

Financial Performance Analysis of Insurance Companies in Nepal

**A dissertation submitted to the office of the Dean, Faculty of Management in
partial fulfilment of the requirements for the of Master's Degree**

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 Analysis of Insurance Companies in Nepal**". 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 the dissertation.

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Report of Research Committee

Mr. Dipak Joshi has defined research proposal entitled "**Financial Performance Analysis of Insurance Companies in Nepal**" successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestions and guidance of supervisor Lecturer **Dr. Binod Sah** and submit the thesis for evaluation and Viva voce examination.

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Approval Sheet

We have examined the dissertation entitled "**Financial Performance of Insurance Companies in Nepal**" Presented by **Dipak Joshi** for the degree of **Master of Business Studies (MBS)**. We hereby certify that the dissertation is acceptable for the award of degree.

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September, 2022

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ABBREVIATIONS

&	:	And
ANOVA	:	Analysis of Variance
CA	:	Current Assets
CAMEL	:	Capital adequacy, Asset quality, Management, Earnings, and Liquidity
CFOR	:	Cashflow from operating activities
CL	:	Current Liabilities
Co.	:	Company
CR	:	Current Ratio
DER	:	Debt Equity Ratio
F/Y	:	Fiscal Year
Li	:	life insurance
LIC	:	Life Insurance Company
NI	:	Net Income
NRB	:	Nepal Rastra Bank
OE	:	Operating Expenses
OER	:	Operating Expenses Ratio
OER	:	Operating Expenses ratio
ROA	:	Return of Assets
ROE	:	Return of Equity
Rs.	:	Rupees
S.D.	:	Standard Deviation
SE	:	Shareholders Equity
SPSS	:	Statistical Package for Social Science
TA	:	Total Assets
TOI	:	Total Operating Income

ABSTRACT

This study examined the financial performance of Nepalese insurance companies. The dependent variables was return on assets and return on equity while independent variables include current ratio Debt equity ratio operating expenses ratio and cashflow ratio. The study design was descriptive and analytical research design. The data were collected from insurance and financial statistics published by Beema Samiti and annual reports of the selected Nepalese insurance companies. The mean, Standard Deviation maximum, minimum, vertical analysis, correlation coefficient and regression models were estimated to analyze the secondary data of this study.

This study examined a financial performance of life insurance companies over the period 2072/73 to 2076/77. The finding of the study over showed that CFOR is positive relation with financial performance (ROA and ROE) but negative relation with CR, DER and OER. Manager should balance between profitability and liquidity of their companies. This means they should maintain a tradeoff between profitability and liquidity. Profitability plays an important role in financial position companies.

Keywords: Current ratio, Debt equity ratio, operating expenses ratio, Cashflow ratio, return on assets and return on equity.

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Insurance is the equitable transfer of risk or loss, from one entity to another in exchange for payment referred to as premium. The contract entered into by the insurer (company selling insurance) and the insured is meant to protect the insured against unexpected risks. The insurer undertakes to indemnify the insured when loss is incurred, as long as the loss falls under the terms of the contract that was signed by both the insurer and the insured.

Insurance companies provide unique financial services to the growth and development of every economy. In Nepal, the business of insurance plays significant intermediary roles in terms of risk transferring, enhancing private investment, creation of job opportunities and ensuring various development related projects. Insurance business creates capital fund and promotes development, growth and prosperity of a country.

A life insurance policy is a contract with an insurance company in exchange for premium payments; the insurance company provides a lump-sum payment, known as a death benefit, to beneficiaries upon the insured's death. Typically, life insurance is chosen based on the needs and goals of the owner. Insurance is a means to minimize future uncertainty and financial losses. Insurance is a cooperative device of distributing losses, falling on an individual or his family over a large number of persons, each bearing a nominal expenditure and feeling secure against heavy loss.

Insurance is a device providing financial compensation to those who suffer from misfortune. Life insurance provides a service of financial protection to surviving dependents after the death of an insured. Various services are provided based on the terms of Life Insurance policy. Risk management is quite challenging for insurance companies as it collects small premiums by promising to provide benefits in case of uncertain loss. So the insurance company should be prepared to pay claims of huge loss in time which can arise at any time.

At present, total number of insurance companies have been 40 including 19 life insurance companies, 20 non-life insurances and one reinsuranc company. Till the end of 2021, the total financial resources of the insurance business and its utilization have been approximately three hundred billion. Out of this amount, life insurance and non-life insurance companies have shares equivalent to nearly twohunder and thirty billion and around eighty three billion respectively (Economic Survey, 2018/2019). Access to insurance in the country stands at only twenty two percentage. Comparing with the developed foreign countries, the Nepalese life insurance industry has achieved only little because of the lack of insurance awareness, ineffective marketing strategies, poor affordability and low investment in life insurance products. According to the financial inclusion roadmap 2017-2022, eighty percent of the adult population of Nepal does not have any type of insurance coverage. This shows that there is a large untapped insurance market in Nepal.

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 enhance 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.

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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

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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 policy-holder, 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)

1.1.1 Profile of the Study

Asian Life Insurance Company Ltd

Asian Life Insurance Company Limited(ALICL) has got operating license as per Insurance Act 2049 from BeemaSamiti (Insurance Regulatory Authority of Nepal) on 27th February, 2008 (Falgun 15, 2064) and started functioning on 3rd April, 2008 (Chaitra 21, 2064). Asian Life is serving the nation through its 140 branch network across the nation. Asian Life is dedicated to maintain the highest level of professional integrity, regulatory compliance and corporate governance. Since inception, the company has focused on policy- holder's satisfaction. The company is equipped with modern technology to conduct the insurance business in professional manner and is in the position to properly deal with all types of clients and ready to provide excellent service.

There are 93 promoters of the company: 2 institutional and the remaining 91 individual promoters. Among the institutional promoters, there are prominent BFIs and Corporate House.

Surya Life Insurance Company Ltd

Surya Life Insurance Company Ltd. Has Been Established And Registered Under Company Act 2063 B.S.(Regd. No. 1006/063-64) And Insurance Act 2049 As A Public Limited Company And Was Issued A License To Operate Life Insurance Business On 2064/12/06(19th March'08)

The authorized capital of the company is NRs 300 crore and Paid up Capital of the company is NRs 215.51 crores. The contribution ratio of promoter and public is 70% and 30% respectively.

Nepal Life Insurance Company Ltd

Nepal Life, established under the Company Act 2053 and Insurance Act 2049 as a public limited company on 2058/01/21 (04/05/2001). Nepal Life is the foremost life insurance company established by private investors. The promoters of the company

are a group of well known businessmen and business houses of Nepal. Within the twenty one years of operation the Company has set up an excellent business record and has a strong financial position.

The company has an authorized capital of Rs.1,000Crore and Paid-up Capital of Rs. 820.79 Crore. As on Jestha 2079, the company has issued 15,22,481 conventional policies having total premium income of Rs.17,707 Crore and 15,35,335 Foreign Expatriate policies having premium income of Rs.416.98 Crore. Out of the total premium collected, the company has invested Rs.13,882.46 Crore as per guidelines of BeemaSamiti. The company has insured itself with well-known reinsurance companies "Hannover Re Life Reinsurance Company", Germany and "Nepal Reinsurance Company Ltd", Nepal.

Life Insurance Corporation NepalLtd

Life Insurance Corporation Nepal Limited (shortly called as L.I.C. Nepal) is one of the largest capitalized insurance companies of Nepal. The journey of L.I.C. Nepal had its genesis in 2000 when global insurance behemoth, Life Insurance Corporation of India, joined hands with Vishal Group, a dominant player of Nepal. 55% of ownership of the Company is held by L.I.C. of India, 25% by Vishal Group and 20% by general public in the form of equity. This way the essence of L.I.C. Nepal can best be described by the word "Glocal" i.e. a unique combination of global experience with local expertise. Life Insurance Corporation (Nepal) Limited having Registration No. 765-057/58, was incorporated under the Companies Act, 2053, on 27.12.2000. It has got the life insurance license from Insurance Board of Nepal (BeemaSamiti) on 07.08.2001 and started operations from 01.09.2001.

National Life Insurance company Ltd

National Life Insurance Company Limited (formerly known as National life & General Insurance Co.Ltd.) was incorporated in 1988 A.D. under Nepal Company Act1964 and the insurance Act 1968 of Nepal with prime objective to meet growing insurance requirements of the country.

For more than three decades, National Life has built reputation as a company that believes in highest level of customer's service. The company's well known name and

good reputation are reinforced by our commitment to deliver value and service to all who do business with us. Supporting these efforts are the National Life's core values of professionalism, transparency, trustworthiness and honesty. These values are central to the company's efforts to achieve its vision - to build financial freedom for all – the company remains committed to the highest standards of ethics and integrity.

1.2 Statement of the Problems

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.

Insurance industries have been affected by many stakeholders like Government and ministries, insurance industry player, service provider, learning institute, media, Financial sector and regulators, policy holders and its staffs having positive or negative effect on the insurance industries. Nepalese insurance market is being constrained by various challenges. Majority of them includes low and irregular income, low level of insurance awareness, small market size, unhealthy competition, shortage of competent human resources, low risk of retention capacity of insurers, limited access to reinsurance market, weak legal and regulatory framework and other known human hurdles.

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 life Insurance company to provide clear findings about this sector's performance and contribution to national economy.

1.3 Research Question

In general, the study focuses to assess the financial performance of Nepalese life insurance industry considering the listed companies. The study also tries to answer the following research question

- i. What is the status of financial statement of sample insurance company?
- ii. What is the cashflow performance of selected insurance companies ?
- iii. Does the impact of cashflow on financial performance of selected insurance companies?

