

FINANCIAL PERFORMANCE OF NEPALESE NON- LIFE INSURANCE INDUSTRY

A Dissertation Submitted to the Office of the Dean, Faculty of Management in partial fulfillment of the requirements for the Master of Business Studies (MBS)

By

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CERTIFICATION OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled “**Financial Performance of Nepalese Non- Life Insurance Industry**”. The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor it has been proposed and presented as part of requirements for any other academic purposes. The assistance and cooperation that I have received during this research work has been acknowledged. In addition, I declare that all information sources and literature used are cited in the reference section of this dissertation.

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REPORT OF RESEARCH COMMITTEE

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ABBREVIATIONS

AOA	:	Article of Association
ATM	:	Automated Teller Machine
CAR	:	Capita Adequacy Ratio
EPE	:	Earnings per Employee
NBL	:	Nepal bank Limited
NIBL	:	Nepal Investment Bank Limited
NPAT	:	Net Profit After Tax
PCBL	:	prime Commercial Bank Limited
ROA	:	Return on Assets
ROE	:	Return on Equity
USD	:	United States Dollars

ABSTRACT

The study aims to analyze the financial performance of non-life insurance company in Nepal and examine the effect of operating profit margin of selected non-life insurance companies have been analyzed. The design and methods have been applied according to the research type which is descriptive analyses. The findings of this research were based on the secondary data. The data has been used to extracted from Annual reports and Nepal Beema Sansthan Office. The findings are completely based in the data and facts as provided.

The findings off the research show the overall calculated financial ratios are good enough for better financial performance of selected non-life insurance companies in Nepal. Furthermore, the study revealed that a mixed result in terms of the degree of effect of financial performance on the operating efficiency. There is both significant and insignificant effects of solvency margin and operating profit on operating efficiency of both sample insurance company. There are still major hurdles to overcome in order for Nepal to realize the growth potential of its insurance industry. Research could be conducted on the growth in the written premium accounted by insurers.

Keywords: Investment Pattern, Premium Collection, Claim Paid Ratio, Net Profit and Financial Performance

CHAPTER-I

INTRODUCTION

1.1 Background of the Study

People live in society and also born and die in society. Society is full uncertainties which gives birth to risk. Insurance is a means of providing financial protection against occurrence of uncertain events. Insurance sector plays a vital role in the economic development of the country. Insurance plays an important role in protecting the family's income as well as protection of the family business. Insurance services provides benefits to individuals, groups as well as business organizations (Pant & KC, 2017).

Pant and KC (2017) stated that service industries are that part of economy that offers services rather than the tangible objects. Insurance is a distinct kind of service. It provides awareness to people against protection of life and property. It mobilizes the savings of common people, industries, and financial institutions to create capital. The non-life insurance companies provide financial support to the risk against loss of property as well as bodily injury and risk of accidental death. Nowadays in the pace of rapid growth and development of insurance industries, it is very important to develop appropriate strategies that might aid the insurance practitioners to develop appropriate insurance products and services. Insurance manages the risk of uncertainly in an effective way and plays a significant role in mobilizing domestic savings, turning the capital into productive investments by managing loss and maintain financial stability (Reddy, 2015). The non-life insurance companies hence play as a crucial role in promoting the trade and commerce activities which contributes to the sustainable growth of an economy.

Everyone desires to live a cleaner, healthier, comfortable and easy life. To meet this requirement different enterprises, produce and provide goods and services. They make innovation and inventions, which take great risk. Large responsibility falls on the shoulder of innovators and inventors. A small error or lapse may cause numerous side effects and cause death or disability. These types of risks highlight the importance of insurance. If there had not been insurance at the back of all innovators, the world would have never been progressed. After considering this in security factor, the enterprises started looking for new and more high-tech machines - robots and gadgets, atomic

technology, space traveling, computers, deep sea exploration, development of Concorde and Jumbos and medical technology. All these developments could be possible with the support of insurance.

General insurance or non-life insurance policies, including automobile and homeowners' policies, provide payments depending on the loss from a financial event. General insurance is typically defined as any insurance that is not determined to be life insurance. It is called property and casualty insurance in the United States and Canada and non-life insurance in Continental Europe.

General Insurance companies performed three distinct jobs: i) Risk pooling, diversifying and loss compensation, ii) Risk management; and iii) Resource mobilization. Academicians are agreed on the positive role of insurance in both developed and developing economies. Insurance enhances the economy through promoting financial stability, mobilizing savings, facilitating trade and commerce, enabling risk management, encouraging loss mitigation, fostering efficient capital allocation, substituting the complement of government social security programs (Skipper, 2001).

General or nonlife insurance companies provide safeguard against the financial loss of any property or liability. However, the period of safeguarding is generally 2 for one year. There is no component of investment and policyholders do not expect the financial return from the policy of general insurance. There are two types of policies: (i) Personal policy having small amount per policy but large numbers policies, (ii) Commercial business having large value per policy, customized customers and small number of policies.

The role of insurance in economic development is as equal as the role of banking institutions. Financial health of insurance is a subject of great concern since every year, insurance companies are declared insolvent; thousands of policyholders suddenly find themselves with some very serious problems. So that periodic stringent evaluation and monitoring of the financial condition of insurance companies by regulators, investors, and insurer management is essential task (Das & Podpiera, 2003).

Insurance as a financial intermediary plays a significant role in economic growth of any country. Considerable debate has been made whether financial institutions contribute to

economic growth or not. Historically, more focus was made on banks rather than on insurance companies. Very little effort has been made in the field of the insurance sector. But whatever research has been made on insurance field in relation to economic growth has shown a positive relation to economic growth. As a risk transfer mechanism, insurance provides financial protection from unpredictable losses. Today's world is full of risk and uncertainty. This risk and uncertainty are created due to globalization, liberalization, and innovation in science and technology. Insurance is a way to minimize and provide protection against those risks which are beyond human control. It is a way to indemnify to those unpredictable losses.

The relationship between insurance and economic growth has been dealt by many researchers concluding that there is a causal and direct link between Insurance and economic growth. United Nations Conference on Trade and Development formally acknowledged that “a sound national insurance and reinsurance market is an essential characteristic of economic growth” Development of insurance and reinsurance business is must for the economic development of any country as it 3 reduces uncertainty and encourages long term investment (Feyen, Lester, & Rocha, 2011).

In law and economics, insurance is a form of risk management primarily used to hedge against the risk of a contingent, uncertain loss. Insurance is defined as the equitable transfer of the risk of a loss, from one entity to another, in exchange for payment. An insurer is a company selling the insurance; an insured, or policyholder, is the person or entity buying the insurance policy. The insurance rate is a factor used to determine the amount to be charged for a certain amount of insurance coverage called the premium. Risk management, the practice of appraising and controlling risk, has evolved as a discrete field of study and practice.

The insurance industry primarily provides indemnification of risks faced by both individuals and companies, strengthens the linkages with other sectors of the economy promoting growth and stability, and creating a sizeable impact on the national income of a country. Insurance industry is part of immune and repair systems of an economy. Successful operation of the insurance industry sets impetus for other industries and development of an economy.

Insurance is defined as a cooperative form of distribution of a certain risk over a group of people who are exposed to it. As a device for handling the financial aspects of risk, insurance is feasible because insurance is able to combine the risks of individuals into groups and pay losses with funds collected from its members (Ghos& Agrawal, 1959).

Kasturi (2006) highlighted that the performance was assessed by maintaining the balance between all the measures in order to achieve success. In that study, he measured the financial performance of insurance company by using both financial ratios and “non-financial measures” that includes customers` orientation, growth, and firms` value to the society.

Insurance provides protection to trade and industry which ultimately contributes towards human progress. Thus, insurance is the most lending force contributing towards economic, social and technological progress of mankind. Without insurance over all industrial, economic and social activities of the world will come to a grinding halt. Thus, insurance is an important and growing part of the financial sector in almost all developed and some developing economies.

In the context of Nepal, the history of insurance business is not as long as in the other countries. Generally, insurance activities of Nepal were executed by the Indian Insurance companies prior to the 2007 B.S. However, the history shows the introduction of insurance company named “Mal Chalani and Beema Company” in 2004 B.S. It was later converted into “Nepal Insurance and Transport Co. Pvt. Ltd” in 2016 B.S and now named as Nepal Insurance.

Rastriya Beema Corporation was introduced under the insurance act 2025 as first public insurance company in order to compete with the organized Indian insurance companies as well as to expand insurance business. It conducted General Insurance business from the starting time, but life insurance business was started in 2025. In private sector, National Life of General Insurance Company Pvt. Limited was established in 2043, as per insurance act of 2025 B.S. Since that time, it has been conducting both life and general insurance business. New insurance act was formed in 2049 after restoration of democracy and economic liberalization. This regulation facilitates the liberalize market and hence

several insurance companies have been established. Now there are 24 insurance companies including life and non - life in Nepal.

Furthermore, after the restoration of democracy in 1990 AD; insurance environment began to change simultaneously along with other factors. Thus, to meet the requirements of the changing situation, Insurance Act, 1968 was replaced by new Insurance Act, 1992 (Beema Ain, 2049). The preamble of the Act clearly states, "to establish an Insurance Board to systematize, regularize develop and regulate the insurance business". To achieve the goal of the preamble, Beema Samiti (Insurance Board) is formed as an autonomous body under the Insurance Act of 5 1992. Currently sixteen non – life and 9 life insurance companies are being regulated through Bema Samiti.

1.1.1 Non-Life Insurance Companies in Nepal

Non-life or General insurance companies aims in providing safeguard against the financial loss of any property or liability in which period of safeguarding is generally for one year. The policyholders do not expect the financial return from the policy of general insurance as it is non-refundable. Generally, there are two types of policies: (i) Personal policy having small amount per policy but large numbers policies, (ii) Commercial business having large value per policy, customized customers, and small number of policies. The rise in non-life insurance sectors showed a turn around after the dreading earthquake of 2015. Today, public are more likely aware about the importance of insurance (Ghimire, 2013).

There are 16 non-life insurance companies in the current scenario of Nepalese market which are listed as under.

Non-life insurance companies

As of March 13 2023, 16 non-life insurance are operating in Nepal.^[2]

S. N	Non-Life Insurance Company	Operating Since	Website
1	Nepal Insurance Company Limited	2004 B.S (1947 A.D)	http://www.nepalinsurance.com.np/
2	The Oriental Insurance Company Limited	2012 B.S (1956 A.D)	http://www.orientalinsurance.com.np/
3	National Insurance Company Limited	2030 B.S (1974 A.D)	http://www.nicnepal.com.np/
4	Himalayan Everest Insurance Company Limited	2079 B.S (2022 A.D)	http://www.hei.com.np/
5	United Insurance Company (Nepal) Limited	2050 B.S (1993 A.D)	http://www.unitedinsurance.com.np/
6	Neco Insurance Limited	2051 B.S (1994 A.D)	http://www.neco.com.np/
7	Sagarmatha Lumbini Insurance Company Limited	2079 B.S (2023 A.D)	http://www.sagarmathainsurance.com.np/
8	Prabhu Insurance Limited	2053 B.S (1996 A.D)	http://www.prabhuinsurance.com/
9	IME General Insurance Limited	2055 B.S (1999 A.D)	http://www.iginepal.com/
10	Prudential Insurance Company Limited	2058 B.S (2002 A.D)	http://www.prudential.com.np/
11	Shikhar Insurance Company Limited	2061 B.S (2004 A.D)	http://www.shikharinsurance.com/
12	NLG Insurance Limited	2054 B.S (1998 A.D)	http://www.nlg.com.np/
13	Siddhartha Premier Insurance Limited	2079 B.S (2023 A.D)	http://siddharthapremier.com.np/
14	Rastriya Beema Company Limited	2071 B.S (2015 A.D)	http://www.rbcl.gov.np/
15	Sanima GIC Insurance Limited	2079 B.S (2022 A.D)	http://www.sanimageneral.com/
16	Ajod Insurance Limited	2075 B.S (2018 A.D)	http://www.ajodinsurance.com/

Due to the new paid-up capital requirement of NRs.2.5 Arba (NRs. 2.5 billion), some companies are undergoing mergers. Companies currently under the merger process are:

- Ajod and United Insurance.
- IME General and Prudential Insurance.

Similarly, Himalayan Insurance Company Limited and Everest Insurance Company Limited merged to form Himalayan Everest Insurance Company Limited. Sanima Insurance Company Limited and General Insurance Company Limited merged to form Sanima GIC Insurance Company. Siddhartha Insurance Limited and Premier Insurance Company Limited (Nepal) merged to form Siddhartha Premier Insurance Limited. Sagarmatha and Lumbini Insurance Company Limited merged to form Sagarmatha Lumbini Insurance Company Limited.

Reinsurance companies

As of January 2023, 2 reinsurances are operating in Nepal:^[2]

S.N	Reinsurance Company	Operating Since	Website
1	Nepal Reinsurance Company Limited	2071 B.S (2014 A.D)	http://www.nepalre.com.np/
2	Himalayan Reinsurance Company Limited	2077 B.S (2020 A.D)	https://himalayanre.com/

Among the above listed non-life insurance companies, in this research we highlight the three companies which are listed below:

1. Shikhar Insurance Company Limited

Shikhar Insurance Company Ltd is the 15th Non-life Insurance Company in the industry then, which started operating on Mangshir 2, 2061. It was incorporated as a Public Limited Company on Jestha 25, 2061. With 100+ branches present all over Nepal and 600+ employee strength, Shikhar Insurance stands tall with the highest market share of 13%. It is the only company with a market share above 10% (as per 3rd quarter 2020/21 statistics). Within a short period of its establishment, Shikhar Insurance is moving ahead as the leading general insurance company in Nepal. (<https://shikharinsurance.com/>)

2. Neco Insurance Company Limited

Neco Insurance Ltd. is a limited liability company registered under the Companies Act, 2021 BS. It was established on 1stPoush, 2051(16th December, 1994). It has been operating general insurance business in Nepal since 17thJestha, 2053 (30th May, 1996) as per the license granted by Insurance Board of Nepal. The registered office of the company is at Gyaneshwor, Kathmandu and it is operating its business through various service outlets nationwide. Neco Insurance enjoys a reputation of expertise, stability and

strength. Our competitive edge, extensive range of products, wide network, claim servicing capabilities and the ability to provide all possible general insurance solutions under one roof makes us the most preferred partner for our valued customers. Neco Insurance has been known in the market as being innovative and having a well-established relationship with the various reinsurance markets of the world. We are proud to be the local insurance partner of AIG (American International Group). (<https://neco.com.np/>)

3.Siddhartha Insurance Ltd

Siddhartha Insurance Limited (SIL) is a well-known non-life insurance company in Nepal, with 87 branches. SIL is a professionally managed organization that was founded in 2006. Leading business houses, industrial conglomerates, and institutions have endorsed SIL. By underwriting all types of risks in General and Health insurance, the firm provides truly customer focused service, typically based on individual customer needs. Property, Marine, Motor, Engineering, Miscellaneous, Aviation, Micro and other insurance options are available through SIL. Its top priority is to establish long term client relationships, with 100% customer satisfaction being one of the most crucial non-negotiable goals. Low and irregular income and low risk retention capacity is its main challenges. (siddharthainsurance.com)

4.Premier Insurance Company Limited

Premier Insurance Company (Nepal) Limited was established in 1994 AD as a public limited company. The company's commitment to better customer service is seen in its affiliation with the world's best insurance and reinsurance securities, which are highly rated for claim payment capabilities by reputable authorities such as Standard & Poor's (S & P). It now has the greatest and safest reinsurance agreements in place to cover all forms of claim settlements. It already operates 57 branches in Nepal, with more set to open soon. Shortage of competent human resources and low risk retention are some of its challenges. (<https://www.premier-insurance.com.np/>)

Siddhartha Insurance Limited & Premier Insurance Co. (Nepal) Limited have merged together and formed new insurance company with name Siddhartha Premier Insurance Limited. Siddhartha Premier Insurance Limited have started joint operation from 1st of March 2023.

