

**DETERMINANTS OF INSURANCE PREMIUM OF LIFE INSURANCE
COMPANIES IN NEPAL**

A Thesis Proposal

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1. Background of the Study

The insurance sector plays an important role in the service-based economy and its services are now being integrated into wider financial industry. An insurance company offers insurance policies to the public, either by selling directly to an individual or through any other source such as an employee's benefit plan.

Life insurance is a contract that is made between an individual and insurance company where individual agrees to pay premium and in return, insurance company pays a certain sum of money either on the death of insurance or on the expiry of a fixed period. It deals with physical and mental accident of individual. Life insurance can be defined as a service that provides a benefit in case a risk occurs. This service has usually a financial nature in favour of an individual, association or business in exchange for collected premium or contribution. Thus, life insurance is the economic sector that includes the conception, production and marketing of these types of Service.

Insurance companies (both private and public) consisting the organizations which provides life, fire, accident, causality and many other form of insurance. Life insurance is a great invention of human civilization. Huebner established the concept of "Human life value" which is regarded as the economic and philosophical frame work of life insurance. White (1993) argues that Huebner's concept of human lie value is more than just a proposition that a human life has an economic value. Actually, insurance of human life means the insurance of the productive capacity of a person which ensures continuity of income in case of unemployment, disability or death of insured and protect to the family members from the financial condition.

Life insurance companies have shown the impressive progress which not only creates the employment opportunities but also enhances the business activities in the economy. The first insurance company was named as "Maal Chalanira Bima Company" which was later renamed as "Nepal Insurance and Transport Company" in 1959 and further renamed as "Nepal insurance Company Ltd". In 1968, the government of Nepal established "Rastriya Bima Sasthan" under the company act Beema Samiti (Insurance Board of Nepal) is a autonomous body established to develop systematize, regularize and regulate the insurance business of Nepal under

insurance Act 1992" (Insurance Board of Nepal). Insurance company collects funds as a premium method in accordance to their nature and corporate objectives. As per the data of insurance board, the insurance companies have managed to increase the insurance premium amount by 52% in the fiscal year 2074/2075. The total insurance premium amounted to Rs. 13.03.arab in the fiscal year 2073/74 which has increases to Rs. 19.44arab in the fiscal year 2074/75. The increase in the number of life insurance companies can be considered as the major reason for the increment of the premium amount. The premium amount of life insurance has also increased to Rs. 3350million, This shows the life insurance performance is normally measured in net premium earned and premium is expressed from annual turnover, return on investment and return on equity.

2. Statement of the Problem and Research Questions

Premium is one of the most important objectives of insurance management because on goal of insurance management is to maximize the owner's wealth and premium position Born H.P. (2001). During the period of 2009/10- 2017/18 the annual report of insurance corporation in Nepal shows large fluctuation in the profits. The variation of profits among life. Insurance corporations suggests that firms- specific factors play crucial role in influencing insurance companies premium. It is therefore essential to identify What are these factors and how they help life insurance companies to take action that will increase their premium and investors to forecast premium of like insurance companies in Nepal.

Life insurance companies could flourish by taking reasonable leverage rise or could become insolvent if the risk is out of control. Adams and Buckle (2000) provided the evidence that insurance companies with high leverage have better operational performance than insurance companies with low leverage. Nevertheless, more empirical evidence supports the view that leverage risk reduces company performance Carson and Hoyt (1995) found that leverage is significantly positively related to the premium of insolvency. More empirical finding have confirmed that there is positive relationship between liquidity and financial performance of insurers (Ambrose and Carroll, 1994 and Carson and Hoyt, 995). However, according to the theory of agency costs, high liquidity of assets could increase agency costs for owners because

managers might take advantage of the benefits of liquid assets (Adams and buckle, 2000)

Based on statement of the problem the following research questions are set in this study:

1. What are the internal factors that affects the insurance premium of life insurance companies in Nepal?
2. What are the relationship between company specific determinants such as size of company, liquidity, volumes of capital, fixed assets and growth rate with premium?
3. Which company specific determinants effect most the premium of selected Nepalese life insurance?

3. Purposes of the Study

The major purpose of the study is to assess the relationship between determinants of premium of life insurance companies in Nepal. The specific purpose of the study are as follows:

1. To analyze the internal factor of Nepalese life insurance companies that affects the insurance premium.
2. To examine the relationship between company specific determinants such as size of company, liquidity, volume of capital, fixed assets and growth rate with premium.
3. To identify the major company specific determinants affecting in determining the premium of selected Nepalese life insurance.

