

CHAPTER-I

INTRODUCTION

1.1 Background of the Study

Our world today has become very interdependent economically and socially with the pace of globalization. The rapid development in information Technology and the advancement in transportation facilities have made the world as narrow as a village. The present world economy has been more competitive and complicated due to globalization of economies and market. Every sort of change occurring in one sector of the world affects the other. Healthy economy is dependent on efficient transfer of funds from people who are not savers to firms and individuals who need capital. Economic efficiency is impossible without a good system for allocating capital within the economy.

The improvements in transportation and communication that have resulted in global markets in goods and services have also created a world of international finance. "Money and capital flow across national boundaries. Financial transaction in the United States is influenced by international financial markets.

The active participation of private sector will play an important role in the development of the financial sector. It is essential to flow financial resources easily and in a simple manner to enhance sector the role of this sector in economic development that help to achieve desired results from the economic development. Because of various responsible causes the country has not been able to realize the desired outcomes; one of them is poor capital market condition. The capital market of Nepal is small and it is in growing stage. The political condition of Nepal is the main constraint for the newly established companies and interested investors.

It is the nature of human being that always wishes and tries to make their present as well as future safe. They always search different way for this but the modern technology and development of human civilization are creating new challenges and uncertainties in the same range. The concept of insurance was developed to reduce those uncertainties and the risk of those uncertainties. Insurance has proved itself as an effective device that could be a safeguard financially against such uncertainties and unfortunate happenings.

"The insurance has proved as double-edged weapon for socio-economic development of the nation. In one way it provides financial security against the uncertainties to the person, industry, commerce and other assets. In the other way insurance business collects the scattered fund as a premium for investment. This investment helps for the growth of industrialization and commercialization. The proper development of the industrialization and commercialization make the better economic standard of the country. Only the efficient management and sound financial position of the company can achieves these sets of goal.

Though the history of insurance company is not very old in Nepal but they have come long way to reach the present position. "The concept of insurance developed in ancient period as " Guthi". At that time the income from such Guthi was used to build building and repairing temple and so on. But now they are converted into commercial Phenomenon.

Insurance market in global perspective has been as important ingredient for economic development. In advanced countries insurance companies have played a very significant intermediary's role in mobilizing funds through the combination of investment portfolio. However, in developing countries like Nepal, the role of insurance companies is still to be realized as an important vehicle of mobilizing the internal saving through various insurance schemes of life and non-life sector in the economy. Insurance is a social device, which companies the risk of individual into a group, using funds contributed by members of the group to pay losses. Thus the main function of insurance companies is to collect premium and mobilize such collected funds into various sectors of economy with an organized and institutional manners.

The saving of individuals or institutional investors as investment in shares, debentures, bonds, mutual funds and other financial instruments which in turn are deployed for productive purpose in various sector of the economy which have potential to yield a higher return on their investment. Investor purchase stocks of the companies through the primary market i.e initial offering or through the secondary market. Most of these investors are not aware of the financial strength of the companies and they do not analyze company's financial indicators before they invest their funds through secondary market.

Financial performance of companies is the one the important key which show the status of the company. The success and the possibilities of the growth and development of any organization depend upon the market performance of that organization. Every investor should be well aware of the degree of risks in which they are investing or going to invest their saving funds. There are very few practices of analyzing these aspects in the Nepalese context due to lack of adequate knowledge about the securities for investment. Most of the investors are investing their funds in whim without considering risk involved in their investment.

The basic finance function must be performed in all types of organization and in all types of economic systems. The unique about business organization in a market economy is that they are directly and measurable subject to the discipline of the financial markets. These markets continuously value business firm's securities, thereby providing measures of the firm's performance.

Financial performance is the process of identifying the financial strength and weakness of the concern. It is the process of critically examining in detail accounting information given in the financial statement by evacuating the relationship between component part of financial statement to gain better understanding of the firm's financial position and performance. Thus the financial analysis is the key point of the concern for the financial for the financial forecasting and planning. Market price per share in one hand reflects the financial performance information of company and in other hand determines the returns to investors in the form of capital gain. The different variables such as earning per share and dividend per share, net worth per share also very crucial to analyze which affect market price and all these help to evaluate the performance of company. The role of insurance companies has been instrumental in the overall economic development of the country. They help to pool and utilize resources, reduce cost and risks, expand and diversify opportunities increase the locative efficiency of resources; promote the productivity and economic growth. These are the main part of economy of the nation.

Thus the study of financial performance encourages saving, help channel saving into productive investment and encourages entrepreneurs to improve the efficiency of investment. The discipline of corporate management through competitive selection in the market for corporate control is a vital part of economic development and activities.

1.2 Profile of Sample Insurance Companies

a) Everest Insurance Company Limited:

Everest Insurance Company Limited was established in 1992 under the company Act. 1964. The major objective of the company is to carry out life insurance and non-life insurance business in the country. The company is yet to get permission to operate life insurance business from insurance board and has operation only non-life insurance business. It was listed on the Nepal Stock exchange on 1995 A.D. It has Authorized Capital Rs. 15 Crores, Issued Capital Rs. 10 Carores 50 Lakh and Paid up Capital Rs. 9 Carores with 90 Lakh Shares.

b) Neco Insurance Limited:

Neco Insurance Company Limited was established in 2053 B.S with an objective of providing non-life insurance services in the field of Fire, Marine, Vehicle and miscellaneous insurance in the country and abroad. The shareholding pattern is 60 percent by the promoters and 40% by the general public.

c) Premier Insurance Co. (Nepal) Ltd.:

Premier Insurance company (Nepal) Limited was established under the company Act 1964 in 1992 (2048 B.S). The major objective of the company is to carry out life and non-life insurance and re-insurance business in the country and abroad. The shareholding pattern is 60.01 percent by the promoters and 39.99% by the general public. It was listed on stock exchange in 1995 A.D.(2052 B.S).

d) Himalayan General Insurance Company:

Himalayan General Insurance Company Limited was established in 1988 under the company Act 1964 with an objective of undertaking non-life and re-insurance business in the country and abroad. The company had obtained permission to commence insurance business from insurance board under insurance Act 1992 and started its business from November 1993. HGIC listed on stock exchange on 1994 A.D the shareholding pattern of the company is 60% share owned by promoters and 40% by general public.

1.3 Statement of the Problem:

Insurance is one important pillar of business world. On one hand it provides the financial security against uncertain future loss and on the other hand it provides capital to business houses. Insurance business is increasing in Nepal but at the same time number of constraints are also hinders the development of insurance in Nepal.

The financial performance of insurance companies is not in satisfied level at present. Here are some reasons for low financial performance or less net amount earning:

- Limited market opportunities and lack of profitable investment opportunities.
- Current political environment
- No knowledge of insurance due to lack of education. Most live under poverty line.
- Lack of sufficient industries and profitable investment opportunity.
- Most insurance companies are located in urban areas with limited target customers.
- Limited area of insurance
- Lack of professionalism in insurance in companies
- Negligence on risk analysis, premium collection and claim settlement.

The number of business companies is increasing with the liberalization policy in Nepal. These companies are participating in Banking services, insurance services and other manufacturing and development works. But due to current political situation and competitive economic situation, the companies are facing immense challenges to sustain.

In this ground the present study mainly deals with the following issues.

- Whether the insurance companies are improving the financial performance or not?
- How market prices of the insurance companies move?
- What is the relationship between DPS and MPS?
- What is the relationship between EPS and MPS?
- What is the relationship between NWPS and MPS?
- How the major financial indicator (EPS, DPS and NWPS) influence the MPS etc.?

1.4 Objectives of the Study

The main objective of the study is to trace out and analyze the financial performance of insurance companies in Nepal. The specific objective of the study is as follows:

- To analyze various aspects relating to financial performance of insurance companies in Nepal
- To examine major financial indicators that has major influence on determining the MPS.
- To analyze financial position of some listed insurance companies.
- To analyze the correlation of major financial indicators (DPS, EPS and NWPS) with MPS.
- To study the trend of premium collection of sampled insurance companies.

1.5 Significance of the Study:

Insurance business plays an eminent role in the industrialization of the country. It is equally important to the individual to the nation as well. Due to lack of full fledged capital market; the insurance companies do not have sufficient investment opportunities. Insurance companies also have to face intense competition in a limited market territory.

Development of nation depends on the development of its economic growth. Insurance business in modern economic age play vital role in different sector of the nation. Insurance provides protection against the loss of goods and properties in exchange for a fixed premium. It is worth nothing the premium is a very small amount in comparison to the value of property at risk. Business activities can be carried without hesitation because insurance provided certainty of payment in case of loss. The main function of insurance companies is to collect small of money in the form of premium from various persons and organization and mobilize such collected funds into various sector of economy with an organized and institutional manners. It ultimately leads to the economic progress in the country. Thus there is capital formation. Insurance companies invest the capital and utilize it in different productive sector of the country. It may invest the funds in the securities issued by government and other non-government organizations in the country. It also issues shares and debentures to public with the hope of capital gain and dividend. However, in the developing countries like Nepal, the role of insurance companies is still to be realized as an important vehicle of mobilizing the internal saving

through various insurance schemes of life and non-life sectors in the economy.

In this context, the performance of market analysis would analyze the strengths, weakness, opportunities and threats of the selected insurance companies. This study would be helpful for multi areas which are as mentioned:

- Important to the academic and professional people
- Individual who will carry out further study on profitability of Insurance companies of Nepal.
- Important to the shareholders, investors, customers, competitions personnel and other key stakeholders.
- This study also will be helpful to these insurance companies to identify its hidden weakness regarding financial performance.

1.6 Limitation of the Study:

As every research has its own limitation, this study is not free from it. Basically, this study is done for the fulfillment of M.B.S level. So it has some limitation, which are as follows:

- The study is based on some of the selected insurance companies among various insurance companies.
- The study has to be conducted with time limitation being a partially requirement for an academic program.
- The evaluation is made through the analysis of financial statement published and presented by the company.

1.7. Structure of the Study

The study is in five different chapters namely introduction, review of literature, research methodology, presentation and analysis of data and summery conclusion and recommendations. This study is thus divided to make the study simpler and easy to understand.

Chapter One: Introduction

This chapter deals with the subject matter of the study. This study will contains general background of the study, statement of problem, objective significance of the study, research methodology, and hypothesis statement and limitation of the study.

Chapter Two- Review of literature

In this chapter a brief review of the related studies and findings are presented and various related literature are quoted. Review of the literature consist conceptual review, review of journal and review of thesis.

Chapter 3- Research Methodology

Methodology used for the purpose of the study in this chapter includes research design, sources of data, gathering procedure, data processing and financial and statistical tools used.

Chapter 4 – Data presentation and analysis

Presentation and analysis of data is heart of the study, which includes presentation of data interpretation and analysis and major findings of the study. This chapter analyzes the financial performance of the selected companies' comparison between them. I had included the major finding of the study in this chapter.

Chapter 5- Summary, recommendation and conclusion

The final and last chapter contains the summary of the entire study. The conclusion will present concrete measures are suggested in the form of recommendation.

CHAPTER-II

REVIEW OF THE LITERATURE

2.1 Concept of Insurance

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

Today's modern form of insurance is not the effort of fortnight. It has crossed a long series of time to develop insurance from ancient practices to modern insurance practices. From the very beginning of the society, men have been following the way to share loss and profit, suffering and prosperity mutually with one another. "The concept of insurance is originated very early in Greece. About three thousand years ago, racial insurance was in existence in the Arya community of India. But before your century BC there was the use of Bottomward banks under the marine insurance in Greece. At first Church of England used to make religious guild, Later on forming the merchant guild, started to give protection to the members further, later on crafts guild began to work as subsidiary of the merchants' guild. In this way, the concept of insurance is evolved. The development of modern formal insurance can be described in the following phases." (Bailey and Jeffery; 2002: 95)

2.2 Historical Background of the Insurance

First Phase: Emergence of Marine Insurance

After the emergence of the concept, it was most commonly used for marine insurance. So, marine insurance is the first modern form of insurance is the history of insurance. In 1300AD the first insurance contract, called "Polizza" was made in Italy. Later another word "Policy" was developed from Polizza". The concept of marine insurance was commonly used in Lombard of Italy and in Venice in 14th century. In fact the Lombard of Northen Italy had main role in bringing the

international extension of marine insurance in England. Later the Jewish of Lombard was banished, and then they settle in different countries of Europe. The name of street, "Lombard Street" of London was named after the name Lombard. At that time this street was called the central point of the marine insurance.

"The significant role of Lloyd's institution for the development of insurance cannot be ignored. The underwriters who took the marine risk used to carry out the work of marine insurance, meeting personally in the coffee house was successful to introduce itself as a centre of marine insurance. The Lloyd's institutions established in 1771, is the first institution to make formal marine insurance. Till now, this institution is the one of the most popular insurance company in the

Second Phase: Development of Life insurance

After the development of marine insurance, people used the concept of the insurance to provide security to their life. To talk about the modern life insurance, by an associate 16 persons, the first life insurance policy of the world was issued in the name of a person named "William Gybbons" in 1583 A.D. It is recorded that insurance policy was issued for one year. One astronomer named Admand Heley submitted a Mortal Table in 1663 AD to the royal security. This mortal table is useful tool for calculating insured amount. But the first time, life insurance institution insured amount technology on the basis of data.