1.2 Problem Statement

Every year, insurance companies are declared insolvent, putting thousands of policyholders in a bind. As a result, regulators, and insurer management must evaluate and monitor the financial situation of insurance firms on a regular basis. A financial institution's soundness is judged on the basis of capital adequacy, SET quality, reinsurance and actuarial issues, management efficiency, earnings, liquidity and solvency (Das et. Al. 2004)

Insurance industry is considered as financial intermediaries of financial system and works as a double – edged weapon. On one hand, it provides the financial security against future loss and uncertainty and on the hand, it acts as a catalyst for economic development. So, insurance is an interesting research topic for the researchers and finance students.

In Nepalese economy, insurance companies are growing rapidly with a good operating result. Despite various past studies regarding financial performance of insurance companies, there is the need of the study to evaluate the financial soundness of Nepalese non - life Insurance company to provide clear findings about this sector's performance and contribution to national economy.

The problem that still exists in non-life insurance sector is to find effective policies and schemes to ensure suitable profit. The insurers should invest in productive sectors with low risk and high return. The insurance companies are unable to invest enough in productive areas for its growth and development. There is lack of adaptation of advanced technologies in place of traditional one. In the modern business world, insurance companies need to explore its strength and weaknesses in order to increase their productivity and financial performance.

In general, the study focuses to assess the financial performance of Nepalese non - life insurance industry from FY 2069/70 (2013/14) to 2078/79 (2022/23) considering the listed companies. The study also tries to answer the following research question.

- What is the financial performance of selected non-life companies?
- Is there any relationship between operating efficiency and ROE of selected non-life insurance companies of Nepal?

- What is the difference between the financial performances of the non-life insurance companies of Nepal?

1.3 Objectives of the Study

The objectives of the study are as follows:

- To analyse the financial performance of the non – life insurance sector in Nepal.
- To examine the relationship between operating efficiency and ROE of selected non-life insurance companies of Nepal.
- To compare the financial performance of selected non-life insurance companies of Nepal.

1.4 Rationale of the Study

Although non - life insurance sector in Nepal is continuously growing, it is not well developed. High competition, poor monitoring mechanism, limited market opportunities, low per capita income, lack of profitable investment opportunities and increasing violence and terrorism pose a negative impact in the financial sustainability of Nepalese insurance companies. The financial performance of Nepalese non - life insurance remains a question. Even though various studies have been carried out in this sector, they have not been successful to point out the facts for influencing financial performance of this sector. This study aims to provide an insight into determination of financial health of Nepalese non - life Insurance companies.

This study aims to provide an insight into determination of financial health of Nepalese non - life Insurance companies. Similarly, the study might be important for insurance companies, customers, scholars, students and other interested parties to gain knowledge about financial status of Nepalese non - life Insurance companies. The researcher believes that the study sheds some light about use of various financial ratios in analysing the financial performance of Insurance companies. The research would play vital role to discourse ratios and its use in identifying the major factor for poor financial performance and providing the suggestion to maintain the sound financial position to compete the global and competitive insurance market. This study should also be helpful for upcoming researchers to study furthermore on this study.

1.5 Limitations of the Study

The study has some limitations which are as follows:

- The study is concentrated on Financial Performance of Nepalese Non-Life Insurance Industry.
- Shikhar, Neco and Siddhartha Premier Insurance Companies are selected for the study.
- The study is based on secondary data.
- This study covers ten years' time periods i.e., from FY 2013/14 to 2022/23.

CHAPTER II

LITERATURE REVIEW

2.1 Introduction

The study of the existing literature helps the researcher to draw the inference of the study and helps to acquire in depth knowledge about the subject. The literature under review is obtained from journal articles, text books and websites. The review is done in following sub-headings.

- Theoretical Review
- Empirical Review

2.2 Theoretical Review

This section consists of the concept, history and types of insurance and presents a review of related books to develop the conceptual framework. This chapter presents review of legal documents, research performed and published by scholars, unpublished dissertations and related published thesis about financial performance indicators.

A Study on the performance of the insurance industry is crucial since the insurance industry is currently facing many challenges, including increased competition, consolidation, solvency risks, and a changing regulatory environment. The question of the efficiency of the firms in this industry is clearly important to determine how the industry will respond to these challenges and which firms are likely to survive (Berger, Al., 1997).

A study on “Financial Performance Analysis of Nepalese Insurance Companies” by (Sharma, 2059) using different financial ratios and statistical tools has concluded that to survive and achieve better performance level insurance companies need to remove weaknesses and should manage sound liquidity position, optimal capital structure, suitable investment portfolio, effective operating management, hiring qualified human resources, introducing human resource developing program, formulating fixed rules and regulations, conducting strong supervision, evaluation and control program etc.

2.1.1 Concept of Insurance

Insurance is a commodity which offers protection against various contingencies. An insurance contract promises to make good to the insured a certain sum in consideration for a payment in the form of premium from the insured.

In respect of insurance relating to property, there are many products available. Property may be covered against fire and perils of nature including flood, earthquake etc. Machinery may be insured for breakdown. Goods in transit can be insured under a marine cargo insurance cover. Insurance covers are also available for ships and other vessels. A motor insurance policy covers third party damage as well as damage to the vehicle.

The term “insurance” can be defined from a variety of perspectives. For instance, the Commission on Insurance Terminology of the American Risk and Insurance Association has defined insurance as follows. Insurance is the pooling fortuitous losses by transfer of such risks to insurers, who agree to indemnify insureds for such losses, to provide other pecuniary benefits on their occurrence, or to render services connected with risks (Rejda, 2008).

2.1.2 Types of Insurance

Insurance companies create insurance policies by grouping risks according to their focus. This provides a measure of uniformity in the risks that are covered by a type of policy, which in turn allows insurers to anticipate their potential losses and to set premiums accordingly. There are various types of insurance which are classified as follows:

Life Insurance: Life insurance is also known as social insurance. In general, Life insurance is the contract under which the insurer undertakes the responsibility to pay certain sum of money either on the death of the insured or on the expiry of fixed period in consideration of premium. A person may purchase life insurance on his or her own life for the benefit of a third person or persons. Individuals may even purchase life insurance on the life of another person. For example, a wife may purchase life insurance that will provide benefits to her upon the death of her husband. This kind of policy is commonly obtained by spouses and by parents insuring themselves against the death of a child. The objective of the life insurance is to provide protection need and saving need of the insurer and safeguard the dependent in case of unfavourable incident. Whole Life Insurance Endowment Life Insurance Term Life Insurance.

Non-life Insurance (General Insurance): General insurance means managing risk against financial loss arising due to fire, marine or miscellaneous events as a result of contingencies, which may or may not occur. General Insurance means to Cover the risk of the financial loss from any natural calamities viz. Flood, Fire, Earthquake, Burglary, etc. i.e. the events which are beyond the control of the owner of the goods for the things having insurable interest with the utmost good faith by declaring the facts about the circumstances and the products by paying the stipulated sum a premium and not having a motive of making profit from the insurance contract.

Non-life insurance can be further divided into the following categories:

Fire Insurance: Fire insurance is a form of property insurance which protects people from the costs incurred by fires, explosions, earthquakes, lightning, water, wind, rain, collisions, and riots. When a structure is covered by fire insurance, the insurance policy will pay out in the event that the structure is damaged or destroyed by fire and other. Some standard property insurance policies include fire insurance in their coverage, while in other cases; fire insurance may need to be purchased separately. Depending on the terms of the policy, the contents of the home as well as the structure may be covered in the event of a fire. Some policies also provide a living allowance which allows the victims of a fire to rent temporary housing while their homes are repaired. These clauses in an insurance policy typically cause the policy to become more expensive, since they will represent additional costs to the insurance company in the event of a fire.

Automobile Insurance: Vehicle insurance (also known as auto insurance, car insurance, or motor insurance) is insurance purchased for cars, trucks, and other road vehicles. Its primary use is to provide protection against physical damage resulting from traffic collisions and against liability that could also arise there from. Type of Motor Vehicle Insurance Policies available in the Nepalese Insurance Market and its scope of covers are:

- i. Third Party Liability Insurance which will indemnify for the expenses incurred against third party legal liability arises from the use of Vehicle.
- ii. Third Party Liability, Fire & Theft will indemnify for loss or damage to vehicle as a result of Fire and Theft, apart from Third Party Liability.

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 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. Marine insurance policies insure transporters and owners of cargo shipped on an ocean, a sea, or a navigable waterway. Marine risks include damage to cargo, damage to the vessel, and injuries to passengers. Inland marine insurance is used for the transportation of goods on land and on land-locked lakes

Engineering and Contractor's Risk Insurance: Engineering and contractor's risk insurance covers for civil works like buildings and machine works like bridges, dam's road, sea walls etc. It also covers plant and machinery used for construction as well as temporary structures set up to support the construction. It further covers for natural calamities, third party liability and covers for entire period of construction that may spread over several years.

Aviation Insurance: Aviation insurance is insurance of aircraft and related aircraft activities. One aspect of aviation insurance is Aircraft Hull. Another aspect is aircraft operators carrying passengers that may incur public liability for which aircraft liability insurance is required. Airports can also incur liability; this is termed Airport owners and operator's liability insurance.

Miscellaneous Insurance: Miscellaneous Insurance business includes the various types of Insurance business such as Medical Insurance, Accidental Insurance, and Money-in-Transit Insurance, Machinery Breakdown Policy, Workmen's complementation Insurance, Burglary and housebreaking Insurance. Public liability Insurance, Cattle Insurance, Crop Insurance, fidelity guarantee Insurance, household Insurance, Terrorism insurance, boiler Insurance, Credit Insurance, financial loss Insurance, Professional Indemnity Insurance, Travel Insurance etc.

2.2.5 Importance of Assessment of Financial Evaluation

The necessity for the importance of efficiency evaluations stems from the perspectives of various parties who are involved in the operations of general insurance public enterprises. These are the parties involved:

- **Management:** Managers are accountable for the efficiency, current and long-term operations, and effective development of capital and other resources in the process, “according to Erich A. Heifert. Appraisal of efficiency may help management in evaluating the effectiveness of its own plans and policies. The managements can measure the effectiveness of its own plans and policies, determine the advisability of adopting new policies and procedures and documentation to owners as a result of their management efforts doing an appraisal of efficiency.
- **Investors:** Investors are the real investor in any enterprise. In case of the industry, the investors can know profitability, productivity and overall efficiency of the company by studying appraisal of efficiency.
- **Policyholders:** The policy holders wanted a business with a general insurance company, general appraise the efficiency of a company before taking insurance. The policy holders are interested in good services as well as monetary benefits offered by general insurance companies, cash flow and liquidity of insurance companies, they can know these each aspect by referring appraisal of efficiency.
- **Government:** By studying the appraisal of general insurance companies the government can assess the growth of industries and economics. Moreover, the government can take decisions about tax structure and incentives for the general insurance industry. (Popat, 2014)

2.2.6 Assessment of Financial Performance

Assessment of efficiency of general insurance public sector companies is very similar to the concept of checking human body. In the same way that we need a medical check-up and routine examination for our bodies to be fit, the insurance company’s efficiency must be evaluated on a regular basis. Such a critical appraisal not only draws our attention to the need to address a deteriorating situation, but also demonstrates the path and tools to maximize efficiency. Efficiency evaluation is beneficial in two ways. The appraisal of efficiency in the insurance sector covers a wide range of topics. The focus is on successful administration of the general insurance industry throughout.

Financial statement can be used as yardstick for evaluating the effectiveness of a general insurance firm if they are carefully considered and critically analyzed. Generally, financial statements used in any general insurance company are the profit & loss account

and balance sheet. Though the statement of change in financial position and value-added statements are also prepared and appended to annual reports, they may be considered as additional financial statement.

The data in financial accounts is rearranged to make efficiency evaluations easier, and monetary numbers are estimated to the closest rupee to make the procedure even easier, The comparison data collected via the use of efficiency appraisal tools and methodologies is assessed, interpreted, and provided in an understandable manner, On the basis if all the areas of performance, the final conclusions are arrived at as a result of the appraisal of efficiency presented in the form of a report, which highlights the efficiency of the general insurance industry concerned.(Popat, 2014).

2.2.7 Role of Financial Efficiency in Planning and Decision Making

Financial efficiency plays an important role in providing so many useful information to the insurance management as it is inevitably needed for planning, control and decision making. Decisions always relate to what has to be done immediately, in the near future and in the long run. For this, the insurance management requires various types of information, both qualitative and quantitative information. This term also includes provision of such information as will enable the management to exercise control over the day-to-day operations with a view to ensuring maximum efficiency and adherence to the plans of the insurance management. (Popat, 2014).

2.2.8 Concept of Profitability

The word profitability is composed of two words “profit” and “ability”. The term ability is referred to as an earning power of operating performance of concerned investment. Thus, the term profitability can be defined as the earning power capacity of profit of business firms. The word profitability may be defined as the ability of giving investment to earn a return from its use. It can be remarked that profitability is helpful in a usual basis for measuring business performance and overall efficiency.

Profit is a measure of surplus wealth generated by a business firm from its operations. Profit is the difference between net sales income and the cost of products sold, whereas Profitability is the ability of a business to make a profit that is constant, increasing, or decreasing over time. Profit is a relative notion that gives a clear understanding of

variation in efficiency, whereas profit is an absolute concept that shows absolute figures that alone cannot give a precise picture of change in efficiency of a company firm. (Popat, 2014).

2.2.9 Insurance and Risk Management

Risk Management can be defined as the logical development and carrying out of a plan to deal with potential losses. It is a process that identifies loss exposures faced by an organization and selects the most appropriate techniques for treating such exposures. Risk management should not be confused with insurance management. Risk management is a much broader concept and includes all techniques for treating loss exposures, in addition to insurance.

Insurance further supports the functioning of the market expensive items, such as cars, by offering risk transfer and indemnification services to risk adverse individuals. This encourages such individuals to make purchases that they would not otherwise have made. Thus, insurance provides positive externalities in terms of increased purchases, profits and employment both within and alongside the insurance sector. In addition, insurance facilitates innovation within an economy by offering to underwrite new risks (Popat, 2024).

2.2.10 Role of Insurance in the Economy

Insurance is an important part of the financial sector in virtually all the developed and developing countries. A resilient and well-regulated insurance industry can significantly contribute to economic growth and efficient resource allocation through transfer of risk and mobilization of savings. In addition, it can enhance financial system efficiency by reducing transaction costs, creating liquidity and facilitating economies of scale in investment. In developing countries, financial intermediaries play a relatively larger role in supplying the funds and amongst these intermediaries' insurers play an important role. There is an advantageous role of insurance companies to co-operate banks, mutual funds and asset management companies etc. They claim, advantage with insurance companies is that they are capable of deploying the funds in long term projects compared to banks and other intermediaries, who invest their funds mostly in short duration projects.

Contribution of insurance as promoter of financial stability among households and firms by transferring risks to an entity better equipped to withstand them, it encourages individuals and firms to specialize, create wealth and undertake beneficial projects they would not be otherwise prepared to consider (Popat, 2014).

2.3 Empirical Review

This section provides review of journals and dissertations related to non-life insurance operations. It provides overview regarding the findings of previous researchers, academicians, and institutions in the non-life insurance study domain.

2.3.1 Review of Journals and Articles

Kamuka (2023) had conducted a study on assessing factors affecting financial performance of insurance companies in Zambia. The aim of the research was to assessing the factors affecting the financial performance of insurance companies in Zambia. The study used multiple regression to analyze data. The study found that underwriting risk, premium-growth, company size, liquidity, GDP and inflation are factors that affect the financial performance of insurance companies in Zambia. The study recommended that insurance companies must strike a balance between long-term investment assets and the need to maintain good liquidity, which is essential in meeting short-term liabilities.