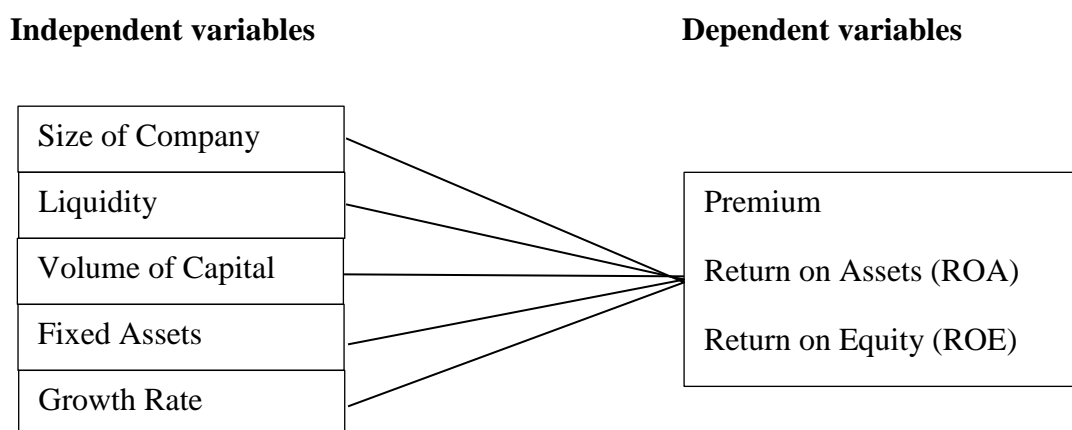
4. Conceptual Framework

Conceptual framework is the basis or foundation upon which the study is established. The conceptual framework describes the relationship among the dependent and independent variable the relationship among explaining the firm specific factor affecting the premium of Nepalese life insurance companies. It helps to determine and

define the focus and goal of the research problem. Based on the objectives of the study and based on the literature review following conceptual framework is framed to summarize the main focus and scope in terms of variables included.

The study focuses on the firm-specific factor affecting the premium of Nepalese life insurance companies. The conceptual framework of this study includes return on assets (ROA) and return on equity (ROE) used as dependent variables likewise, independent variables include size of company, liquidity, volume of capital, fixed assets and growth rate had been used to show how much influence of these variables are on the premium of Nepalese life insurance companies. Thus, the following conceptual model is framed to summarize the main focus and scope of this study in terms of variables included. The relationship between dependent and independent variables is shown by the following figure:

Figure 1: Determinants of Premium of Life Insurance Companies



5. Significance of the Study

The significance of this study comes from the facts that various studies in Nepal have investigated the determinants of premium only for non-financial and banking sectors. The need for this study provides useful information to policy makers and regulators to sustain the ability of life insurance companies in the country. The study findings will benefit the management and staff of life insurance companies who will gain insight into the factors affecting the premium of Life Insurance Companies.

There are several studies that have been carried out on the factors affecting the performance of insurance companies in foreign countries. However under development countries like Nepal are lacking such studies. Most of the studies previously focused on commercial bank not on insurance companies. Therefore, this study is expected to provide empirical evidence regarding the determinant of premium of life insurance sector plays important role in the financial services industry in almost developed and developing countries, contributing to economic growth, efficient ill sources allocation, reduction of transaction cost, creation of liquidity, facilitation of economic of scales in investment and speed of financial losses (Haiss and Sumegi, 2008). As such, an understanding of determinants of Life Insurance Company's performance and the drivers of Life Insurance Companies performance for that matter is essential and crucial to the stability of the economy.

6. Limitations of the Study

The following are some of the limitations of study:

- i. The research study will be based on Secondary data, therefore the accuracy of results and conclusion highly depend upon the reliability of these data.
- ii. The evaluations is made through the analysis of financial statement published and presents by the companies.
- iii. This study has taken ROA and ROE as the measure of financial performance. However there are several other variable such as earning per share., dividend per share, market value per share, net operating margin etc. which measures the premium of Nepalese life insurance companies.
- iv. The selected sample of four life insurance companies may not represent the sample.
- v. Finical report may suffer from alteration, manipulation of data. Systematic undervaluation or overvaluation of assets etc.

7. Literature Review

Premium is one of the most important objectives of financial management because one goal of financial management is to maximize the owner's wealth and premium is very important determinants performance. A key indicator of insurance companies premium is return on assets (ROA), defined as before tax profit divide by total assets

(TA) and return on equity (ROE), defined as before tax profit divide by total equity (TE). Premium is dependent variable while size of company, liquidity, volume of capital, fixed assets and growth rate are independent variables. The sample in this study includes 35 listed life and non- life insurance companies which cover the period of 2005-2009. The finding shows that there is significantly positive association between size of the company and premium. The result also shows that the liquidity, volume of capital is also significantly and positive relationship with premium. Fixed asset and growth rate shows negative but significant relationship with premium.