"In 1744 AD passing the life Insurance Act created the foundation of the modern insurance. There after different laws enacted remove the defect that came to it on the basis of experience. With the cause of the difficulties that came to the business, many companies were closed and some of them went and mixing or merging with insurance company. There is no controversy that the Life Insurance Act 1870 was passed to control of the life insurance business for protection to the customers. Before the beginning of the 19th century many life insurance were that already established in the world. We find that the life insurance business in our neighboring country India had started with the establishment of the Mutual Association. In 1971, both the life and the non life insurance were nationalized in India; as a result, the Life Insurance Corporation for life insurance and General Insurance Company Ltd. for non –Life insurance were established. During the reign of Elizabeth I, the life insurance used to effect for only one year. After one year if it was not renewed, the insurance automatically used to be effect for only one year. After one year, if it was not renewed, the insurance automatically used to be cancelled. But the job of

effecting long term insurance, started from 18th century has been increased continuously." (J.F. Bailey and V. Jeffery; 2002:102).

Third Phase: Emergence of Fire Insurance

In the history of Insurance, the fire insurance comes after the life insurance. However, there is some controversy about it. In the opinion of some people, the concept of the fire insurance had come after the marine insurance and then only after about two hundred years, the idea of the life insurance was communicated. The function of the fire insurance was done in 14th century. The beginning of the fire insurance for the first time can be found in the municipality of the Hamburg in Germany in about 13th century. It is said that after birth of life insurance the fire insurance was developed.

"In 1666 AD after the fierce fire incident, many building were turned into ash in England. It is known from the history of insurance that many people were in difficulties. So the fire insurance was introduced with the main objective of the providing the financial protection to the people to serve from the risk and the ruin. In 1680 AD Dr. Nicholas Barbon has started the fire business related with the fire insurance in England. The office of Barbon was called the fire office later named as Phoenix in 1782. Phoenix Insurance Company was established with the development of the fire insurance today many people, industry and businessmen are breathing the air of the safety."

Fourth Phase: Practice of Miscellaneous Insurance

After the fire insurance, many other types of insurance have come in use. Thus, by such insurance policies man is trying to be protected from many types of risks. "Under the miscellaneous insurance, fidelity guarantee insurance started from 1848, personal accident insurance from 1880, liability insurance from 1875, public liability insurance from 1877, burglar and house breaking insurance from 1903, motor insurance from 1911, and aviation insurance came in practice. Similarly in other insurance, the vocal can consider castle insurance, rain insurance, and earthquake insurance, the vocal of the male singer and female singer, model beauty as miscellaneous insurance."

2.3 Types of Insurance:

Insurance has been the most effective and strongest to save people, property. It makes the security for the payment of the insured amount to those who have made life and non life insurance. Nowadays, insurance has become the pillar of alertness, courage and eagerness to

develop the life and living standard of the common people, industrialist and traders of the world. Nowadays, various types of insurance have been practiced, which can be classified in following ways:

A) From the business Point of views:

From the business point of views, the types of insurance are as follows:

1) Life Insurance:

Life Insurance provides a protection for two major contingencies. A man insures his life either to make provision for leaving a certain sum for his dependents when he dies, which may happen he is able to say and accumulated sufficient amount. Life insurance has several businesses and financial advantage. In life insurance it is provided that the insured interest amount is to become payable in the happening of death or in some cases on the attainment of certain age, whichever is earlier: Only the men having and insurance interest in the proposed life can obtain a policy on it. The concept of the life insurance is based on pooling the risks of many to a group, accumulation a fund by contribution form the members of the group and paying from this fund the losses of those who suffer loss.

"Life insurance is a plan of compulsory saving and there will be all around development of nation from premium paid for that and the life insurance plan is helping to control the inflation. Because there are the factor of protection and investment in life insurance, it has gained much more popularity. Under this insurance, if the insured remains alive, he himself, get a payment of insured amount, if he is dead, his wished person, if it's not wished for the wished person is death, the nearest person get payment under the policy as per law."

2) Non Life Insurance

Insurance, other than life and social insurance are called Non Life or General insurance. The subject matter affected under it is in nature of property. The insurance company provides indemnity to insured. Such compensation should be based on the actual value. This type of insurance includes marine, fire and miscellaneous types of Insurance.

a) Marine Insurance:

“Ships sailing on are exposed to various types of risks. They be collided against one another; spring a leak, caught by fire, captured enemies and seized by pirates. The ship and cargo may be lost in such a case and a tremendous loss may be caused to its owners. Such risks if not covered will greatly discourage the international trade, which is mostly sea borne. That is why the marine Insurance is considered to be the land mind of modern international trade, which is indispensable auxiliary.”(Mishra; 1996:36)

b) Fire Insurance:

The Insurance done against the risk of fire is known as fire insurance. Fire insurance policy may be taken on residential housed or on factories and business premises. “Under fire insurance policy, if any property loses by fire the insured amount would pay as indemnity. The property should be in its full market value, the claim under the fire insurance policy is determined on the basis of present value of the property.” (Mishra; 1996:36)

c) Miscellaneous Insurance:

Miscellaneous Insurance business includes the various types of Insurance business such as Aviation Insurance, Motor Insurance, Cash Insurance, Cash Transit Insurance, Workmen’s Complementation Insurance, Burglary, and house breaking Insurance. Public liability Insurance, cattle Insurance, Medical aid scheme and so on.

d) Social Insurance

In modern age Social Insurance has an important place, the objective of this insurance is to provide the maximum social benefit to the society. This type of Insurance is specially, useful for the worker class and the owners of the factories. This sector posse’s high risk because the workers work in the mill and factories, from it, the workers, officials and owners also many 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 and Unemployment Insurance etc. Having regarded to the importance of this Insurance, in every developed country, this insurance has been generally made compulsory. This insurance was started form England. The burden of expenses of Government and the owner of

the factories has to bear the most of the portion of premium." (Ghosh and Agrawal; 2001:75)

B. From the risk point of view:

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

a) Personal Insurance

Under this personal insurance, the insurance is made to the subject related to the person's life. There is possibility of risk associated to death accidents and diseases. "The insurance, which is effected against such risks, with the objective of getting financial protection, is called personal insurance. Life insurance, personal accidents insurance and health insurance etc are the example of personal insurance." (Ghosh and Agrawal; 2002:75)

b) Property Insurance

Under this insurance, insurance of the different nature property is affected to compensate the property damaged or lost. This insurance company gives the compensation to the insured. "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, crop, cattle and burglary insurance" etc. (Ghosh and Agrawal; 2002:75)

c) Liability Insurance

Under this insurance, compensation is given to third person for loss or damage caused by negligence or other reason of the party. "The example of liability insurance are motor insurance, public liability insurance etc. " (Ghosh and Agrawal ; 2002:75)

d) Guarantee Insurance

"Under this guarantee insurance, the insurance company gives the guarantee of faithfulness or the honesty of any employee or any other person and it accept the liability of compensation on financial loss to the insured with the cause of dishonesty and fraud. The examples of guarantee insurance are credit right, fidelity guarantee insurance etc. If any event is found within the policy; then the insured has right to get compensation." (Ghosh and Agrawal; 2002:75)

2.4 Insurance Issue in developing countries:

As the popularity of Insurance is growing rapidly, its market is expanding not only in developed countries but also in developing countries. For a favorable environment should be created by making essential laws and regulations. Nepal is a developing country it faces many problems. Some articles are to be reviewed about the issues of developing country, which helps us to know the facts about developing countries.

In most of the countries there is insurance legislation in place, however, some countries are in the process of amending these existing laws. All of the countries have a law or decrease regarding compulsory or third party motor liability. "In most of the countries international insurance is a flourishing area and only in some countries are the roles of actuaries regulated. Some countries had provision for funds to protect insured. There is a real tendency in all the countries to widen the space between the insurance supervisory body and ministry of finance." (Laszlo; 1988:45)

"Many developing country consumers want to buy their Life Insurance in a hard currency country, even when domestic insurers offer quantity life product. At the same time, large foreign companies established on their domestic markets could effect a kind of dumping through the income they achieved on their capital funds and by subsidizing initial operation in developing countries from gains in other countries." (Stephen; 1989:115)

Third world insurers may at this stage not gain much from a market opening in developing countries. "Physical presence of the insurance provider is usually needed to sell cover. But capital and or solvency required in developed countries for the establishment of subsidiaries or branches are usually considered prohibitively high by developing country insurers. When it comes to large and target risk for which cover could be offered cross border via brokers." (Marion; 1991:131)

"Insurance industry in developing countries often has a unique position within the socio-economic structure of many countries, in its capacity as one of the few indigenous service industries which is a major employer of the politically influenced middle or educated classes and which is often the biggest institutional investor in the said countries like Malaysia, India, China, Taiwan and South Korea. In such Insurance Companies usually lack of educated capitalization and the requisite technical skills and professional management needed to serve their clients and markets Insurance and Re-insurance requirements appropriately. (Kamara; 1988:72)

Insurance Business in Nepal does not have long history. But it is a true fact that insurance business has developed gradually. Insurance business can't flourish in small market. But Nepal itself, a small country, has small market. This sign of worldwide liberalization in economic sector and the function of public welfare have appeared in Nepal too.

2.5 Insurance Development in Nepal:

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

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

Now the government has adopted liberal economic policy as a result many of the insurance company established after the restoration of democracy. At present 25 insurance companies are operating in Nepal. Among them two are composite companies transacting life as well as non-life insurance business, while there only three life insurance companies and fifteen are non- life insurance companies. They are as follows:

Insurance Companies Providing Both Life and Non-Life Insurance Services:

1. Rastriya Beema Sansthan

Insurance Company Providing Only Life Insurance Services:

1. National Life Insurance Company Limited
2. Nepal Life Insurance Company Limited
3. American Life Insurance Company Limited
4. Life Insurance Corporation(Nepal) Limited
5. Prime Life Insurance Company Ltd.
6. Gurash Life Insurance Company Ltd.
7. Surya Life Insurance Company Ltd.
8. Asian Life Insurance Company Ltd.

Insurance Companies Providing Only Non-Life Insurance Services:

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

These Insurance companies are functioning as per the norms and values of Insurance Act 1992, and insurance Rules 1993. These companies perform the works of fund creation underwriting insurance of life and non-life property for the best security against the specified or non-specified risk; third party insurance.

Review of Legal Documents relating to Insurance

There are various legal documents or legislation relating to the regulation of insurance business in Nepal which has been reviewed in this part.

Insurance Act. 1992

To develop systematize, control and to regulate the insurance market in Nepal the insurance Act 1992 stands as a milestone. Especially following provision have been contained in this Act.

) Provision to form insurance Board (Beema Samiti) as a supervisory body to systematic regularize, develop and to control the insurance business in the country.

) Provision for the members of the board and their designation, terms and conditions.

) Provision for duty power and responsibility.

) Provision for registration, cancellation and their liabilities of insurers.

) Restriction to grant loan, guarantee and security to directors of insurance companies

) Provision on accounting record keeping and submitting of necessary documents to authorized body (Beema Samiti)

) Provision to create necessary reserve for unexpected risks and outstanding liabilities.

) Provision on auditing the various fiscal documents.

Restriction to be accepted the risks before getting premium.

Compulsions to reinsurance the risks beyond the retention limit of insurers.

Provisions relating to agents, brokers and surveyors their responsibility, accountability and legal treatment to them if undesired activities will be conducted.

Provisions for separate funds under Beema Samiti.
Provisions for insurance tariff advisory committee.

Insurance Regulation 1992

The insurance Regulation 1992 has been issued section (1), subsection (2) of insurance Act 1993: Later on in 1996, it has been made necessary amendment in this regulation.

The main provision contained in the regulation will be listed as under
Provision for types of insurance Business which are:

-) Life Insurance Business
-) Non Life insurance Business
-) Re-insurance Business
-) Registration and Renewal of insurance Companies.
-) Approval of investment sector other than priority sector fixed by the Board.
-) Fixation of reserve funds of various insurance sectors.
-) Limitation on management expenditure
-) Restriction to collect premium as accordance with tariff fixed by Committee.
-) Commission to be got by the agent.
-) Provision regarding surveyors.
-) Provision on claim paid procedure.

Insurance Board

Insurance Board is an organized supervisory body of government regulates insurance business at the country.

According to section 3 and subsection © of Insurance Act 1992 function, duties and power of board are:

- ❖ To offer necessary to HMG to formulate policies for systematizing, regularizing developing and controlling the insurance business.
- ❖ To formulate policies and fixed priority sector for investing the insurance proceeds.
- ❖ To register and renew the certificate of insurers, insurance agents or surveyors and cancel such registration or make arrangement for doing so.
- ❖ To mediate in dispute between the insurer and insured.

- ❖ To formulate necessary criteria for protecting the interests of the insured and
- ❖ To perform or make arrangement for performing other necessary function related to the insurance business.