Edward (2023) had conducted a study on determinants of corporate financial performance in African Insurance Market. The objective of this study was to determine the key determinants of corporate financial performance in the African insurance market. The study used multiple regression to analyze data. The study found that internal factors, including underwriting risk, liquidity management, reinsurance, premium growth, capital adequacy, firm size, and firm age, affect the financial performance of insurance firms in Africa. Similarly, the study revealed that external factors, such as GDP and inflation rate, influence the financial performance of insurance firms in Africa. The researchers provided possible recommendations for policymakers and insurance firms across Africa.

Mushafiq (2023) had conducted a study on financial performance under influence of credit risk in non-financial firms: evidence from Pakistan. The study aimed to examine the relationship between credit risk and financial performance in non-financial firms. The study used multiple regression to analyze data. The study found that Altman Z-score, leverage and firm size significantly impact the financial performance of the KSE-100

non-financial firms. However, liquidity was found to be insignificant in this study. This study helped in the evaluation of Altman Z-score's performance in the non-financial firms in KSE-100 index as well.

Yadav (2023) had conducted a study on determinants of financial performance in Nepalese non-life insurance companies. The study aimed to examine the impact of financial performance indicators on the Return on Equity (ROE) and Return on Assets (ROA) of non-life insurance companies. The study used ratio analysis to analyze data. The findings showed that there was a strong positive relationship between ROA and four key factors: gross premium, retention ratio, expense ratio, and combined ratio.

Andoh (2021) had conducted a study on reinsurance and financial performance of non-life insurance companies in Ghana. The study aimed to examine the effect of a reinsurer on the profitability of non-life insurance companies in Ghana. The study used multiple regression to analyze data. The findings showed that purchasing high levels of reinsurance alone didn't affect the profitability of non-life insurance companies, but the combined effect of reinsurance and solvency ratio significantly impact their profitability.

Samsara (2020) conducted a study on a comparative study of the financial performance of general insurance corporation of India and Bajaj alliance with special reference to caramel analysis model. The study aimed to make a comparative statistical analysis of financial soundness and performance of the companies. The study used ratio analysis to analyze data. The findings showed an astonishing and off beat instability which may be due to the companies being excessively attentive to the innovations in products and marketing to increase the premium without appropriately designing the funds towards risk management.

Risal (2020) had conducted a study on determinants of insurance companies profitability: analysis of non-life insurance companies in Nepal. The study aimed to assess the relationship between financial performances with company size, liquidity, leverage and underwriting risk of non-life insurance companies in Nepal. The correlation, multiple regression analysis and F-test were used to analyze data. The findings showed that the sizes of the non-life insurance companies have significant positive impact on non life

insurances' profitability. The study concluded that whatever changes in benefits paid and net premium, non-life insurance companies ROA would haven't any changes.

Bhattarai (2020) had conducted a study on factors influencing profitability of insurance companies in Nepal. The study aimed to examine the variables that influencing profitability of Nepalese insurance companies. The study used ratio analysis to analyze data. The findings showed that expenses ratio other independent variables have positive relationship found. The study concluded that the financial leverage and size have major determinants of the profitability in Nepalese insurance companies.

Mogro (2019) had conducted a study on determinants of profitability of life and non-life insurance companies: evidence from Ecuador. The study used multiple regression to analyze data. The findings of the study is that net premiums, technical reserves, capital ratio and score efficiency are micro-determinants in the life insurance sector, whereas in the non-life sector, the micro-determinants include also claim level and liquidity ratio; moreover, the authors found that HHI is a determinant of profitability only in the life insurance.

Barua (2018) had conducted a study on determining the financial performance of non-life insurers: static and dynamic panel evidence from an emerging economy. This study aims to investigate the temporary and permanent impact of different firm-specific factors on financial performance, using the case of the non-life insurance sector in Bangladesh: one of the fastest growing economies in the world. The ratio analysis has been used as methodology. The findings of the study is that the average impact is predominantly derived from the long-term and thus appear to be permanent in nature. Moreover, investment ratio contributes positively to profitability, mostly in the short-term (temporarily) with some effects in the long-term.

Mulchandani (2017) had conducted study on the determinants of financial performance in life insurance sector in India. The aim of the study is to examine the relationship between financial performance and their determinants in the case of Indian life insurance sector. This study is carried out using Correlation and Multiple Regression Analysis. The findings of the model indicated that commission, size and surplus (deficit)/policy holder' are significantly related to financial performance, commission is negatively related and

size and surplus(deficit)/policy holder's liability are positively related to financial performance.

Chellasamy and Valarmathi (2017) had conducted a study on financial performance of select general insurance companies in India using Caramel model. The aim of the study is to analyse the financial performance of the select top five general insurance companies in India and Correlation has been used to examine the relationship between variables. The study found that all the companies performed well during the period of study and overall performance of the New India Assurance was good. And all the insurance companies should pay proper attention to capital adequacy and liquidity positions, as well as management soundness because these indicators play an important role in the financial efficiency of the insurance companies to stay in this competitive sector.

Kaya (2016) had conducted a study on the analysis of the financial performances of non-life insurance companies traded in Borsa Istanbul (BIST) as of the end of 2014 via the grey relational analysis (GRA) method has been aimed in this study. Financial performances of. The findings is that profitability ratios have the greatest impact on the financial performance of non-life insurance companies traded in BIST.

Dar and Thaku (2015) conducted a study on a comparative analysis of financial performanc of public and private non-life insurers in India. The aim of the study is to assess the financial stability of India's main general insurance providers, both public and private. Three indicators have been used which are earnings and profitability, management soundness and liquidity. Ratio analysis has been employed in this study, and tools such as mean, standard deviation and F-T=test has been used to test the parameters under the CAMEL model. The findings of the study is that public companies seem to have insignificant differences whreas high degree of variation is seen among the public insurers.

Nagaraja (2015) had conducted a study on performance of insurance industry in India: a critical analysis. The aim of the study is to find the relationship between the performance of the insurance industry and the economic development of the country. The study has used ratio analysis as methodology. The study found that if the insurance industry needs to

be successful then it should be cost competitive, improve the distribution techniques, and provide products that cater to the customers behaviors.

Kwaning (2015), had conducted a study on factors affecting financial performance of non-life insurance companies in Ghana. The objective of this study is to assess the factors affecting the financial performance of non-life Insurance companies in Ghana. The study has used correlation to analyse data. The findings of the study may guide insurance managers with applied knowledge for determining factors that affect firms' performance.

Table 1
Meta Table

Year	Article Title	Authors	Objectives	Methodology	Findings
2023	Assessing Factors Affecting Financial Performance of Insurance Companies in Zambia	KamukaKan gâ€™ombi & Dr. Charles Muwe Mungule	To assess the factors affecting the financial performance of insurance companies in Zambia	Regression Model	Insurance companies must strike a balance between long-term investment assets and the need to maintain good liquidity, which is essential in meeting short-term liabilities.
2023	Determinants of Corporate Financial Performance in African Insurance Market.	Edward Lambert, Kanbiro Orkaido, Deyganto, Yafet Hailu G/Selassie	To determine the key determinants of corporate financial performance in the African insurance market	Multiple regression models	Internal factors, including underwriting risk, liquidity management, reinsurance, premium growth, capital adequacy, firm size, and firm age, affect the financial performance of insurance firms in Africa
2023	Financial performance under influence of credit risk in non-financial firms	Mushafiq, M., Sindhu, M.I. and Sohail, M.K	To examine the relationship between credit risk and financial performance in non-financial firms.	Multiple Rgression Models	Investors, businesses and managers related to non-financial firms in the KSE-100 index with significant insight about credit risk's impact on performance.
2023	Determinants of financial performance in Nepalese nonlife insurance companies	Yadav Mani Upadhyaya, Rabindra Ghimire and Shiva Raj Ghimire	To examine the impact of financial performance indicators on the ROE and ROA of nonlife insurance companies.	Ratio Analysis	Improve their profitability by focusing on increasing their gross premium, retention ratio, reducing expense ratio, and decreasing combined ratio
2021	Reinsurance and Financial Performance of Non-life Insurance Companies in Ghana.	Andoh, & Yamoah,	To examine how premiums ceded to a reinsurer affect the profitability of non-life	Regression model	Purchasing high levels of reinsurance alone does not affect the profitability of non-life insurance companies, but the combined effect of

2020	A comparative study of the financial performance of general insurance companies of India and Bajaj alliance with special reference to caramel analysis model	Sumsera	insurance companies in Ghana. To analyze the financial soundness and the efficiency of the insurance company with a comparative analysis	CARAMEL Framework based on Ratio analysis	reinsurance and solvency ratio significantly impact their profitability An astonishing and off beat instability which may be companies being excessively attentive to the innovations in products and marketing to increase the premium without appropriately designing the funds towards risk management.
2020	Determinants of insurance companies profitability: analysis of non-life insurance companies in Nepa	Nischal Risal	To assess the relationship between financial performances with company size, liquidity, leverage and underwriting risk of non-life insurance companies in Nepal	Regression & correlation analysis.	The dimensions of non depository financial institutions and leverage are the foremost variables to influence the financial performance of the non-life insurance companies in Nepalese context
2020	Factors influencing profitability of insurance companies in Nepal	Bishnu Prasad Bhattarai	To examine the variables that influencing profitability of Nepalese insurance companies.	Financial Ratio Analysis	Expenses ratio other independent variables have positive relationship found.
2019	Determinants of profitability of life and non-life insurance companies: evidence from Ecuador.	Camino-Mogro, S. and Bermúdez-Barrezueta,	To identify the main determinants of insurance profitability on life and non-life segments to obtain which variables affect in each market of the Ecuadorian insurance sector.	Rgression Analysis	Net premiums, technical reserves, capital ratio and score efficiency are micro-determinants in the life insurance sector, whereas in the non-life sector, the micro-determinants include also claim level and liquidity ratio.
2018	Determining the financial performance of non-life insurers: static and dynamic panel evidence from an emerging economy	Barua, Barua, & Rana,	To establish the impact of different firm-specific factors on profitability using the non-life insurance sector in Bangladesh.	Rgression Analysis	Implement strong policies to reduce the faulty underwriting procedures to improve the on liquidity and investment ratio suggest the permanent nature of their impact on profitability in the long-

					term and, hence, insurers are probably better served investing funds in short-term opportunities (e.g. investing in securities) rather than in long-term profitability.
2017	The Determinants of Financial Performance in Life Insurance Sector in India	Mulchandani, S., Sitlani, & Mulchandani,	To examine the relationship between financial performance and their determinants of Indian life insurance sector	Correlation and Multiple Regression Analysis	Commission, size and surplus (deficit)/policy holder' are significantly related to financial performance, commission is negatively related and size and surplus(deficit)/policy holder's liability are positively related to financial performance whereas other factors expenses, liquidity, solvency ratio, tangibility and underwriting risk are not significant related to financial performance
2017	Financial Performance of Select General Insurance Companies in India Using Caramel Model	Chellam and Valarmathi	To analyze the financial soundness and the relationship between the variables	Correlation	All the companies performed well during the period of study and Overall performance of the New India Assurance was good.
2015	A Comparative Analysis of Financial Performance of Public and Private Non-Life Insurers in India	Dar and Thaku	To compare financial performance of public and private non-life insurance companies operating in India	CARAMEL model	Private insurers made improper risk selection and mismanaged expenditure policy. Both public and private insurers lack high degree of liquidity and none of the insurers under study seem to have followed the benchmark of 100 percent liquidity ratio.
2015	Performance of Insurance Industry in India. A Critical Analysis.	Nagaraja	To assess comparative analysis of both private and public sectors of life and non-life insurance industry.	Ratio Analysis	Results have shown that the insurance penetration and density in India is low compared to the global scenario.
2015	Factors Affecting Financial Performance of Non-Life Insurance Companies in Ghana	Kwaning, Awuah, & Mahama,	To assess the factors affecting the financial performance of Non-Life Insurance companies in	Ratio Analysis	There was slightly weak correlation between ROA & GWP,Size,Claims,Liquidity and Leverage, conversely, ROA has a negative

Ghana	correltion with claims and a positive correlationwith GWP,Size,Liquidity & Leverage.
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2.3.2 Review of Thesis

Sigdel (2022) conducted research on determinants of profitability of life insurance companies in Nepal. This study investigated the determinants of company specific factors (size of company, liquidity ratio, volume of capital, fixed assets and growth rate) on profitability represents by ROA and ROE. The study found that factors such as size of company, liquidity, volume of capital, fixed assets and growth rate are the main factors affecting the profitability of insurance company, where the fixed assets show the positively significant relationship with ROA, while volume of capital and company size shows the positive relationship with insurance but Growth rate and liquidity has negative relationship with ROA. However the study showed that Growth rate and liquidity has negative relationship with ROE while, Volume of capital, company size and fixed assets has positive relationship with return on equity.

Subedi (2019) conducted research on factors affecting financial performance of insurance companies of Nepal. The study aimed to investigate the factors (size, leverage, liquidity and age) that influence the financial performance of insurance companies in Nepal. This study used means, standard deviations, and CV, regression & correlation analysis to analyze data. The study found that liquidity, size and leverage of insurance companies significantly affect to performance of insurance companies. So, these factors should analyze carefully to improve the performance of companies.

Budhathoki (2018) conducted research on a study on financial performance of Nepalese non-life industry. The study aimed to investigate the factors that influence the financial performance of insurance companies in Nepal. The study used correlation to analyze data. The study found that the independent variables, total asset, fixed asset and total equity have positive correlation with solvency margin ratio and operating profit margin of selected non-life insurance companies.

Njeru (2018) conducted research on an investigation of the factors influencing the financial performance of non-life insurance business in Kenya. The study aimed to

establish the extent to which different factors influence the financial performance of a non-life insurer. The study used ratio & regression analysis to analyze data. The study found that firm specific factors had a significant influence on the variation in the insurers' return on equity whereas macro-economic and industry specific factors did not have a significant influence on the variation in insurers' return on equity. The study concluded that expense ratio, claims ratio, underwriting margin and investment yield had a significant influence on the financial performance of insurers.

Appiah (2019) conducted research on the determinants of the financial performance of insurance companies in Mauritius. The study aimed to investigate the impact of firm size, leverage, gross written premiums, reinsurance, combined ratio, market concentration, foreign exchange, inflation and GDP growth on the profitability of insurers in both the life and the nonlife markets. The study used ratio analysis to analyze data. The findings showed that, a unit increase in the combined ratio and leverage of life insurers impact negatively on the return on assets (ROA), while an increase in reinsurance dependence and firm size impact underwriting profit ratio positively. In the non-life sector, the findings showed that insurance companies' profitability is positively impacted by increases in the combined ratio and gross written premium, while market concentration and foreign exchange negatively impacted non-life insurers' profitability.

Mutua (2023), conducted research on insurance risks and financial performance of insurance companies in Kenya. The study aimed to examine the effects of credit risk, liquidity risk, solvency risk, reinsurance risk and underwriting risk on the financial performance of insurance companies in Kenya. The study used correlation analysis and multiple linear regression model to analyze data. The study found that credit risk had a negative significant effect on financial performance, liquidity risk had a negative significant effect on financial performance, solvency risk had a negative significant effect on financial performance and underwriting risk had a negative significant effect on financial performance. But reinsurance risk had a positive insignificant effect on financial performance. The study also concluded that GDP significantly moderates the relationship between insurance risks and financial performance of insurance companies in Kenya.

Muthumeena (2017) conducted research on business and financial performance of non-life insurance companies in India. The study aimed to analyze the factors that affect the

business and financial of non-life insurance companies in India. It also analyzed the influence of macro-economic factors of non-life insurance companies in India. The study used ratio analysis to analyze data. The study found that the financial analysis of a claim settlement, Profitability and liquidity ratio and influence of pricing, competition, regulatory and macro-economic factors affected non-life insurance companies in India. The public sector company's performance was good compared to private sector companies based on indicators of measuring performance like premium income, market share, new policies issued and claim settlement ratio.