1.4 Objectives of the Study

- i. To examine the status of financial statement of sample insurance companies
- ii. To measure the cashflow performance of selected insurance companies.
- iii. To analyze the impact of cashflow on financial performance of selected insurance companies.

1.5 Significance of the Study

Insurance companies are playing a vital role in the economic protection of the business firm. They have provided essential knowledge to get protection from risk. They have given facilities to business firms for the foreign trade. In lump sum, Insurance companies have played an active role in business firm, individual's life and society too.

The need of the study is to analyze the trend and suggest promotional measures in the area of financial management. It is well known that no company can expect growth with a weak financial position. So, the studies of financial aspect of these companies are necessary to analyze the financial performance and to give the suggestion improving the efficiency to earn maximum return. The need of this study is felt in the view of the management of the company that this study makes the management conscious to find out the major problem area of finance. This study aims to provide an insight into determination of financial health of Nepalese 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 life Insurance companies. The researcher believes that the study sheds some light about use of various financial ratios in analyzing the financial performance of Insurance companies. The research would play a 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.

1.6 Limitations of the Study

The research study has some limitations. The main limitations of the study are as follows:

- i. The study only deals with life insurance companies listed in NEPSE.
- ii. The study covers only five-year historical data of sample insurance companies.
- iii. The study was limited on Quantitative analysis which does not consider a qualitative.
- iv. This reliability of the secondary data highly depends on the accuracy of the annual report of the concerned insurance companies.

1.7 Chapter Plan

The whole study is divided into five different chapters. They are as follows:

Chapter-I Introduction

This chapter includes the background of the study, an introduction of sample insurance company under study, statement of problem, objectives of the study, significance of the study, limitations of the study and organization of the study.

Chapter- II Review of Literature

This chapter deals with the review of available literature. It includes review of books, reports, thesis and journals etc. Research gap is also included in this chapter.

Chapter -III Research Methodology

This chapter includes the research methodology used in the study which includes research design, population and sampling, types and sources of data, methods of data analysis and analytical tools used etc.

Chapter-IV: Result and Discussion

This chapter presents a brief summary of the whole research report and conclusions. It also provides some useful suggestions and recommendations to concerned parties.

Chapter-V: Summary and Conclusion

This chapter is most important and plays a vital role in this study. This chapter deals with analysis, presentation, and interpretation of data as required by the objectives stated in this study. These collected data have been analyzed and interpreted by the help of various statistical and financial tools and techniques. It also includes major findings of the study.

CHAPTER II

LITERATURE REVIEW

2.1 Background of the Study

The focus of chapter two was to give the theoretical and conceptual foundation of the study. This chapter presents the literature review focusing on the financial performance analysis of insurance company of Nepal. It is reviewing research studies of other relevant propositions in related areas of the study so that all the past studies, their conclusions and deficiencies may be known and further research can be conducted. For this, several books, dissertations, reports, handouts and articles published in journals and newspapers are reviewed.

2.2 Theoretical Review

2.2.1 Miller & Orr model

Miller & Orr (1966) developed a model of demand for money. Under the model, the firm allows the cash balance to fluctuate between the upper control limit and the lower control limit, making a purchase and sale of marketable securities only when one of these limits is reached. The assumption is that the net cash flows are normally distributed with a zero value of mean and a standard deviation. This model provides two control limits – the upper control limit and the lower control limit as well as a return point. When the firm's cash limit fluctuates at random and touches the upper limit, the firm buys sufficient marketable securities to come back to a normal level of cash balance that is the return point. Similarly, when the firm's cash flows wander and touch the lower limit, it sells sufficient marketable securities to bring the cash balance back to the normal level that is the return point.

2.2.2 Pecking order theory of liquidity

Myers & Majluf (1984) introduced very influential pecking order theory saying; manager prefers to finance deficit of capital by issuing safe security. The theory states that, in the event where retained earnings and other internal source of financing will be low to invest then manager will issue debt and only issue new equity with

possibility of issuing junk debt (financial distress possibility). The theory emerges as a result of asymmetric information existing in the financial markets, that is, corporate managers often have better information about the health of their companies than outside investors. Apart from the transaction costs of issuing new securities, companies have to accept the information costs arising from asymmetric information. In this way, new securities issued on the financial market could be undervalued because of informational asymmetries, and this is especially true in the case of new equities. Tradeoff and pecking order theories center the importance of the thought of liquid assets. Tradeoff advocates an inverse relationship between liquidity and profitability that center the cost and benefit of every decision. Whereas, pecking order advocates the positive relationship between liquid assets and performance.

2.2.3 Dynamic theory of profit

According to Clark (1902) profit accrues because the society is dynamic by nature. Since the dynamic nature of society makes future uncertain and any act, the result of which has to come in future, involves risk. Thus profit is the price of risk taking and risk bearing. It arises only in a dynamic society which means in a society where changes does not occur that is, it is static by nature the risk element disappears and hence the profit element does not exist there. A society is said to be dynamic when there is a change in its population, change in trends of the people, change in stock of the capital, change in the supply of entrepreneurs among others. When all these factors become constant, the future also becomes certain and the risk element disappears from the society.

According to Clark (1902), profit is the result of an adjustment, which is brought about by the entrepreneurs themselves. They may find new techniques of production by inventing new machines. Their use reduces the cost of production and reduces the course of time as well and gives the entrepreneur higher profits. But when the use of machinery and production becomes common and used by the other entrepreneur operating in the economy, the supply of goods increase and the prices fall. Hence the profit margin also goes down. Under this situation the profit is determined by the demand and supply of enterprise at a point where they are equal. This theory is also known as windfall theory of profits. This theory treats profits as a residue in price after deduction

cting costs; hence it is a residual theory of profits.

2.2.4 Baumol's model

Baumol (1952) developed an inventory management model which was applicable in determining the level of cash to be held by the business firms. He described the holding costs and the ordering costs of cash in a fashion similar to those costs associated with inventory. His conclusion was that the rational individual will, given the price level, demand cash in proportion to the square root of the value of these transactions. The Baumol model assumes the cash manager invests excess funds in interest-bearing securities and liquidates them to meet the firm's demand for cash. As the investment return increases, the opportunity cost of holding cash increases and the cash manager decreases the cash balance. As transaction cost (cost of liquidating short-term investment) increases, the cash manager decreases the number of times the liquidates securities, leading to higher cash balances. However, as is the case with the Keynesian model, the economics order quantity model, Baumol's model has restrictions when using the assumptions of fixed and predictable demand, as well as instantaneous supplies when applying for replacement cash.

2.2.5 Liquidity preference theory

Keynes (1936) was the first to develop the concept of liquidity in his book *The General Theory of Employment, Interest and Money* to explain the determination of the interest rate by the supply and demand for money. Liquidity preference refers to the demand for money, considered as liquidity. The idea that investors demand a premium for securities with longer maturities, entails greater risk, because they would prefer to hold cash, which entails less risk. The more liquid an investment, the easier it is to sell quickly for its full value. Because interest rates are more volatile in the short term, the premium on short-versus medium-term securities will be greater than the premium on medium-versus long-term securities. For example, a three-year Treasury note might pay 1% interest, a 10-year treasury note might pay 3% interest and a 30-year treasury bond might pay 4% interest.

As studied above the word financial statement has been frequently used. A question may arise here what financial statement is. "Financial statements contain summarized information of the firm's financial affairs, organized systematically. They are the

means to present the firm's financial situation to the users. Financial statements are especially prepared at the end of the accounting year or financial year. The financial statements are the annual reports of the organization or firm. Financial statements are used by investors and financial analyst to examine the company's performance in order to make investment decisions. These statements are prepared very carefully and contain as much information as possible. Financial statements are the summary of the accounts of assets and liabilities, capital and profit and loss.

An evaluation of a company's financial past performance and future prospects is called a financial analysis. Financial statement analysis includes calculating different ratios. A ratio is the mathematical connection between two quantitative quantities. By contrasting two sets of accounting data, the ratio analysis is a financial instrument that assesses both financial strength and weakness. Decision-makers can determine if a company's status is favorable or unfavorable with the use of financial statement analysis. As a result, financial analysis reflects a company's financial position which is the process of determining a firm's operational and financial characteristics. Depending on our goals, we can use various types of financial statement analysis.

"Financial analysis is the process of identifying the firm's financial strengths and weaknesses by properly establishing the relationship between the balance sheet items and the profit and loss account." It can be done by the firm's management or by parties outside the firm. "The key figure in the financial statement is the focus of the financial analysis, and a significant relationship exists." The management of the company is generally interested in all facets of financial analysis; they are in charge of using the firm's resources and financial status in an overall efficient and effective manner. Vertical and horizontal analysis could be used for financial analysis. A financial Balance Sheet and Profit and Loss Account for a given period of time are the only components of vertical analysis, sometimes referred to as static analysis. Similar to the vertical analysis, the horizontal analysis is composed of a series of claims regarding the number of years that are examined and examined. It is also referred to as a dynamic study that tracks how an organization's position or trend has changed over time (Pandey, 1998). The following are the analysis's steps:

- i. Choosing the data that is important for the decision.