2.6 Review of Related Thesis and Published Materials.

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

a) Review of Thesis

Bikash Sharma (2003), in his thesis "A study on Financial Performance of Rastriya Beema Sansthan and Nepal Life and General Insurance Limited" attempted to find out the various financial indicators of these companies. The analysis concerned with financial performance of the company. He found the following major issue in his study.

-) Absolute value of premium collection has been increasing but it is in decreasing trend in respect of GDP.
-) Net Premium to claim ratio is gradually decreasing claim outstanding and premium outstanding are increasing year by year since the overall liquidity position is weakening.
-) Most of the parts of investment portfolio are composed of bulk fixed deposit account and HMG securities.

Bin Bahadur Raut (1995) in his thesis "The financial performance of National Life and General Insurance Limited" has found that the gap and issued about liquidity, premium collection and outstanding investment and other financial performance and make a package of recommendations as to improve liquidity position and premium collection to make a settlement of claim in time and to extend its branches to effective investment policy.

Mr. Raut had found the following major findings from the study:

-) Regarding liquidity management, the NLGI is not in sound position at the period.
-) The company's outstanding premium is in increasing trend.
-) The return on net-worth of NLGI is satisfactory because return on net worth is in increasing trend.
-) The trend of earning per share is fluctuating.
-) Investment of NLGI is not less than fifty percent of the total assets in every year of the study periods.

The recommendations are as follows:

-) The NLGI should maintain the mutual relationship among the policyholders to collect premium on time.
-) There should be proper management between the current assets and current liabilities to improve the liquidity position.
-) Settlement of claim should be made in time.
-) The company should make the effective investment policy.

Srijana Dhakal (2007), in her study, "Financial performance of Nepalese Insurance Companies" she tried to comparative financial performance of four listed insurance companies of Nepal. Different Statistical tools are used for the study of financial performance. It has also studied the Nepalese insurance companies dividing into Life and Non-Life Insurance companies.

Major findings of the study are as follows:

Assets ratio of life insurance companies are 1.63 whereas non life insurance companies are 5.45.

Equity ratio on life insurance companies is 4.28 and non life insurance companies are 23.69.

Review of Published Materials:

Mr.Bhoj Raj Sharma,(Director and Founder of Neco Insurance Company Limited) in his article titled "Thought on the climate change and possible impact on Insurance" (published in the "Insurance News and Views" Vol.8, No.31-33,Aug-2009-May 2010, a newsletter of "Bima Samiti") highlights the impact of climate change on insurance from various angles. According to him, though it is very difficult to assess the amount of risk raised due to climate change on the insured and reinsured properties, this kind of risk is going to have huge negative impact upon the insurance and reinsurance companies and they will be bearing financial risk very large scale. He further points out to a study report that natural calamities such as tsunami, hurricane, landslide and fire are increasing by 40% every year. Therefore, risk that climate change is about pose on insurance and reinsurance companies in inevitable and our insurance companies also should prepare themselves through information and knowledge of international practices cooperation on this issue.

Mr.Devendra Koirala,(Company Secretary, Lumbani Insurance Company) in his article (published in the "Insurance News and Views" Vol.8, No.31-33,Aug-2009-May 2010, a newsletter of "Bima Samiti") titled "Increasing responsibilities and opportunities of Insurance Companies" expresses his thoughts on the financial performance and financial statements of insurance companies of Nepal showing the

importance of directives of "Bima Samite" and regulations of "Ditopatra Board". According to him, the directives of Insurance Board (Bima Samiti) to the Insurance Companies regarding the responsibility of making available all the important information on the direction of the company and present actual financial statement to the board before approval has helped insurance companies to maintain more transparency of its activities and good governance. He further highlights that today's insurance companies cannot just remain as only a sister concern of big business house as now investors seeks all kind of financial information and regulating body such as "Bima Samiti" and "Stock Board" are also actively working on developing conducive environment in this sector of the economy. Therefore, financial management and analysis of financial performance is very important for the insurance companies.

CHAPTER-III

RESEARCH METHODOLOGY

Research methodology is the process used to conduct research study on the research topic with objective of finding out research result. The process guides researcher towards findings of the study. The main purpose of this Chapter is to describe the methodology applied in this study. Research methodology is systematic way to solve the research problem. It refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view. The chapter includes the research design, population and sample, nature and sources of data and the methods applied for the analysis of data.

3.1 Research Design:

Research design is the conceptual structure within which research is conducted. It is the plan, structure and strategy of investigation so as to obtain answer of research questions and to control variance

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

3.2 Population and Sample:

There are eighteen insurance companies operating in Nepal Stock Exchange upto the end of fiscal year 2005/06 that are considered to be the total population of the study. But due to lack of time and resources factor, it is not possible to include all of them in the study. Hence, out of eighteen listed insurance companies, five insurance companies have been taken as sample. The study is based on 25 observations covering the fiscal year from 2001/02 to 2005/06.

3.3 Nature and Sources of Data:

The study is totally based on by different financial institutions. The website of NEPSE is www.nepalstock.com, website of Security Board of Nepal (SEBON) is www.sebonp.com and similarly website of secondary

data. The main sources of such data are Nepal Stock Exchange (NEPSE), Securities Board Offices, Beema Samiti and Economic Survey published by Ministry of Finance. Besides these, the required data are also collected from various annual reports, various bulletin, journal, articles and other publications published Beema Samiti is www.bsib.org.np, etc. Similarly other data are obtained by performing discussion with the executive of Insurance companies and management experts of the respective companies.

3.4 Method of data Analysis:

The data collected from various secondary sources has been analyzed by using various univariate and statistical tools. The collection data have been presented in different tables, figures and charts to trace out the situation of financial performance of listed insurance companies

1. Univariate Analysis

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

a) Market Price per Share (MPS)

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

b) Earnings per share (EPS)

EPS ratio is used to measure the profitability of a firm from the owner's viewpoint. The market value of shares of a company is dependent on the earnings of the company. EPS also measures the return of each equity shareholder. It can be calculated by dividing the net profit after tax by the total number of the common shares

outstanding. It reveals the earning power of each share over the period basically in one year. It is calculated as under:

$$\text{Earnings per Share (EPS)} = \frac{\text{Net profit}}{\text{Number of existing equity shares}}$$

c) Dividend per Share (DPS)

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

$$\text{DPS} = \frac{\text{Amount paid to equity shareholders}}{\text{Number of ordinary share outstanding}}$$

d) Price Earnings Ratio (P/E Ratio)

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

$$\text{P/E Ratio} = \frac{\text{Market Price per share}}{\text{Earnings per share}}$$

e) Market / Book Value Ratio

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

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

f) Dividend Yield

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

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

g) Capital gain yield

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

$$\text{Capital gain yield} = \frac{\text{Ending Price} - \text{Beginning Price}}{\text{Beginning Price}}$$

h) Total Yield

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

i) Analysis of Premium

Insurance Premium is the life blood of insurance company. Insurance Company may flourish only with the significant increase in premium earning. Therefore, the analysis of premium is very crucial to get meaningful inference on market performance of insurance companies.

1) Analysis of yearly changes in premium Earning

In this analysis the yearly percentage change in insurance premium is calculated as follows:

$$\text{Yearly \% change in Premium} = \frac{\text{Beginning Year's Premium} - \text{Ending Year's Premium}}{\text{Beginning Year's Premium}}$$

j) Total Claim to Net Premium Ratio

This ratio is measured to judge that how much net premium is paid for claim. More claim means less surplus from net premium and low claims means high surplus from the under writing of insurance policy. Total claim to Net premium Ratio is calculated as follows:

$$\text{Total Claim to Net Premium Ratio} = \frac{\text{Total Claim}}{\text{Net Premium}} \times 100$$

2) Statistical Analysis

The financial performance analysis of the Insurance Companies is analyzed with the help of statistical tools. The statistical tools used in this study are as following: -

1) Coefficient of Correlation (r)

The correlation is a statistical tool, which studies the relationship between two variables and correlation analysis involves various method and techniques used for studying and measuring the extent of the relationship between the two variables. Two variables are said to be correlated if the change in one variable results in a corresponding change in the other values. It measures the direction of relationship between two sets of figures. The correlation coefficient can be either in positive or negative and can have the value between -1 to +1. If both the variables are changing the same direction, then positive correlation exists. Where as when the variation in two variables take place in opposite direction, the correlation is said to be negative. In this study the correlation is calculated to examine the positive or negative degree relationship between earning per share and dividend, net worth and dividend, total earning and dividend market price of stock and dividend and earning per share and market price per share. It is calculated by following formula:

$$R = \frac{n \times \sum XY - \sum X \sum Y}{\sqrt{\frac{n \times \sum X^2 - (\sum X)^2}{n} \times \frac{n \times \sum Y^2 - (\sum Y)^2}{n}}}$$

II) Coefficient of (multiple) Determination (R²)

The coefficient of multiple determination is a measure of the degree of linear association or correlation between two variables, one of which happens to be independent and other being dependent variable(s). It measures the percentage total variation in dependent variable (S). The value of coefficient of multiple determinations can range zero to one. If R² is equal to 0.81, it indicates that independent variables used in regression model explained 81 percent of the total variation in the dependent variable. It is calculated as:

$$R^2 = \frac{\text{Explained Variation}}{\text{Total Variation}}$$

III) Regression Analysis

The regression analysis is used to estimate the likely value of one variable from the known value of the other variable in other words, regression analysis is a mathematical measure of the average relationship between two or more variable in term of original units of data.

It is the process of predicting the value of one variable, on the basis of known values of other variables. The main objective of regression analysis is to predict or estimate the value of dependent variable corresponding to a given value of independent variables. The analysis used to describe the average relationship between two variables is known as simple linear regression analysis. Simple regression analysis has been used in this study to determine the effects of aforementioned independent variable on dependent variable, i.e. dividend per share, earning per share and net worth per share.

The regression equation of Y on X, which is used to describe the variation in the value of Y of given change in the value of X.

The regression equation of Y on X be

$$Y = a + bx$$

Where,

Y =dependent Variable

A = regression constant

B = Slope of regression linear or regression coefficient of Y on X
 X = independent variable

The model has been applied for analyzing the five years data from 2004/5 to 2008/09. Similarly the following regression model has been used to find out whether the dividend per share, earning per share and net worth per share of the insurance companies is related to market price per share of the companies or not.

In this equation, Y represents the dependent variation in the value of X of given change in the value of Y, such line is drawn to find out the value of stocks by using two normal equations which are as follows:

$$Y = Na + b X \dots\dots\dots(i)$$

$$XY = a X + b X^2 \dots\dots\dots (ii)$$

Where,

a and b are unknown
 N = Number of observation in the sample

A) Multiple Regression Analysis

Multiple regression is defined as the statistical device which is used to estimate (or predict) the value of one dependent variable when the value of two or more independent variables are known or given. In multiple regression analysis, two or more independent variables are used to predict the value of dependent variables. It is a statistical technique for investigation the relationship between one dependent variable. It is a statistical technique for investigation the relationship between one dependent variable and a set of two or more independent variables. In this study, market price of the stock is influenced by several factors like earning made by firm, dividend distributed and price earning of past year etc. Thus, multiple regression models of MPS depend upon EPS, DPS and P/E which is formulated as:

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3$$

Where,

Y = Market Price per Share
 a = Regression Constant

b₁, b₂, b₃ =Regression coefficient of the variables

X1 = Earnings Per Share

X2 = Dividend per Share

X3 = Price Earning ration of past year

B) Standard Error of Estimate (SEE)

Standard error of estimate is a measure of the reliability of the estimating equation, indicating the extent to which observed value differ from their predicted values of regression line. In other word, it is a measure of dispersion (or scatter or variation) about the regression line. The smaller the value of SEE, the closer will be the observed values to the regression line and the better will be the estimates based on the equation for this line. It is not possible to predict perfectly with the help of regression equation only. Therefore SEE makes it possible to ascertain how good and representative the regression line is as a description of the average relationship between two series.

C) Time Series Analysis

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

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

$$Y = a + bX$$

Where,

Y = Trend Value of variables

X = Variables which is assumed to depend upon time.

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

where, Y= 0

b = Slope of the trend line or the amount of change in Y variable that is associate with a change of one unit in X variable.

X = the variable which represents time (i.e year, month, day etc.)

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

$$Y = Na + b X$$

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

Where,

N represents number of Years,

When $x = 0$

Then,

$$a = Y/N$$

$$b = xY/ x^2$$

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

CHAPTER-IV

PRESENTATION AND ANALYSIS OF DATA

Classification, grouping, shorting and arranging the data and information collected during the study in a logical order is very important for driving insights and actual findings of the study using various mathematical and statistical analyzing techniques. Therefore, presentation and analysis of data is very crucial part in any research study report. This chapter is fully devoted to analyze the various issues of the study in the context of selected listed insurance companies of Nepal. The chapter contains two parts. The first part of this includes analysis of financial performance of insurance companies, behavior of NEPSE index, and analysis of premium earning of insurance companies and relationship of MPS with Market indicators while the second part includes major findings of the study.