Khan (2015) conducted research on determinants of the non-life insurance performance: The Portuguese Case. The study aimed to investigate the factors that affect the financial performance of non-life insurance of Portuguese study used ratio analysis to analyze data. The study found that insurer changed their priorities because it became more important to survive during the financial crisis than to increase profitability. Old insurers may not be aware of the changes that occur in the market and thus develop certain routines. Good standards of management should be applied to protect insurance companies from excessive risk taking. The study concluded that insurers should work towards improving the premiums earned for maintaining liquidity and having better reserves.

Popat (2014) conducted research on a comparative study of financial soundness & liquidity analysis of selected public-sector and selected private-sector non-life insurance companies of India. The study aimed to examine the financial soundness & liquidity of non-life insurance companies. The study used ratio analysis, F-test and one-way ANOVA for analyzing the data. The study found that the return on net worth for the public sector non-life insurers was around 10% and that of private sector companies was 20%. The standard liquidity ratio should be 200%, but in this study, it was less than 100% for companies in both sectors.

Kumar (2014) conducted research on an evaluation of financial performance of Indian public sector non-life insurance companies during post reform period. The study aimed to analyze the factors that affect financial performance of India's non-life insurance companies during post reform period. The study used ratio analysis to analyze data. The study found that insurance density and insurance penetration has also increased but still India is far behind the developed nations. The study concluded that net premium, and

total income of the four public sector companies have increased during the reform period but it has been neutralized by the similar rise in the total outgo, which include net claim, operating expenses, net commission etc. none of the four public sector companies has satisfied the investment norm of IRDA during the study period.

Pal (2014) conducted research on a study of the underwriting cycle and growth pattern in non-life insurance sector in India. The study aimed to investigate the factors that affect underwriting cycle and growth pattern in non-life insurance sector in India. The study used ratio analysis to analyze data. The study found that in the Indian Non-Life Insurance sector, claims to premium ratio was more than 1 in majority of the cases signifying that non-life insurance is not a profitable business for the majority of the non-life insurer. There was a consistent growth in the combined net premium income of the GIC and the 4 public non-life insurance companies over the years. CICI, among the private insurance companies, showed the highest growth in the last decade. Private insurance companies have shown better growth prospects and much more competitiveness in the last years due to the less operating expenses.

Nepal (2012) conducted research on the insurance market in Nepal. The study aimed to examine the reason behind the poor growth of in insurance market in Nepal. The study used ratio analysis to analyze data. The study found that this is all happening because of poor educational background and high poverty level. In recent years, people are more positive about insurance and its impact in their day-to-day life. Government and private sectors' reports are showing the increasing number of participations in insurance marketing every fiscal year. Due to rapid advancement in information sectors, people's awareness towards insurance has been a key factor in this positive change, in the present context, people are being more knowledgeable about the importance and the benefits that insurance provides in their personal and professional life. These days insurance are not only the means of saving the money, but it has been more like securing the future from uncertainty. These encouraging developments in insurance sector have opened a door for fierce competition in insurance industry. Insurance companies are looking for innovative products and services to gain a competitive edge.

Varma (2012) conducted research on a comparative study of public and private sector in general insurance. The study aimed comparison between public & private sector of

genera insurance. The study used ratio analysis to analyze data. The study found that public and private sector participants alike should take steps to reclaim market share by altering their strategies along the lines outlined above. The study concluded that demand circumstances, industry competition, product advances, delivery and distribution networks, technology utilization, and regulation were just a few of the obstacles.

Darzi (2011) conducted research on financial performance of insurance industry in post liberalization era in India. The study aimed to compare the financial performance of public and private sector general insurance companies. The study used ration analysis for analyzing data. The study found that, insurers' financial performance in the post-liberalization period was better than in the pre-liberalization period.

Elangovan (2011) conducted research on a study on the performance of public sector general insurance companies in Salem division Tamilnadu. The study aimed to examine the performance of public sector general insurance companies in Salem Division Tamilnadu. The study used ratio analysis to analyze data. The study found that the companies should divert their attention in the improvement of fire, marine and miscellaneous insurance business in Salem division.

2.4 Research Gap

Since the above-mentioned studies offer limited findings and very little studies conducted in the case of Nepal, more extensive testing and adjustment of necessary variables are needed to be more conclusive about the financial performance of the insurance companies. Previous studies were performed based on the traditional ratios. Thus, there is devoid of industry level performance analysis. Even though researcher carried out the study regarding the financial performance of Nepalese non-life insurance, the study was not recent enough and used the primitive ratios.

Presently, the study aims to analyze financial performance of Nepalese non-life insurance industry adopting the modern ratios as defined by widely accepted CARAMELS model, that reflect the rule picture of the company's financial soundness. The current study is a supplement to overcome the weakness and limitation of previous studied.

CHAPTER-III

RESEARCH METHODOLOGY

3.1 Introduction

This chapter deals with methodology aspect to be used in this study. The study uses quantitative methods in the analysis of the data gathered. This section captures the research design, population and sample, sources of data, data collection procedures, data processing procedure and data analysis tools and techniques. In this study, the following methodologies are adopted.

3.2 Research Design

The concept, structure, and technique of an inquiry developed to gain answers to research questions and control variation is known as research design. The population is the overall scheme or program of research. Hence, research design provides the framework for the activities to be undertaken during the research study. If research design is good, it ensures that the information obtained is relevant to the research questions and collected by objectives.

This study is a descriptive research study based on convenience sampling design by using secondary data with the aim of comparative study of financial performance of selected non-life insurers of Nepal by applying CARAMELS model. The data were collected from the annual reports of respective firms. CARAMELS Model is used to evaluate the performance of selected non-life insurers. The study was collected after the analysis of collected data to meet the study objective followed by drawing some findings, conclusion and recommendations.

3.3 Population and Sample and Sampling Design

As of end FY 2022/23, There are 41 insurance companies in Nepal. Among which 16 are general insurance companies are life insurance companies and 2 are Reinsurance Companies (Insurance Board, 2022/23). This study focuses on the non-life insurance industry. The study focuses on the non-life insurance industry. The study of all these non-life insurance companies within this study is almost impossible. Considering these members of non-life insurance companies as population, i.e non-*life insurance

companies in Nepal viz Shikhar Insurance Company Ltd. , Neco Insurance Company Ltd. ,Siddhartha Premier Insurance Company Ltd. Has been taken as a sample for study based on convenience sampling method. The selected non-life insurers are comm., only the top performers in the sector. So, these insurers will be considered as a sample for comparison of financial performance in this study. In this study, ten years period was taken for the purpose of the study. It covers years from FY 2013/14 to 2022/23.

3.4 Data Collection Procedures and Instruments of Data Collection

The research is based on secondary information. The annual reports if the concerned companies are the major sources of the data for the study. The data required for the analysis are obtained from the balance sheet and the profit and loss account of the concerned companies, annual reports. Besides, Insurance Board provides the essential data, such as public balance sheets, profit and loss accounts, income statements, and other associated statements of accounts, as well as yearly reports of sampling insurance firms, Similarly, other relevant and required information is collected from the sampled insurance firms publications and website. Other insurance related materials include books, magazines, journals and newspapers.

3.5 Methods of Analysis

To make the study more specific and reliable, the researcher uses two types of tools for analysis,

- Financial Tools
- Statistical Tools

3.5.1 Financial Tools

Ratios(as defined by the CARAMELS model) were used to do the financial analysis. Ratio analysis is used to analyze the financial data of several firms throughout the course of a study period. Financial statements are subjected to ratio analysis to determine the success, failure, and advancement of an insurance company. Ratio analysis allows a business owner or manager to detect patterns in a company and and compare its performance and condition to those of similar companies in the same industry. Ratio analysis may give critical early warning indicators that help businesses to solve problems before they ruin them. Ratio analysis is a useful technique for evaluating a company's

financial performance industry. Ratio analysis may give critical early warning indicators that help business to solve problems before they ruin them. Ratio analysis is a useful technique for evaluating a company's financial performance. The following are some of the most significant advantages of financial ratios.

Ratio analysis is an essential financial statement analysis approach that may help you comprehend a company's financial situation. Ratios are used to provide information about the firm to interested parties.

Ratios are useful in determining the efficiency of a company's operation and management. They aid in determining how well the firm had used its assets to generate revenues.

Even if the company's overall performance appears to be strong, ratios might be utilized to identify weakness in its operations. Management may then focus on the flaws and take corrective action to address them.

Although ratios are commonly used to assess a company's historical financial performance, they may also be used to forecast future financial trends. Therefore, they contribute to the company's future planning.

It's vital for a company to know how well it's done over time and in contrast to other companies in its industry. Furthermore, it is vital to comprehend how well its various divisions function in relation to one another throughout time.

3.5.2 Statistical Tools

The statistical tool is essential to measure the relationship of two or more variables. It is the mathematical technique used to facilitate the analysis and interpretation of the performance of the organizations. It also helps to present the data, show the relation and deviations of variables of organizations. In this research study, some statistical tools are used for the analysis of the data more accurately, which are given below:

Arithmetic Mean or Average (\bar{X})

An average is a single value that represents a group of values. It depicts the characteristic of the whole group. It is a representative of the entire mass of homogeneous data, its

value lies somewhere in between the two extremes, i.e., the largest and the smallest items.

It is obtained by dividing the sum of the quantities by the number of items. Thus,

$$\text{Mean } (\bar{x}) = \frac{\sum X}{N}$$

Where,,

$\sum X$ =sum of sizes of the items

N =number of items

Standard Deviation (S.D.)

Standard deviation is the positive square root of the arithmetic average of the squares of all the deviations measured from the arithmetic average of the series. It is independent of the origin. Generally, it is denoted by small Greek letter (read as sigma) and is obtained as follows.

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{\sum (x - \bar{x})^2}{n}}$$

Where,

X =value of the variable

\bar{x} =arithmetic mean of the variable

n = no. of observations

Coefficient of Variation (C.V)

The series (or group) for which the coefficient of variation is greater is said to be more variable or conversely less consistent, less uniform, less stable or less homogeneous. It is denoted by C.V. and is obtained by dividing the standard deviation to arithmetic mean.

Thus,

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

Where,

C.V.=Coefficient of Variation

σ =Standard Deviation of the distribution

\bar{x} = Arithmetic Mean of the distribution

Coefficient of Correlation Analysis (r)

This analysis interprets and identifies the relationship between two or more variables. This tool is used for measuring the intensity or the magnitude of linear relationship between two variable X and Y is usually denoted by “r” can be obtained as:

$$\text{Correlation Coefficient } (r) = \frac{N\sum xy - \sum x \sum y}{\sqrt{N\sum x^2 - (\sum x)^2} \times \sqrt{N\sum y^2 - (\sum y)^2}}$$

Where,

N= Number of pairs of X and Y observed

X=Values of first variable

Y=Values of second variable

r=Co-efficient of correlation

The result of coefficient of correlation is always between -1 to +1, where $r=+1$ means there is a positive relationship between two variables and where $r=-1$, means there is a negative relationship between two variables.

Regression Analysis

Regression analysis helps us to know the relative movement in the variables. It helps to estimate the impact of causing independent variable on dependent variable.

Under this study, Regression analysis of the following variable have been calculated and interpreted;

$$Y = f(X_1, X_2, X_3, X_4)$$

Where:

Y – Financial Performance

X1 = Investment Pattern

X2 – Premium collection

X3 – Claim paid ratio

X4 – Net profit

3.6 Research Framework and Definition of Variables

CARMELS Model

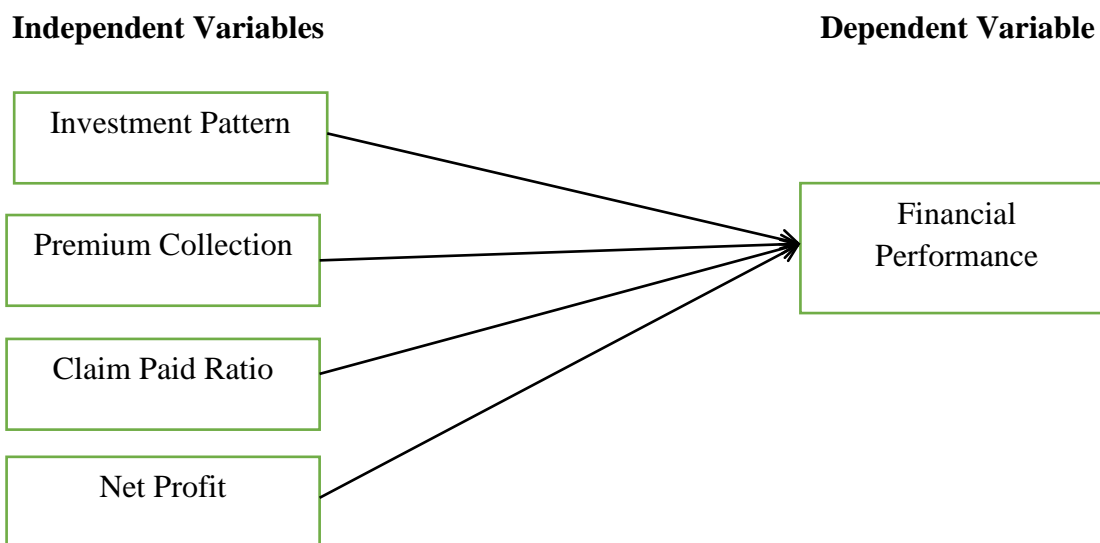
The benefit of risk transfer through insurance services could help to reduce transaction costs, create liquidity, and promote investment economies of scale. With this in mind, a team from the International Monetary Fund (IMF) published a paper that looked at insurance as a potential source of financial system vulnerability. Having said that the team proposed key indicators that could be used for surveillance of financial soundness of insurance companies and the insurance sector as a whole because of the past failures of insurance companies, because of the risk it faces. Thus, the working paper of IMF had

suggested two sets of indicators for measuring the financial soundness of non-life insurance companies.

Here, in the study various ratios from sets of indicators, core set and encouraged set were taken to measure the financial soundness of non-life insurance companies based on the availability of the data of the selected private non-life insurance companies. In the banking industry, the CAMELS model is commonly employed. Although the CAMELS parameter includes reinsurance and actuarial issues (RA), there are intrinsic distinctions between banking and insurance, therefore the meaning and interpretation of the number of indicators employed by banks differs from that of insurance. It's worth noting that some indicators used by banks are constructed differently than those used by insurance sector indicators (grouped separately for life and non-life insurance) that should be produced and utilized to monitor insurance businesses' and the industry's financial soundness.

3.6 Research Framework

Different empirical evidences suggested that financial performance of financial institutions especially that of insurance companies can be affected by various internal and external actors. Hence, this study refers financial performance as dependent variable and investment pattern, net profit, claim paid ratio and financial performance as independent variables. All the independent variables are determined by one independent variable i.e. financial performance These were showed as follow:



(Source: Ds.et.al.2003)

Figure 3.1: Research Framework

CHAPTER-IV

RESULTS AND DISCUSSION

Chapter four is combination of different calculation and analysis of the data which are included in the result part. The results are descriptive statistics, correlation and multiple regression are the first part of the research. The second part is included the discussion and where are describe the result with the detail of finding and comparative of the previous researcher.

4.1 Results

4.1.1 Capital Adequacy

Capital adequacy can be seen of as a key measure of an insurer's financial stability. Capital serves as a cushion to protect insureds while also promoting the financial system's stability and efficiency. It also indicates whether the insurance firm has enough capital to absorb claims losses. Two ratios, established by the IMF and the World Bank.

