In statistical tools, correlation analysis is preferred in this study to identify the relationship between premium and investment, whether the relationship is significant or not. Correlation is denoted by 'r' here.

For the purpose of decision making under correlation, decision is based on following interpretation.

When $r = +1$, there is perfect positive correlation

When $r = -1$, there is perfect negative correlation

When $r = 0$, there is no correlation

When (r) lies between 0.7 to 0.999, (-0.7 to -0.99) there is a high degree of positive (or negative) correlation.

When ' r ' lies between 0.5 to 0.699 there is a moderate degree of correlation.

4.5.2 Correlation between premium collection and investment of NIC and PIC

The correlation between premium collection and investment of NIC and PIC revealed the solution of the question: was there any relation between the premium collection and its investment of the companies? If there was the relation between premium collection and investment, what relationship existed, positive or negative relationship existed, positive or negative relationship. In other words, was more premium collection means more investment?

Table 4.24: Correlation between Premium Collection and Investment of NIC

Coefficient of Correlation	Relationship	R^2	P.E (r)	$6 \times P.E (r)$	Significant or Insignificant
0.7934	Higher degree of positive correlation	0.6295	0.102	0.612	Significant

Source: Appendix III

The coefficient of correlation between premium and investment measures the degree of relationship between the respective variables. In correlation analysis premium is independent variable and total investment is dependent variable.

The above table shows the relationship between premium collection and investment of NIC. The coefficient of correlation of this company is 0.7934. Higher degree of positive correlation exists in case of NIC. This implies that

investment of NIC is highly affected by premium collection. It means premium is the strongest matter of investment.

The coefficient of determination (R^2) is a measure of the degree of linear association or correlation between two variables, one of which is the independent variable and other, dependent variable. In case of NIC the coefficient of determination is 0.6295, which means that the variation in independent variable (premium) explains 62.95% of the variation in investment.

Generally, probable error is used to measure the significance of the relationship between two dependent and independent variable. In this study, the significance of the relationship between premium and investment is measured by calculating probable error of correlation coefficient.

From the above, we can conclude that the relationship between premium and investment of NIC is significant since the coefficient of correlation 'r' is greater than $6 \times P.E (r)$.

Table 4.25: Correlation between Premium Collection and Investment of PIC

Coefficient of Correlation	Relationship	R^2	P.E (r)	$6 \times P.E (r)$	Significant or Insignificant
0.9637	Higher degree of positive correlation	0.9287	0.0196	0.1176	Significant

Source: Appendix IV

From the above table and Appendices we can draw the conclusion that there was higher degree of positive correlation between the premium collection by PIC and its investment. That reveals more premium collection means more investment.

Again, the coefficient of determination R^2 is the measure of the degree of linear association or correlation between two variables, one of which is dependent

variable and other is independent. In case of PIC the coefficient of determination is 0.9187 which means that the variation in independent variable (premium) explains 92.87% of the variation in investment.

In this study, the significance relationship between premium collection and investment is measured by calculating probable error of correlation coefficient. Since the co-efficient of correlation (r) is greater than $6 \times P.E (r)$, therefore we conclude that the relation between the two variables is significant.

4.5.3 Correlation between Premium Collection and Claims paid by NIC and PIC

The coefficient of correlation between premium and claim paid is to measure the degree of relationship between total premium and net claim paid. If the transaction of insurance (premium collection) is high, than automatically its claim paid will be also higher. Therefore, it may have any negative or positive relation.

Table 4.26: Correlation between Premium Collection and Claims paid by NIC

Coefficient of Correlation	Relationship	R^2	P.E (r)	$6 \times P.E (r)$	Significant or Insignificant
0.966	Higher degree of positive correlation	0.933	0.018	0.108	Significant

Decision: - From the above table no.4.24 and appendices V we can conclude that there was higher degree of positive correlation between premium collection and claim paid by NIC. It says that more premium collection means more claims paid.

Again, the coefficient of determination R^2 is the measure of the degree of linear association or correlations between two variables, one of which is the dependent

variable and other is independent. In case of NIC, the coefficient of determination is 0.933, which means that the variation in independent variable (premium collection) explains 93.3% of the variation in dependent variable (claims paid). In case this study, probable error is used to measure the significance of the relationship between premium collection and claims paid. According to above table, we can say that the relationship between premium collection and claim paid by NIC is significant, which is proved from the comparison of 'r' and $6 \times P.E (r)$.

Table 4.27: Correlation between Premium Collection and Claims paid by PIC

Coefficient of Correlation	Relationship	R^2	P.E (r)	$6 \times P.E (r)$	Significant or Insignificant
0.9492	Higher degree of positive correlation	0.9	0.027	0.162	Significant

Decision: - From the above table no.4.25 and appendices VI we can conclude that there was higher degree of positive correlation between premium collection and claim paid by PIC. It says that more premium collection means more claims paid.

Again, the coefficient of determination R^2 is the measure of the degree of linear association or correlations between two variables, one of which is the dependent variable and other is independent. In case of PIC, the coefficient of determination is 0.9, which means that the variation in independent variable (premium collection) explains 90% of the variation in dependent variable (claims paid).

Here, probable error is used to measure the significance of the relationship between two variables. In this study, significance relationship between premium collection and claims paid is measured by calculating probable error of correlation co-efficient. Since the coefficient of correlation (r) is higher than $6 \times P.E (r)$, we can conclude that the relation between the two variables is significant.

4.6 t-test

4.6.1 Test of Hypothesis

Test of hypothesis is a process of testing of significance regarding the parameter of the population on the basis of sample drawn from the population. In testing hypothesis, we examine, on the basis of statistics computed from the sample drawn, whether the sample drawn belongs to the parent population with certain specified characteristics or not.

In this topic, an effort has been made to test the significance regarding the parameter of the population on the basis of sample drawn from the population. Generally, following steps are followed for the test of hypothesis. (A sample of 't-test' calculation is prepared in Appendix:)

- Formulating hypothesis
 - Null hypothesis
 - Alternative hypothesis
- Computing the test statistic
- Fixing the level of significance
- Making decision

4.6.1.1 First Hypothesis (t-test for premium collection)

Null Hypothesis:

$\mu_1 = \mu_2$ (There is no significant difference between total premiums collected by NIC & PIC)

Alternative Hypothesis:

$\mu_1 \neq \mu_2$ (There is significant difference between total premiums collected by NIC & PIC)

Table 4.28: Total Premium Collection Table

Fiscal Year	NIC	PIC
2002/03	102.52	32.83
2003/04	118.63	46.14
2004/05	127.42	69.24
2005/06	143.87	102.48
2006/07	166.82	99.85
2007/08	187.54	117.45
Total	846.8	467.99

Source: Annual Report of NIC and PIC of Various Years

Computation of test statistics 't'

Total of NIC ($\sum X_1$) = 846.8

Total of PIC ($\sum X_2$) = 467.99

Number of year (N) = 6

Variance (S^2) = 1077.16 (Appendix: VII)

T-test value = 3.04 (Appendix: VII)

From the student's-distribution, the tabulated value of 't' for 10 degree of freedom (d.f.) at 5% level of significance is 2.228 respectively.