- ii. An arrangement or the material that has been carefully chosen to show how the financial yardsticks are significantly related.
- iii. Interpretation, inference, and conclusion-making

Significance of Financial Analysis

The significance of analysis is based on the goals of any firm's financial analysis. The facts discovered by the analysis are perceived differently by different groups associated with the issue. Based on the objective in hand, the facts and relationships concerning managerial performance, corporate efficiency, financial strengths and weaknesses, and credit worthiness are interpreted. Such an analysis leads enterprise management to make critical decisions about operational policies, the firm's inter-financial control system's investment worth and the negotiating tactics used to secure outside funding (Agrawal, 1993).

The following parties can be listed as those who stand to gain from the findings or recommendations stemming from the examination of financial performance:

- i. Senior management
- ii. Creditor
- iii. Shareholders
- iv. Economist
- v. Labor union

I. Senior Management

Evaluation is the highest management's responsibility;

- i. Is the company using its resources effectively and efficiently?
- ii. Is the company's financial situation stable enough?

II. Creditor

The borrower's financial stability and ability to satisfy creditors' demands can be found out. Long-term debt providers are more concerned with the firm's existence and long-term solvency than trade creditors are with the company's capacity to quickly satisfy their claims. By examining these statements, a lending bank can decide

whether the borrower still has the ability to repay the principle and pay interest on schedule.

III. Shareholders

The firm's earnings are most important to the shareholders who have invested their money in the company's stock. They assess the effectiveness of management and determine the need for change. In a major firm, the shareholders' interest is in choosing whether to buy, sell, or hold the shares. In contrast to those who simply aim to hold the shares if the firm performs well, they want to buy the shares if the company does well. However, they are in a hurry to sell the shares if they perform poorly.

IV. Economist

Economists examine a firm's financial statements to diagnose the current state of business and the economy. For the purpose of setting rates, regulating prices, and other comparable objectives, government authorities study them.

V. Labor Union

Labor unions are interested in labor rights and benefits in order to boost labor morale. They expect wage increases, fringe benefits, and other incentives to motivate workers. The profitability of the company has an impact on these benefits. As a result, the union evaluates the firm's financial condition to determine whether or not the firm is in a position to provide such facilities (Srivastav, 1993).

Batool and Sahi(2019) reveled that financial performance of any firm related to its profitability of that firm. The financial performance of the firm can be measure by some other different ways like gross margin rate, return on asset and return on equity. Financial performance of the firm is very important to attract the attention of researcher, financial experts and management of other corporations.

2.3 Conceptual Review

2.3.1. Technique for Financial Analysis

The fundamental goal of the analytical technique is to make the data under consideration simpler or more comprehensible. Depending on the goal of the analysis, many methods and methodologies can be utilized while analyzing financial statements. A most widely used method is described as follows:

- i. A ratio analysis.
- ii. A statement of the financial position's modifications.
- iii. The statement of cash flows.

2.3.2. Ratio Analysis Types

Ratio analysis is a potent and popular analytical technique. The link between two accounting figures can be quantitatively defined as a financial ratio, or the phrase ratio can refer to the quantitative or numerical relationship between two variables. The numerical representation of this kind of relationship is a %, fraction, or proportion. Financial ratios let us see the signs of issues. The cause of any issue can only be identified once the symptoms have been identified. These ratios' behavior can show the operational and financial problems a company is having. The ratios are therefore thought to be the most accurate measures of their performance.

In order to identify the firm's strengths and weaknesses, as well as its past performance and current financial status, ratio analysis is the systematic use of ratios to the interpretation of financial statements. Ratio analysis can be used to compare data from multiple statistics pertaining to distinct facts of a business unit. Additionally, ratio analysis monitors health in the same manner that temperature, pulse, and blood pressure do. Ratio analysis is a powerful tool for analyzing a company's financial performance in great detail (Kothari, 1990).

A financial ratio is the mathematical relationship between two accounting figures. Ratio analysis is a part of the general process of examining the financial records of any company or industrial concern, particularly in order to make decisions about output and credit (Kothari, 1984). In order to evaluate a firm's financial performance

and position over time to that of other firms, ratio analysis is utilized. Making qualitative assessments of a company's financial performance using ratio analysis is possible.

Ratio analysis is a crucial technique for conveying meaningful relationships between the different parts of a financial statement. In order to assess a company's financial state and operations and compare them to the previous year or two other business concerns, ratios are rules of thumb or short cuts that can be applied. The numerical or quantitative relationship between two variables is referred to as a ratio. The rationale behind ratio analysis is that it makes related data comparable (Khan and Jain, 1996).

Despite the fact that there are many ratios, only those related to the bank's performance have been covered in this study. "One of the most commonly used tools for evaluating financial health, operating results, and growth is ratio analysis." Financial ratios alone do not indicate the institution's position. The stated quotient of definitions of a standard, also known as a norm (Wasters Dictionary, 1975).

The numerous financial ratios that are currently in use have been divided into the following groups:

- i. Liquidity Ratio.
- ii. Leverage ratio..
- iii. Profitability ratio.

I. Liquidity Ratios

The ability of a corporation to fulfill its present obligations is measured by liquidity ratios. In truth, cash budgets and cash flow statements must be created in order to analyze liquidity; nonetheless, liquidity ratios offer a quick indicator of liquidity by establishing a relationship between cash and other current assets and current liabilities (Pandey, 1998). Therefore, liquidity ratios are used to evaluate a company's ability to satisfy its short-term obligations. They can also be used to evaluate a company's current cash solvency as well as its resilience to financial hardship. It is used to assess the immediate solvency of an organization. It divulges details regarding a business' capacity to fulfill immediate commitments arising from a transaction. A firm's resources are unnecessarily being tied up as idle assets in current assets, which are

earning nothing, which means that there must be a proper balance between liquidity and lack of liquidity. The failure of a company to meet its obligations, due to a lack of liquidity, results in a bad credit image, loss of creditor's confidence, and even in law suits.

II. Leverage Ratio

The term "financial leverage" refers to the use of finance. These are also known as solvency ratios or capital structure ratios. These ratios aid in judging the firm's long-term financial position by comparing the financial contributions of owners and creditors. These ratios are calculated to determine the company's capacity to use debt for the advantage of shareholders and reflect the capital structure position. Leverage ratios look at potential sources of future funding as well as how much of an enterprise fund is financed by debt and equity. Given that the firm's assets are financed by both equity and debt, leverage ratios are also used to evaluate the firm's general ability to satisfy long-term obligations.

III. Profitability Ratio

Profit is just an incentive. The difference between total revenue and total costs is used to determine profit. Any business depends on return on investment because it determines whether it will survive, grow, expand, or shut down. The company's profit must be enough to pay for all obligations and potential unforeseen expenses. As a result, the profitability ratio is a reliable gauge and sign of the company's overall operating performance. It is a gauge of operational effectiveness that is derived from the profitability ratio. The 25 banks' profitability is continually assessed by the financial manager. Profitability ratios are computed in this study to compare the performance and operational effectiveness of two banks. This set of ratios "demonstrates the combined effects of liquidity, asset management, and debt management on operating outcomes," according to the definition of these ratios. (Page 145 of Weston's 8th edition)

IV. Cash flow Ratio

A cash flow ratio is a measure of the number of times a company can pay off current debts with cash generated within the same period. A high number, greater than one,

indicates that a company has generated more cash in a period than what is needed to pay off its current liabilities.

2.3.3 Origin and Introduction to Insurance

The history of insurance is as old as human civilization. Insurance was practised around 5000 years before (Vaughan, 1996). In ancient times, the risk was managed by entire members of the society where each member of the society contributed a certain amount of goods or money and signed in the contract as a contributor. Initially, entire people of the certain society have participated in insurance for mutual benefits. The concept of mutual insurance originated in England in the late 17th century to cover losses due to fire. The mutual insurance industry began in the United States in 1752 when Benjamin Franklin established the Philadelphia Contribution ship for the Insurance of Houses from Loss by Fire (Janet, Wadsley, & Artandi, 1994). Almost 400 insurers from 74 countries are members of the International Cooperative and Mutual Insurance Federation. Mutual insurers distribute the profits to their policyholders, raise the equity fund from policyholders, manage the company by the policyholders and there is no existence of separate stockholders (outsiders).

Primarily, insurance was originated as a social security device, gradually developed as a cooperative institution, further, it was developed in the form of mutual insurance while insurance companies now are operating as commercial institutions. Nowadays, the number of mutual insurers gradually decreases while stock insurers are dominant. Policyholders are entitled to get claims (nonlife) and claims and bonus (life) only, they have not right to elect the board of directors, the voice of policyholders carry over by the regulators and whistleblowers.

Modern insurance is a legal contract between an insurer and insured where the insurer promises to pay compensation in case of any financial loss occurs due to the covered risk and the insured promises to pay the premium. Insurance was considered a gambling and speculative device. Insurance is guided by many principles viz. principle of indemnity, insurable interest, subrogation, utmost good faith, contribution, risk mitigation and proximate causes which were developed over a long period to make the insurance business more professional and less speculative. Now, thousands of insurers and reinsurers are operating across the globe.

2.3.4 Types of Insurance Services

A wide range of insurance products is available across the globe. Insurance carriers as well as the government design various types of insurance products as per the demand of policyholders and society. Insurance products or services can be classified on different bases.

In the Nepalese insurance market, all types of insurers except mutual insurance and all types of products except linked investment products are available. Recently, social insurance products are introduced by Health Insurance Board and Social Security Fund. Microinsurance products are mandatory to sell by commercial insurers. We have a commercial reinsurance company and a deposit insurance company. Still, there is no separate micro-insurance company.