Table 2

Net Premium to Shareholder's Funds

Year/Insurer	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	Mean	S.D	CV
SICL	0.96	0.92	0.76	0.81	0.71	0.8	0.73	0.5	0.38	0.34	0.69	0.22	31.28
NIL	0.76	0.76	0.59	0.47	0.64	0.61	0.5	0.52	0.48	0.51	0.11	0.11	18.91
SIL	0.98	1.21	0.71	0.99	0.62	0.62	0.44	0.38	0.37	0.7	0.78	0.28	40.32
PIL	0.4	0.48	0.55	0.47	0.63	0.82	0.53	0.45	0.31	0.32	0.55	0.15	30.5
Year Mean	0.78	0.81	0.65	0.62	0.7	0.67	0.58	0.48	0.4	0.4			

Source: Appendix-6

The year mean has decreased over the study period for the studies insurance companies. This symbolizes that with each passing year the growth in the net premium is being better cushioned by the shareholder's funds. All the insurers show a very healthy growth in net premium well cushioned by their shareholder's funds. Analyzing the mean of the ratios, it is clear that PIC, SIC and NIL have maintained healthier capital adequacy in particular. Further, the CV shows that NIL and SIC have always been consistent performer and maintained a healthy a healthy vavpital adequacy.

4.1.1.2 Shareholder's Funds to Total Assets

Shareholder's Fund to total assets reflects assets risk. The proportion of total assets funded by shareholder funds is indicated by this ratio. A greater ratio is often regarded as a long-term sign of healthy financial situation because it indicates that a large amount of total assets is given by shareholders, implying that the company is less reliant on external sources of funding.

Table 3

Shareholder's Funds to Total Assets

Year/Insurer	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	Mean	Standard Deviation	Coefficient of Variation
SICL	0.28	0.31	0.46	0.43	0.53	0.52	0.51	0.55	0.67	0.69	0.49	0.13	26.88
NIL	0.4	0.39	0.44	0.5	0.53	0.52	0.57	0.53	0.53	0.55	0.5	0.07	13.22
SIC	0.38	0.38	0.39	0.34	0.39	0.45	0.5	0.47	0.48	0.51	0.43	0.06	13.63
PIC	0.44	0.39	0.36	0.6	0.38	0.46	0.5	0.53	0.57	0.71	0.5	0.11	22.31
Year Mean	0.37	0.35	0.43	0.46	0.48	0.51	0.51	0.55	0.59				

Source: Appendix-7

The year mean of the ratio has increased from 0.37 in 2013/14 to 0.59 in 2022/23. The ratio has shown a steady increase through the study period. This symbolizes that with each passing year, the studied insurance companies are moving towards a more financially stable condition. Analyzing the mean of the ratios, it is clear that there is not much difference among the insurers. PIC and NIL represent a better capital adequacy and interestingly CV shows that NIL in this aspect has always been a consistent performer.

4.1.2 Asset Quality

4.1.2.1 Equity Share Capital to Total Assets

As the name suggests, asset quality means the quality of assets of the company which imbues the financial strength of the company. The asset quality of the insurers is the measure of reliance on equity to build sound and quality asset portfolio of the company. This ratio indicates the proportion of total assets funded by equity share capital. A higher asset quality ratio is generally treated as an indicator of sound financial position from long term point of view, because it means that a large proportion of total assets is provided by equity and hence the firm is less dependent on external sources of finance. On the contrary, a low ratio is a danger signal for long term lenders as it indicates a lower

margin of safety available to them. The lower the ratio, the less secured are the long-term loans and more is the risk of losing money.

Table 4

Equity Share Capital to Total Assets

Year/Insurer	2013 /14	2014 /15	2015 /16	2016 /17	2017 /18	2018 /19	2019 /20	2020 /21	2021 /22	2022 /23	Mean	Standard Deviation	Coefficient of Variation
SICL	0.12	0.15	0.23	0.19	0.19	0.24	0.25	0.22	0.23	0.31	0.21	0.05	25.15
NIL	0.24	0.22	0.17	0.28	0.26	0.30	0.34	0.28	0.26	0.23	0.26	0.05	18.71
SIC	0.11	0.18	0.17	0.15	0.17	0.19	0.16	0.24	0.21	0.21	0.18	0.04	19.92
PIC	0.23	0.2	0.16	0.28	0.19	0.23	0.19	0.32	0.31	0.32	0.23	0.06	24.32
Year Mean	0.18	0.18	0.19	0.22	0.20	0.23	0.23	0.26	0.25	0.26			

Source:Appendix-8

The year mean of the ratio has increased from 0.18 in 2013/14 to 0.26 in 2022/23. But the improvement is not steady and significant. A low equity ratio means that the company primarily used debt to acquire assets which is not ideal in long run. SICL and PIC showed the better asset quality at the end of the study period compared to others. Analyzing the mean of the ratios, it is clear PIC and NIL maintained a better asset quality for the study period. Further, CV depicts that NIL had always maintained its better asset quality.

4.1.3 Reinsurance and Actuarial Issues

As per the IMF working paper the financial soundness indicators of life insurance companies include the reinsurance and actuarial issues that could be evaluated using Risk Retention Ratio.

4.1.3.1 Risk Retention Ratio

This risk retention ratio indicates the efficiency of the company in underwriting its insurance premium and how much risk is passed onto the reinsurers. The difference between the gross premium and net premium shows the amount of risk which is being transferred onto the reinsurer. The greater amount shows more risk is passed onto the reinsurer and vice-versa and indicates the risk bearing capacity of the company. It is

obtained by dividing net premium to gross premium. Due to high ratio, it is expected that insurers instead of paying toward reinsurance believe in investing the money received from premium. That investment not only generates handsome returns but also helps the companies in meeting their claims timely. Here gross premium is the sum of direct premium and assumed premium written before the effect of ceded reinsurance and net premium is the amount obtained after deducting reinsurance ceded and adding reinsurance accepted from and to gross premium amount.

Table 5

Net Premium/Gross Premium

Year/Insurer	2013/ 14	2014/ 15	2015/ 16	2016/ 17	2017/ 18	2018/ 19	2019/ 20	2020/ 21	2021/ 22	2022/ 23	Me an	S. D	C.V
SICL	0.31	0.37	0.42	0.48	0.51	0.51	0.48	0.37	0.34	0.33	0.4 1	0.0 8	19. 07
NIL	0.45	0.44	0.45	0.44	0.47	0.55	0.59	0.6	0.61	0.68	0.5 3	0.0 9	16. 88
SIC	0.52	0.52	0.49	0.51	0.48	0.64	0.47	0.45	0.44	0.47	0.5 6	0.0 6	11. 18
PIC	0.35	0.33	0.3	0.39	0.47	0.55	0.52	0.48	0.37	0.4	0.4 1	0.0 8	20. 48
Year Mean	0.41	0.42	0.42	0.46	0.53	0.54	0.51	0.47	0.42	0.45			

Source:Appendix-9

It is observed from the table that the year mean of the ratio has fluctuated through-out the steady period with almost similar status in the 10 years. It also indicates that insurers opt for almost half of the circumstances. In 2022/23 NIL had the highest Risk retention ratio of 0.68 followed by SIC (0.47). Average ratio is highest for NIL (0.53) followed by SIC (0.5) among the insurers which too indicated that they relied less on the reinsurance companies for bearing risk of payment and itself were able to bear the risk. Also, CV reveals that they are more consistent with their better risk retention capabilities.

4.1.4 Management Soundness

Management soundness reflects the efficiency of the working personnel of the company. It means how efficient and sound the employees of the company are. The ratio used to evaluate the management soundness throws light on the operational efficiency of these employees meaning thereby how well and how good are they at decision making which is ultimately bearing fruits to the business. The cost effectiveness and proper utilization of funds means that the management of the company is sound. It is important to keep a watch on the management soundness for financial stability of the company.

4.1.4.1 Operating Expenses to Gross Premium

The operating expenses to gross premium ratio show the amount of expenses incurred to earned gross premium. Lower ratio is preferred which indicates that the company incurred less and earned more thereby implying the efficiency of the management in controlling and managing of its expenses in earning its gross premium. Gross Premium is a reflection of overall volume of business operations. Gross Premium is the sum of direct premium and assumed premium written before the effect of ceded reinsurance and the operating expense is the amount as operating expenses related to insurance businesses.

Table 6

Operating Expenses to Gross Premium

Year/Insurer	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	Mean	S.D	C.V
SICL	0.14	0.15	0.14	0.14	0.10	0.11	0.12	0.14	0.14	0.13	0.13	0.02	12.18
NIL	0.24	0.22	0.21	0.20	0.14	0.14	0.16	0.17	0.17	0.15	0.18	0.03	19.22
SIC	0.17	0.16	0.17	0.15	0.13	0.17	0.13	0.15	0.14	0.12	0.15	0.02	13.55
PIC	0.23	0.19	0.16	0.14	0.13	0.14	0.13	0.16	0.16	0.14	0.16	0.03	20.14
Year Mean	0.20	0.18	0.17	0.16	0.12	0.14	0.14	0.16	0.15	0.14			

Source: Appendix-10

The ratio calculated in the table indicates the efficiency of operations of the insurance sector. While calculating management soundness ratio, operating expenses are considered as sum of operating expenses relating to insurance business and commission paid to agents. Management soundness Year Mean ratio show a slightly decreasing trend meaning the company's management is strengthening. Lowest average mean of ratio is shown by SICL (0.13) closely followed by SIL and SIC symbolizing their efficient management of operating expenses, while NIL showed poorest management in terms of operating expenses during the study period CV also provides insight that SICL has always been prudent in managing its operating expenses overall.

4.1.5 Earning and Profitability

Earning and profitability of any company reflects the strength of its existence in the market. Earnings are the key and arguably the only long-term source of capital. Low profitability may signal fundamental problems of the insurer and may be considered a leading indicator for solvency problems. This analysis indicates the ability of the

company in generating earnings for its company thereby showing the profitability position in the market. Basically, it shows the efficiency of the management of the company in earning profits out of the money invested in the company. It is of utmost importance so that the various companies working in the industry could be compared and judged upon their profitability position.

4.1.5.1 Loss Ratio

The loss ratio is the proportion of losses to premiums earned. Paid insurance claims and adjustment expenses are included in loss ratios. Insurance claims paid plus adjustment charges divided by total earned premiums are the loss ratio formula. The loss ratio is used to give insurance firms a high-level picture of their financial performance by comparing the expenses of claims paid to be premiums received. A high loss ratio can indicate that an insurance company is in financial trouble.

Table 7

Net Claims to Net Premium

Year/Insurer	2013 /14	2014 /15	2015 /16	2016 /17	2017 /18	2018 /19	2019 /20	2020 /21	2021 /22	2022 /23	Mean	S.D	C.V
SICL	0.44	0.41	0.40	0.4	0.35	0.46	0.57	0.88	0.74	0.66	0.53	0.17	32.75
NIL	0.38	0.48	0.48	0.5	0.28	0.3	0.43	0.48	0.39	0.38	0.41	0.08	19.37
SIC	0.35	0.34	0.3	0.32	0.92	0.58	0.51	0.52	0.5	0.57	0.49	0.18	37.46
PIC	0.57	0.62	0.5	0.3`	0.29	0.39	0.51	0.63	0.68	0.57	0.51	0.14	26.71
Year Mean	0.41	0.45	0.43	0.39	0.43	0.44	0.51	0.63	0.58	0.56			

Source:Appendix-11

The year mean of the ratio over the study period has shown a slight increasing trend. Overall, the claims management is good from the insurers. None of the insurers have negative claim management during the study period. They are making good profits. The lowest mean of the ratio was shown by NIL (0.41) while SICL (0.35) showed the highest mean of the ratio. This shows the greatest potential profitability in NIL and the lowest

profitability of SICL during the study period. Further, the lowest CV among the insurers for NIL, suggests it has always been good with the claims management.

4.1.5.2 Expense Ratio

The expense ratio reveals the strength of the company in earning net premium and how much the company has incurred in underwriting the net premium. Lower ratio is preferable as it gives way to higher margin of profits and strong financial position of the company. The operating expense to net premium ratio indicates the amount of operating expenses incurred in underwriting net premium.

Table 8

Operating Expenses to Net Premium

Year/Insurer	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	Mean	Standard Deviation	Coefficient of Variation
SICL	0.43	0.4	0.33	0.29	0.2	0.21	0.25	0.37	0.42	0.39	0.33	0.09	27.08
NIL	0.54	0.49	0.47	0.45	0.3	0.26	0.27	0.29	0.27	0.23	0.36	0.12	32.72
SIC	0.33	0.31	0.35	0.29	0.26	0.27	0.27	0.33	0.31	0.26	0.303	0.03	10.85
PIC	0.67	0.59	0.53	0.37	0.28	0.25	0.27	0.33	0.43	0.34	0.415	0.15	36.19
Year Mean	0.49	0.44	0.41	0.34	0.24	0.25	0.27	0.29	0.33	0.37	0.32		

Source: Appendix-12

The year mean of the ratio for the companies showed a fluctuating trend but decreased overall during the study years. This shows increasing profitability in the insurance business in the last 10 years. Analyzing the mean of the ratios, it is clear SIC followed by SICL were able to keep their expenses in control. Further, CV reveals that SIC have been a consistent performer in terms of keeping the expenses in check.

4.1.5.3 Combined Ratio

Loss ratio is commonly combined with the expense ratios provide a greater sense of profitability. The combination of the two ratios is called the combined ratio. As a result, a loss ratio below 100% does not always imply a profitable business—other expenses, such as sales commissions, salaries, overhead expenses, marketing expenses, and other general expenses, which are not reflected in the loss ratio but are reflected in the expense ratio, should be considered when determining profitability.

Table 9

Combined Ratio

Year/Insurer	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	Mean	S.D	C.V
SICL	0.88	0.81	0.73	0.69	0.55	0.67	0.82	1.25	1.16	1.05	0.86	0.23	26.18
NIL	0.92	0.97	0.94	0.95	0.58	0.55	0.7	0.77	0.66	0.61	0.77	0.17	21.90
SIC	0.68	0.65	0.65	0.61	1.18	0.85	0.79	0.85	0.81	0.83	0.79	0.16	20.82
PIC	1.25	1.21	1.03	0.68	0.57	0.64	0.78	0.95	1.11	0.91	0.91	0.24	26.33
Year Mean	0.9	0.88	0.84	0.74	0.67	0.69	0.78	0.97	0.95	0.88			

Source:Appendix-13

The year mean of the combined ratio over the study period has showed a decrease followed by rising trend. In last 5 years there is decreasing profitability in the business. Both SICL and SIL showed the ratio to be higher than 1 in the last three year of the study and PIC is very close to that mark. In fact,SICL and SIL have incurred losses in those three years.

Analyzing the mean of the ratios, the lowest mean of the ratio was shown by NIL(0.77) closely followed by SIC (0.79).This shows the greatest potential profitability in NIL and SIC.

4.1.5.4 Investment Income to Net Premium

Premium is the main source of income for insurer which is invested to generate additional revenue by investing. Insurers invest in a diverse range of assets and must strike a balance between the desire to earn a higher return on riskier investments and the necessity to preserve liquidity to satisfy the liabilities connected with claims made against the policies they insure. Insurers invest in a variety of asset classes, including equities, bonds, real estate, and a few others. The ratio of an insurance company's net investment income to its earned premiums is known as the net investment income to earned- premium ratio. The investment income ratio compares the revenue generated by an insurance company's

investment activity versus its operations. It's used to figure out how profitable an insurance company's investments are.

Table 10

Investment Income to Net Premium

Year/Insurer	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	Mean	Standard Deviation	Coefficient of Variation
SICL	0.13	0.09	0.08	0.12	0.06	0.05	0.07	0.10	0.11	0.10	0.09	0.03	27.55
NIL	0.12	0.12	0.10	0.24	0.06	0.08	0.10	0.10	0.10	0.10	0.11	0.05	44.6
SIC	0.15	0.13	0.12	0.17	0.07	0.07	0.09	0.1	0.11	0.14	0.12	0.03	27.87
PIC	0.18	0.17	0.12	0.21	0.14	0.06	0.11	0.13	0.21	0.17	0.15	0.05	32.44
Year Mean	0.13	0.12	0.10	0.18	0.07	0.07	0.09	0.11	0.13	0.13			

Source: Appendix-14

The year mean of the ratio has basically remained the same with fluctuations in between. This symbolizes that, the returns from the investment are stagnant. Analyzing the means of the ratios, it is clear that there is not much difference in the performance of all the insurers under study. Overall, for the study period SIC showed better income generation through investment followed by NIL.