A. Analysis of Financial Performance

4.1 Analysis of Financial Performance of Insurance Companies

Financial performance of companies is a broad subject which can be examined in various ways. The main stakeholder who seek to analyze the financial performance of companies are current owners of the company, the potential investors, employees, creditors, government, customers etc. and findings of this study tries to help more or less all of them by examining the performance of some selected insurance companies which are listed in NEPSE Ltd.. This study specifically provides higher attention to the investors and the analysis is also directed in the best of the investors.

4.1.1. Analysis of Market Price per Share (MPS)

Market price per share is the price at which shares are traded in the stock market. Those shares are transacted in the secondary markets which are already issued to the public. Organized stock exchange centers are known as secondary Market where trading of the stock are conducted and NEPSE is the secondary market in the context of Nepal. Market value of the stock in the secondary Market is determined by elements like financial condition of the company, market trend, investors' perception, current financial policies of the government and overall trend in the industry/economy. The supply and demand factors

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

Table no. 4.1
Market Price per Share of Insurance Companies

Year	HGICL	NICL	EICL	PICL
2003/04	175	112	350	210
2004/05	207	110	325	210
2005/06	215	90	295	200
2006/07	300	121	290	260
2007/08	345	121	291	300
Average	248.4	110.8	310.2	236

(Sources: Appendix I)

Table No. 4.1 shows that the Market Price per share of sampled insurance companies from 2003/04 to 2007/08.

The MPS of HGIC is Rs. 175, Rs. 207 Rs. 215, Rs. 300, and Rs. 345 in 2003/04, 2004/05, 2005/06, 2006/07 and 2007/08 respectively. The trend of MPS for HGIC is of constant increase during the analysis period of 5 years.

The MPS of NICL is ranging from Rs.90 to Rs. 121 or the year 2003/04 to 2007/08 and it was Rs.112 for the year 2003/04. The MPS of NICL reached to its lowest point in the year 2005/06 amounting to Rs.90 only and then gradually it moved up. The MPS trend of NICL is not found to be constant.

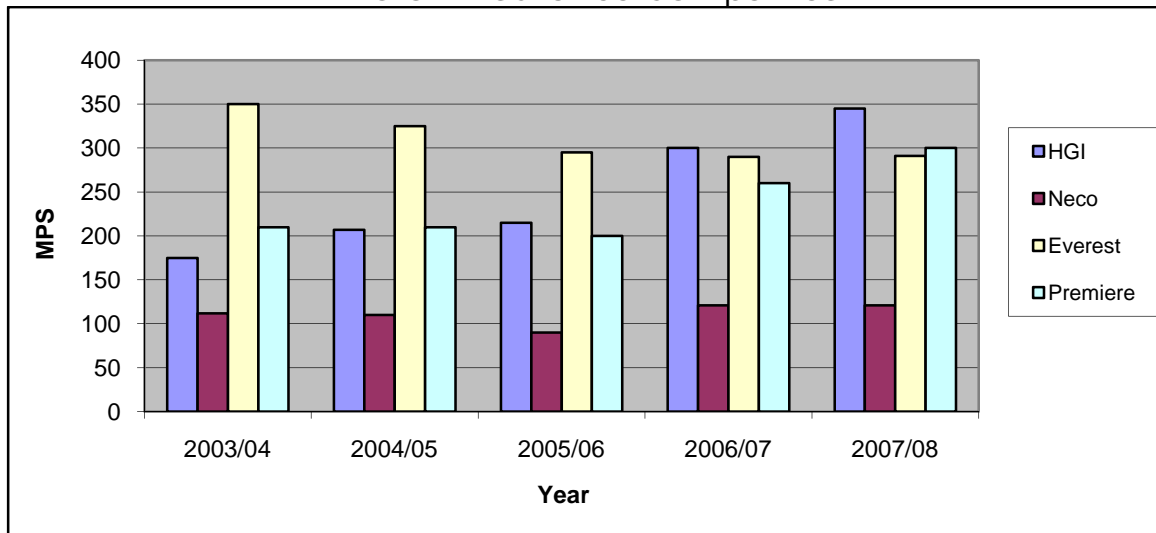
The MPS of EICL is Rs. 350, Rs. 325, Rs 295, Rs. 290 and Rs.291 in 2003/04, 2004/05, 2005/06, 2006/07 and 2007/08 respectively. This shows that the trend of the MPS of EICL is in constant decreasing mode.

Similarly, PICL has same MPS for the year 2004/05 and 2005/06 i.e Rs. 210. The lowest MPS of PICL is Rs. 210 in 2003/04 and the trend of MPS of PICL is constant growth.

In this analysis, HGICL and PICL are found to have been doing better financially than EICL and NICL on basis of comparison of MPS growth trend. EICL is facing sharp decline in its MPS though the average MPS is highest among the sampled companies. This decline in MPS indicates its weakening financial performance.

The MPS of insurance companies are ranging from Rs.90 to Rs. 350 of NICL and EICL. The range of average MPS is Rs. 110.8 to Rs. 310.2.

Figure 4.1
MPS of Insurance Companies



4.1.2 Analysis of Dividend per Share (DPS)

Dividend per share is the amount available to the holders of each common stock by the company. Evaluation of performance of listed companies in terms of dividend per share (DPS) is considered as an appropriate measure which shows the companies earning and dividend paying capacity. DPS is the net distributed outstanding. It measures the Financial Performance of the Company. It is calculated as under:

$$\text{DPS} = \frac{\text{Amount paid to equity shareholders}}{\text{Number of ordinary shares outstanding}}$$

Dividend per share includes dividend decision in earning per share. Although the behavior of companies towards dividend payment is disappointing in Nepal this is an important basis of measuring financial performance of companies. The joint venture banks, other Market institutions, and some other companies have brought greater

revolution in this trend. They are competing for paying larger amount of dividends in recent years.

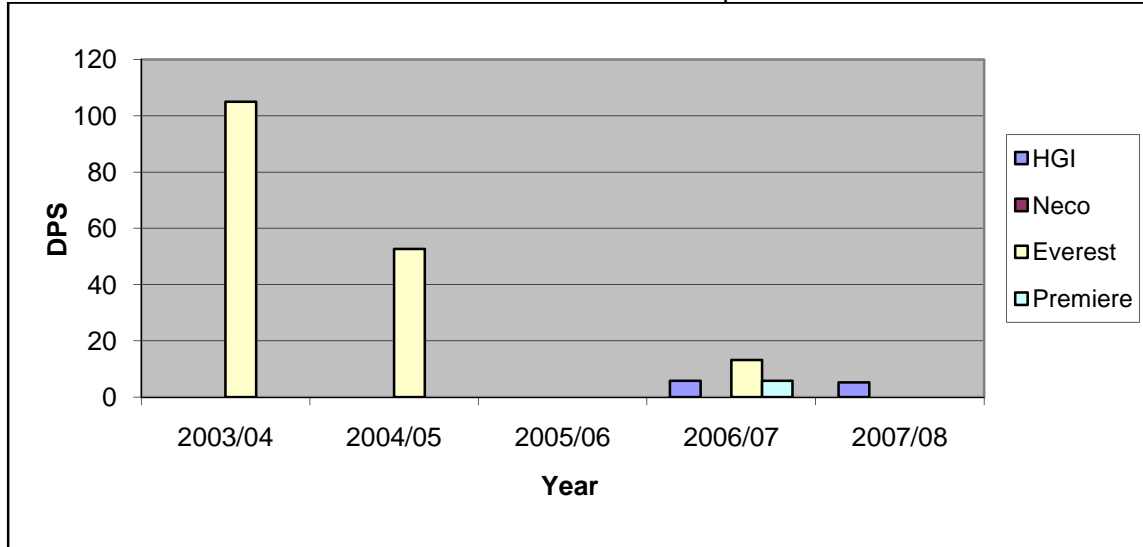
Table No. 4.2
Dividend per Share of Insurance Companies

Year	HGICL	NICL	EICL	PICL
2003/04	0	0	105	0
2004/05	0	0	52.63	0
2005/06	0	0	0	0
2006/07	5.79	0	13.16	5.79
2007/08	5.26	0	0	0
Average	2.21	-	34.16	1.16

(Sources: Appendix V & Annual Report of Insurance Companies)

Table 4.2 shows that the DPS of insurance companies from 2003/04 to 2007/08. HGICL EICL and PICL have paid dividend for 2 years, 3 years, 1 year respectively but NICL is not found to have been paying dividends to their shareholders during the analysis period of 5 years. Therefore, on the basis of the DPS, EICL and HGICL only are doing well.

Figure 4.2
DPS of Insurance Companies



4.1.3 Analysis of Earning Per Share (EPS)

Profit is the life blood of any company. It is impossible to imagine for a company to remain sustained for a long period without profit although the company can run without profit in short period. Therefore, sufficient earning is necessary for the company to satisfy its owners and fulfill its financial requirements. Earning of the share holders is the

residual amount which remains after deducting all the expenses, interest, taxes and dividends to preferred shareholders from the revenue. Earnings per share are the amount available to the holder of each share.

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

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

Table No. 4.3

Earnings per Share of Insurance Companies

Year	HGICL	NICL	EICL	PICL
2003/04	39.86	8.87	57.22	25.12
2004/05	36.7	3.01	16.87	46.68
2005/06	39.9	0.54	13.94	43.54
2006/07	25.13	-10.03	24.54	18.43
2007/08	10.61	2.97	6.42	16.51
	30.44	1.072	23.797334	30.056

(Sources: Appendix II & Annual Report of Insurance Companies)

The table 4.3 above shows the EPS of sampled insurances companies for last five years starting from the fiscal year 2003/04.

As per the data in the table, HGICL was maintaining EPS around Rs.35-Rs.40 during first three years consecutively but during last two year i.e. 2006/07 and 2007/08, the amount of EPS declined to lowest point Rs.10.61. The range is Rs.39.90 in 2005/06 and lowest is Rs. 10.61 in 2007/08.

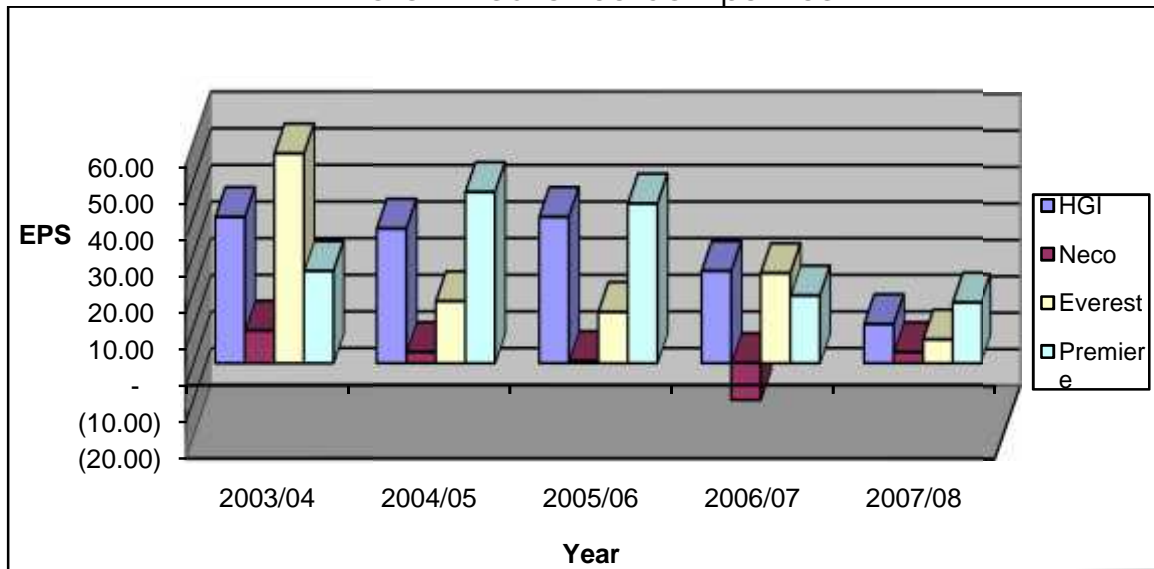
Similarly, NICL has EPS, ranging from Rs.8.87 to Rs.2.97 only. It is in decreasing trend.

EICL had EPS of Rs.57.22 in the year 2003/04 that dramatically declined expect for the year 2006/07 and that reached at lowest point amounting to Rs.6.42 for the year 2007/08.The range of the EPS of EICL is between Rs.6.42 to Rs.57.22 which shows huge changes in the financial position of the company.

In case of PICL, in the first year the amount of the EPS is quite low but in next subsequent years PICL has been able to maintain the EPS ranging between Rs.18.43 to Rs.46.69 but it is found that EPS of PICL is also in decreasing trend in subsequent years.

The average of EPS as compared to sampled insurance companies, HGICL seems to have the highest average EPS of Rs.30.44 and NICL has the lowest. Financial performance of sampled insurance companies in terms of EPS is not much better EPS is in the declining trend. Higher EPS shows the better earning capacity of the company. Higher earnings per share not only can satisfy its existing shareholders but also attracts to the potential investors.