During 1980 the premium of insurance companies varied across different legal and regulatory measure that reveals that these environment were supposed to protect the insurance contract that may have had reverse effect if they created significant constrained on the activities of the insurance companies (Born H.P, 2001), Agiobenebo and Ezieim examined the relationship between premium and financial in remediation in Nigeria. Result showed that the level of premium to total asset is positively related to level of premium of insurance companies and also significant. The factors of net potential loan level, investment were found positively related but in significance Agiobenebo and Ezieim, 2002.

It is not surprising that insurance industry is highly regulated and monitored because in society insurance served as essential purpose. In state life insurance companies perform a various activities to make sure that like insurance consumers have access to insurance and treated fairly by insurer and their agents, and that insurance companies are financially practicable McCarron Ferguson Act 1945).

Historically the form of insurance regulation include laws related to the information, operation of insurers and term of insurance contract and licensing. These laws also includes surplus and minimum capital requirements restriction on the investment on statutory reserve and prescribe methods for calculation of reserve (Mayors and Smith, 1988).

Hifza malik (2011) found that the premium of insurance companies is significant and positively of insurance companies is significantly and positively influenced by volume of capital. Significantly and negative influence by loss ratio and leverage; and

not related to age of the insurer. Therefore, the study showed that all the insurance companies specific factor are found to be significant factor affecting the company's performance.

8. Research Gap

Research gap shows we have a deep understanding of the status of the body of knowledge in our chosen field. After review the past articles and thesis; premium performance of life insurance companies is affected by many factors. Not only external or macroeconomic factors plays a role in deter. Mining premium, so this studies focus on internal factor. This area is pure area for research. This study can add to the existing body of the literature. This study provides detail about the premium of sample like insurance companies along with their variables.

9. Research Methodology

Research methodology sets out overall plan associate with a study. It provides a basic framework on which the study is based. Before presenting the analysis and interpretation of data. It is necessary that research method can be described first. In the absence of methodology. It is likely that the conclusion drawn may be misunderstood. It includes:

9.1 Research Design

The research design adopted for the facts, findings and search adequate information about determination of premium of life insurance company in Nepal. In this study descriptive research design deal with the issues associated with determination of premium of life insurance companies in context of Nepal. The descriptive research design has been adopted for the facts, findings and search adequate information about determination of premium of life insurance company in Nepal.

9.2 Population and Sample

In order to examine the determination of premium of life insurance companies, this study contains a sample of 4 commercial life insurance companies among 18 life insurance companies of Nepal. Respective data were collected for the time period of 2011-12 to 2018-19, leading to a total of 32 observations.

Source: Beema Samiti (Insurance Board)

9.3 Sources of Data

In this study, secondary source of data is collected. For this study, data were collected from reports published by the Beema Samiti (Insurance Board of Nepal), annual reports of respective life insurance companies.

9.4 Data Collection and Processing Procedure

The data collected and analyzed is balanced panel data of four general life insurance companies in Nepal. For the period of 2011-2019 AD, the data should be collected from annual report of life insurance company and publications of insurance board of Nepal (Beema Samiti). The data should be processed through from procedure such as sample observation such as mean, standard deviation, minimum and maximum value of the observation, correlation analysis, test of significance, standard error of estimate and multi-co linearity have also been tested to make the results more valid.

9.5 Data Analysis Tools and Techniques

This section deals with statistical and economical models used for the purpose of analysis of secondary data. The data are analyzed by using statistical package for social science (SPSS 20). Descriptive correlation and regression methods of analysis are used in the study. The descriptive statistical such as mean, standard deviations, correlation and regression analysis. The study examines the relationship between firm specific variables and firm premium of life insurance company of Nepal.

10. Chapter Plan

The research study has been organized into the title of these chapters are as follows:

Chapter 1 - Introduction

It starts with the first chapter introduction that includes general background followed by the statement of the problem, objectives of the study, significance and limitations of the study.

Chapter II - Literature Review

The second chapter is literature survey and conceptual framework. It provides insight of the literature review. It includes review of literatures from global context and reviews of some Nepalese studies. In addition, conceptual framework is also discussed under this chapter and it is ended with concluding remarks of details reviews of literature.

Chapter III - Research Methodology

This chapter covers the research design, nature and sources of data, selection of sample insurance companies, data analysis procedures, model used for data analysis, instrumentations and overall analysis plan along with the limitations of the study.

Chapter IV - Results and Discussion

This Chapter focuses on the systematic presentation and analysis of data. It is the most important part of research where the determination of premium of life insurance company in Nepal is established by descriptive statistics and using regression analysis, correlation analysis.

Chapter V - Conclusion

This chapter provides a summary of overview on all works carried out in chapter one through four including major conclusion derived from the study. This chapter also includes a separate section for recommendation and scope for future research bascd on major findings of the determinants of premium of life insurance companies.

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