4.1.5.5 Return on Equity

Return on equity of a company measures how efficiently the equity shareholder's funds are being used in the business. It is a true measure of the efficiency of the management. The higher the ratio, the better it is, in such a case equity shareholder may be given a higher dividend. Earning capacity of one company can also be compared with others with the help of this ratio. The ratio may also be used for declaration of dividend and creation of reserves for future growth.

Table 11

Return on Equity

Year/Insurer	2013 /14	2014 /15	2015 /16	2016 /17	2017 /18	2018 /19	2019 /20	2020 /21	2021 /22	2022 /23	Mean	S.D	C.V
SICL	0.20	0.23	0.22	0.27	0.22	0.2	0.18	0.16	0.14	0.12	0.2	0.04	22.6
NIL	0.15	0.15	0.11	0.19	0.19	0.17	0.15	0.16	0.18	0.17	0.1	0.02	14.56
SIC	0.31	0.33	0.28	0.09	0.18	0.21	0.21	0.15	0.17	0.16	0.1	0.05	32.49
PIC	0.12	0.15	0.11	0.19	0.19	0.17	0.15	0.16	0.18	0.17	0.1	0.02	14.56
Year Mean	0.20	0.21	0.21	0.21	0.21	0.19	0.16	0.15	0.16	0.15			

Source:Appendix-15

The year mean of the ratio has remained stagnant though-out the study period. The insurers were not able to achieve growth through the study period. Rather they showed gradual decrease in their returns from equity capital in the final 5 years. On a closer look the mean of the ratios indicate that SICL,SIL and PIC had better returns on their equity compared to PIC and NIL during the study period. But SICL,SIL and PIC in last 5 years showed decreasing trend for the ratios.

4.1.6 Liquidity

In insurance business, the timing of insurance claims is uncertain. One cannot predict as to when the insured could ask/claim for its insurance policy. It is therefore on this ground the insurer should also consider the frequency of the claims and understand the severity of the business. Hence, an insurance company should investigate its liquidity position. Liquidity is a position where the payee stands ready to pay out as soon as possible (basically within a period of one year). In insurance, the insurer must settle the claims at the maturity of the period of the policy undertaken, the time of which is known but at times of uncertain happenings one must call for its liquid assets to pay for it. Thus, as compared to banks it is not as severe a problem in insurance but to maintain the firms "credibility", share and reputation in the market it should have sound liquidity position.

Further a loss of confidence in case of insurance business almost causes policyholders to cancel cover, demand a return of unexpired premium and might switch over to the other insurance company. Liquidity ratios measure the firms' ability to meet current obligations. A firm should ensure that it does not suffer from lack of liquidity and that it does not have excess liquidity. If the company fails to meet its obligations just because of insufficient

liquidity, then it might result in poor credit worthiness plus loss of creditors and might also lead to closure of the company. The corporation must be aware that a high level of liquidity is a risk since assets may sit idle and unneeded cash may become entangled with current assets. As a result, a balance must be struck between excessive liquidity and a lack of liquidity.

4.1.6.1 Current assets to Current Liabilities

Current Ratio indicates working capital management. Cash and assets that can be converted into cash within a year are considered current assets. Current liabilities are the same as those used in the ratio calculation above. A ratio of 2:1 is regarded ideal and satisfactory for a firm to be in a solid liquidity position, according to conventional wisdom. For creditors, it constitutes a safety net. The higher the ratio, the bigger the margin of safety, and the higher the number of current assets, the greater the company's ability to satisfy its current obligations.

Table 12

Current Assets to Current Liabilities

Year/Insurer	2013 /14	2014 /15	2015 /16	2016 /17	2017 /18	2018 /19	2019 /20	2020 /21	2021 /22	2022 /23	Mean	S.D	C.V
SICL	0.95	1.08	1.37	1.30	1.77	1.73	1.69	1.68	2.31	2.43	1.63	0.48	29.42
NIL	1.25	1.28	1.49	1.47	1.76	1.68	1.83	1.71	1.81	1.78	1.61	0.22	13.45
SIC	1.25	1.37	1.42	1.25	1.40	1.49	1.63	1.58	1.66	1.74	1.48	0.17	11.36
PIC	1.22	1.27	1.29	1.86	1.44	1.55	1.71	1.78	1.96	2.43	1.65	0.38	22.92
Year Mean	1.15	1.21	1.41	1.45	1.58	1.59	1.70	1.69	1.89	2.04			

Source: Appendix-16

The year mean of the current ratio has increased from 1.15 in 2011/12 to 2.04 in 2021/22. This symbolizes that, with each passing year, the liquidity position of the companies strengthened. Ratio of above 1 is considered good. Overall, all the insurers have a very healthy condition. Analyzing the mean of the ratios, it is evident that SICL, NIL and PIC have achieved higher liquidity during the study period. Also, NIL with the lower CV represented a good liquidity position over the last 10 years.

4.1.6.2 Liquid Assets to Current Liability

An asset is liquid if it can be converted into cash immediately or reasonably without a loss of value. Cash is the most liquid asset. Current liabilities mean all those obligations that are

maturing within a period of one year. Generally, liquid assets to current liabilities ratio of 1:1 is considered satisfactory.

The year mean of the ratio over the study period has shown a fluctuating trend during the study period. The lowest mean of the ratio was shown by PIC and SIC while SICL (0.17) and *((0.16) showed the highest mean of the ratio. The ratio was below satisfactory of all companies in all years, but it should also be kept in mind that the company do not proportion higher amount as liquid assets to block the investment opportunities which otherwise could have been used for other business activities which could have made way for profits than the amount so allocated for liquid assets.

Table 13

Liquid Assets to Current Liabilities

Year/Insurer	2013 /14	2014 /15	2015 /16	2016 /17	2017 /18	2018 /19	2019 /20	2020 /21	2021 /22	2022 /23	Mean	S.D	C.V
SICL	0.11	0.06	0.07	0.16	0.22	0.21	0.17	0.19	0.25	0.29	0.17	0.07	42.40
NIL	0.13	0.17	0.19	0.31	0.31	0.10	0.06	0.07	0.19	0.12	0.16	0.09	55.11
SIC	0.08	0.07	0.08	0.09	0.07	0.08	0.11	0.04	0.11	0.08	0.08	0.02	24.75
PIC	0.06	0.10	0.06	0.29	0.01	0.03	0.03	0.05	0.08	0.07	0.08	0.08	10.06
Year Mean	0.10	0.12	0.10	0.18	0.16	0.11	0.09	0.08	0.14	0.13			

Source: Appendix-17

4.1.7 Solvency

4.1.7.1 Net Assets to Net Premium

Solvency ratio is one of the various ratios used to measure the ability of a company to meet its long-term debts. The term solvency means that a company can pay its obligations when they become due, and the company can continue its business. Solvency ratio is a measure of the risk an insurer faces of claims that it cannot absorb. Generally, the ratio is calculated by dividing net assets with net premium underwritten. In India insurers are required to maintain a minimum ratio of 1:5.

The solvency ratio showed an overall steady increasing trend through the study period. The data reveals the increased solvency ratio of insurance companies over the years which are an indicator of strong financial position of the companies and highlights towards its good paying capacity. Analyzing the mean of the ratios it is evident that PIC had the best solvency followed by SIC over the study period. Both SICL and PIC had achieved a high ratio in the vicinity of 3 by the end of the study period. The challenge is to sustain it.

Table 14

Net Assets to Net Premium

Year/Insurer	2013 /14	2014 /15	2015 /16	2016 /17	2017 /18	2018 /19	2019 /20	2020 /21	2021 /22	2022 /23	Mean	S.D	C.V
SICL	1.04	1.08	1.32	1.24	1.40	1.25	1.36	2.02	2.65	2.97	1.63	0.68	41.54
NIL	1.31	1.31	1.70	2.14	1.56	1.65	1.99	1.93	2.10	1.96	1.76	0.31	17.37
SIC	1.27	1.44	1.55	1.86	2.02	1.89	1.95	2.32	2.21	1.81	0.34	18.95	2.52
PIC	2.52	2.08	1.80	2.15	1.59	1.22	1.88	2.24	3.19	3.12	2.18	0.63	28.74
Year Mean	1.43	1.35	1.55	1.7	1.48	1.55	1.75	2.08	2.57	2.60			

Source: Appendix-18

4.1.6 Descriptive Analysis

The background of employing descriptive statistics in this study is rooted in the necessity to provide a comprehensive understanding of the current position and distribution of key variables financial performance (FP), investment pattern (IP), premium collection (PC), book value per share (BV), market-to-book value per share (NP), across the selected non-life insurance companies. This approach aligns with the study's objectives by establishing a quantitative basis for subsequent analyses, facilitating comparisons, and providing a context-rich foundation for insights into the relationships between these variables and their potential impact on the market price per share. The descriptive statistics of four sample insurance companies during the ten years of the study period is presented in Table 15.

Table 15

Descriptive Statistics

Variables	N	Min.	Max.	Mean	SD
Financial Perfoamnce	40	0.00	3249.00	970.60	653.96
Investmenrt Patern	40	-7.41	61.40	32.87	13.94
Premium Collection	40	0.00	63.16	15.41	13.69
Claim paid Ratio	40	145.78	298.45	210.51	34.85
Net Profit	40	0.00	11.64	4.55	2.86

The mean market price per share is Rs. 970.60. This means that the average company in the data set has a market capitalization of Rs. 970.60 per share. The minimum market price is Rs. 0.00, which suggests that there is at least one company in the data set that is not publicly traded. The maximum market price is Rs. 3249.00, which suggests that there is at least one company in the data set that is considered to be a growth stock. The standard deviation of FP is Rs. 653.90, which suggests that most of the companies in the data set have financial perfoamnce within Rs. 653.90 of the mean.

The mean IP is Rs. 32.87. This means that the average company in the data set earned Rs. 32.87 IP in the most recent fiscal year. The minimum IP is Rs. -7.41, which suggests that there is at least one company in the data set that is losing money. The maximum EPS is Rs. 61.40, which suggests that there is at least one company in the data set that is very profitable. The standard deviation of IP is Rs. 13.94, which suggests that there is some variation in profitability among the companies in the data set.

The mean dividends IP is Rs. 15.41. This means that the average company in the data set paid out Rs. 15.41 in dividends in the most recent fiscal year. The minimum PC is Rs. 0.00, which suggests that there are some companies in the data set that do not pay dividends. The maximum PC is Rs. 63.16, which suggests that there is at least one company in the data set that pays out a high dividend yield. The standard deviation of PC is Rs. 13.69, which suggests that there is some variation in dividend payments among the companies in the data set.

4.2 Correlation Analysis

Correlation analysis serves as a pivotal tool for quantifying the strength and direction of linear associations between variables, shedding light on potential linkages and patterns that contribute to stock price dynamics. By uncovering, correlation analysis contributes substantively to addressing the study's objectives, offering insights into the interplay between FP and internal factors, and subsequently guiding the exploration of causal relationships through regression analysis. The correlation analysis is presented in Table 16.

Table 16

Correlation Analysis

		FP	EPS	PC	PCR	NP
FP	Pearson Correlation	1	.422	.606	.373	.911
	Sig. (2-tailed)		.007	.000	.018	.000
IP	Pearson Correlation		1	.606	.454	.263
	Sig. (2-tailed)			.000	.003	.102
PC	Pearson Correlation			1	.424	.478
	Sig. (2-tailed)				.006	.002
pcr	Pearson Correlation				1	.115
	Sig. (2-tailed)					.478
NP	Pearson Correlation					1
	Sig. (2-tailed)					

There is a weak positive correlation between FP and IP (Pearson correlation coefficient = 0.422, p-value = 0.007). This suggests that there is a tendency for companies with higher IP to also have higher FP. However, the correlation is strong, so it is a reliable predictor of FP. There is a moderate positive correlation between FP and PC (Pearson correlation coefficient = 0.606, p-value = 0.000). This suggests that there is a tendency for companies with higher PC to also have higher FP. There is a moderate positive correlation between FP and PC (Pearson correlation coefficient = 0.373, p-value = 0.018). This suggests that there is a tendency for companies with higher PC to also have higher FP. The correlation is not as strong as the correlation between FP and PC, but it is still a reliable predictor of FP. There is a strong positive correlation between FP and NP (Pearson correlation

coefficient = 0.911, p-value = 0.000). This suggests that there is a very strong tendency for companies with higher NP to also have higher FP. The correlation is the strongest of all the correlations, so it is the most reliable predictor of FP. From the correlation results it is concluded that all independent variables i.e., investment pattern (IP), premium collection (PC), claim paid ratio (CPR), net profit (NP) have positive significant relationship with FP.

4.1.8 Regression Analysis

The integration of regression analysis within the study's methodology is motivated by the imperative to ascertain the nuanced impact of internal variables investment pattern (IP), premium collection (PC), claim paid ratio (CPR), net profit (NP) of non-life insurance companies. Regression analysis offers a systematic approach to quantifying and delineating the individual contributions of these factors to FP variations, while also facilitating the identification of the most influential variable.

Table 17

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.955	.911	.901	190.74978	2.132

a. Predictors: (Constant), PC, NP, PC, IP

b. Dependent Variable: FP

The R value is 0.955, which is a very strong positive correlation. This means that there is a strong linear relationship between the independent variables and the dependent variable. The R Square value is 0.911, which is also a very high value. This means that the independent variables explain 91.1% of the variation in the dependent variable. The Adjusted R Square value is 0.901, which is slightly lower than the R Square value. This is because the Adjusted R Square value takes into account the number of independent variables in the model. The Std. Error of the Estimate value is 190.74978. This means that the average difference between the predicted values and the actual values is 104.85.

The Durbin-Watson value is 2.132, which is close to 2. This suggests that there is no autocorrelation in the residuals. The model summary table suggests that the model is a

good fit for the data. The independent variables explain a large amount of the variation in the dependent variable, and there is no evidence of autocorrelation in the residuals.

Table 18

Analysis of Variance (ANOVA)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	13073991.389	4	3268497.847	89.830	.000
	Residual	1273491.721	35	36385.478		
	Total	14347483.110	39			

a. Dependent Variable: FP

b. Predictors: (Constant), PC, NP, PC, IP

The F value is a measure of the significance of the difference between the mean squares. A high F value suggests that there is a significant difference between the mean squares. In this case, the F value is 89.890, which is high. This suggests that there is a significant difference between the mean squares for the regression model and the residual. The p-value is the probability of obtaining an F value as extreme as the one observed, if the null hypothesis is true. A p-value of 0.000 suggests that the probability of obtaining an F value of 89.830 or more, if the null hypothesis is true, is very small. In other words, it is very unlikely that the observed difference between the mean squares is due to chance. Therefore, it can conclude that the independent variables PC, NP, CPR, and IP explain a statistically significant amount of the variation in the dependent variable financial performance.

Table 19

Regression Coefficients

Model		Unstandardized		Standardized			Collinearity	
		Coefficients		Coefficients			Statistics	
		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	-831.198	198.547		-4.186	.000		
	IP	2.346	2.826	.055	.830	.412	.586	1.707
	PC	3.693	3.195	.083	1.156	.256	.495	2.019
	CPR	3.655	.979	.217	3.732	.001	.751	1.332
	NP	193.371	13.415	.832	14.414	.000	.762	1.313

a. Dependent Variable: FP

The constant is the value of FP when all the independent variables are 0. In this case, the constant is -867.022, which suggests that a company with 0 ROA, 0 PC, 0 NP, 0 PC, 0 PE, and 0 IP would have a market price per share of -831.198. This is a relatively low market price, suggesting that even a company with no profitability, assets, dividends, or earnings would still have some value to investors.