Decision: - Since the calculated value of 't' is greater than the tabulated value at 5% level of significance, H₀ is rejected. There is significant difference between premium collection of NIC and PIC.

From this test we can conclude that there is a difference in the premium collection ratio of NIC and PIC. There is no equality in premium collection ratio.

4.6.1.2 Second Hypothesis

('T' test for investment amount of NIC & PIC)

Null Hypothesis:

$\mu_1 = \mu_2$ (There is no significant difference between total premiums collected by NIC & PIC)

Alternative Hypothesis:

$\mu_1 \neq \mu_2$ (There is significant difference between total premiums collected by NIC & PIC)

Table 4.29: Total Investment (based on aggregated data of in Million)

Fiscal Year	NIC	PIC
2002/03	168.67	48.81
2003/04	178.83	56.71
2004/05	189.26	60.64
2005/06	208.5	76.05
2006/07	201	71.98
2007/08	200.35	90.25
Total	1146.6	404.44

Source: Annual Report of NIC and PIC of Various Years

Computation of Test Statistics 't'

Total of NIC ($\sum X_1$) = 1101.25

Total of PIC ($\sum X_2$) = 404.44

Number of year (N) = 6

Variance (S^2) = 226.68 (Appendix: VIII)

T-test value = 14.23 (Appendix: VIII)

From the students 't' – distribution, the tabulated value of 't' for 10 degree of freedom (d.f.) at 5% level of significance is 2.228 respectively.

Decision: - Since the calculated value of 't' is greater than the tabulated value at 5% level of significance, H_0 is rejected. There is significant difference between investments of NIC ad PIC.

The t-test shows that the investment ratio is different for NIC and PIC. There is a difference due to their objective, transaction size and other causes of relative factors.

4.7 Presentation Analysis and Interpretation of Primary Data

This chapter concentrates on using the aforementioned methodology to meet the objectives of the study and set forth a logical and qualitative framework to recommend probable solution to the problems that are in herenl within investment and premium collection aspect of the insurance industry. For this purpose, some of the collected questionnaire's answers are analyzed and studied. The questionnaire was distributed to the management of the respective of the entire management for the purpose of analysis and classification of the primary data, a simple ranking method was used where ever felt appropriate. While ranking, rank 'I' was assumed as top most prioritized and the last number imparted for the query was assumed as last prioritized. Where the ranking was not possible or necessary a simple objective (yes/no) question was used. For classification of the views, percentage method was used considering the total number of respondent as 100%. Further,

such classification was supported with the graphical and Tabular presentation, where ever (felt appropriate) necessary. A sample of questioners is included in the Appendix I. The number of respondents for the queries has differed due to the differentiation regarding the formation of the insurers. So the number of respondents for each query is shown in sample questionnaire separately.

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

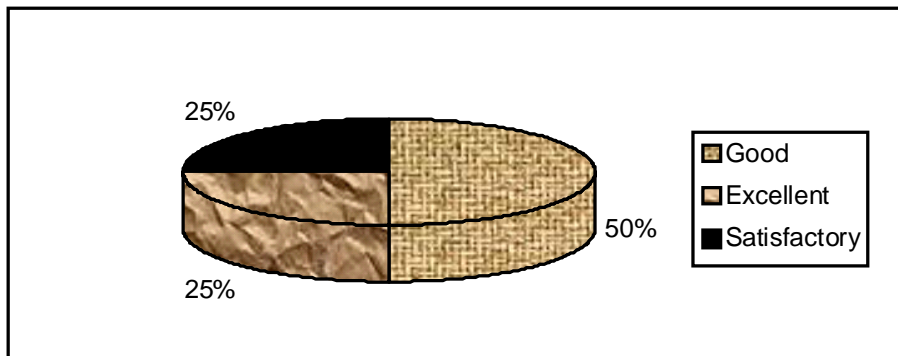
4.7.1 Evaluation of the Insurer's views, regarding the Premium Collection Aspect

To evaluate the insurer views relating to the premium collection aspect of the insurers, a set of questionnaire was used, which contained '10' questions relating to the premium and its collection system and other relevant system. This questioner's aims to take insurer's view on present premium collection system, premium rate and collected premium ratio etc. In this aspect the questions and the views of respondents regarding those queries are presented as such.

(A) Condition of the Premium Collection at Present Situation

This query was intended to find out the present condition of premium collection of Nepal Insurance Company Ltd. and Premier Insurance Company Ltd. This question was asked to some of the employees of NIC and some of the employee of PIC. Among the viewers around 50% of the employees of both the companies were in favor of option 'Good' around 25% were in favor of the option 'Excellent' and 25% of the employee were in favor of option 'Satisfactory' which is shown in the following chart.

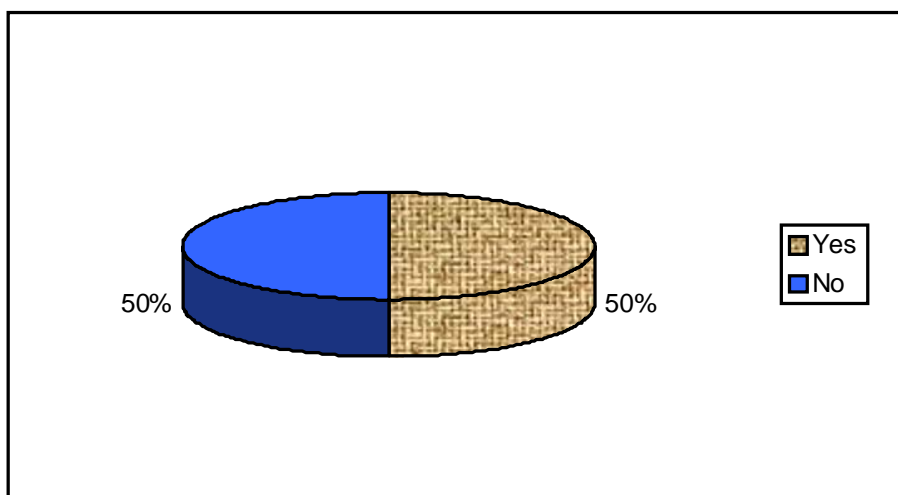
Figure 4.18: Condition of the Premium Collection at Present Situation



(B) Rate of Premium under Different Insurance Policy

This query aims to identify view of insurer regarding the rate of premium. Beema Samitte directly regulates per premium rate of insurance policy. Hence, the authority of Government (Beema Samittee) published the rate of premium and forces all the insurers to follow it. To follow them, however, this question aims to know view of respondents as for premium rate. Among the viewers, around 66.67% of insurer were in favor of option "No" and around 33.33% of the insurer were in favor of option 'Yes' which is shown in figure below.