Figure 4.3
EPS of Insurance Companies



4.1.4. Analysis of Price Earning (P/E) ratio:

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

$$\text{P/E Ratio} = \frac{\text{Market Price per share}}{\text{Earnings per Share}}$$

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

As a general, the higher the P/E ratio, the better it is for shareholders of the company as they have better price of their stocks.

Table No. 4.4
Price Earnings Ratio (P/E Ratio) of Insurance Companies

Year	HGICL	NICL	EICL	PICL
2003/04	4.39	12.63	6.12	8.36
2004/05	5.64	36.58	19.27	4.5
2005/06	5.39	167.38	21.17	4.59
2006/07	11.94	-12.07	11.82	14.1
2007/08	32.51	40.73	45.34	18.17
Average	11.974	49.05	20.744	9.944

(Sources: Appendix IIII & Annual Report of Insurance Companies)

In the table 4.4 above, P/E ratios of sampled insurances companies for last five years starting from the fiscal year 2003/04 to 2007/08 is mentioned.

As showed by the data in the table, HGICL had the P/E Ratio of 4.39 for two subsequent years but then it constantly grew up to 32.51 for the last year 2007/08. This indicates that investors are getting more confident about its financial conditions and performance and equally it is also adding the price to the stock of shareholders.

Similarly, NICL also has good P/E Ratio during this period and the trend of growth of P/E ratio is also in the positive direction except in the year 2006/07.

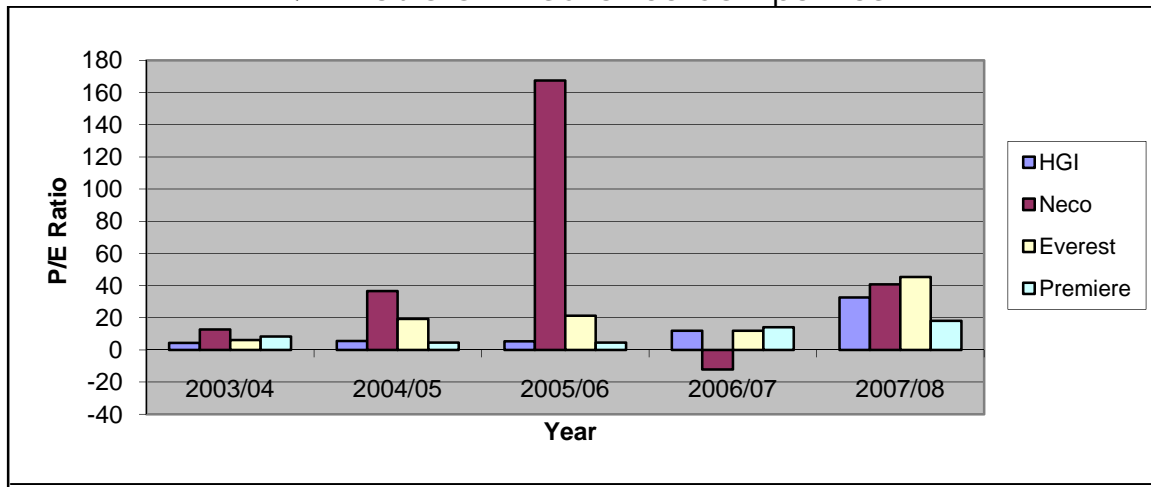
EICL had EPS of 6.12 in the year 2003/04 that gradually increased in the subsequent years expect for the year 2006/07 which is 11.82. The range of the P/E ratio of EICL is between 6.12 - 45.34 which shows huge changes in the financial position of the company.

In case of PICL, it has been able to maintain the P/E Ratio in impressively growing trend for the year 2006/07. In over all, PICL has good financial performance in terms of P/E Ratio.

The average of P/E Ratio as compared to sampled insurance companies, NICL seems to have the highest average P/E Ratio of 49.05 and PICL has the lowest. Financial performance of NICL in terms of P/E ratio is very much better than rest of three companies as it is in the growing trend and in average ration also NICL is the highest. Higher P/E ratio shows the better earning capacity of the company

regarding the MPS and shareholders stock price. Higher earnings per share not only can satisfy its existing shareholders but also attracts to the potential investors as it show their confidence over the financial condition of the company.

Figure 4.4
P/E Ratio of Insurance Companies



4.1.5 Analysis of Net Worth Per Share(NWPS)

Net worth is the owner's equity in the company. It is also known as book value of the company. The book value per share is computing by dividing the amount of total shareholder's equity, which is called net worth, by the number of shares outstanding (Weston & Brigham, 1996:675). This figure represents the asset value per share after deducting liability and preferred stock. (Cheney & Moses, 1993:417). Book value is a historical cost amount.

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

Table No. 4.5

Net Worth per Share of Sampled Insurance Companies (NWPS)

Year	HGI CL	NI CL	EI CL	PI CL
2003/04	234.91	196.31	374.18	213.24
2004/05	271.61	195.98	202.46	259.92
2005/06	311.09	180.31	147.15	303.46
2006/07	328.55	135.37	170.92	316.1
2007/08	160.29	113.84	157.87	167.45
	261.29	164.362	210.516	252.034

(Sources: Appendix IV & Annual Report of Insurance Companies)

Table no. 4.5 represents that the net worth per share of HGICL, NICL, EICL, and PICL from 2003/04 to 2007/08 respectively.

The data in the table shows, HGICL has been able to maintain constant growth of net worth up to 2006/07. This indicates that the financial performance was getting better but in the last year it falls down to Rs.160.29 per share which is considerable.

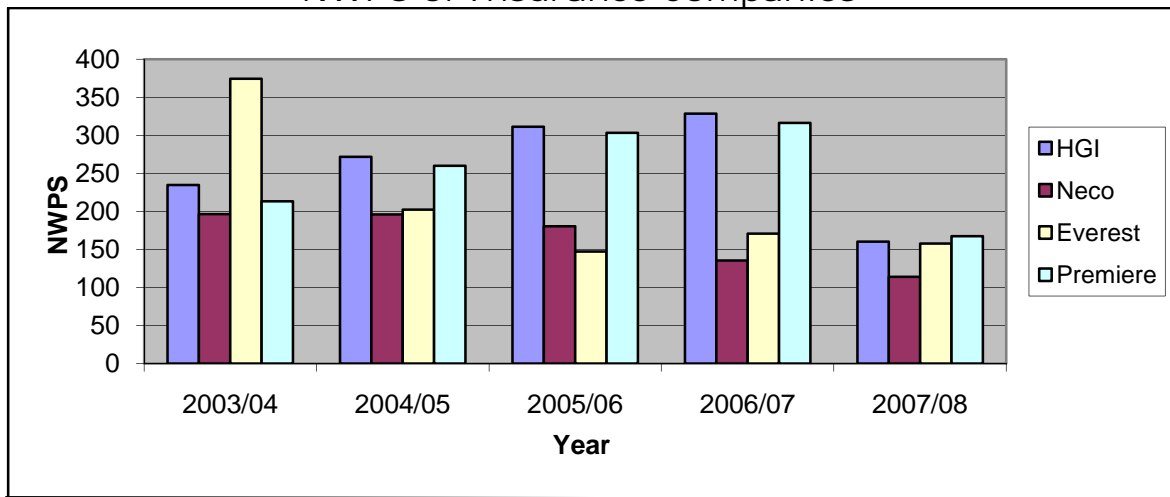
Similarly, NICL also had higher net worth per share up to three years and in the last two years it slightly declined.

EICL had net worth of Rs.374.18 per share in the year 2003/04 that dramatically declined this shows huge changes in the financial position of the company in the negative direction.

In case of PICL, it has been able to maintain the net worth per share in impressively growing trend except in the year 2007/08 which is Rs.167 only. In over all, PICL has good financial performance in terms of net worth per share but sharp decline in the final should be considered.

The average of net worth per share as compared to sampled insurance companies, HGICL seems to have the highest average net worth per share of Rs.261.29. Financial performance of HGICL in terms of net worth per share is very much impressive than rest of four companies as it is in the growing trend and in average ratio also HGICL is the highest. Higher net worth per share shows the better earning capacity of the company in terms of adding value to the shareholders' stock. Higher net worth per share shows better performance and financial condition of the company.

Figure 4.5
NWPS of Insurance Companies



4.1.6. Analysis of correlation between financial indicators

Relationship between MPS and other Financial Indicators

Table no. 4.6

Insurance Companies	EPS	NWPS	DPS
Himalayan General Insurance co. Ltd	-0.96	-0.34	0.94
Neco Insurance company Limited	-0.22	-0.59	0
Everest Insurance Co.	0.81	0.92	0.98
Premiere Insurance Co.	-0.80	-0.46	0.31

(Sources: Appendix XII TO XXII)

In the Table No.4.6 above, the correlation between MPS of Himalayan General Insurance with EPS, NWPS and DPS indicate a negative relation which means the MPS of this insurance company not affected by the decrease in EPS and NWPS instead MPS is found to have been in increasing trend.

The correlation between MPS of Neco Insurance Company with EPS also indicate a negative relation which means the MPS of this insurance company not affected by the increase and decrease in EPS. NWPS and MPS is found to have been in negative correlation.

Similarly, the correlation between MPS of Everest Insurance Co. with EPS indicate a highly positive relation which means the MPS of this insurance company affected by the increase and decrease in EPS and NWPS. MPS is found to have been in line with the increase and decrease of EPS and NWPS.

Finally, the correlation between MPS of Premiere Insurance Co. with EPS indicate a negative relation which means the MPS of this insurance company not affected by the increase and decrease in EPS but slightly. MPS is found to have been in negative relation with the increase and decrease of NWPS.

Interestingly, the relation of MPS of all the insurance companies except NICL is found to have been positively correlated with the DPS which means change in the DPS of all insurance companies directly affects the MPS of the company

4.1.7 Assessment of Return to Investors

Investor in the common stocks expect larger amount of dividend and also to gain from the stock price increment. Higher dividend and the

stock price increment increase the returns of the investor. Investors thus get returns on their investment in the form of dividend yield and capital gain yield. This study tries to analyze the rate of return to investors as dividend yield, Capital gain yield and total yield from the listed insurance companies.

4.1.7.1 Analysis of Dividend Yield

Dividend yield is the rate of return in the form of dividend. It is a relative term which is calculated by DPS/MPS. Only highest dividend or lower dividend does not matter to investors. So it is essential to determine the rate of return on their investment. Dividend yield is an appropriate measure which helps to decide whether to make investment or not in common stock. Sometimes lower dividend also produces higher yield and lower produce lower yield. Therefore, dividend yield helps the investors to know the rate of return in the form of dividend.

Table no. 4.7
Dividend Yield of Sampled Insurance Companies

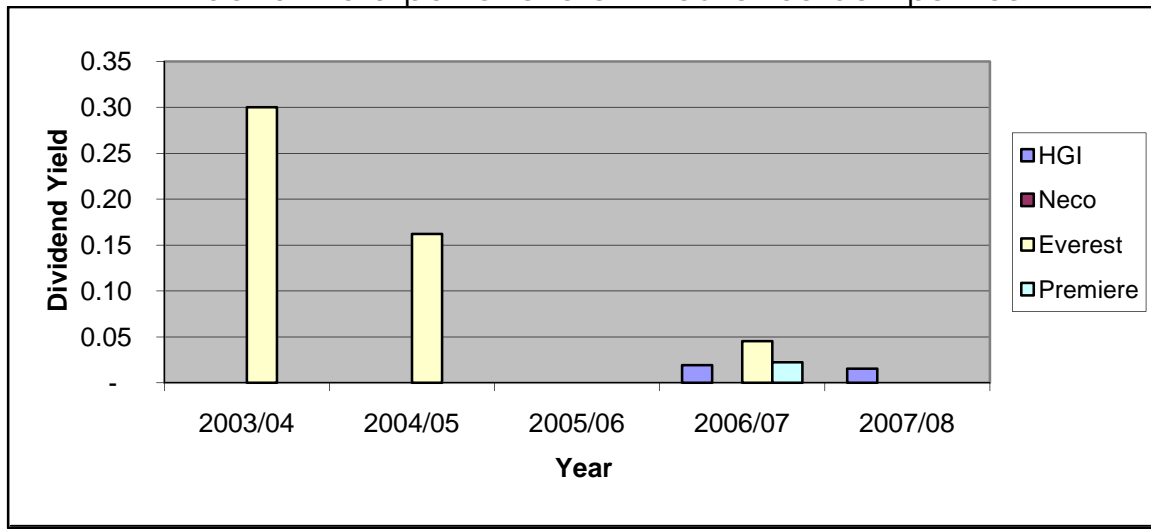
YEAR	HGICL	NICL	EICL	PICL
2003/04	-	-	0.3	-
2004/05	-	-	0.16	-
2005/06	-	-	-	-
2006/07	0.02	-	0.05	0.02
2007/08	0.02	-	-	-
Average	0.01	-	0.1	0.005

(Sources: Appendix VII)

Return to investors as dividend yield of insurance companies are presented in table 4.7

It is clearly seen that dividend yield of HGICL and EICL is 2%. PICL has been distributing dividend for three years of the study period at high rate up to 30%. Therefore, PICL is doing well in terms of the yield returns.