The coefficient for IP is 2.346, which suggests that a 1 unit increase in IP is associated with a 2.346 unit increase in FP. However, the p-value for IP is 0.412, which is greater than 0.05. This suggests that the association between IP and FP is not statistically significant. This may be because IP is a relatively noisy measure of profitability, and it can be affected by a number of factors that are not related to the underlying value of the company.

The coefficient for PC is 3.693, which suggests that a 1 unit increase in PC is associated with a 3.693 unit increase in FP. However, the p-value for PC is 0.256, which is greater than 0.05. This suggests that the association between PC and FP is not statistically significant. This may be because PC is also a relatively noisy measure of profitability, and it can be affected by a number of factors that are not related to the underlying value of the company.

The coefficient for PC is 3.655, which suggests that a 1 unit increase in PC is associated with a 3.655 unit increase in FP. The p-value for PC is 0.000, which is less than 0.05. This suggests that the association between PC and FP is statistically significant. This is

not surprising, as PC is a measure of a company's net worth per share, and it is a more stable measure of profitability than IP or PC.

The coefficient for NP is 193.371, which suggests that a 1 unit increase in NP is associated with a 193.371 unit increase in FP. The p-value for NP is 0.000, which is less than 0.05. This suggests that the association between NP and FP is statistically significant. This is not surprising, as NP is a measure of how much investors are willing to pay for a company's stock relative to its book value, and it is a good indicator of the market's perception of a company's value.

The collinearity statistics provide information about the correlation between the independent variables. The Tolerance statistic shows how much of the variance in each independent variable is not explained by the other independent variables. The VIF statistic shows how much each independent variable is inflated due to collinearity. In these findings, the Tolerance statistics for all the independent variables are relatively high, and the VIF statistics are relatively low. This suggests that there is not a significant amount of collinearity between the independent variables.

Overall, the results of this analysis suggest that PC and NP are two most significant variables that can affect the market price of a stock. However, investors should not rely solely on these factors when making investment decisions. Other factors, such as the company's financial health and future prospects, should also be considered.

4.2 Discussion

This dissertation has been concentrated on the financial performance of Non-Life insurance Company in Nepal. The major findings of the study are discussed below:

- As per the direction of Insurance Board (IB) of Nepal, the non-life insurance companies should have a minimum paid-up capital of 2.5 Arba. Higher capital adequacy ratio means capital is sufficient for the smooth operation of the business (Ghimire, 2013). Two ratios, Net Premium to Shareholder's Funds and Total Assets were computed to analyze the capital adequacy of the selected non-life insurers. Overall, the capital adequacy for all the sample insurers was satisfactory but it could be better. The study shows that capital adequacy for NIL and PIC in

particular was very satisfactory. SICL and SIC were not consistent with their performance, while SIL fared poorly in comparison to others.

- The asset quality of insurers is the measure of reliance on equity to build a sound and quality asset portfolio of the company. The asset quality analysis showed a stable trend over the study period. PIC and NIL had a comparatively better asset portfolio during the study period, while SIC displayed the poorest asset quality. All the companies under study represented a lower than ratio than generally accepted. The quality of the assets base of companies is not satisfactory. Low asset quality is not ideal in long run.
- The risk retention ratio is a measure of how much of the risk is being carried by an insurer rather than being passed to reinsurers. The retention of more business underwritten depicts increasing risk bearing capability of insures, which is a healthy sign in the insurance business, The ratio showed a fluctuating trend but has remained basically the same. Insurers have opted for reinsurance for almost half of the circumstances. NIL and to some extent SIC, among the insurers indicated that it relied less on the reinsurance companies for bearing risk of payment. On the other hand, SICL and PIC showed the least appetite reinsurance.
- Management efficiency and soundness is the outcome of operational efficiency of the company (Ghimire,2013). Analysis of the 10 years data shows that overall all the company's all the company's management is strengthening during the study period. SICL followed by SIC and SIL showed to have a prudent management. Among the sample insurers NIL fared the poorest. It should look for ways to reduce its operating expenses.
- For the earnings and profitability section, the focus of the analysis is on the operational and non-operational income. This is done by computing five ratios. The analysis of overall underwriting performance includes loss ratio, expense ratio and combined ratio. The other two ratios determine the non-operational activities for NIL and SIC was in better conditions than their competitors. SICL and pic have a very low margin of profitability from their underwriting. SIL and SICL have made no profits from the operational side in the last 3 years.
- Regarding the non-operational income generation, besides PIC which was able to generate comparatively better returns from its investments, there was not much difference on performance of others insurers, Return on equity of a company

measures how efficiently the equity shareholder's funds are³ being used in the business. SICL and SIC were the better performers over the study period closely followed by PIC and NIL.

- Liquidity of the insurers was computed on the basis of two ratios: Liquid assets to Current Liability and Liquid Assets to Current Liabilities. The contract of a non-life insurance policy is usually for one year; consequently insurers are more vulnerable to liquidity crisis. Ratio of above 1 is generally considered good. Overall, all the insurers have a healthy liquidity condition. Analysis of the two ratios showed that SICL and NIL in particular have healthy liquidity position closely followed by PIC and SIC.
- Solvency means that a company can pay its' obligations when they become due, and the company can continue its' business normally, NIB requires non-life insurers to maintain the solvency ratio above 1.5. The solvency ratio showed an overall steady increasing trend, which is an indicator of strong financial position of the companies and highlights towards its' good paying capacity. All the insurers had maintained ratios above the recommended 1.5. PIC showed an exceptionally healthy solvency clearly followed by SIC and others.
- For the duration of the study only the ratio of Net Premium to Shareholder's Funds had a positive impact on the profitability of the insurers. On the other hand, Shareholder's Funds to Total Assets, Equity Share Capital to Total Assets, Net Claims to Net Premium, Combined Ratio, Net Assets to Net Premium and Current Assets to Current Liabilities had detrimental effect on the profitability of the

CHAPTER-V

SUMMARY AND CONCLUSION

5.1 Summary

Non-life insurance covers the business and other activities except the life insurance. General or non-life insurance companies provide safeguard against the financial loss of any property or liability. Insurance business, being a key pillar of economy, requires periodic stringent evaluation and monitoring of the financial condition. This study was conducted with objective to analyze the comparative financial condition. This study was conducted with objective to analyze the comparative financial performance of four sample non-life insurers in Nepal based on CARMELS framework purposed by the IMF. CARMELS framework analyses the capital adequacy, asset quality, reinsurance and actuarial issues, management soundness, earnings and profitability, liquidity, and solvency of the insurance company. Ten-year data from fiscal year 2013/14 to 2022/23 are covered in the study. The study is based on secondary data and the data obtained were analyzed by using various financial tools. Correlation was done to establish relationship of the various components with the profitability of the insurance business. Finally, an overview was done to see if the insurance companies are following the regulatory directions of the Insurance Board of Nepal. (IMF).

Capital adequacy was satisfactory among the sample insurers during the study period but there is still enough room for improvement to reach the international levels. SIL in particular should consider improving its capital adequacy. The asset quality base of all the sample insurers was not satisfactory. This might be a problem in the long run. Most of the sample insurers are ceding almost 50% of the business to reinsurance. This is hampering the profitability of the insurers. They showed low risk bearing capacity. SICL and PIC showed the lowest appetite for risk bearing. Regarding management soundness all the sample insurers were satisfactory but NIL in particular showed weakness in managing its operational expenses. As seen from the combined ratio, earnings and profitability from the business operation of the sample insurers has remained stagnant. It is particularly true for SICL and PIC. This may be mainly due to the increasing number of insurers in the market causing greater competition. Alarmingly, combined ratio revealed both SICL and SIL showed the ratio to be higher than 1 in the 1st three year of the study and PIC is very

close to that mark. In fact, SICL and SIL have incurred losses in those three years. The non-operational income from investment was stagnant over the years. While SICL and SIL showed better ROL, it regressed for SICL and SIL, but it improved for NIL and PIC during the study period.

Overall, all the sample insurers had very satisfactory liquidity. SICL and NIL showed the best liquidity position over the years. SIL could rather build as liquidity further. Similarly, all the sample insurers had achieved the insurance Board recommended level of 1.5 for solvency. PIC was in outstanding position for solvency followed by SIL and NIL. Net Premium to Shareholder's Funds had a significantly positive impact on the profitability of the insurers. The ratios that showed significant detrimental relationship to the insurer's profitability were Net Claims to Net Premium, Combined ratio. Shareholder's Funds to Total Assets, Equity Share Capital to Total Assets, Net Assets to Net Premium and Current Assets to Current Liabilities.

5.2 Conclusion

In this study, CAMELS model is used to explore the financial efficiency and health of non-life insurance industries for the period of 2013/14-2022/23. CAMELS model can help managers to control and analyze financial data and organizational position in the industry. Study on financial data and efficiency of insurance sector is not sufficient in Nepal.

Based on the results, it can be concluded that most of the legal compliance is fulfilled by the insurers. Position of some ratios such as Net Premium to Shareholder's Funds to Total Assets, asset's quality, management soundness, expenses ratio, current assets to current liabilities and solvency during the study period is improving overall though not all improvements were significant loss ratio and return on equity showed that they were deteriorating in the same period while risk/retention ratio, combined ratio, investment income to net premium and liquid assets to current capabilities were fluctuating but did not change significantly with respect to the start and end of the study period.

The overall financial efficiency of the non-life insurance during the study period was satisfactory but there is much room for improvement before they could be labeled as good. In the study, NIL clearly stood out as the top performer for the study period while SIL

was the poorest. The major setback for NIL was to manage their operational expense better. For SIL, capital adequacy. Reinsurance and asset quality were major setback points. SICL, PIC and SIL gave mixed results. Maintaining a healthy operational income and increasing the risk retention capacity were major hurdles for them. Overall, maintaining a better asset portfolio, building capacity to absorb more risk and underwriting more profitable policies were the challenges going forward for the sample insurers to build their financial health.

5.3 Implications

Based on the findings and issues that have been analyzed in the study, following implications have been made.

- Risk based capital, which requires companies to underwrite business based on their capital strength, should be made a regulatory mandate for all companies to take adequate underwriting business exposures.
- The addition of greater equity will undoubtedly improve the insurers quality.
- Proper management of technical reserves position will assist insurers to retaining and managing maximum risk efficiently, which will increase reinsurance ratio.
- Insurers must use advanced management practices to optimize the operational activities. This would result in lower operational costs, and at the same time, a higher net premium earned.
- Management efficiency can be improved by keeping a close eye on expenses. Unprofitable branches and unproductive work force, if reduced, will save a significant amount in the form of management expenses.
- They currently profit from their existing customer base, but to maintain high profit base, they must grow underwritten premiums by exploring additional markets with novel policies and expanding their existing customer base.
- To improve premium income, non-life insurers should provide sufficient training to their agents on how to deal with challenges excited with quick market changes.
- Protect risk evaluation, pricing and risk selection will undoubtedly and insurers in proper claim management and expenditure management, resulting in a reduction in the combined ratio and eventually, underwriting profitability.

- All insurers should select the right risks and then evaluate them properly. Due to the growing trend of acquiring greater market share, adequate risk selection is often overlooked, resulting in poor risk evaluation and as a result losses.
- Even if the solvency margin is good and appropriately capitalized in relation to the level of retained premium, insurers must remain competitive by balancing elements that affect solvency margin performance, such as the underwriting ratio, premium distribution, and reinsurance protection adequacy.
- This study was limited only to the comparative study of Financial Performance of Selected private sector Non-Life Insurer. But further research can be made on:
 - Comparative Study of Performance Evaluation of Public Sector non-life insurer and Private sector non-life insurer.
 - A study on segment wise profitability of public and private sector non-life insurance company.
 - A comparative study of Non-life Insurance Business with other select insurers and more years.

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APPENDICES

APPENDIX 1

Financial particulars of SICL for FY 2013/14 to 2022/23

In 00	2022/23	2021/22	2020/21	2019/20	2017/18	2018/19	2018/19	2017/18	2016/17	2015/16
Paid up capital	1758524	1057310	1057310	1057310	817668	509897	357691	297772	175000	125000
SH Funds	3853842	3146902	2595117	2172116	1772638	1441571	799160	590444	363766	283346
Current Assets	4367008	3532516	3623337	3532577	3875410	2294136	1385399	934008	868544	707115
Fixed Assets	211559	221746	221236	218526	204757	212494	212089	221969	225205	238921
Investments	1046834	896342	878254	497778	352889	230977	265168	117601	71435	78876
LT Loans n Advances	0	25813	27359	8078	5945	0	0	0	0	0
Total Assets	5625401	4676417	4750186	4256959	3439001	2737607	1826656	1273658	1165184	1024912
Current Liabilities	1799613	1529516	2155121	2085053	1666732	1296565	1064184	684238	802992	743697
Cash and Balance	518437	375595	399921	361248	351034	287652	175073	50880	44207	85461
Net Premium	1297601	1185468	1286189	1591979	1415275	1029093	643748	447510	335389	271752
Gross Premium	3972389	3521650	3519339	3336777	2766290	2008579	1355191	1055470	916172	866111
Agent Commission	26788	26207	34926	34316	26766	18426	45771	40114	40033	30122
Mgmt. Expenses	485736	469065	441792	356053	268870	183191	138560	109402	94735	88015
Operating Expenses	512524	496272	476718	390369	295636	201617	184331	149516	134768	118137
Net Claims Payment	852508	874715	1126955	914759	653554	360879	260605	178661	137090	120829
Investment Income	131515	127301	131688	115121	77459	58630	79683	36561	29851	34308
Net Income	475736	450184	423136	399274	360003	310268	219618	131655	82446	57515

Appendix 2

Financial particulars of PIC for FY 2013/14 to 2022/23

In 00	2022/23	2021/22	2020/21	2019/20	2017/18	2018/19	2018/19	2017/18	2016/17	2015/16
Paid up capital	1074560	1074560	1074560	584000	448504	373753	287502	117300	117300	102000
SH Funds	2380391	2006686	1781036	1516197	898732	748760	616977	269011	225069	192740
Current Assets	3226157	2916342	2796265	2543676	1611789	1747133	777406	615732	443956	300485
Fixed Assets	78044	85551	93755	85716	90160	83033	97225	77985	79730	79580
Investments	0	491318	464675	377999	234013	133967	159493	50466	51399	57465
LT Loans n Advances	44176	0	0	0	0	0		0	0	0
Total Assets	3348377	3493211	3354695	3007391	1935962	1964133	1034124	744183	575085	437530
Current Liabilities	1324996	1486524	1573659	1491201	1037247	1215373	417147	475530	350782	245963
Cash and Balance	95000	123831	74159	48614	30749	9087	120000	27509	35463	15283
Net Premium	762947	629691	794264	805788	738963	469947	286995	149286	108065	76632
Gross	1910775	1690745	1646788	1550941	1348820	1008380	740744	502333	329660	221989

Premium										
Agent Commission	25220	29208	27908	26236	24928	19176	34243	30036	22919	14878
Mgmt. Expenses	234382	239107	230573	189824	157798	111961	71144	48949	40660	36705
Operating Expenses	259602	268315	258481	216060	182726	131137	105387	78985	63579	51583
Net Claims Payment	436672	428113	498153	409674	287793	135664	89787	74221	67015	43889
Investment Income	128312	133744	99926	87015	42640	64725	59368	17557	18168	13974
Net Income	373703	345209	265805	91302	155855	185727	143198	45800	34233	22543