Figure 4.19: Rate of Premium under Different Insurance Policy



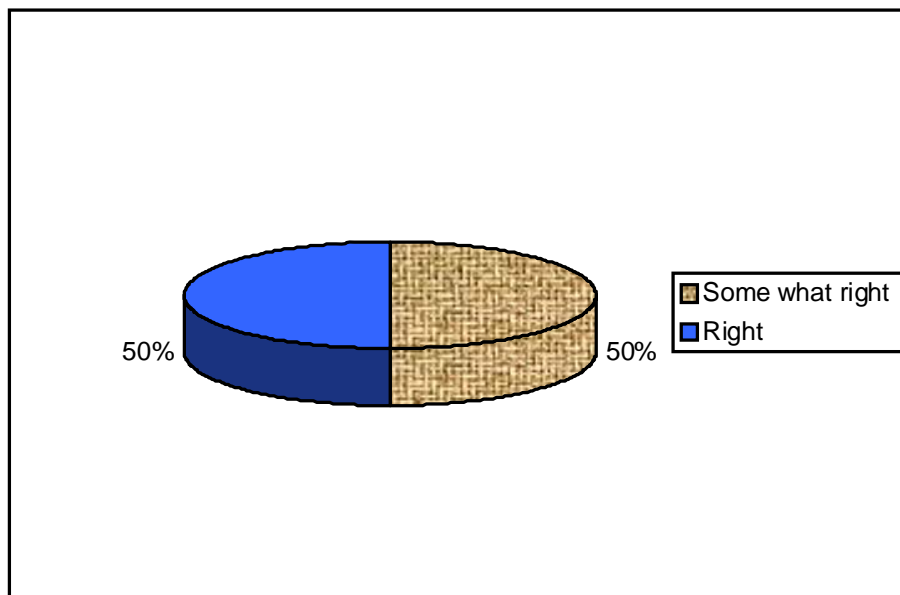
(C) Premium Collection System of Insurance Companies

Table 4.30: Premium Collection System of Insurance

Companies	Right	Some what right	Wrong	Total
NIC	5	5	-	10
Percentage	50%	50%	-	100%
PIC	5	5	-	10
Percentage	50%	50%	-	100%

The query was intended to find out the condition of premium collection system of NIC and PIC. This question is basically based on theoretical aspect. There are so many factors for which the question was attended. The question was been asked to 10 employee of NIC and 10 employee of PIC. Researcher found around 50% of the employee of NIC and PIC were in favor of first option 'Right' and 50% of the employee were in favor of second option "Some what right". It required correctives measures. This data we can plot in the following chart.

Figure 4.20: Premium Collection System of Insurance



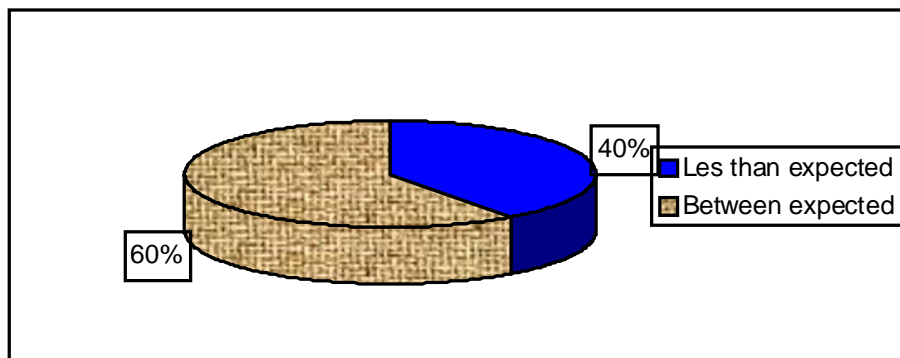
(D) Collection from Premium, at Present Insurance Market

Table 4.31: Collection from premium, at present insurance market

Companies/ Customers	Less than Expected	In between Expected	More than Expected	Total
NIC	4	6	-	10
Percentage	40%	60%	-	100%
PIC	4	6	-	10
Percentage	40%	60%	-	100%
Customers	15	35	-	50
Percentage	30%	70%	-	100%

This query was intended to find out the collection trend and present collection ratio of premium at Nepalese insurance market. This question was been asked to 50 customers, 10 employee of NIC and 10 employee of PIC. Researcher found that among the viewers around 60% of the employee of NIC and PIC were in favor of option 'In between expected' and 40% were in favor of option 'Less than expected', which is shown in the chart below.

Figure 4.21: Collection from premium, at present insurance market



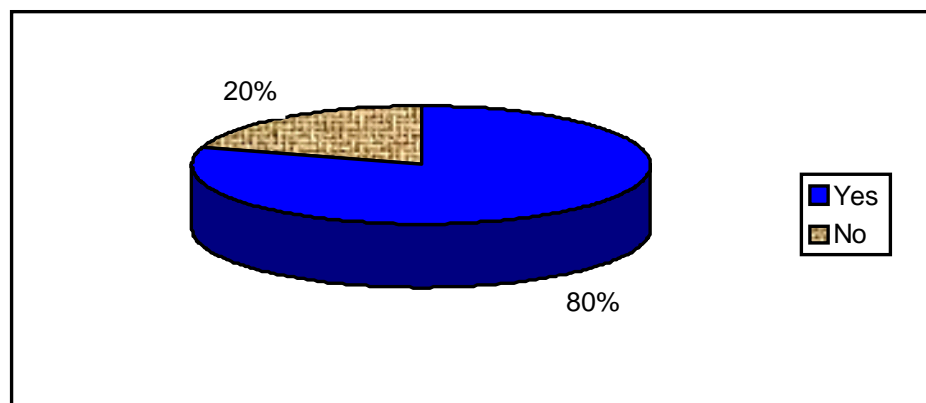
This chart clearly shows that most of the insurers were successful in collecting premium in between their expectation. It indicates than the collection ration of premium is satisfactory.