Figure 4.6
Dividend Yield per Share of Insurance Companies



4.1.7.2 Analysis of Capital gain Yield:

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

In an efficient stock, the Market price of stock increase or decrease based on the dividing decision of the company. Investors are directly benefited from dividing yield if earning is paid as dividend, but they are compensated by capital gain yield if earning of the company is retained. In Nepal, the capital gain yields to the investors from the listed insurance companies are shown in table no. 4.7.

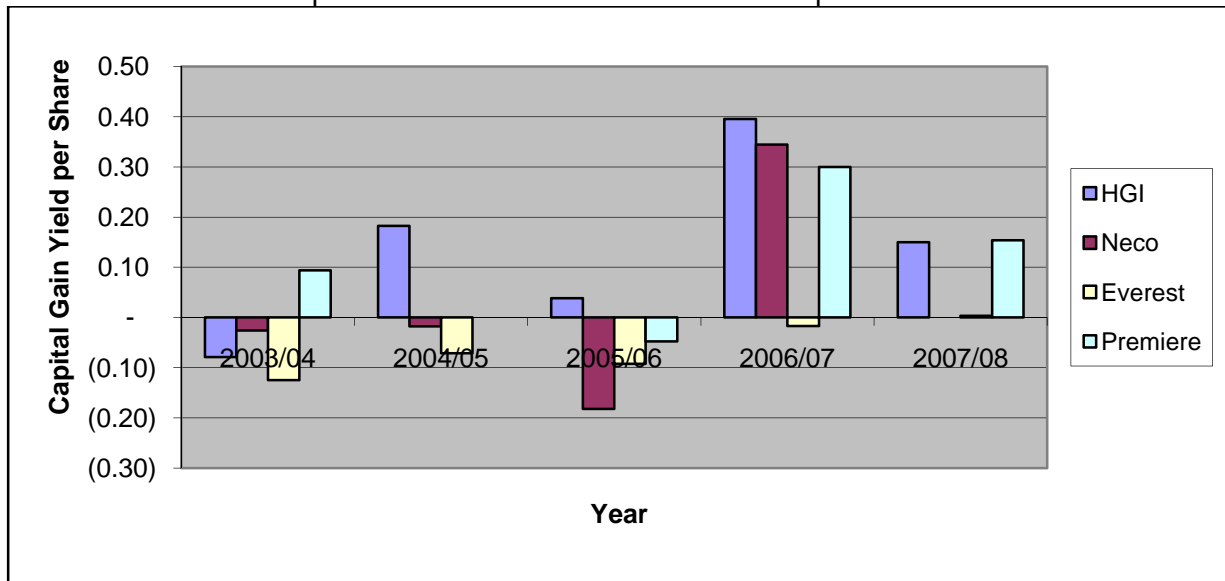
Table no. 4.8
Capital gain yield of Insurance Companies

Year	HGI CL	NI CL	PI CL	EI CL
2003/04	-0.08	-0.03	-0.13	0.09
2004/05	0.18	-0.02	-0.07	-
2005/06	0.04	-0.18	-0.09	-0.05
2006/07	0.4	0.34	-0.02	0.3
2007/08	0.15	-	0	0.15
Average	0.14	0.02	-0.06	0.1

(Sources: Appendix VII)

Return to investors as capital gain yield of five insurance companies is presented in above table. Among five companies HGICL has highest capital gain yield in Average. Investors of HGICL earn better than other company's investor. Therefore, it can be analyzed that the HGICL is performing well in terms of capital gain yield to investors.

Figure 4.7
CGY per Share of Insurance Companies



4.1.7.3. Analysis of Total Yield

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

Table no. 4.9

Total Yield of Insurance Companies

Year	HGICL	NIICL	PIICL	EIICL
2003/04	(0.08)	(0.03)	0.18	0.09
2004/05	0.18	(0.02)	0.09	0
2005/06	0.04	(0.18)	(0.09)	-0.05
2006/07	0.41	0.34	0.03	0.32
2007/08	0.17	-	0.00	0.15
Average	0.14	0.02	0.04	0.10

(Sources: Appendix VII)

Table no. 4.9 shows the total yield of HGICL, NICL, EICL and PICL for last five years starting from the year 2003/04.

The total yield of HGICL has -0.08, 0.18, 0.04, 0.41 and 0.17 for five fiscal years 2003/04 to 2007/08. The highest total gain of HGICL is 0.41 on fiscal year 2006/07.

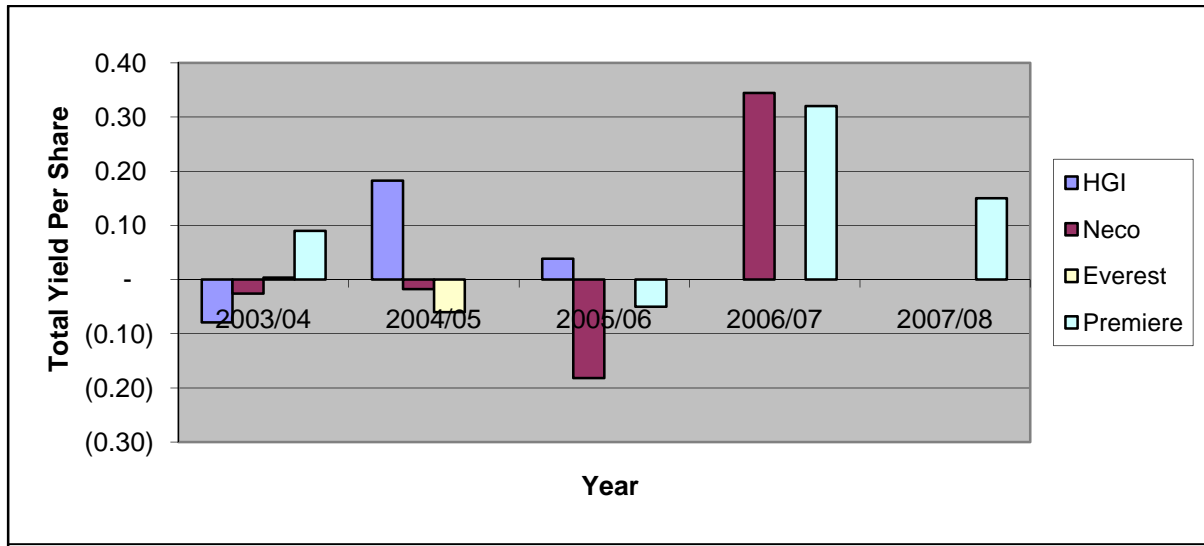
NICL has the low yield ratio except in the last year. NICL has fluctuating total yield for five year. i.e -0.03, -0.02, -0.18 and 0.34.

The total yield of EICL is 0.09 for the first study year and it reached to 0.15 on 2007/08 from fiscal year 2003/04 with average total yield 0.10.

PICL also has average total yield ratio of 0.04 and in the year 2003/04 it is 0.18.

In the average, HGICL has been the provider of the highest total yield of 0.14 ratios during this last five years starting from the year 2003/04.

Figure 4.8
Total Yield per Share of Insurance Companies



4.1.8 Gross Premium Collection

The charges that insurance companies make against the risk which they bear for their client's insured property is called premium in the insurance terms. Premium collection is major source of revenue for all the financial companies. Insurance companies sell various policies targeting different risks for insurance and they charge premium on those policies yearly basis which constitutes main source revenue for all the insurance companies. Therefore, figure of premium collection

indicates the volume of the business that the insurance company has been able to conduct during the year. It also indicates the growth and development of the insurance company in terms of client base which is a key for the survival of the company. That's why premium collection can also be taken as the indicator of the insurance company's performance.

Table no. 4.10

Gross premium collection trend of selected insurance companies

Year	HGICL	NICL	EICL	PICL
2003/04	149,660,138	96,381,413	274,201,885	117,383,178
2004/05	202,788,177	113,909,167	206,992,372	191,325,137
2005/06	227,557,205	118,293,600	222,778,028	96,036,765
2006/07	217,850,173	118,872,435	248,749,144	128,904,429
2007/08	321,387,404	143,340,439	338,428,594	235,384,615
Average	223,848,619	118,159,411	258,230,005	153,806,825

(Sources: Annual Report of Insurance Companies)

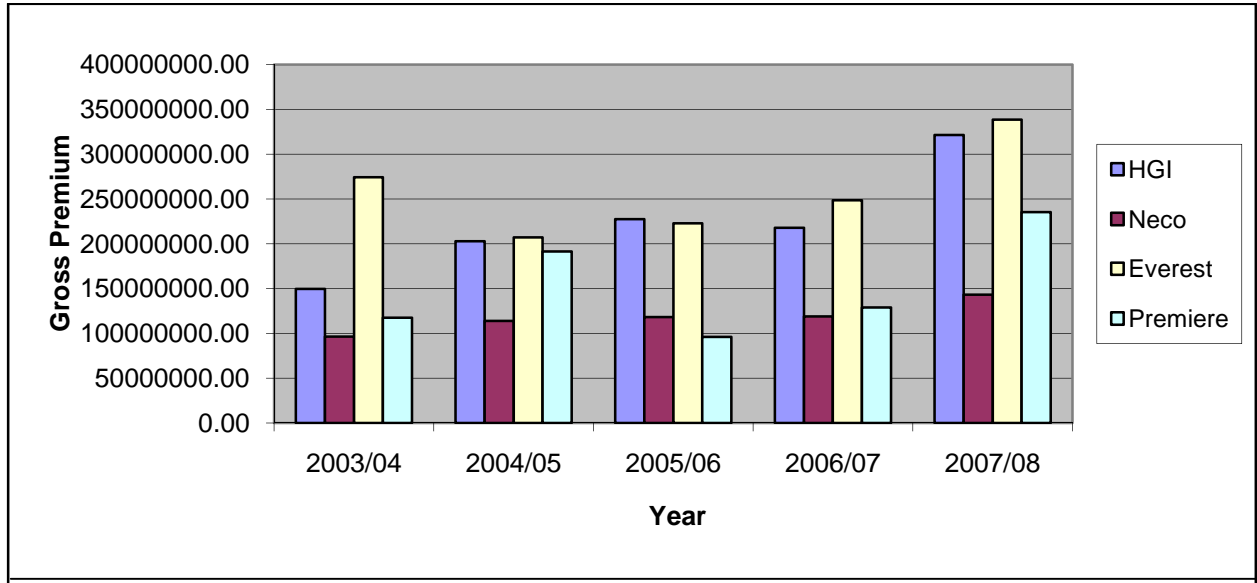
In the Table 4.10 above, HGICL has the premium collection in the increasing trend which seems very constant all over the 5 years study period. It indicates that the insurance company is doing well in business expansion.

Similarly NICL is all doing well as the premium collection is increasing trend amounting from 96 million to 143 million in the last year.

EICL and PICL seem to have fluctuating trend of premium collection as in the initial years of the study period they are in increasing trend but in the middle years they are found to have been going through decreasing trend of premium collection but in final years they are recovering substantially.

In over all, HGICL is found to have been doing well in terms of premium collection in the study period though the amount of premium collection of EICL for the year 2007/08 amounting to Rs.338 million which is higher than that of HGICL

Figure 4.9
Gross premium Earned of Insurance Companies



4.1.9 Net profit Trend

The net profit trend equation of HGICL, NICL, EICL & PICL are shown below table. The values calculated from regression analysis are presented in the given table below:

Table No.4.11
Calculation of Net Profit Trend equation

	HGICL	NICL	EICL	PICL
a	98.32	4.702	136.83	101.07
b	-14.20	-12.62	-28.10	-2.73
Net profit Trend Equation	$Y = 98.32 + (-14.20)x$	$Y = 4.702 + (-12.62)x$	$Y = 24.30 + (28.10)x$	$Y = 101.07 + (-2.73)x$

(Sources: Appendix VIII to XI)

According to the Net profit trend EICL is found to have doing better than all the rest of the companies.

B. Findings of the Study

4.2. Performance Evaluation

In the above data analysis and presentation of the sampled insurance companies ten indicator have been applied to measure the performance of the insurance companies and findings on the basis of these indicators are presented through the following ranking table.

Table No.4.12
Performance Ranking Table

S.N.	Indicators	1	2	3	4
1	MPS	EICL	HGICL	PICL	NICL
2	DPS	EICL	HGICL	PICL	NICL
3	EPS	PICL	HGICL	EICL	NICL
4	P/E Ratio	NICL	EICL	HGICL	PICL
5	NWPS	HGICL	PICL	EICL	NICL
6	Dividend Gain Yield	PICL	HGICL	EICL	NICL
7	Capital Gain Yield	HGICL	EICL	NICL	PICL
8	Total Yield	HGICL	EICL	PICL	NICL
9	Average Premium Collection	EICL	HGICL	PICL	NICL
10	Net Profit Trend	EICL	PICL	HGICL	NICL

- According to the analysis of the indicators of sampled insurance companies and ranking table above its clear that EICL and HGICL are at top insurance companies to maintain high MPS and DPS than other companies.
- Similarly, in terms of EPS, PICL is working better than other companies. Whereas, HGICL company is at second place.
- From the data analysis it is found that HGICL is leading in terms of return to investors as it has high Capital Gain and Total Yield to investors. Therefore, HGICL is the better company in view point of investors.
- On the basis of Premium Revenue collection, EICL is in the better position than the rest of the companies.