Evolution of Insurance Services in Nepal

The first homegrown general insurance company Nepal Mal ChalanitathaBeemaAdda (currently known as Nepal Insurance Company) was jointly established by Nepal Bank Limited and private investors in 1947. Indian companies sold general insurance policies without registering their office in Nepal from the 1930s till 1967 and life insurance policies till 1974. The insurance market was regulated after the passage of the Insurance Act, 1968. First life cum nonlife insurer RastriyaBeemaSansthan was established as a national flagship company in 1968 under a special act. Financial liberalization policy allowed the private sector (both domestic and foreign) to establish insurance companies in Nepal. Currently, 40 insurers (20 nonlife, 19 life and a reinsurer) are in operation. Besides commercial insurance, social insurance services and insurance for deposits and loans, community-based health insurance and insurance likely social protection activities are available in Nepal. The insurance industry gradually increased and insurance penetration reached almost 3.0 per cent in FY 2075/76.

Life Insurance

Life insurance is a contract between the insured, insurers, insured pays the premium on a regular basis period, an insurer provides benefits to the insured as per the terms and conditions. Life insurance plans are two types viz. risk protection plan and risk

protection cum investment plan. Investment plans are two categories viz. endowment plan and whole life plan.

- i) **Term Insurance Plan:** The term plan covers the risk but it has no saving/investment components so the premium is lower as compared to endowment and whole life. This plan is more popular in the corporate sector (for employees), financial institutions (for borrowers), and manpower companies (for foreign migrant workers) and less demanded among the individual, traders and professionals. The number of policies enforced increased over the period due to the decision of GON that term insurance is mandatory for foreign migrant workers.
- ii) **Endowment Plan:** Under the endowment plan, the policyholder either gets death benefit or maturity benefit which occurs earlier so the premium is higher than term and whole life plan. Various endowment plans are available in the market viz. general endowment, limited payment, a single payment, money back, child endowment, joint endowment, pension plan etc. Nowadays, critical illness benefits are also inbuilt to attract customers. Riders are common in the endowment plan.
- iii) **Whole Life Plan:** The plan covers the risk for the entire life of the policyholder and provides death benefits to beneficiaries. Some companies provide the benefits after certain age before the death of the policyholders. The whole life plan is suitable for those who do not have sufficient money for saving but need financial support at elder age and after death. Almost all life insurers have such type of product.

Non-Life Insurance

Insurance Regulation, 1993 section 5(1) classifies nonlife insurance products in six categories: a) Fire, b) Motor, c) Aviation, d) Engineering and Contractor's Risk, e) Marine and f) Miscellaneous insurance. Miscellaneous insurance is further divided into Agriculture and Miscellaneous. Globally, general insurance is divided in three categories viz. a) Property, b) Health and c) Liability.

2.3.5 Development Issues

The insurance industry is one of the most dynamic industry where products are changed more frequently, marketing channels and approach becoming more advanced, products are sold online and claims is also screening by artificial intelligence. Digitization makes the insurance industry able to predict the future and manage the risk before it's happening through big data and artificial intelligence. The development of the insurance industry largely depends on the policy level supports from the government and regulating authority.

The growth of the life insurance industry before 2001 was sluggish while the growth was very impressive aftermath of the establishment of new companies in 2001 and 2017. A large number of companies enter the market at a time brought both positive and negative impacts. The foremost impact can be seen in the market that unhealthy competition among the insurance carriers, scarcity of middle and high-level managers and a huge amount of spending in promotional activities. An increase in insurance awareness towards the society and more market coverage, sales of more policies, and mobilization of a large amount of savings vibrant the economy mitigate the risk of families are some positive indications in the economy.

The only premium based market growth is not sustainable and does not portraint a true picture of the performance of companies. Major indicators of market development and growth are per-unit acquisition cost, claims ratio, administrative and operating cost, persistency ratio, surrender and lapse ratio, underwriting profit, coverage ratio, return on investment, Net income ratio, solvency and liquidity ratio, duration of claims settlements, claim rejection ratio, renewal ratio, bonus rate, the market value of the company. Some industry performance indicators are the satisfaction of policyholders, full coverage of the risk, and trust in society. The Nepalese insurance industry needs to improve product value, product awareness and satisfaction, service quality and financial prudence.

2.3.6 Prospects

The future of the Nepalese insurance industry is at crossroads. The large population is still beyond the coverage of insurance so that there is an ample opportunity for growth for the insurers but in another hand, there are various challenges to tap the untapped

market. Insurers are facing unprecedented competition, scarcity of human resources and poor regulatory framework. The future of insurance depends on the government's plans and program towards insurance and social security. Some of the challenges and shortcomings of the insurance industry can be sorted out as: a) low attention of government authority towards the development of the entire insurance industry, b) poor promotional activities by Insurance Board, c) Distrust by the public towards the insurance, d) Lack of awareness among the public even though they are academically sound, e) Low saving capacity of a big chunk of the population, f) Lack of risk management practices, g) huge protection gap,

Considering the saying "dark cloud with silver lining", we can predict the bright future of the Nepalese insurance industry since the number of an educated population and per capita income gradually increasing, awareness on risk management and social security has been increased.

2.4 Empirical Studies

2.4.1 Review of Journal Articles

Pradhan (2021) examined the financial performance of Nepalese insurance companies. The dependent variables were return on assets and earnings per share while independent variables include insurance premium, firm size, current ratio and solvency ratio. Twenty-one insurance companies among them 8 are life insurance and 13 are non-life insurance companies with 105 observations for the period of 2070/71 to 2074/75, were selected for this study. The data were collected from insurance and financial statistics published by BeemaSamiti and annual reports of the selected Nepalese insurance companies. The correlation coefficient and regression models were estimated to test the significance and importance of liquidity management on financial performance of Nepalese insurance companies. The results from the study showed that insurance premium has positive impact on return on assets and earning per share. It means that increase in insurance premium leads to increase in return on assets and earnings per share. Likewise, firm size has positive impact on return on assets and earning per share. It indicates that increase in firm size leads to increase return on assets and earnings per share. Similarly, current ratio has negative impact on return on assets. It means that increase in current ratio leads to decrease in return on

assets. Likewise, solvency ratio has negative impact on return on assets. It indicates that increase in solvency ratio leads to decrease in return on assets. Similarly, current ratio have positive impact on return on assets. It means that increase in current ratio leads to increase in earnings per share. Likewise, solvency ratio has positive impact on earnings per share. It indicates that higher solvency ratio, higher would be the earnings per share. The study also concluded that insurance premium followed by current ratio and firm size is the most influencing factor that explains liquidity management and financial performance of Nepalese insurance companies.

Hamal (2020) examined the impacts of liquidity ratio, leverage ratio, firm size, age of the firm and total debt on the profitability of non-life insurance companies in Nepal. The dependent variable in the study was the return on asset (ROA), which is used as a measure of profitability. The study was based on secondary data of nine non-life insurance companies studied over a period of ten years, from 2066/67 to 2075/76. The data were collected from the financial statements published annually by the selected non-life insurance companies. Descriptive statistics, correlational analysis and regression models have been employed in order to test the impacts of the selected independent variables on ROA. The study concluded that the profitability of Nepalese non-life insurance companies increases with the increase in liquidity but decreases with the increase in leverage. However, the study established the insignificant relationship of firm size, firm age and total debt with profitability for the sector. The study thus suggested that non-life insurance companies should focus on the proper management of capabilities to pay liabilities to enhance profitability and also try to maintain a smaller value of leverage ratio to handle the above-average losses.

Senol, Zeren, and Canakci (2020) examined the relationship between insurance and economic growth and mentioned that insurance business has several important functions within the economic structure such as providing insurance through the premiums collected by the insurance companies against the risks for the economic structure, managing these premiums collected through using the financial institutional role, risk management and transfer of the premiums into productive areas. While continuing on its activities, insurance business also enhances the economic development. In the study, a research on the relationship between insurance business

and economic growth was conducted by using the data from 36 countries from the period between the years 1985- 2018.

Hamal (2020) examined the impact of firm-specific factors - firm size, liquidity ratio, short-term debt, long-term investment and firm age - on financial performance of life insurance companies in Nepal. The dependent variables influencing financial performance considered were return on assets (ROA) and return on equity (ROE). The study was based on secondary data of seven life insurance companies studied over a period of ten years, from 2009/10 to 2018/19. The data were collected from the financial statements published annually by the selected life insurance companies, Insurance Board of Nepal and Nepal Stock Exchange. In order to derive the impacts of firm-specific variables on ROA and ROE, descriptive statistics, correlation analysis and regression models were used. The study identified size and long-term investment to have negative and statistically significant relationship with financial performance. It also showed that higher the age of the company, the more difficult it will be to accumulate profit. The most influencing factors for the financial performance in Nepalese life insurance companies were firm size and long-term investment. Whereas, the explanatory power of liquidity seemed feeble. The findings elucidated that over-investment in long-term investments should be critically considered as it can have adverse effect on future profitability of the companies. Similarly, life insurance companies should increase their size only after careful examination over financial performance as it can result in diseconomies of scale and reduce the firm's profitability.

Bhattarai (2020) examined the variables that influencing profitability of Nepalese insurance companies. The study based on 10 insurance companies panel data for 2012/13 to 2017/18 over five year period and leading to 50 observations. The study had Return on Equity (ROE) as profitability measures and as dependent variables. The study had employed Expenses Ratio(ER), Financial Leverage (FL) and Size of Company (LnTA) factors as independent variables. The data was processed with the help of SPSS 25 Software. The results revealed that expenses ratio other independent variables have positive relationship found. The results of study concluded that the financial leverage and size have major determinants of the profitability in Nepalese insurance companies.