As per the response of 50 customers, 30% were in favor of option 'Less than expected' and 70% were in favor of option 'In between expected'.

(E) Collection of Target Premium Amount

This query was meant to identify the premium collection rate is as per target or not. Among the viewers around 80% were in favor of option 'Yes' and 20% were in favor of option 'No'. From this query researcher can say that the companies' average collection is in right position.

Figure 4.22: Collection of Target Premium Amount



The above chart shows the percentage of respondent's view. The first option 'Yes' got the 80% of view among total views. It means Nepalese insurance is successful in collecting premium from market.

(F) Why are there more General Insurance Companies than Life Insurance Company?

This query was intended to find out the condition of insurance companies in Nepal. There is higher competition in general insurance business. Therefore the competition had directly affected the insurance company. Among the viewers around 33% were in favor of first option "Establishment amount of life insurance company are high, 47% were in favor of second option 'Law Section of General Insurance Company are most easy" and 20% were in favor of third option "Law section of life insurance company are most difficult'. Customers affected the competition.

section of life insurance company are most difficult'. Customers affected the competition.

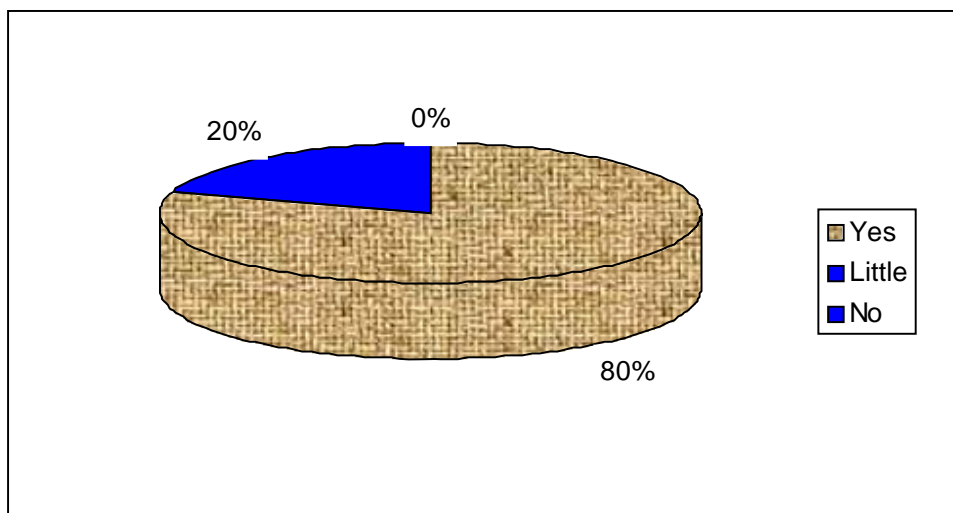
G. Insurance Company gives the Payment of the amount in time if loss damage takes place

Table 4.32: Insurance Company gives the Payment of the amount in time if loss damage takes place

Company/ Customers	Yes	Little	No	Total
Customers	40	10	-	50
Percentage	80%	20%	-	100%

This query aims to identify whether the insurance company gives the payment of the amount in time of loss or damage has taken place. This question was been asked to 50 customers of NIC and PIC. Among the views, around 80% were in favour first option 'Yes' and around 20% were in favor of second option 'Little'. It required corrective measure. This data can plot following chart.

Figure 4.23: Insurance Company gives the Payment of the amount in time if loss damage takes place



(H) There may be different provision according to insurance policy

Table 4.33: There may be different provision according to insurance policy

Companies	Yes	Little	No	Total
NIC	10	-	-	10
Percentage	100%	-	-	100%
PIC	10	-	-	10
Percentage	100%	-	-	100%

This query was intended to find out there may be different provision according to the insurance policy. This question was asked to 10 employee of NIC and 10 employee of PIC. Researcher found that 100% of the employee favored the option 'Yes'. There are different provisions as per the different insurance policies.

(I) Under the Fire Insurance Policy

This query aimed to identify whether there is different provision under the fire insurance policy. This question was asked to 5 employee of NIC and 5 employee of PIC. Among the respondents, 100% were in favor of option 'yes' because the subject matter of fire insurance may be any property having intransitive value e.g. building, furniture, fixture, plant & machinery goods and merchandises.

(J) Cash-in-Transit Insurance is granted only to Commercial and Industrial Establishments

This query aim to identify under the cash in transit insurance is granted only to commercial and industrial establishes. This question was asked to 5 employee of NIC and 5 employee of PIC. It was found that among the viewers 100% were in the favor of option 'Yes'.

4.7.2 Evaluation of the Insurer Views regarding the Investment pattern Aspect

To evaluate the insurer's view, relating the investment aspect of the insurers, a set of questionnaire is used, which contain 5 questions relating to the investment aspect of the insurer business. The questionnaire includes the insurers views relating to the present practices, policies, system, performance and conditions of investment.

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

(K) Essentials of Portfolio, while Investing a Fund

This question aimed to find out the weight given by the insurer to the essentiality of portfolio while investing a fund, in this question, again, the entire insurers were in one lift. This question was asked to 5 employee of NIC 5 employee of PIC and 10 customers. It was found that the views of the insurer were not differentiating for this matter. It means, the entire insurance accepts the importance and essentially of portfolio while investing fund 100% employees of NIC and PIC and customers were in favor of option 'significant essential', which clearly shows the favor of portfolio.