- As per the calculation of the net profit trend equation it is found the EICL has possibility of having increasing profit trend and will be earning profit in the upcoming years. It is based on regression analysis of the profit trend of the company.
- While analyzing the correlation of MPS with other indicators specially EPS and DPS it is found that all of the insurance companies' DPS have positive correlation with the MPS of the company which is indicating that DPS of the companies are sensitive to MPS and companies should maintain DPS at considerable level for the confidence of investors and keep the MPS at reasonable level so that the company will be able to raise fund from the financial market as required.
- In over all, EICL, HGICL, PICL and NICL can be placed at 1st, 2nd, 3rd and 4th position as per their financial performance. On the above analysis EPS, MPS, DPS, P/E Ratio, NWPS, dividend gain yield, capital gain yield, total yield and premium collection are included as indicators for the analysis.

CHAPTER-V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1. Summary

Insurance as a way or means of sharing economic risk collectively has been playing very crucial role in financial and economic development of the world since very early stages of development to the present day's globalized economy.

As it is the basic nature of human being that always wishes and tries to make their present as well as future safe. They always search different way for this but the modern technology and development of human civilization are creating new challenges and uncertainties in the same range. The concept of insurance was developed to reduce the risk of those uncertainties. Insurance has proved itself as an effective device that safeguard financially against such uncertainties and unfortunate happenings. The insurance has proved as double-edged weapon for socio-economic development of the nation. In one way it provides financial security against the uncertainties to the person, industry, commerce and other assets. In the other way insurance business collects the scattered fund as a premium for investment. This investment helps for the growth of industrialization and commercialization. The proper development of the industrialization and commercialization make the better economic standard of the country. Only the efficient management and sound financial position of the company can achieves these sets of goal.

It is found that the history of insurance is as old as human civilization and with time it managed to change itself as per the need of the economy of the society. "The concept of insurance is originated very early in Greece. About three thousand years ago, racial insurance was in existence in the Arya community of India. But before four century BC there was the use of Bottomward banks under the marine insurance in Greece. At first Church of England used to make religious

guild, Later on forming the merchant guild, started to give protection to the members further, later on crafts guild began to work as subsidiary of the merchants' guild. In this way, the concept of insurance is evolved.

Similarly, the history of insurance company is not very old in Nepal but they have come long way to reach the present position. "The concept of insurance developed in ancient period as "Guthi" in the context of our country Nepal. The formal insurance business evolved as corporate sector very late in Nepal.

As an important financial sector of the government, insurance market in global perspective has been as important ingredient for economic development. In developed countries insurance companies have played a very significant intermediary's role in mobilizing funds through the combination of investment portfolio. However, in developing countries like Nepal, the role of insurance companies is still to be realized as an important vehicle of mobilizing the internal saving through various insurance schemes of life and non-life sector in the economy.

At present with the development of economy and financial system of the country now there are 24 insurance companies providing and life and non-life insurance services in our country. This has increased the competition of the insurance companies for the limited market share of the country.

Therefore, the financial performance of the company is very important for the further development of the insurance companies. Financial performance is the process of identifying the financial strength and weakness of the concern. It is the process of critically examining in detail accounting information given in the financial statement by evaluating the relationship between component part of financial statement to gain better understanding of the firm's financial position and performance.

This research study has also tried to evaluate the financial performance of the sampled insurance companies of Nepal which includes Himalayan General Insurance Company, Everest Insurance Company, Premium Insurance Company and Neco Insurance Company and this study had following objectives.

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

- To examine major financial indicators that has major influence on determining the MPS.
- To analyze financial position of some listed insurance companies.
- To analyze the major financial indicators (DPS, EPS and NWPS) with MPS.
- To study the trend of premium collection and payment of claim.

The study analysis has applied various statistical and mathematical tools such as ratio, correlation, regression analysis and other financial tools to analyze financial performance of the sampled insurance companies to achieve above stated goals. The data used for the analysis were especially from secondary sources such as financial statements of the concerned insurance company, published materials and other information sources like websites etc.

5.2. Conclusions

The history of the insurance is very short in Nepal with compared to the international insurance history and modern insurance business is relatively new in Nepal. Today, 24 life and non-life insurance companies are operating in Nepal providing various kinds of insurance services. "Bima Samiti" as an apex body working for the regulation of insurance business in all over the country. As these insurance companies are enlisted in the stock exchange, the security board is also monitoring the financial activities of these insurance companies. Now, insurance companies in Nepal should present their financial statements to "Bima Samiti" (Insurance Committee) before approval as per the directive of the committee and they have to provide all detail information related to their financial activities to Security board also. Therefore, analysis of financial performance of insurance companies is very important for various stakeholders like government bodies (Bima Samiti and Security Board), investors and internal management team of the company.

This research study on financial performance of sampled insurance company conducted various analysis of these companies financial statements using statistical and mathematical tools and basis for the research were financial indicators such as MPS, EPS, DPS, NWPS, Return to Investors, Correlation of MPS with EPS-DPS-NWPS, regression analysis of net profit trend and premium collection.

From the study and analysis of the financial position of these insurance companies it was found that among the sampled insurance companies EICL and HGICL are at top insurance companies to maintain high MPS and DPS than other companies.

Similarly, HGICL found to be leading in terms of return to investors as it has high Capital Gain and Total Yield to investors. Therefore, HGICL is the better company in view point of investors. On the basis of Premium Revenue collection, EICL is in the better position than the rest of the companies. As per the calculation of the net profit trend equation it is found the EICL has possibility of having increasing profit trend and will be earning profit in the upcoming years. It is based on regression analysis of the profit trend of the company.

From the analysis of correlation of MPS with other indicators specially EPS and DPS it is found that all of the insurance companies' DPS have positive correlation with the MPS of the company which is indicating that DPS of the companies are sensitive to MPS and companies should maintain DPS at considerable level for the confidence of investors and keep the MPS at reasonable level so that the company will be able to raise fund from the financial market as required.

In over all, EICL, HGICL, PICL and NICTL can be placed at 1st, 2nd, 3rd and 4th position as per their financial performance.

At macro level if the findings of the study is generalized we can conclude that insurance sector is expanding and customer base of the market is also growing as the study found that volume of premium collection is in the increasing trend of all the insurance companies.

5.3. Recommendations

As this study was executed within the short period of time and with limited sample data from the population, generalization of the findings is hard to make but the study report has been able to analyze the financial performance of the sampled insurance companies and some insightful information has also been discovered for the study and on the basis of that following recommendations are made to concerned stakeholders.

- The correlation of MPS and DPS has been found to have been positive for all the sampled insurance companies and it is recommended that insurance companies consider dividend payment for maintaining MPS of the company.
- Generally it is found that insurance companies are operating only in the urban area of the country and they should expand their business in the rural areas also for the development of insurance business and market coverage.
- In our country, awareness about the importance of insurance among the general public has been found to be very poor, therefore, insurance companies collectively should have programs and policy to promote awareness about insurance in the public.

- Insurance companies should have short and scientific claim process and risk assessment procedures and techniques for development of confidence among the public.
- Insurance Companies should be able to develop various kinds of policies and to cover and insure all kinds of financial risks.
- The market value of the shares of any company is determined by various financial and economic variables, internal and external factors. Therefore, investors are recommended to make decision of investment considering all these factors not going after the trend of MPS only. From the study it is found that MPS has very low correlation with the change in EPS of insurance companies.
- The regulating bodies such as "Bima Samiti"(Insurance Committee) should develop a conducive environment for the healthy competition among insurance companies and protecting interests of the insurers and general public is a responsibility of the committee.
- The concerned ministry and department of government and legislative bodies also should conduct research on the insurance sector for the timely update and revise of existing Insurance Acts, Rules and Regulation to make it suitable as per the need of the country and international practices. It also can play important role to introduce new practices and developments of insurance innovated in the international insurance field.
- It is recommended to interested parties and researchers to make further study on the other aspect of insurance field.

APPENDIX - I

Market Price Per Share of Insurance Companies

YEAR	HGICL	NI CL	EI CL	PI CL
2003/04	175.00	112.00	350.00	210.00
2004/05	207.00	110.00	325.00	210.00
2005/06	215.00	90.00	295.00	200.00
2006/07	300.00	121.00	290.00	260.00
2007/08	345.00	121.00	291.00	300.00
Average	248.40	110.80	310.20	236.00

APPENDIX – II

Net Profit and Number of Share of the companies

Year	HGICL		NI CI		EI CL		PI CL	
	Net Profit	No. Of Share	Net Profit	No. Of Share	Net Profit	No. Of Share	Net Profit	No. Of Share
2003/04	11957845	300000	4433545	500000	17165038	300000	7536000	300000
2004/05	11011398	300000	1503601	500000	10121927	600000	14005000	300000
2005/06	11969509	300000	295734	550000	12542403	900000	13061000	300000
2006/07	7537616	300000	-5515681	550000	22088924	900000	5530000	300000
2007/08	6684858	630000	1634081	550000	6497829	1012500	10404000	630000

Where,

$$\text{EPS} = \frac{\text{Net Profit}}{\text{No. of Shares}}$$

APPENDIX – III

Calculation of P/E Ratio

Year	HGICL		NI CL		EI CL		PI CL	
	EPS	MPS	EPS	MPS	EPS	MPS	EPS	MPS
2003/04	39.86	175.00	8.87	112.00	57.22	350.00	25.12	39.86
2004/05	36.70	207.00	3.01	110.00	16.87	325.00	46.68	36.70
2005/06	39.90	215.00	0.54	90.00	13.94	295.00	43.54	39.90
2006/07	25.13	300.00	-10.03	121.00	24.54	290.00	18.43	25.13
2007/08	10.61	345.00	2.97	121.00	6.42	291.00	16.51	10.61

Where,

$$\text{P/E Ratio} = \frac{\text{MPS}}{\text{EPS}}$$

APPENDIX -IV

Calculation of net worth per Share

Year	HGICL		NICL		EICL		PICL	
	Total Net worth	Total shares	Total Net worth	Total shares	Total Net worth	Total shares	Total Net worth	Total shares
2003/04	70472225	300000	98157160	500000	112254420	300000	63971000	300000
2004/05	81483623	300000	97991767	500000	121473419	600000	77977000	300000
2005/06	93326030	300000	99168753	550000	132436875	900000	91038000	300000
2006/07	98565984	300000	74455812	550000	153829633	900000	94831000	300000
2007/08	100984223	630000	62614019	550000	159840563	1012500	105495000	630000

Where,

$$\text{Net worth per Share} = \frac{\text{Total Net Worth}}{\text{No. of Shares}}$$

APPENDEX – V

Calculation of Dividend Yield per Share

Year	HGICL		NICL		EICL		PICL	
	DPS	MPS	DPS	MPS	DPS	MPS	DPS	MPS
2003/04	0.00	175.00	0.00	112.00	105.00	350.00	0.00	210
2004/05	0.00	207.00	0.00	110.00	52.63	325.00	0.00	210
2005/06	0.00	215.00	0.00	90.00	0.00	295.00	0.00	200
2006/07	5.79	300.00	0.00	121.00	13.16	290.00	5.79	260
2007/08	5.26	345.00	0.00	121.00	0.00	291.00	0.00	300

Where,

$$\text{Dividend Yield per share} = \frac{\text{DPS}}{\text{MPS}}$$

APPENDIX – VI
Calculation of Regression Analysis

Year	HGICL		NICL		EICL		PICL	
	Beginning price	Ending price	Beginning price	Ending price	Beginning price	Ending price	Beginning price	Ending price
2003/04	190.00	175.00	115.00	112.00	400.00	350.00	192.00	190.00
2004/05	175.00	207.00	112.00	110.00	350.00	325.00	210.00	175.00
2005/06	207.00	215.00	110.00	90.00	325.00	295.00	210.00	207.00
2006/07	215.00	300.00	90.00	121.00	295.00	290.00	200.00	215.00
2007/08	300.00	345.00	121.00	121.00	290.00	291.00	260.00	300.00

APPENDIX – VII
Calculation of DY, CGY, TY

Year	HGICL			NICL			EICL			PICL		
	DY	CGY	TY	DY	CGY	TY	DY	CGY	TY	DY	CGY	TY
2003/04	-	-0.08	-0.08	-	-0.03	0.03	0.3	0.13	0.18	-	-0.08	0.08
2004/05	-	0.18	0.18	-	-0.02	0.02	0.16	0.07	0.09	-	0.18	0.18
2005/06	-	0.04	0.04	-	-0.18	0.18	-	0.09	-0.09	-	0.04	0.04
2006/07	0.02	0.4	0.41	-	0.34	0.34	0.05	0.02	0.03	0.02	0.4	0.41
2007/08	0.02	0.15	0.17	-	-	-	-	0.15	0	0.02	0.15	0.17

APPENDIX – VIII

Calculation of Net Profit Straight Line Trend of HGICL

Let Straight Line trend be,

$Y = a + bX$ (i)