Appendix 3

Financial particulars of NIL for FY 2013/14 to 2022/23

In 00	2022/23	2021/22	2020/21	2019/20	2017/18	2018/19	2018/19	2017/18	2016/17	2015/16
Paid up capital	1317432	1317432	1176278	1176278	712895	324043	281777	135221	135221	121275
SH Funds	3205886	2665250	2207907	1960651	1228800	665224	496922	344848	239962	202984
Current Assets	5303234	4192209	3315727	2665241	1886153	1050788	744863	654597	491274	389256
Fixed Assets	445498	416032	313911	217781	199196	28950	15750	12935	13241	20227
Investments	0	374594	512827	533318	264058	181575	242262	115270	116726	102472
LT Loans n Advances	70551	0	0	0	0	0	0	0	0	0
Total Assets	5819283	4982835	4142465	3416340	2349407	1261313	1002875	782802	621241	511955
Current Liabilities	2985935	2317585	1934558	1455688	1121407	596411	506522	438772	382344	310334
Cash and Balance	351051	429353	127690	80779	114037	186451	157966	85370	63896	40755
Net Premium	1632856	1270392	1144849	985170	746805	427429	231682	202967	183156	154647
Gross Premium	2415500	2073700	1916256	1660948	1362303	907768	531199	451514	412409	344709
Agent Commission	58691	47786	43709	40127	32543	25624	32685	36250	33274	28373
Mgmt. Expenses	310111	297176	284048	222572	160738	103805	71634	58608	57113	54673
Operating Expenses	368802	344962	327757	262699	193281	129429	104319	94858	90387	83046
Net Claims Payment	620098	493033	555078	422585	221137	119389	116837	96893	87852	58542
Investment Income	157516	128745	110805	96093	56353	23928	55378	20177	21383	18478
Net Income	540634	468089	354731	302460	208531	126036	92183	36698	36978	30304

Appendix 4

Financial particulars of SIC for FY 2013/14 to 2022/23

In 00	2022/23	2021/22	2020/21	2019/20	2017/18	2018/19	2018/19	2017/18	2016/17	2015/16
Paid up capital	1111357	1001223	1001223	538292	538292	441223	356544	310038	258365	129159
SH Funds	2736832	2285952	1924100	1637605	1291389	1000404	816583	729367	548968	426999
Current Assets	4596751	4050748	3479428	2711298	2397760	2152661	1987405	1597300	1215999	886597
Fixed Assets	184121	4190884	203281	208079	193760	85988	87630	85472	82582	86519
Investments	601777	488466	450367	383806	308930	303864	325344	171751	137353	161224
LT Loans and Advances	0	0	0	0	0	0	0	0	0	0
Total Assets	5382649	4730198	4133076	3303183	2900450	2542443	2400429	1854534	1435934	1134340
Current Liabilities	2645816	2444246	2208975	1665579	1609111	1542140	1583997	1125369	887326	707880
Cash and Balance	223578	274592	90211	176156	135618	104062	144412	92748	59617	59811
Net Premium	1235600	987177	989224	864815	638103	538204	522667	471328	382163	336339
Gross Premium	2616146	2254352	2176653	1838012	1001063	1115232	1020744	971724	735019	641896
Agent Commission	48053	42793	45650	42743	36552	30700	61151	65530	55553	51880
Mgmt. Expenses	271515	264650	283064	193764	137951	109490	91720	101082	61535	57665
Operating Expenses	319568	307443	328714	236507	174503	140190	152871	166612	117088	109545
Net Claims Payment	706582	496021	514233	443953	370202	494220	167421	140482	131780	118092
Investment Income	174601	111103	95670	74848	46965	40229	87680	56048	51497	48847
Net Income	451590	380818	286844	347768	276207	183856	75053	203184	179034	131418

APPENDIX 6

Net Premium to Shareholder's Funds

Year/Insurer	2015/16	2016/17	2017/18	2018/19	2018/19	2017/18	2019/20	2020/21	2021/22	2022/23	Mean	S.D	C.V
SICL	0.96	0.92	0.76	0.81	0.71	0.8	0.73	0.5	0.38	0.34	0.69	0.22	31.28
NIL	0.76	0.76	0.59	0.47	0.64	0.61	0.5	0.52	0.48	0.51	0.11	0.11	18.91
SIL	0.98	1.21	0.71	0.99	0.62	0.62	0.44	0.38	0.37	0.7	0.7	0.28	40.32
PIL	0.4	0.48	0.55	0.47	0.63	0.82	0.53	0.45	0.31	0.32	0.5	0.15	30.5
Year Mean	0.78	0.81	0.65	0.62	0.7	0.67	0.58	0.48	0.4	0.4			

APPENDIX 7

Shareholder's Funds to Total Assets

Year/Insurer	2015/16	2016/17	2017/18	2018/19	2018/19	2017/18	2019/20	2020/21	2021/22	2022/23	Mean	S.D	C.V
SICL	0.28	0.31	0.46	0.43	0.53	0.52	0.51	0.55	0.67	0.69	0.49	0.13	26.88
NIL	0.4	0.39	0.44	0.5	0.53	0.52	0.57	0.53	0.53	0.55	0.5	0.07	13.22
SIC	0.38	0.38	0.39	0.34	0.39	0.45	0.5	0.47	0.48	0.51	0.43	0.06	13.63
PIC	0.44	0.39	0.36	0.6	0.38	0.46	0.5	0.53	0.57	0.71	0.5	0.11	22.31
Year Mean	0.37	0.35	0.43	0.46	0.48	0.51	0.51	0.55	0.59				

Source:Appendix-7

Equity Share Capital to Total Assets

Year/Insurer	2015/16	2016/17	2017/18	2018/19	2018/19	2017/18	2019/20	2020/21	2021/22	2022/23	Mean	S.D	C.V
SICL	0.12	0.15	0.23	0.19	0.19	0.24	0.25	0.22	0.23	0.31	0.21	0.05	25.15
NIL	0.24	0.22	0.17	0.28	0.26	0.30	0.34	0.28	0.26	0.23	0.26	0.05	18.71
SIC	0.11	0.18	0.17	0.15	0.17	0.19	0.16	0.24	0.21	0.21	0.18	0.04	19.92
PIC	0.23	0.2	0.16	0.28	0.19	0.23	0.19	0.32	0.31	0.32	0.23	0.06	24.32
Year Mean	0.18	0.18	0.19	0.22	0.20	0.23	0.23	0.26	0.25	0.26			

Source:Appendix-8

Net Premium/Gross Premium

Year/Insurer	2015/16	2016/17	2017/18	2018/19	2018/19	2017/18	2019/20	2020/21	2021/22	2022/23	Mean	S.D	C.V
SICL	0.31	0.37	0.42	0.48	0.51	0.51	0.48	0.37	0.34	0.33	0.41	0.08	19.07
NIL	0.45	0.44	0.45	0.44	0.47	0.55	0.59	0.6	0.61	0.68	0.53	0.09	16.88
SIC	0.52	0.52	0.49	0.51	0.48	0.64	0.47	0.45	0.44	0.47	0.5	0.06	11.18
PIC	0.35	0.33	0.3	0.39	0.47	0.55	0.52	0.48	0.37	0.4	0.41	0.08	20.48
Year Mean	0.41	0.42	0.42	0.46	0.53	0.54	0.51	0.47	0.42	0.45			

Source:Appendix-9

Operating Expenses to Gross Premium

Year/Insurer	2015/16	2016/17	2017/18	2018/19	2018/19	2017/18	2019/20	2020/21	2021/22	2022/23	Mean	SD	CV
SICL	0.14	0.15	0.14	0.14	0.10	0.11	0.12	0.14	0.14	0.13	0.13	0.02	12.18
NIL	0.24	0.22	0.21	0.20	0.14	0.14	0.16	0.17	0.17	0.15	0.18	0.03	19.22
SIC	0.17	0.16	0.17	0.15	0.13	0.17	0.13	0.15	0.14	0.12	0.15	0.02	13.55
PIC	0.23	0.19	0.16	0.14	0.13	0.14	0.13	0.16	0.16	0.14	0.16	0.03	20.14
Year Mean	0.20	0.18	0.17	0.16	0.12	0.14	0.14	0.16	0.15	0.14			

Source:Appendix-10

Net Claims to Net Premium

Year/Insurer	2015/16	2016/17	2017/18	2018/19	2018/19	2017/18	2019/20	2020/21	2021/22	2022/23	Mean	SD	CV
SICL	0.44	0.41	0.40	0.4	0.35	0.46	0.57	0.88	0.74	0.66	0.53	0.17	32.75
NIL	0.38	0.48	0.48	0.5	0.28	0.3	0.43	0.48	0.39	0.38	0.41	0.08	19.37
SIC	0.35	0.34	0.3	0.32	0.92	0.58	0.51	0.52	0.5	0.57	0.49	0.18	37.46
PIC	0.57	0.62	0.5	0.3	0.29	0.39	0.51	0.63	0.68	0.57	0.51	0.14	26.71
Year Mean	0.41	0.45	0.43	0.39	0.43	0.44	0.51	0.63	0.58	0.56			

Source:Appendix-11

Operating Expenses to Net Premium

Year/Insurer	2015/16	2016/17	2017/18	2018/19	2018/19	2017/18	2019/20	2020/21	2021/22	2022/23	Mean	SD	CV
SICL	0.43	0.4	0.33	0.29	0.2	0.21	0.25	0.37	0.42	0.39	0.33	0.09	27.08
NIL	0.54	0.49	0.47	0.45	0.3	0.26	0.27	0.29	0.27	0.23	0.36	0.12	32.72
SIC	0.33	0.31	0.35	0.29	0.26	0.27	0.27	0.33	0.31	0.26	0.3	0.03	10.85
PIC	0.67	0.59	0.53	0.37	0.28	0.25	0.27	0.33	0.43	0.34	0.4	0.15	36.19
Year Mean	0.49	0.44	0.41	0.34	0.24	0.25	0.27	0.29	0.33	0.37	0.32		

Source:Appendix-12

:Appendix-13

Combined Ratio

Year/Insurer	2015/16	2016/17	2017/18	2018/19	2018/19	2017/18	2019/20	2020/21	2021/22	2022/23	Mean	S.D	C.V
SICL	0.88	0.81	0.73	0.69	0.55	0.67	0.82	1.25	1.16	1.05	0.86	0.23	26.18
NIL	0.92	0.97	0.94	0.95	0.58	0.55	0.7	0.77	0.66	0.61	0.77	0.17	21.90
SIC	0.68	0.65	0.65	0.61	1.18	0.85	0.79	0.85	0.81	0.83	0.79	0.16	20.82
PIC	1.25	1.21	1.03	0.68	0.57	0.64	0.78	0.95	1.11	0.91	0.91	0.24	26.33
Year Mean	0.9	0.88	0.84	0.74	0.67	0.69	0.78	0.97	0.95	0.88			

Appendix-14

Table4.9 Investment Income to Net Premium

Year/Insurer	2015/16	2016/17	2017/18	2018/19	2018/19	2017/18	2019/20	2020/21	2021/22	2022/23	Mean	S.D	C.V
SICL	0.13	0.09	0.08	0.12	0.06	0.05	0.07	0.10	0.11	0.10	0.09	0.03	27.55
NIL	0.12	0.12	0.10	0.24	0.06	0.08	0.10	0.10	0.10	0.10	0.11	0.05	44.6
SIC	0.15	0.13	0.12	0.17	0.07	0.07	0.09	0.1	0.11	0.14	0.12	0.03	27.87
PIC	0.18	0.17	0.12	0.21	0.14	0.06	0.11	0.13	0.21	0.17	0.15	0.05	32.44
Year Mean	0.13	0.12	0.10	0.18	0.07	0.07	0.09	0.11	0.13	0.13			

Appendix-15

Return on Equity

Year/Insurer	2015/16	2016/17	2017/18	2018/19	2018/19	2017/18	2019/20	2020/21	2021/22	2022/23	Mean	S.D	C.V
SICL	0.20	0.23	0.22	0.27	0.22	0.2	0.18	0.16	0.14	0.12	0.2	0.04	22.6
NIL	0.15	0.15	0.11	0.19	0.19	0.17	0.15	0.16	0.18	0.17	0.16	0.02	14.56
SIC	0.31	0.33	0.28	0.09	0.18	0.21	0.21	0.15	0.17	0.16	0.16	0.05	32.49
PIC	0.12	0.15	0.11	0.19	0.19	0.17	0.15	0.16	0.18	0.17	0.16	0.02	14.56

Year Mean	0.20	0.21	0.21	0.21	0.21	0.19	0.16	0.15	0.16	0.15			
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Appendix-16

Current Assets to Current Liabilities

Year/Insurer	2015/16	2016/17	2017/18	2018/19	2018/19	2017/18	2019/20	2020/21	2021/22	2022/23	Mean	S.D	C.V
SICL	0.95	1.08	1.37	1.30	1.77	1.73	1.69	1.68	2.31	2.43	1.63	0.48	29.42
NIL	1.25	1.28	1.49	1.47	1.76	1.68	1.83	1.71	1.81	1.78	1.61	0.22	13.45
SIC	1.25	1.37	1.42	1.25	1.40	1.49	1.63	1.58	1.66	1.74	1.48	0.17	11.36
PIC	1.22	1.27	1.29	1.86	1.44	1.55	1.71	1.78	1.96	2.43	1.65	0.38	22.92
Year Mean	1.15	1.21	1.41	1.45	1.58	1.59	1.70	1.69	1.89	2.04			

Appendix-17

Liquid Assets to Current Liabilities

Year/Insurer	2015/16	2016/17	2017/18	2018/19	2018/19	2017/18	2019/20	2020/21	2021/22	2022/23	Mean	S.D	C.V
SICL	0.11	0.06	0.07	0.16	0.22	0.21	0.17	0.19	0.25	0.29	0.17	0.07	42.40
NIL	0.13	0.17	0.19	0.31	0.31	0.10	0.06	0.07	0.19	0.12	0.16	0.09	55.11
SIC	0.08	0.07	0.08	0.09	0.07	0.08	0.11	0.04	0.11	0.08	0.08	0.02	24.75
PIC	0.06	0.10	0.06	0.29	0.01	0.03	0.03	0.05	0.08	0.07	0.08	0.08	10.6
Year Mean	0.10	0.12	0.10	0.18	0.16	0.11	0.09	0.08	0.14	0.13			

Appendix-18

Net Assets to Net Premium

Year/Insurer	2015/16	2016/17	2017/18	2018/19	2018/19	2017/18	2019/20	2020/21	2021/22	2022/23	Mean	S.D	C.V
SICL	1.04	1.08	1.32	1.24	1.40	1.25	1.36	2.02	2.65	2.97	1.63	0.68	41.54
NIL	1.31	1.31	1.70	2.14	1.56	1.65	1.99	1.93	2.10	1.96	1.7	0.3	17.

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SIC	1.27	1.44	1.55	1.86	2.02	1.89	1.95	2.32	2.21	1.81	0.34	18.95	2.52
PIC	2.52	2.08	1.80	2.15	1.59	1.22	1.88	2.24	3.19	3.12	2.18	0.63	28.74
Year Mean	1.43	1.35	1.55	1.7	1.48	1.55	1.75	2.08	2.57	2.60			

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Abstract The study aims to analyze the financial performance of non-life insurance company in Nepal and examine the effect of operating profit margin of selected non-life insurance companies have been analyzed. The design and methods have been applied according to the research type which is descriptive and analyses. The findings of this research were based on the secondary data. The data has been used to extracted from Annual reports and Nepal Beema Sansthan Office. The findins are completely based in the data and facts as provided. The findings off the research show the overall calculated financial ratios are good enough for better financial performance of selected non-life insurance companies in Nepal. Furthermore,the study revealed that a mixed result in terms of the degree of effect of financial performance on the operating efficiency. There is both significant and insignificant effects of solvency margin and operating profit on operating efficiency of both sample insuranc company. There are still major hurdles to overcome in order for Nepal to realize the growth potential of it's insurance industry. Research could be conducted on the growth in the written premium accounted by insurers. **CHAPTER I**

INTRODUCTION 1.1 Background of the Study People live in society and also born and die in society. Society is full uncertainties which gives birth to risk. Insurance is a means of providing financial protection against occurrence of uncertain events. Insurance sector plays a vital role in the economic development of the country. Insurance plays an important role in protecting the family's income as well as protection of the family business. Insurance services provides benefits to individuals, groups as well as business organizations (Pant & KC, 2017). Pant and KC (2017) stated that service industries are that part of economy that offers services rather than the tangible