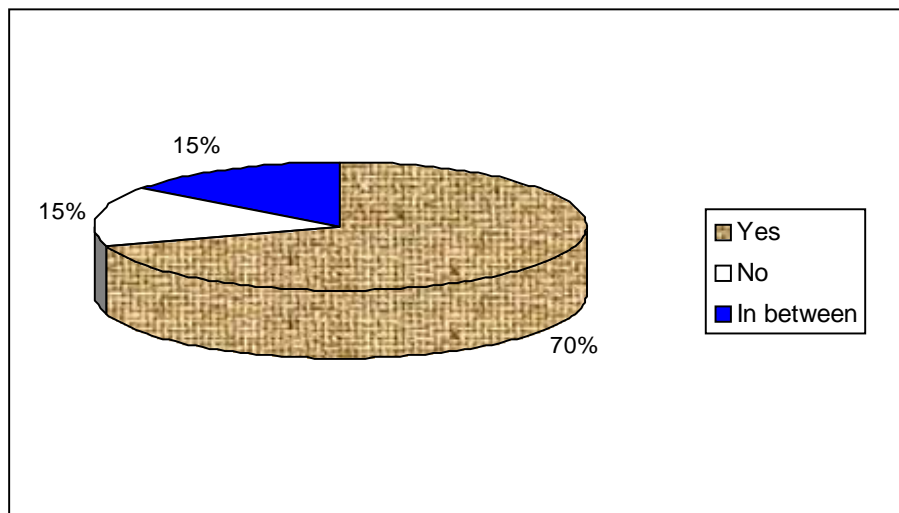
(L) To maintain the desire/maximum beneficial Investment Policy

Table 4.34: To maintain the desire/maximum beneficial Investment Policy

Companies	Yes	No	In between	Total
NIC%	70%	15%	15%	100%
PIC%	70%	15%	15%	100%

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

Figure 4.24: To maintain the desire/maximum beneficial Investment Policy

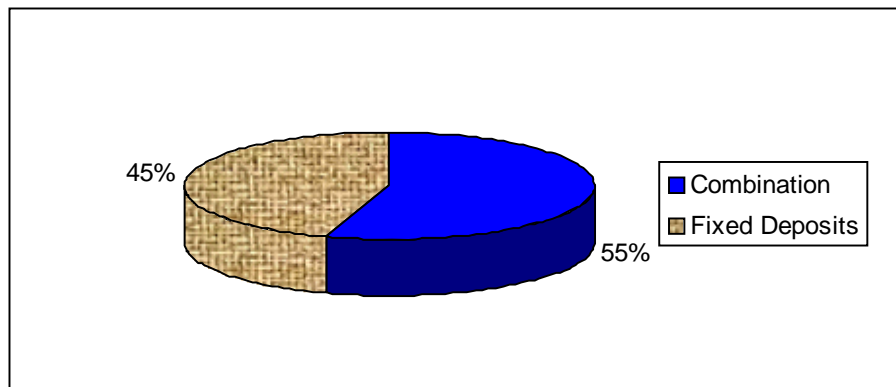


Regarding the query around 70% of NIC employee and PIC employee were in favor of the option 'Yes', 15% of NIC were in favors of option 'No' and again 15% of NIC employees were in favors of option 'In between'. It means most of the insurer can maintain the desired minimum beneficial investment policy. Few of the insurers could not maintain maximum beneficial policy.

(M) Suitable sectors for the Purpose of Investment to the Insurer

This question was meant to find out weight given by the insurer to investment sector. There are various investment sectors but government classified the investment sector in two parts; optional and compulsory. Regarding this query 45% of NIC employee and PIC employee were in favors of first option 'fixed deposits' and other favored the combination of mentioned all other options, which is shown in below chart:

Figure 4.25: Suitable sectors for the Purpose of Investment to the Insurer



This figure clearly shows that less of the respondent proffered the fixed deposits for invest and more in favor of combination of all sectors.

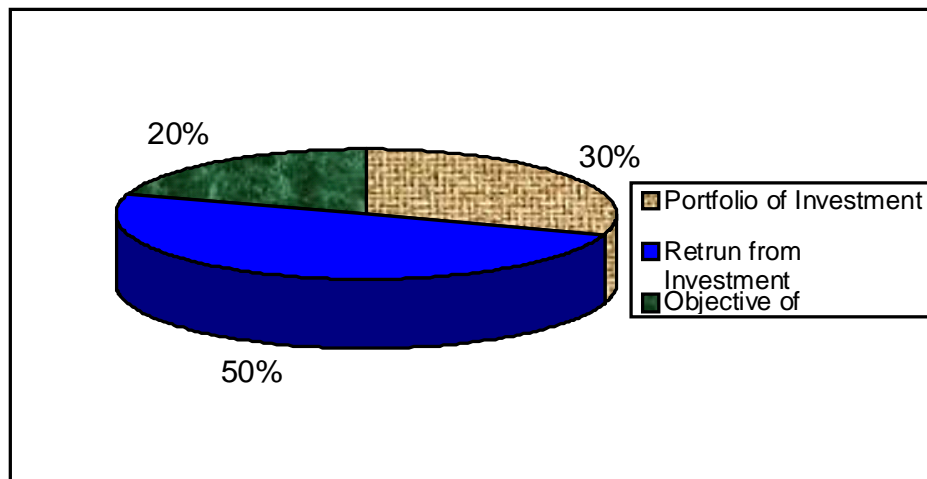
(N) Preferences of the Investment Policy

Table 4.35: Preferences of the Investment Policy

Companies	Portfolios of Investment	Return from Investment	Objectives of Investment	Total
NIC	3	5	2	10
Percentage	30%	50%	20%	100%
PIC	3	5	2	10
Percentage	30%	50%	20%	100%

This question was intended to find out the concentration of the insurer on particular aspect of the investment, while forming the investment policy. The option was given as portfolios of investment, return from investment, and objectives of investment. This question was been asked to 10 employees of NIC and 10 employees of PIC. Researcher found that among them around 50% of NIC employee and PIC employee responded in the favor of option 'return on investment', 30% were in favor of option 'portfolio of investment' and 20% of NIC employee and PIC employee were in favor of option 'objective of investment', which is shown in the figure below.