Abdeldayem&Sherbiney(2018) examined and compared the financial performance of the three banking models in Egypt: Islamic, conventional, and mixed banks during the period of 2003-2010. The study employed multiple regression models and financial ratio to study the influence of both internal banks-specific characteristics and external macroeconomic environment. The findings revealed that operation efficiency has a significant negative impact on three types of bank in Egypt, while bank's size and inflation rate have a significant influence merely on the performance of conventional banks. This study concluded that the ROA of conventional banks is higher than ROA Islamic bank and mixed bank, while there is no significant difference between performance of Islamic bank and mixed bank in term of ROA. Regarding performance of bank in term of ROE, it concludes that performance of conventional bank is higher than Islamic bank.

Birru (2016) investigated the impact of capital structure on financial performance of selected commercial banks in Ethiopia over the past five (5) year period from 2011 to 2015 using secondary data collected from financial statements of the commercial banks. Data was then analyzed on quantitative approach using multiple regression models. The study used two accounting-based measures of financial performance (i.e. return on equity (ROE) and return on assets (ROA)) as dependent variable and five capital structure measures (including debt ratio, debt to equity ratio, loan to deposit, bank's size and asset tangibility) as independent variable. The findings of the study shows that DR, DER, SIZE and TANG have statistically significant factors affecting financial performance measured by return on assets and return on equity at 1%,5% and 10% significant level and LD is statically insignificant with its respective nature of impact. The study suggests recommendations that the commercial banks of Ethiopia should focus on the proportion of debt used by the bank, the manner of utilizing the resources while expanding the banks and the amount of investment on fixed asset. The study concluded that the financial performance, which is measured by both ROA, is significantly and negatively associated with capital structure proxies such as DER, SIZE and TANG whereas DR have negative impact.

Daare (2016) studied the determinants of non- life insurance companies in India. The study used eight general insurance companies (2 publics and 6 private companies) as sample from the year 2006 to 2016. The data collected were analyzed by using a

number of basic statistical techniques such as T-test, F-test and Multiple- regression. Dependent variable of the study was return on assets whereas age, size, loss ratio, liquidity, gross domestic product growth rate, inflation rate and premium growth rate were independent variables. The study revealed size, loss ratio, premium growth rate and inflation have negative impact on return on assets. In contrast, liquidity, age and gross domestic product growth rate have positive influence on return on assets of Indian non-life insurance companies.

Pradhan & Shrestha (2015) examined the impact of bank specific variables and macroeconomic variables on the performance of commercial banks of Nepal. The dependent variable of bank performance were ROA, ROE and NIM while the independent variables were capital adequacy ratio, asset quality, management efficiency, liquidity management, employee expenses, other operating expenses, credit risk, growth of gross domestic product and inflation. To test the impact of importance of bank specific and macro-economic variables on bank performance regression models have been estimated. The study revealed that management efficiency has a very strong and positive relationship with bank performance in Nepal. The macroeconomic variables were not significant and hence there is no evidence that external forces have impact over bank performance.

Hassan & Adam, (2014) examined financial performance of Erbil Bank for Investment and Finance, Kurdistan region of Iraq during the period of 2009-2013. This study used financial ratios analysis which is used to measure the financial position for the bank and on broader range statistical tools also have been used for analysis purpose of several variables which would affect the banking system in general. The findings of the study showed the positive behavior of the financial position for Erbil Bank and some of their financial factors variables influence the financial performance for the bank. This study conclude that the overall financial performance of Erbil Bank is improving in terms of liquidity ratios, assets quality ratios or credit performance, profitability ratios (NPM, ROA, and ROE). This study suggests a set of recommendations regarding the development and enhancing of some banking operations which will boost the bank's profitability and improve the financial performance for the bank.

Mehari&Aemiro (2013) analyzed the firm specific factors that determine the insurance companies' performance in Ethiopia. The study investigated the impact of firm level characteristics (size, leverage, tangibility, loss ratio, growth in writing premium, liquidity and age) on performance of insurance companies in Ethiopia. Return on assets is used as indicator of insurance company's performance i.e. dependent variable. The multiple linear regression models have been used to analyze the impact of independent variables on dependent variables. The study includes 9 insurance companies over the period 2005 to 2010. The study revealed that insurers' size, tangibility and leverage are statistically significant and positively related with return on total assets; however, loss ratio (risk) is statistically significant and negatively related with ROA. Thus, insurers' size, Loss ratio (risk), tangibility and leverage are important determinants of performance of insurance companies in Ethiopia. But, growth in writing premium, insurers' age and liquidity have statistically insignificant relationship with ROA.

Boadi&Lartey (2013) examined the determinants of the profitability of insurance firms in Ghana. Secondary data on financial reports were collected from sixteen insurance firms in Ghana for the period 2005 to 2010. The study was quantitative in nature. It adopted the longitudinal time dimension, specifically, the panel method and ordinary least square regression. The study discovered that, apart from tangibility which has a negative relationship, there was a positive relationship between leverage, liquidity and profitability of insurance firms in Ghana. It was also concluded that, the profitability model adopted was explained in respect to all the independent variables and that the degree of error was less than 20%. Finally, it was suggested that the explanatory variables used in that study should be regressed on Return on Equity to find their extent of relationship on profitability.

Shafana (2013) examined the degree and pattern of determinants of liquidity on profitability of financial institutions in Sri Lanka for the period from 2009 to 2013. The study covers 16 Banks and Finance Companies listed on the Colombo Stock Exchange. For these objectives, the study used Cash Position Indicator (CPI), Capacity Ratio (CR) and Total Deposit Ratio (TDR) as independent variables to measure the liquidity level to examined its determinants on Return on Assets (ROA) of financial institutions in Sri Lanka. The correlation and regression model were used

as statistical tools for hypotheses testing to draw final conclusions. The findings revealed that CPI and TDR have significant determinants on ROA with sign of positive and negative respectively while CR has insignificance on ROA of Banks and Finance Companies in Sri Lanka. The overall finding from regression model is that 30% of variation in profitability (ROA) is explained by variation of liquidity of Banks and Finance Companies in Sri Lanka. Further, the liquidity has negative and significant impact on profitability of financial institutions in Sri Lanka. The finding is more useful to finance decision makers of financial institutions for taking sound decisions on proper trade-off between liquidity and profitability.

Nyanga (2012) examined the determinants of financial performance of commercial banks in Kenya. In order to achieve the objectives of this study, the research was designed as an explanatory study. The population was all the 43 commercial banks by December 2011. All the banks were used in the study. A ten year secondary data from 2001 to 2010 was collected from Banking Survey and the Central Bank of Kenya. This study employed descriptive analysis; correlation analysis and regression analysis to perform the data analysis. Significance was tested at 5% level. The study found that capital adequacy and exchange rates were negatively correlated with ROE while liquidity, operating cost efficiency, size, risk, GDP, and inflation had a positive influence on ROE. Overall, the independent variables accounted for 95.3% of the variance in ROE. Further, the results revealed that exchange rate was negatively related with ROA while capital adequacy, liquidity, operating cost efficiency, size, risk, GDP, and inflation had positive effects on ROA. This study concluded that the independent variables accounted for 95.6% of the variance in ROA. However, none of these effects were significant at 5% level of confidence. None of the models was influence on the financial performance of commercial banks in Kenya. The study recommended that there is need for commercial banks to improve their performance in terms of their ROEs and ROAs. The study also recommended that banks should improve on their liquidity more so the ability of the banks to promptly repay the depositors.

Erasmus (2010) examined the relationship between working capital management and firm profitability for a sample containing both listed and delisted South African industrial firms. The results obtained from the full sample revealed statistically

significant negative relationships between a firm's profitability (as quantified by the return on assets in the narrower sense) and its net trade cycle, debt ratio and liquidity ratio. Similar results were observed when the listed firms were investigated separately. In the case of firms that delisted during the period under review, however, the liquidity and debt ratios appeared to play a more important role than the net trade cycle. Based on the results of this study, it would appear that management could attempt to improve firm profitability by decreasing the overall investment in net working capital.

Kung, et al. (2006) examined the performance of 16 non-life insurance companies. They have chosen 24 financial ratios to be the performance evaluation variables of non-life insurance companies and divided these ratios into five performance indicators, including profitability, capital operational capability, capital structure, solvency, and management efficiency. The results of GRA have revealed that return on assets ratio, funds utilization efficiency ratio, current debt to capital ratio, equity ratio, and net operating profit to retention premium ratio have the greatest impact on the performance of non-life insurance companies.

Malik (2011) investigated the determinants of profitability in insurance companies of Pakistan. Specifically this examined the effects of firm specific factors (age of company, size of company, volume of capital, leverage ratio and loss ratio) on profitability proxied by ROA. A key indicator of insurance companies profitability was return on assets (ROA), defined as the before tax profit divide by total assets (TA). Profitability was dependant variable while age of company, size of company, volume of capital, leverage and loss ratio) were independent variables. The sample in this study included 35 listed life and non-life insurance companies which cover the period of 2005- 2009. Secondary data obtained from the financial statements (Balance sheet and Profit/Loss account) of insurance companies, financial publications of State Bank of Pakistan and Insurance Year Book that was published by Insurance association of Pakistan (IAP). The findings showed that there is no relationship between profitability and age of the company and there is significantly positive association between size of the company and profitability. The result also showed that the volume of capital is significantly and positively related to profitability. Loss ratio and leverage ratio showed negative but significant relationship with profitability.