Year (X)	Net Profit (Y)	$x = X - \bar{X}$	X^2	xY
1	119.58	-2	4	-239.157
2	110.11	-1	1	-110.114
3	119.70	0	0	0
4	75.38	1	1	75.37616
5	66.85	2	4	133.6972
$\bar{X} = 15$	$\bar{Y} = 491.61$		$\sum X^2 = 10$	$\sum xY = -140.20$

Where,

$$\text{Mean } (\bar{X}) = \frac{\sum X}{n} = \frac{15}{5} = 3$$

$$a = \frac{\sum Y}{n} = \frac{491.61}{5} = 98.32$$

$$b = \frac{\sum XY}{\sum X^2} = \frac{-140.20}{10} = -14.02$$

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

$$Y = 98.32 + (-14.02) x$$

For estimation of profit for coming year

$$X = 3$$

$$\begin{aligned} \text{Therefore, Y for 6 years} &= 98.32 + (-14.02) * 3 \\ &= 98.32 - 42.06 \\ &= 56.26 * 1,00,000 \\ &= 5,62,61,000 \end{aligned}$$

APPENDIX – IX

Calculation of Net Profit Straight Line trend of NIL

Year (X)	Net Profit (Y)	x = X - X	X ²	xY
1	44.34	-2	4	(88.67)
2	15.04	-1	1	(15.04)
3	2.96	0	0	-
4	(55.16)	1	1	(55.16)
5	16.34	2	4	32.68
X = 15	Y = 23.51		X ² = 10	xY = -126.18

$$\text{Mean } (\bar{X}) = \frac{\sum X}{n} = \frac{15}{5} = 3$$

$$a = \frac{\sum Y}{n} = \frac{23.51}{5} = 4.702$$

$$b = \frac{\sum XY}{\sum X^2} = \frac{-126.18}{10} = -12.62$$

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

$$Y = 4.702 + (-12.62) x$$

For estimation of profit for coming year

$$X = 3$$

$$\begin{aligned} \text{Therefore, Y for 6 years} &= 4.702 + (-12.62) * 3 \\ &= 4.702 - 37.86 \\ &= -33.158 * 1,00,000 \\ &= -33,15,800 \end{aligned}$$

APPENDIX – X

Calculation of Net Profit Straight Line trend of EICL

Let Straight Line trend be,

$$Y = a + bX \dots\dots\dots (i)$$

Year (X)	Net Profit (Y)	x = X - \bar{X}	X^2	xY
1	171.65	-2	4	(343.30)
2	101.22	-1	1	(101.22)
3	125.42	0	0	-
4	220.89	1	1	220.89
5	64.98	2	4	129.96
$\bar{X} = 15$	$\bar{Y} = 684.16$		$\sum X^2 = 10$	$\sum xY = -93.67$

Where,

$$\text{Mean } (\bar{X}) = \frac{\sum X}{n} = \frac{15}{5} = 3$$

$$a = \frac{Y}{n} = \frac{684.16}{5} = 136.83$$

$$b = \frac{XY}{X^2} = \frac{-93.67}{10} = -9.37$$

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

$$Y = 136.83 + (-9.37) x$$

For estimation of profit for coming year

$$X = 3$$

$$\begin{aligned} \text{Therefore, Y for 6 years} &= 136.83 + (-9.37) * 3 \\ &= 136.83 - 28.10 \\ &= 108.73 * 1,000,00 \\ &= 10872900 \end{aligned}$$

APPENDIX – XI

Calculation of Net Profit Straight Line trend of PICL

Year (X)	Net Profit (Y)	x = X - X	X ²	xY
1	75.36	-2	4	-150.72
2	140.05	-1	1	-140.05
3	130.61	0	0	0
4	55.3	1	1	55.3
5	104.04	2	4	208.08
X = 15	Y = 505.36		X ² = 10	xY = -27.39

$$\text{Mean } (\bar{X}) = \frac{X}{n} = \frac{15}{5} = 3$$

$$a = \frac{Y}{n} = \frac{505.36}{5} = 101.07$$

$$b = \frac{XY}{X^2} = \frac{-27.39}{10} = -2.73$$

$$X^2 = 10$$

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

$$Y = 101.07 + (- 2.73) x$$

For estimation of profit for coming year

$$X = 3$$

$$\begin{aligned} \text{Therefore, Y for 6 years} &= 101.07 + (- 2.73) * 3 \\ &= 101.2 - 8.22 \\ &= 92.98 * 1, 00,000 \\ &= 92, 98,300 \end{aligned}$$

APPENDIX – XII

Correlation between MPS with EPS of HGI CL

Year	MPS (X)	EPS (Y)	X ²	Y ²	XY
2003/04	175	39.86	36100	1588.82	6975.5
2004/05	207	36.7	30625	1346.89	7596.9
2005/06	215	39.9	42025	1592.01	8578.5
2006/07	300	25.13	90000	631.014	7539
2007/08	345	10.61	119025	112.57	3660.45
n=5	X = 1242	Y =152.2	X ² = 328724	Y ² =5271.81	XY=34350.4

$$\begin{aligned} R &= \frac{n \times \sum XY - \sum X \sum Y}{\sqrt{n \times \sum X^2 - (\sum X)^2} \sqrt{n \times \sum Y^2 - (\sum Y)^2}} \\ &= -0.96 \end{aligned}$$

APPENDIX – XIII

Correlation between MPS with NWPS of HGI CL

Year	MPS (X)	NWPS (Y)	X ²	Y ²	XY
2003/04	175	234.91	30625	55182.71	41109.25
2004/05	207	271.61	42849	73771.99	56223.27
2005/06	215	311.08	46225	96770.77	66884.35
2006/07	300	328.55	90000	107945.1	98565
2007/08	345	160.29	119025	25692.88	55300.05
n=5	X = 1242	Y =1306.44	X ² = 328724	Y ² =359363.7	XY=318081.9

$$\begin{aligned} R &= \frac{n \times \sum XY - \sum X \sum Y}{\sqrt{n \times \sum X^2 - (\sum X)^2} \sqrt{n \times \sum Y^2 - (\sum Y)^2}} \\ &= -0.34 \end{aligned}$$

APPENDIX – XIV

Correlation between MPS with DPS of HGICL

Year	MPS (X)	DPS (Y)	X ²	Y ²	XY
2003/04	175	0.00	30625	0	0
2004/05	207	0.00	42849	0	0
2005/06	215	0.00	46225	0	0
2006/07	300	5.79	90000	33.524	1737
2007/08	345	5.26	119025	27.66	1814.7
n=5	X = 1242	Y = 11.05	X ² = 328724	Y ² = 61.19	XY = 3551.7

$$R = \frac{n \times \sum XY - \sum X \sum Y}{\sqrt{\left[n \sum X^2 - (\sum X)^2 \right] \left[n \sum Y^2 - (\sum Y)^2 \right]}}$$

$$= 0.94$$

APPENDIX – XV

Correlation between MPS with EPS of EICL

Year	MPS (X)	EPS (Y)	X ²	Y ²	XY
2003/04	350	57.22	122500	1588.82	20,025.88
2004/05	325	16.87	105625	1346.89	5,482.71
2005/06	295	13.94	87025	1592.01	4,112.30
2006/07	290	24.54	84100	631.014	7,116.60
2007/08	291	6.42	84681	112.57	1,868.22
n=5	X = 1551	Y = 118.99	X ² = 483931	Y ² = 4396.11	XY = 38605.71

$$R = \frac{n \times \sum XY - \sum X \sum Y}{\sqrt{\left[n \sum X^2 - (\sum X)^2 \right] \left[n \sum Y^2 - (\sum Y)^2 \right]}}$$

$$= 0.81$$

APPENDIX – XVI

Correlation between MPS with NWPS of EICL

Year	MPS (X)	NWPS (Y)	X ²	Y ²	XY
2003/04	350	374.18	122500	140010.6724	254,327.30
2004/05	325	202.46	105625	40990.0516	70,861.00
2005/06	295	147.15	87025	21653.1225	47,823.75
2006/07	290	170.92	84100	29213.6464	49,566.80
2007/08	291	157.87	84681	24922.9369	45,940.17
n=5	X = 1551	Y = 1052.58	X ² = 483931	Y ² = 256790.43	XY = 335678.72

$$R = \frac{n \times \sum XY - \sum X \sum Y}{\sqrt{\left[n \times \sum X^2 - (\sum X)^2 \right] \left[n \times \sum Y^2 - (\sum Y)^2 \right]}}$$

$$= 0.92$$

APPENDIX – XVII

Correlation between MPS with DPS of EICL

Year	MPS (X)	DPS(Y)	X ²	Y ²	XY
2003/04	350	105	122500	11025	36,750.00
2004/05	325	52.63	105625	2769.9169	17,104.75
2005/06	295	0	87025	0	-
2006/07	290	13.16	84100	173.1856	3,816.40
2007/08	291	0	84681	0	-
n=5	X = 1551	Y = 170.79	X ² = 483931	Y ² = 13968.103	XY = 57671.15

$$R = \frac{n \times \sum XY - \sum X \sum Y}{\sqrt{\left[n \times \sum X^2 - (\sum X)^2 \right] \left[n \times \sum Y^2 - (\sum Y)^2 \right]}}$$

$$= 0.98$$

APPENDIX – XVIII

Correlation between MPS with EPS of PICL

Year	MPS (X)	EPS (Y)	X ²	Y ²	XY
2003/04	210	25.12	44100	631.0144	5,275.20
2004/05	210	46.68	44100	2179.0224	9,802.80
2005/06	200	43.54	40000	1895.7316	8,708.00
2006/07	260	18.43	67600	339.6649	4,791.80
2007/08	300	16.51	90000	272.5801	4,953.00
n=5	X = 1180	Y = 150.28	X ² = 285800	Y ² = 5318.013	XY = 33530.80

$$R = \frac{n \times \sum XY - \sum X \sum Y}{\sqrt{\left[n \times \sum X^2 - (\sum X)^2 \right] \left[n \times \sum Y^2 - (\sum Y)^2 \right]}}$$

$$= -0.80$$

APPENDIX – XIX

Correlation between MPS with NWPS of PICL

Year	MPS (X)	NWPS (Y)	X ²	Y ²	XY
2003/04	210	213.24	44100	45471.2976	44,780.40
2004/05	210	259.92	44100	67558.4064	54,583.20
2005/06	200	303.46	40000	92087.9716	60,692.00
2006/07	260	316.1	67600	99919.21	82,186.00
2007/08	300	167.45	90000	28039.5025	50,235.00
n=5	X = 1180	Y =1260.17	X ² = 285800	Y ² =333076.39	XY=292476.60

$$R = \frac{n \times XY - X \times Y}{\sqrt{n \times X^2 - (X)^2} \sqrt{n \times Y^2 - (Y)^2}}$$

$$= -0.46$$

APPENDIX – XX

Correlation between MPS with DPS of PICL

Year	MPS (X)	DPS (Y)	X ²	Y ²	XY
2003/04	210	0	44100	0	-
2004/05	210	0	44100	0	-
2005/06	200	0	40000	0	-
2006/07	260	5.79	67600	33.5241	1,505.40
2007/08	300	0	90000	0	-
n=5	X = 1180	Y =5.79	X ² = 285800	Y ² =33.524	XY=1505.40

$$R = \frac{n \times XY - X \times Y}{\sqrt{n \times X^2 - (X)^2} \sqrt{n \times Y^2 - (Y)^2}}$$

$$= 0.31$$

APPENDIX –XXI

Correlation between MPS with EPS of NICL

Year	MPS (X)	EPS(Y)	X ²	Y ²	XY
2002/03	112	8.87	12544	78.6769	993.44
2003/04	110	3.01	12100	9.0601	331.10
2004/05	90	0.54	8100	0.2916	48.60
2005/06	121	-10.03	14641	100.6009	(1,213.63)
2006/07	121	2.97	14641	8.8209	359.37
n=5	X = 554	Y =5.36	X ² = 62026	Y ² =197.45	XY=518.88

$$R = \frac{n \times \sum XY - \sum X \sum Y}{\sqrt{\left[n \sum X^2 - (\sum X)^2 \right] \left[n \sum Y^2 - (\sum Y)^2 \right]}}$$

$$= -0.22$$

APPENDIX – XXII

Correlation between MPS with NWPS of NICL

Year	MPS (X)	NWPS(Y)	X ²	Y ²	XY
2002/03	112	196.31	12544	38537.62	21,986.72
2003/04	110	195.98	12100	38408.16	21,557.80
2004/05	90	180.31	8100	32511.7	16,227.90
2005/06	121	135.37	14641	18325.04	16,379.77
2006/07	121	113.84	14641	12959.55	13,774.64
n=5	X = 554	Y =821.81	X ² = 62026	Y ² =140742.1	XY=89926.83

$$R = \frac{n \times \sum XY - \sum X \sum Y}{\sqrt{\left[n \sum X^2 - (\sum X)^2 \right] \left[n \sum Y^2 - (\sum Y)^2 \right]}}$$

$$= -0.59$$

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