Figure 4.26: Preferences of the Investment Policy



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

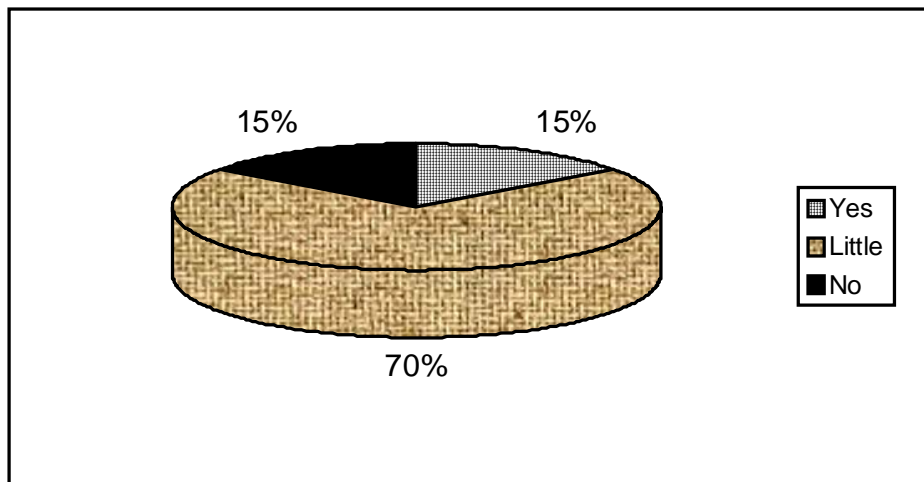
(O) Gain Desired Return

Table 4.36: Gain Desired Return

Companies	Yes	Little	No	Total
NIC%	15%	70%	15%	100%
PIC%	15%	70%	15%	100%

The question's objective was to know the view of respondents about gaining desired return from investment. This question was been asked to employee of NIC and PIC. According to viewers answers of NIC and PIC we came to know 70 percent viewers ware in favor of option "Little". 15% each were in favor of option Yes/No that is shown in the chart as:

Figure 4.27: Gain Desired Return



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

4.8 Major Findings

The most important means of transfer of risk is insurance. Insurance is the heart and essence of risk management. Without support of insurance, industrial and commercial sector of a country can not achieve success. Therefore, the study has been focus on evaluating the premium collection & investment position of the leading insurance company, NIC and PIC. The position of premium collection & investment of NIC and PIC has been already analyzed by using various financial and statistical tools. Based on the analysis some of the major findings are as follows:

1. The premium collection ratio of fire insurance of NIC and PIC had been fluctuating each year. Premium collection under fire insurance is in decreasing trend.
2. The proportion of marine premium collection is very less in total premium collection of NIC and PIC. The average ratio of marine premium collection to total premium collection of NIC is 3.21% and that of PIC is 3.03%.
3. Miscellaneous premium collection to total general premium collection ratio of NIC and PIC has slightly fluctuated but in increasing trend.
4. The investment of NIC on government saving bonds is decreasing; it is because of its investment in other sectors too.

Higher fluctuation could be seen in the ratio of investment on government saving bonds to total general investment of PIC. The portion of total investment on government saving bonds is decreasing each year. The ratio was 47.98% in 2002/03 but in 2007/08 it was only 13.44 percent.

5. From the analysis, it was clear that around 50% of the investible fund of NIC goes to bank fixed deposit and in average 42.23% of total general investment of PIC goes to bank fixed deposits.
6. Nepal Insurance Company Limited had not made any investment on finance company fixed deposit yet.

PIC had invested 16.03% on average of its investible fund in finance company fixed deposit.

7. From the analysis of NIC, researcher found that investment on share of corporate securities was 24% in average of total general investment. It had invested its fund in some equal ratio in share market each year.

The analysis of PIC revealed that the ratio of investment on share to total general investment fluctuated each year. Its fluctuation seems to be higher, as its C.V. is 0.51.

8. NIC had not invested in other sectors except government saving bonds, bank fixed deposits and shares till 2006/07. It started investing in other sectors since 2007/08.

PIC also started investing in other sectors since 2007/08. It invested 5.89 of its total investible fund in other sectors.

9. The analysis of NIC shows that general claims paid to total general premium collection was in increasing trend. It increased along with the increment of premium collection.

From the analysis of PIC, the study found that the general claim paid to total general premium collection was fluctuating. The highest ratio was 44.45% and the lowest was 30%.

10. From the analysis, the researcher found that there was decreasing trend of interest earned to total general investment ratio of both the companies. NIC's average of it was only 6.19% and PIC's average was 9.27% respectively.

11. The coefficient of correlation between premium collection and investment of NIC and PIC had high degree of positive correlation with significant relationship.

12. The analysis of correlation between premium collection and claim paid of NIC and PIC had higher degree of positive correlation with significant relationship between premium collection and claims paid.

13. The test of hypothesis helped to conclude that total premium amount of NIC and PIC were significantly different. It seems that there is no similarity in premium collection trend of NIC and PIC.

14. The 't-test' for total investment of NIC and PIC seems that there is significant difference between investment of NIC and PIC.

15. In case of premium collection of NIC and PIC, there was variation in respondents view. 50% of the respondents were in the side of 'good', 25% were in the favor of 'excellent' and the rest were in the favor of 'satisfactory'.
16. About preference of the investment policy, most of the respondents were in the favor of 'return from investment'. Only 20% favored 'objectives of investment' and 30% favored 'portfolio of investment'.
17. The collected view shows only satisfactory position of the current investment system of NIC and PIC. However among the query 15% favored 'able to gain desired return', 15% favored 'not able to gain desired return' and 70% favored 'able to gain little return' from investment.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary and Conclusion

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

Among the 31 insurance companies, this present study has been taken to evaluate the premium collection and investment pattern of Nepal Insurance Company Ltd. and Premier Insurance Company Ltd. The study analyzed the report of six years starting from 2002/03 to 2007/08 has been taken into consideration for the purpose of the study.

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

Nepal Insurance Co. Ltd. (NIC) was established in 1947 B.S. and Premier Insurance Company Ltd. was organized in the year 2048 B.S. and started its operation in around 2051B.S.

Although, NIC and PIC runs smoothly with profit, they faced various problems. The main problem is cut throat competition due to liberalization and privatization, under rating and price cutting and unhealthy competition between the insurance companies. Terrorism and recession is also the main problem of insurance

business in Nepal. Likewise NIC and PIC, insured of both the companies are also having some problem in different situation. In about claim received, time consuming procedures in accepting, issuing and survey report submission, delay in claim settlement etc.

5.2 Recommendations

The recommendations are made as per the analysis of primary, secondary and valid findings from study as well as relating information about NLC and PIC. Since the insurance is directly related to premium collection and investment aspect and its management, they will be the ultimate bearer of the soundness and weakness of their functioning as financial institution. They have also barrier from government rules and regulation and through other relevant side these correlative actions needs to be introduced:

- NIC and PIC should follow the investment policy and improve its management. And should maintain and make uniformly on premium collection under all insurance policy and should try to reduce its claim paid amount.
- Both the companies should enforce the diversification among the investment portfolio.
- From the analysis of study and research on interview, field observation of NIC and PIC, following facts are concluded: there are no sound policy and separate department for investing a fund but it is necessary to manage. Therefore, both the companies should manage a separate department for the purpose of investment and gain return without risk.
- NIC and PIC should improve their premium collection system and investment system too and try to increase customer service by providing different facilities and to withdraw unnecessary process of insurance and follow scientific insurance system.