Bhattarai (2020) examined the variables that influencing profitability of Nepalese insurance companies. The study based on 10 insurance companies panel data for 2012/13 to 2017/18 over five year period and leading to 50 observations. The study had Return on Equity (ROE) as profitability measures and as dependent variables. The study also has been employed Expenses Ratio(ER), Financial Leverage (FL) and Size of Company (LnTA) factors as independent variables. The data has been processed with the help of SPSS 25 Software. The results revealed that expenses ratio other independent variables have positive relationship found. The results of study concluded that the financial leverage and size have major determinants of the profitability in Nepalese insurance companies.

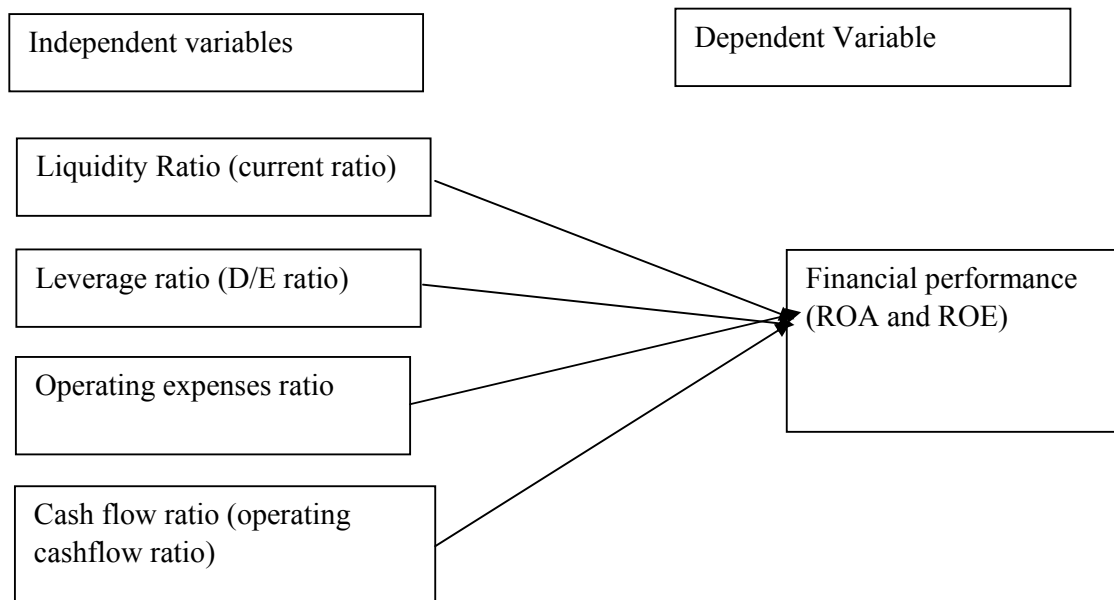
2.5 ResearchGap

The review of above relevant literature has contributed to enhance the fundamental understanding and knowledge, which is required to make this study meaningful and purposeful. There are various researchers conduct on,investment policy, premium collection, insurance policy, financial performance and of various insurancecompany. Some of the researchers have done the financial performance between two or three different insurance company. The past researches in measuring financial performance of insurance company have been focused on the limited ratios, which are incapable of solving the problems. In this research various ratio are systematically analyzed and generalized. The past researchers are not properly analyzed about insurance performance and its impact on the profitability. The ratios are not categorized according to nature. Here in this research all ratios are categoricaccording to their area and nature.

During a review of the literature, it was discovered that the majority of the research is focused on the determinants of profitability for banking industry rather thaninsurance sectors. Few studies are conducted with return on equity as the dependent variable, but this study uses return on equity as the dependent variable and analyzes both profitability and capital structure of insurance sector. Furthermore, previous studies have failed to cover the impact on profitability by its determinants in Nepali insurance companies.

In this research comparative study of financial performance of selected life insurance company of Nepal is measuring by various ratios, and various statistical tools as well and financial tools are used for analyzing survey data. Since the researcher have used data only five fiscal year but all the data are current and fact. Clearly these are the issue in Nepalese insurance the previous scholar could not the present facts. This study tries show financial performance by applying and analyzing various financial tools like liquidity ratio, leverage ratio, profitability ratio and cashflow ratio other ratio as well as different statistical tools like average mean, standard deviation, correlation. Probably this will be the appropriate research in the area of financial performance of insurance company.

2.6 Conceptual Framework



Source: Malik (2011)

Definition of variable

Return on Asset

This is the ratio showing the contribution of company assets on the profitability of the company. The greater the ratio the greater the company performance contributed by company assets of that company.

$$\text{Return on assets (ROA)} = \frac{\text{Net Income}}{\text{Total Assets}}$$

Return on Equity

This is the contribution of shareholders fund (equity) in the generation of company profit. It is a ratio of company profit to shareholders fund. The greater the ratio the greater the performance of a company generated by equity.

$$\text{Return on Equity (ROE)} = \frac{\text{Net Income}}{\text{Share Holders' Equity}}$$

Liquidity Ratio

Liquidity ratios measure the ability of the firm to meet its current obligations. This refers to the ability of an insurer to meet its short term obligations when it is due. It also shows the ability of an insurer to convert its assets in to cash as quickly as possible. In financial parlance, liquidity ratio generate than one manifest that the firms to be in good financial position.

$$\text{Current ratio} = \frac{\text{Current Assets}}{\text{current liabilities}}$$

Leverage Ratio (Debt equity ratio)

The term "financial leverage" refers to the use of finance. These are also known as solvency ratios or capital structure ratios. These ratios aid in judging the firm's long-term financial position by comparing the financial contributions of owners and creditors. These ratios are calculated to determine the company's capacity to use debt for the advantage of shareholders and reflect the capital structure position. The debt to assets ratio, the interest coverage ratio, and the debt-to-equity ratio are the three primary leverage ratio.

$$\text{Debt to equity ratio} = \frac{\text{Total liabilities}}{\text{Shareholder equity}}$$

Total liabilities= Long term liabilities + current liabilities.

Shareholders Equity = Share Capital + Shareholder's Reserve + Other Reserve + Profit & Loss (Credit Balance)

Operating Expenses Ratio (OER)

In real estate, the operating expense ratio (OER) measures the cost of maintaining a property in relation to the revenue it produces. It is computed by dividing a property's running costs (net of depreciation) by gross operating income. The costs of equivalent homes are compared using OER. An investor should be on the lookout for warning signs that can discourage him from buying a certain property, such as higher maintenance costs, operating revenue, or utilities. OER should be used between 60% and 80% of the time (although the lower, it is the better).

- i. In real estate, the operating expense ratio (OER) measures how much it costs to maintain a property in relation to the income it generates..
- ii. Operating income is divided by all operating expenses, less depreciation, to arrive at the operating expense ratio (OER).
- iii. Investors like companies with lower operating expense ratios (OER) since it indicates that costs are kept to a minimum in relation to sales.

$$\text{Operating Expenses} = \text{Operating Expenses} / \text{Net Operating Income.}$$

Cashflow Ratio (Operating cashflow ratio)

The operating cash flow ratio is a measure of how readily current liabilities are covered by the cash flows generated from a company's operations. This ratio can help gauge a company's liquidity in the short term.

The operating cash flow ratio is a measure of the number of times a company can pay off current debts with cash generated within the same period. A high number, greater than one, indicates that a company has generated more cash in a period than what is needed to pay off its current liabilities.

An operating cash flow ratio of less than one indicates the opposite—the firm has not generated enough cash to cover its current liabilities. To investors and analysts, a low ratio could mean that the firm needs more capital.

$$\text{Operating cashflow ratio} = \frac{\text{operating cashflow}}{\text{current liabilities}}$$

CHAPTER III

RESEARCH METHODOLOGY

3.1 Background of the Study

The research methodology is the specific procedures or techniques used to identify, select, process, and analyze information about a research topic. Research methodology sets out overall plan associated with a study. It provides a basic framework on which the study is based. Before presenting the analysis and interpretation of data, it is necessary that research methodology be described first. This chapter presents all the necessary steps to be followed throughout this research work in order to achieve and accomplish the objectives of the study. This chapter presents the type of method used; the reasons for choosing the method, data collection instruments and procedure, data analysis, ethical statement, trustworthiness and limitations of the methods have been used.

3.2 Research Design

The study will follow descriptive and analytical research design to determine the financial performance of insurance companies in Nepal . A research design is the overall path or method that guides the research study. It serves as a framework for the study, directing data collection and analysis, as well as the research method and sampling plan to be used. The method by which we find the required answers to the research questions and ultimately meet the research objectives is known as research design. This study is carried out by using Quantitative analysis method mostly secondary data has been used for analysis hence research design of this study is based on descriptive and analytical method.

3.3 Population Sample and Sampling Design

Convenience sampling technique is taken to select the samples among population .At present ,nineteen life insurance companies are operating their business in the country. However,the analysis of all these insurance companies interms of financial performance analysis so taking this numbers as the population of the study, only five insurance companies have been taken as the sample of the study. Among them Twelve are listed companies in Nepal Stock Exchange. Among the listed life

insurance companies, five will be selected for research purpose. They are Surya Life Insurance Company Limited, Asian Life Insurance company Limited, National Life Insurance Company Limited, Nepal life insurance company ltd and Life Insurance Corporation (Nepal) Limited.