- From the analysis mentioned above, findings seem that there is fluctuation of premium collection, investment and interest earned trend too. So, NIC and PIC should try to remove that type of fluctuation on respective aspect.
- Insurance premium fund should be invested in different sector other than Government bonds, bank deposits, shares in order to earn more return.
- Premium earning and changes in premium analysis suggests NIC to be competitive in the market because their earning percentage followed decreasing trend. Thus, it should draw the attention of marketing division/department.
- NIC and PIC are suggested to expand insurance activities in rural areas by the established of branches or by the appointment of agents according to its potentiality.
- The necessity of training to agents is a must before their agents are appointed in order to attract the people.
- NIC and PIC should introduce more new policies and attractive strategy so as to make ease for the development of its business.
- Both these companies should be socially responsible oriented rather than premium oriented in order to develop its business in present situation.
- Settlement of claims should be made in time; Delay in the settlement of claims may affect the business potentiality. Further, attention has to be adequately provided towards the faithfulness of the insured in connection with the claims arising due to the specified events.
- The company should set up a separate research and development department, which will look the present and potential business opportunities in the market.
- The company should try to increase the efficiency of the employees by organizing development programmes.

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APPENDIX - I

SCHEDULE OF QUESTIONNAIRE

About Premium

Q.1 What is the condition of premium collection (of insurer) at present situation?

- Excellent Good Satisfactory

Q.2 Are you/your firm satisfied with the various rate of premium under different insurance policy?

- Yes No

Q.3 How is the premium collection system of your Insurance Company.

- Right Some What Right Wrong

Q.4 How is the collection from premium at present insurance market?

- Less than Expected In between expected
 More than Expected

Q.5 Are you/your firm able to collect target premium amount?

- Yes No

Q.6 Why are there more general insurance companies than life insurance? Because

- Establishment amount of life insurance company is high
 Law section of general insurance company most easy
 Law Section of Life Insurance Company is most difficult.

Q.7 Do the insurance company pays the claim amount on time?

- Yes Little No

Q.8 Is there any different provision according to the insurance policy?

Yes Little No

Q.9 Is under the fire insurance policy, if any?

Yes No

Q.10 Is cash in transit insurance granted only to commercial and industrial establishments?

Yes Little No

About Investment

Q.11 Is creating a portfolio of investment essential?

Significant concerned Some what concerned Not essential

Q.12 Do you feel that you/your firm is able to maintain the desired/maximum beneficial investment policy?

Yes No In Between

Q.13 Which sectors are suitable for the purpose of investment?

Fixed Deposit Govt. saving Bond

Share in Market Any Other

Q.14 While forming the investment policy, what will be your firm preferences among these?

Portfolios of investment Return from investment

Objective of investment

Q.15 Is the present investment able to gain desired return?

Yes Little No

PPENDIX – II

Premium Collected by NIC from different Sections in Different Fiscal Years

Source	2002/03		2003/04		2004/05		2005/06		2006/07		2007/08	
	Rs.	%	Rs.	%	Rs.	%	Rs.	%	Rs.	%	Rs.	%
Fire	61932183	60.40	66965184	56.45	65951356	51.76	75285992	52.33	69027107	41.38	718333467	38.30
Marine	2599384	2.54	4208839	3.54	6133857	4.79	4631865	3.22	391331	2.45	5107974	2.72
Misc.	7990352	37.06	47460381	40.02	55331850	43.41	63952641	44.44	93881830	56.27	110597781	59.98
Total	102521919	100.00	118634404	100	127417063	100	143870498	100	166822268	100	187539222	100

Source: Annual Report of NIC of Various

Premium Collection by PIC from Different Sector in different Fiscal Years

Source	2002/03		2003/04		2004/05		2005/06		2006/07		2007/08	
	Rs.	%	Rs.	%	Rs.	%	Rs.	%	Rs.	%	Rs.	%
Fire	12130000	26.29	294220000	42.49	30621000	29.89	21443000	21.47	25425000	21.65	28124000	14.69
Marine	2185000	4.73	3200000	4.62	2588000	2.53	2008000	2.01	2736000	2.38	3449000	1.8
Misc.	31825000	68.97	36615000	52.86	69268000	67.59	76398000	76.51	89289000	76.00	159866000	83.5
Total	46140000	100	69235000	100	102483000	100	99849000	100	117450000	100	191439000	100

Source: Annual report of PIC of various years.

Appendix–III

Correlation between premium collection and investment of NIC

(Rs. in Million)

Year	(X)	(Y)	x	y	x ²	y ²	xy
2003	102.52	168.67	-38.61	-22.43	1490.7	503.1	866
2004	118.63	178.83	-22.5	-12.27	506.25	150.55	276.75
2005	127.42	189.26	-13.71	-1.84	187.96	3.39	25.23
2006	143.87	208.5	2.74	17.4	7.51	302.76	47.68
2007	166.82	201	25.69	9.9	659.98	98	254
2008	187.54	200.35	46.4	9.25	253.9	85.56	429.2
Total	846.8	1146.61			5006.3	1143.36	1898.2

Where, X = Premium Collection

Y = Investment

$$\bar{X} = 141.13$$

$$\bar{Y} = 191.10$$

$$r = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}} = \frac{1898.2}{\sqrt{5006.3} \sqrt{1143.36}} = 0.7334$$

Calculated of Probable Error [P.E. (r)]

$$\text{P.E.} = 0.6745 \times \frac{(1-r^2)}{\sqrt{N}}$$

$$= 0.6745 \times \frac{(1-0.7934)}{\sqrt{6}}$$

$$= 0.00359$$

$$6 \times \text{P.E. (r)} = 6 \times 0.102 = 0.612$$

Appendix – IV

Correlation between premium collection and investment of PIC

(Rs. in Million)

Year	(X)	(Y)	x	y	x ²	y ²	xy
2003	32.83	48.81	-45.17	-18.6	2040.33	345.96	840.16
2004	46.14	56.71	-31.86	-10.7	1014.49	114.49	840.9
2005	69.24	60.64	-8.76	-6.77	76.7	45.83	59.31
2006	102.48	76.05	24.48	8.64	599.37	74.65	211.51
2007	99.85	71.98	21.85	4.57	477.51	20.88	99.86
2008	117.45	90.25	39.45	22.84	1556.46	521.67	901
Total	467.99	404.44			5765.27	1123.48	2452.74