3.4 Nature and Sources of Data

The study uses these secondary data to fulfill its objectives. Secondary data are those data that are collected by someone else or used already & made available to others in the form of published statistics such as annual reports. Once primary data is used, it loses its originality & becomes secondary. This study mainly depends on the use of secondary data that consists of annual reports of the sample insurance company. Besides the annual reports various other sources of data have also been used for the purpose of the study plan like newspaper, magazine, economic journals, etc. The five years audited balance sheets, income statements and other necessary accounts have been collected for the purpose of the study

3.5 Method of Data Analysis

To achieve the objectives of the study, various financial, statistical and accounting tools have been used in the study. The data collected are analyzed using two statistical programs SPSS and Microsoft Excel. In the case of descriptive analysis, various frequency tables and percentage tables and vertical analysis are used. In this study simple correlation, regression analysis has been used to study the influence of independent variable on a dependent variable.

Definition of variable

Return on Asset

This is the ratio showing the contribution of company assets on the profitability of the company. The greater the ratio the greater the company performance contributed by company assets of that company.

$$\text{Return on assets (ROA)} = \frac{\text{Net Income}}{\text{Total Assets}}$$

Return on Equity

This is the contribution of shareholders fund (equity) in the generation of company profit. It is a ratio of company profit to shareholders fund. The greater the ratio the greater the performance of a company generated by equity.

$$\text{Return on Equity (ROE)} = \frac{\text{Net Income}}{\text{Share Holders' Equity}}$$

Liquidity ratio

Liquidity ratios measure the ability of the firm to meet its current obligations. This refers to the ability of an insurer to meet its short term obligations when it is due. It also shows the ability of an insurer to convert its assets in to cash as quickly as possible. In financial parlance, liquidity ratio generate than one manifest that the firms to be in good financial position.

$$\text{Current ratio} = \frac{\text{Current Assets}}{\text{current liabilities}}$$

H1: There is positive relationship between current ratio and financial performance

Leverage Ratio (Debt equity ratio)

The term "financial leverage" refers to the use of finance. These are also known as solvency ratios or capital structure ratios. These ratios aid in judging the firm's long-term financial position by comparing the financial contributions of owners and creditors. These ratios are calculated to determine the company's capacity to use debt for the advantage of shareholders and reflect the capital structure position. The debt to assets ratio, the interest coverage ratio, and the debt-to-equity ratio are the three primary leverage ratio.

$$\text{Debt to equity ratio} = \frac{\text{Total liabilities}}{\text{Shareholder equity}}$$

Total liabilities = Long term liabilities + current liabilities.

Shareholders Equity = Share Capital + Shareholder's Reserve + Other Reserve + Profit & Loss (Credit Balance)

H2: There is positive relationship between Debt equity ratio and financial performance

Operating Expenses Ratio (OER)

In real estate, the operating expense ratio (OER) measures the cost of maintaining a property in relation to the revenue it produces. It is computed by dividing a property's running costs (net of depreciation) by gross operating income. The costs of equivalent homes are compared using OER. An investor should be on the lookout for warning signs that can discourage him from buying a certain property, such as higher maintenance costs, operating revenue, or utilities. OER should be used between 60% and 80% of the time (although the lower, it is the better).

- i. In real estate, the operating expense ratio (OER) measures how much it costs to maintain a property in relation to the income it generates..
- ii. Operating income is divided by all operating expenses, less depreciation, to arrive at the operating expense ratio (OER).
- iii. Investors like companies with lower operating expense ratios (OER) since it indicates that costs are kept to a minimum in relation to sales.

$$\text{Operating Expenses} = \text{Operating Expenses} / \text{Net Operating Income}$$

H3: There is negative relationship between operating expenses ratio and financial performance.

Cashflow Ratio(Operating cashflow ratio)

The operating cash flow ratio is a measure of how readily current liabilities are covered by the cash flows generated from a company's operations. This ratio can help gauge a company's liquidity in the short term.

The operating cash flow ratio is a measure of the number of times a company can pay off current debts with cash generated within the same period. A high number, greater than one, indicates that a company has generated more cash in a period than what is needed to pay off its current liabilities.

An operating cash flow ratio of less than one indicates the opposite—the firm has not generated enough cash to cover its current liabilities. To investors and analysts, a low ratio could mean that the firm needs more capital.

$$\text{Operating cashflow ratio} = \frac{\text{operating cashflow}}{\text{current liabilities}}$$

H4: There is positive relationship between operating cashflow ratio and financial performance.

Statistical Tools

Data is analyzed using statistical concepts, formulas, and models. Mean, standard deviation, correlation analysis, and multiple regression analysis are used to analyze collected data in this research study.

Mean

The mean is calculated by averaging the sum of all values and dividing the result by the sample's total number of observations. It is an accurate representation of the complete dataset, which is split almost evenly between the two extremes. As a result, the mean is frequently referred to as a measure of central tendency. It is calculated with following relationship.

$$\text{Mean (X)} = \frac{\sum X}{n}$$

Where,

X= Arithmetic Mean

n = Total number of Observation

Standard deviation (SD)

The standard deviation is the square root of the average of the square distances of the observation from the mean. The standard deviation enables us to determine, with a great deal of accuracy, where the values of a frequency distribution are located in relation to the mean. Different formulae are used to calculate standard deviation; among them following formulae has been use here:

$$\text{S.D } (\sigma) = \frac{\sqrt{\sum(x-x)^2}}{n}$$

Vertical analysis

Vertical analysis is a method of financial statement analysis in which each line item is listed as a percentage of a base figure within the statement. Thus, line items on an income statement can be stated as a percentage of total income, while line items on a balance sheet can be stated as a percentage of total assets or liabilities, and vertical analysis of a cash flow statement shows each cash inflow or outflow as a percentage of the total cash inflows.

Correlation Analysis

Correlation analysis is a statistical tool that can be used to describe how closely one variable is related to another. The study employed both single and multiple correlations. Correlation co-efficient is defined as the association between the dependent variable and independent variable. It is a method of determining the relationship between these two variables. To calculate the Pearson correlation analysis SPSS version 25.0 database is used for tabulation and data analysis. Simple statistical tools like mean, standard deviation were analyzed. The following financial variables' correlation co-efficient have been calculated and evaluated.

Regression Analysis

The results of a correlation analysis show the movement in one direction but not the relative movement of the variables under study. We can determine the relative movement of variables thanks to regression analysis. There are two kinds of variables in regression analysis. The variable whose value is influenced or is to be predicted is referred to as the dependent variable, while the variable that influences the values or is used for prediction is referred to as the independent variable. Profitability indicators (i.e., ROE and ROA) were identified as a dependent variable in the study, with CR, DER, OER, and CFOR as independent variables. The following variables' regression analysis has been computed and evaluated.

Multiple Regression Analysis

In multiple regression analysis, two or more independent variables are used to predict the value of a dependent variable, which is an extension of simple regression. In other words, multiple regression analysis uses two or more independent variables to predict the value of a dependent variable rather than using just one independent variable to do so. Profitability indicators (i.e., ROE and ROA) are dependent variables in the study, while CR, DER, OER, and CFOR are independent variables. Mode Specification: The description of the process by which the dependent variables are generated by the independent variables is referred to as mode specification. As a result, it includes both the selection of independent (and dependent) variables as well as the functional form that connects the independent variables to the dependent variable.

Model I:

Return on equity (ROE) on current ratio (CR), debt equity ratio (DER), operating expenses ratio (OER) and cashflow from operatingratio (CFOR).

$$ROE = B_0 + B_1CR + B_2DER + B_3CFOR + B_4OER$$

Where,

ROE = Return on Equity

CR = current ratio

DER = debt equity ratio

OER = operating expenses ratio

CFOR= Cashflow from operating ratio

This model I help to predict in what extent current ratio (CR), debt equity ratio (DER), operating expenses ratio (OER) and Cashflow from operating ratio(CFOR) affect return on equity (ROE).

Model II:

Return on assets (ROA) on current ratio (CR), debt equity ratio (DER), operating expenses ratio (OER) cashflow from operatingratio (CFOR).

$$ROA = B_0 + B_1CR + B_2DER + B_3CFOR + B_4OER$$

Where,

ROA = Return on assets Chapter ROE = Return on Equity

CR = current ratio

DER = debt equity ratio

OER = operating expenses ratio

CFOR= Cashflow from operating ratio

This model II help to predict in what extent current ratio (CR), debt equity ratio (DER), operating expenses ratio (OER) andCashflow from operating ratio(CFOR) affect return on assets (ROA).

The following statistics have been calculated and are being analyzed in correlation and regression analysis.

Coefficient of Correlation

One statistical technique for describing how closely two variables are related is correlation analysis (Bajracharya, 1996). The coefficient of correlation measures the degree of relationship between two sets of figures that are casually related, whether positive or negative. Positive or direct correlations occur when two variables' values vary in the same direction, i.e. when one variable's value increases or decreases. On the other hand, the correlation is said to be negative or inverse when both values of the variable deviate in the opposite direction, increasing (decreasing) in the value of another variable. The strength of the linear link between two variables is gauged using Karl Pearson's coefficient of correlation. The Karl Pearson's correlation coefficient between two variables, X and Y, is defined as:

$$r = \frac{\sum (x - \bar{x})(y - \bar{y})}{\sqrt{\sum (x - \bar{x})^2} \sqrt{\sum (y - \bar{y})^2}}$$

The coefficient of correlation lies between -1 and +1, and interpretation of correlation coefficient (r) is as follows:

When,

$r = +1$, there is perfect positive relationship

r is close to 1, there is strong positive relationship

r is close to 0 but positive, there is low degree of positive relationship

$r = 0$, there is no relationship

r is close to 0 but negative, there is low degree of negative relationship

r is close to -1, there is strong negative relationship

$r = +1$, there is perfect positive relationship

In this study, the link between various parameters and dividend and other variables is investigated using the simple coefficient of correlation. Data on dividends from various years are tabulated, and conclusions about how they relate to one another are derived.