Where, X = Premium Collection

Y = Investment

$$\bar{X} = 77.998$$

$$\bar{Y} = 67.41$$

$$r = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}} = \frac{2452.74}{\sqrt{5765.27} \sqrt{1123.27}} = 0.9637$$

Calculated of Probable Error [P.E. (r)]

$$\text{P.E.} = 0.6745 \times \frac{(1-r^2)}{\sqrt{N}}$$

$$= 0.6745 \times \frac{(1-0.9637)}{\sqrt{6}}$$

$$= 0.0196$$

$$6 \times \text{P.E. (r)} = 6 \times 0.0196 = 0.1176$$

Appendix – V

Correlation between premium collection and claims paid of NIC

(Rs. in Million)

Year	(X)	(Y)	x	y	x ²	y ²	xy
2003	102.52	20.03	-38.61	-31.87	1490.7	1015.7	1230.5
2004	118.63	37.1	-22.5	-14.8	506.25	2190.04	333
2005	127.42	45.35	-13.71	-6.55	187.96	42.9	89.8
2006	143.87	61.01	2.74	9.11	7.51	82.99	24.96
2007	166.82	72.12	25.69	20.22	659.98	408.85	519.45
2008	187.54	75.8	46.4	23.9	253.9	571.21	1108.96
Total	846.8	311.41			5006.3	2340.69	3306.67

Where, X = Premium Collection

Y = Investment

$$\bar{X} = 141.13$$

$$\bar{Y} = 51.9$$

$$r = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}} = \frac{3306.67}{\sqrt{5006.3} \sqrt{2340.69}} = 0.966$$

Calculated of Probable Error [P.E. (r)]

$$\text{P.E.r.} = 0.6745 \times \frac{(1-r^2)}{\sqrt{N}}$$

$$= 0.6745 \times \frac{(1-0.966)}{\sqrt{6}}$$

$$= 0.018$$

$$6 \times \text{P.E. (r)} = 6 \times 0.018 = 0.108$$

Appendix – VI

Correlation between premium collection and claims paid of PIC

(Rs. in Million)

Year	(X)	(Y)	x	y	x ²	y ²	xy
2003	32.83	6.299	-45.17	-21.7	2040.33	470.93	979.97
2004	46.14	16.42	-31.86	-11.58	1014.49	134.1	368.8
2005	69.24	20.93	-8.76	-7.07	76.7	49.98	61.86
2006	102.48	30.66	24.48	2.66	599.37	7.08	65.14
2007	99.85	41.56	21.85	13.56	477.51	183.87	296.42
2008	117.45	52.2	39.45	24.2	1556.46	585.64	954.93
Total	467.99	168.1			5765.27	1431.6	2727

Where, X = Premium Collection

Y = Investment

$$\bar{X} = 77.998$$

$$\bar{Y} = 28$$

$$r = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}} = \frac{2452.74}{\sqrt{5765.27} \sqrt{1123.27}} = 0.9492$$

Calculated of Probable Error [P.E. (r)]

$$\text{P.E.} = 0.6745 \times \frac{(1-r^2)}{\sqrt{N}}$$

$$= 0.6745 \times \frac{(1-0.9492)}{\sqrt{6}}$$

$$= 0.027$$

$$6 \times \text{P.E. (r)} = 6 \times 0.027 = 0.162$$

Appendix – VII

T-test of Premium Collection of NIC and PIC

Total Premium Collection Table

(Rs. in Million)

Year	(X ₁)	(X ₂)	(X ₁ - \bar{X}_1) ²	(X ₂ - \bar{X}_2) ²
2003	102.52	32.83	1490.7	2040.33
2004	118.63	46.14	506.25	1014.9
2005	127.42	69.24	187.96	76.7
2006	143.87	102.48	7.51	599.37
2007	166.82	99.85	659.98	477.51
2008	187.54	117.45	2153.9	1556.46
Total	8846.8	467.99	5006.3	5765.27

$$\bar{X}_1^2 = 141.13$$

$$\bar{X}_2^2 = 77.998$$

$$S^2 = \frac{1}{N_1 + N_2 - 2} \sum (X_1 - \bar{X}_1)^2 + (X_2 - \bar{X}_2)^2$$

$$= \frac{1}{6 + 6 - 2} 5006.3 + 5765.27$$

$$= 1077.16$$

$$\text{Here, } t = \frac{\bar{X}_1 - \bar{X}_2}{\sqrt{S^2 \left(\frac{1}{N_1} + \frac{1}{N_2} \right)}} = \frac{141.13 - 77.998}{\sqrt{1077.16 \left(\frac{1}{5} + \frac{1}{5} \right)}} = 3.04$$

Appendix – VIII

T-test of Premium Collection of NIC and PIC

Total Premium Collection Table

(Rs. in Million)

Year	(X ₁)	(X ₂)	(X ₁ - \bar{X}_1) ²	(X ₂ - \bar{X}_2) ²
2003	168.67	48.81	503.1	345.96
2004	178.83	56.71	150.55	114.49
2005	189.26	60.64	3.39	45.83
2006	208.5	76.05	302.76	74.65
2007	201	71.98	98	20.88
2008	200.35	90.25	85.56	521.67
Total	1146.6	404.44	1143.36	1123.48

$$\bar{X}_1 = 141.13$$

$$\bar{X}_2 = 77.998$$

$$S^2 = \frac{1}{N_1 + N_2 - 2} \sum (X_1 - \bar{X}_1)^2 + (X_2 - \bar{X}_2)^2$$

$$= \frac{1}{6 + 6 - 2} 1143.36 + 1123.48$$

$$= 226.68$$

$$\text{Here, } t = \frac{\bar{X}_1 - \bar{X}_2}{\sqrt{S^2 \left(\frac{1}{N_1} + \frac{1}{N_2} \right)}} = \frac{191.1 - 67.41}{\sqrt{226.68 \left(\frac{1}{6} + \frac{1}{6} \right)}} = 14.23$$

Appendix – IX

Claims Paid by NIC

	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
Fire	3182766	2693044	4447314	28488452	25007865	10657512
Marine	149539	136254	1732399	751221	372783	128787
Misc.	16694807	34272193	39166368	31,769,989	46741308	65,013,170
Total	20,027,112	37,101,491	45,34,081	61,009,662	721,21,956	75,799,469

Total Claims Paid by PIC (Rs. in Million)

	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2002/03
Total Claim	6.299	16.42	20.98	30.66	41.56	52.2	71.93