Coefficient of Multiple Determinations (R^2)

Coefficient of multiple determinations represents the portion of the variation on dependent variable that is explained by the set of independent variables. Usually, larger values of R^2 are considered the better because they indicate a stronger relationship among the variables used in the regression model.

CHAPTER IV

RESULTS AND DISCUSSION

4.1 Background of the Study

This chapter explains the financial performance of insurance companies in Nepal. This chapter includes status of financial statement including balancesheet and cashflow, status of common size income statement analysis , correlation analysis, and regression analysis to measure the impact of independent variable to dependent variable.

4.2 Status of Financial Statement Analysis

Financial statements are written records that convey the business activities and the financial performance of a company. Financial statements are often audited by government agencies, accountants, firms, etc. to ensure accuracy and for tax, financing, or investing purposes. For-profit primary financial statements include the balance sheet, income statement, statement of cash flow, and statement of changes in equity. Nonprofit entities use a similar but different set of financial statements.

4.2.1 Status of Balance Sheet analysis

A balance sheet is a financial statement that shows the relationship between assets, liabilities, and shareholders' equity of a company at a specific point in time. A company's net worth, a balance sheet shows what a company owns and how these assets are financed, either through debt or equity. Balance sheets are useful tools for individual and institutional investors, as well as key stakeholders within an organization, as they show the general financial status of the company. The balance sheet statement of has been prepared by assuming the total assets and total liabilities as hundred. All the figures in the assets and liabilities sides have been divided by total assets and total liabilities and multiplied by hundred to find out relative percentage of the items respectively.

Table 4.1
Asian lifeInsurance Company Limited
Comparative Balance Sheet Statement
For the year 2072/73 to 2076/77

Particular	years				
	2072/73 (%)	2073/74 (%)	2074/75 (%)	2075/76 (%)	2076/77 (%)
Fixed assets net	2.36	1.99	1.47	1.21	0.95
long term investment	78.10	77.75	81.54	81.17	79.10
Total fixed assets	80.46	79.74	83.01	82.38	80.05
policy loan	3.17	4.02	5.47	7.22	9.83
other term loan	0.50	0.40	0.32	0.23	0.25
Total Current Assets	15.86	15.84	11.19	10.17	9.86
Total Assets	100.00	100.00	100.00	100.00	100.00
paid up capital	7.50	7.10	1.83	10.05	8.12
Reserve and surplus	3.15	1.67	1.23	2.13	2.44
life assurance fund	86.50	88.19	92.73	84.16	84.41
catastrophe reserve	0.35	0.33	0.27	0.30	0.34
Total capital and reserve	97.50	97.30	96.06	96.64	95.31
Total current liabilities	1.85	1.47	1.79	1.86	1.81
provision for unexpired risk	0.00	0.00	0.01	0.06	0.11
claims payable	0.10	0.10	0.10	0.07	0.08
other provision	0.56	1.12	2.05	1.38	2.69
Total equity and liability	100.00	100.00	100.00	100.00	100.00

Source: Annual report

Table 4.1 Shows the balance sheet of Asian LIC. The total fixed assets of the company were in fluctuating trend and it was highest in year 2074/75 i.e is 83.01 percent and lowest in the year 2076/77 i.e is 80.05 percent. The total current assets of the company were also in fluctuating trend and it was highest in year 2072/73 i.e 15.86% and lowest in year 2076/77 i.e 9.86%. Similarly the total capital and reserve were highest in year 2072/73 and lowest in year 2076/77 i.e 97.50 and 95.31 percent. Company also shows that its current liabilities is also in fluctuating trend that it was highest in year 2075/76 and lowest in year 2073/74. The paid up capital during the

study period is also in fluctuating trend they were higher in year 2075/76 i.e 10.05percent and lowest in year 2074/75 i.e is 1.83percent

Table 4.2

Surya life Insurance Company Limited
Comparative Balance Sheet Statement
For the year 2072/73 to 2076/77

Particular	years				
	2072/73 (%)	2073/74 (%)	2074/75 (%)	2075/76 (%)	2076/77 (%)
Fixed assets net	1.21	0.97	0.75	0.86	0.65
Long term investment	26.88	46.35	50.43	37.08	53.12
Total fixed assets	28.10	47.32	51.18	37.94	53.78
policy loan	2.46	3.53	4.30	5.90	6.52
other term loan	1.24	2.40	1.66	1.45	1.43
Total Current Assets	68.20	46.75	42.85	54.71	38.27
Total Assets	100.00	100.00	100.00	100.00	100.00
paid up capital	17.90	16.76	19.43	16.04	18.95
Reserve and surplus	9.21	9.03	5.81	4.61	6.05
life assurance fund	58.94	61.72	62.55	66.18	64.78
catastrophe reserve	0.88	0.97	1.01	1.09	1.05
Total capital and reserve	86.94	88.48	88.79	87.92	90.83
Total current liabilities	5.02	2.37	2.79	3.87	3.39
provision for unexpired risk	6.59	7.81	6.57	5.08	3.31
claims payable	0.02	0.01	0.25	0.34	0.02
other provision	1.44	1.32	1.60	2.80	2.60
Total equity and liability	100.00	100.00	100.00	100.00	100.00

Source : Annual Report

Table 4.2 Shows the balance sheet of Surya LIC. The total fixed assets of the company were in fluctuating trend and it was highest in year 2076/77 i.e is 53.08 percent and lowest in the year 2072/73 i.e is 28.10 percent. The total current assets of the company were also in fluctuating trend and it was highest in year 2072/73 and lowest in year 2076/77. Similarly the total capital and reserve were highest in year 2076/77 and lowest in year 2072/73 i.e 90.83 and 86.94 percent. Company also shows that its current liabilities is also in fluctuating trend that it was highest in year 2075/76

and lowest in year 2073/74. The paid up capital during the study period is also in fluctuating trend it were higher in year 2074/75 i.e 19.43percent and lowest in year 2075/76 i.e is 16.04percent.

Table 4.3

Life Insurance corporation Nepal
Comparative Balance Sheet Statement
For the year 2072/73 to 2076/77

Particular	Years				
	2072/73 (%)	2073/74 (%)	2074/75 (%)	2075/76 (%)	2076/77 (%)
Fixed assets net	0.75	0.61	0.49	0.43	0.34
long term investment	18.75	53.80	62.03	62.36	67.06
Total fixed assets	19.50	54.41	62.51	62.79	67.40
Policy loan	10.38	11.49	13.52	15.38	17.25
other term loan	0.16	0.13	0.10	0.09	0.09
Total Current Assets	69.96	33.97	23.87	21.74	15.26
Total Assets	100.00	100.00	100.00	100.00	100.00
paid up capital	3.65	3.52	2.79	2.49	2.66
Reserve and surplus	1.40	0.68	1.96	1.74	1.53
life assurance fund	90.46	88.52	88.18	89.64	88.37
catastrophe reserve	0.30	0.27	0.49	0.45	0.45
Total capital and reserve	95.81	92.99	93.42	94.31	93.01
Total current liabilities	3.47	5.33	4.50	5.32	6.27
provision for unexpired risk	0.40	1.42	0.25	0.10	0.04
claims payable	0.06	0.06	0.05	0.27	0.27
other provision	0.26	0.20	1.79	1.21	0.41
Total equity and liability	100.00	100.00	100.00	100.00	100.00

Source : Annual Report

Table 4.3 Shows the balance sheet of Li corporation. The total fixed assets of the company were in fluctuating trend and it was highest in year 2076/77 i.e 67.50 percent and lowest in the year 2072/73 i.e 19.50 percent. The total current assets of the company were also in fluctuating trend and it was highest in year 2072/73 and lowest in year 2076/77. Similarly the total capital and reserve were highest in year 2072/73 and lowest in year 2073/74 i.e 95.81 and 92.99 percent. Company also shows that its

current liabilities is also in fluctuating trend that it was highest in year 2076/76 and lowest in year 2072/73. The paid up capital during the study period is also in fluctuating trend it were higher in year 2072/73 i.e 3.65 percent and lowest in year 2075/76 i.e is 2.43 per

Table 4.4

Nepal life Insurance Company Limited
Comparative Balance Sheet Statement
For the year 2072/73 to 2076/77

Particular	Years				
	2072/73 (%)	2073/74 (%)	2074/75 (%)	2075/76 (%)	2076/77 (%)
Fixed assets net	0.88	0.62	0.49	0.40	0.31
long term investment	14.93	27.28	47.31	52.05	42.09
Total fixed assets	15.81	27.90	47.80	52.45	42.40
policy loan	10.51	11.61	13.50	15.26	16.75
other term loan	1.60	1.06	0.61	0.67	0.87
Total Current Assets	72.06	59.42	38.09	31.62	39.99
Total Assets	100.00	100.00	100.00	100.00	100.00
paid up capital	5.97	6.10	7.05	7.05	7.06
Reserve and surplus	2.31	8.56	4.83	2.41	1.18
life assurance fund	86.49	77.91	79.54	83.20	84.00
catastrophe reserve	0.62	0.64	0.70	0.71	0.66
Total capital and reserve	95.39	93.22	92.12	93.37	92.90
Total current liabilities	2.22	2.30	2.19	2.77	4.31
provision for unexpired risk	0.85	0.70	0.47	0.47	0.45
claims payable	0.89	1.46	2.49	1.17	1.59
other provision	0.65	2.33	2.72	2.21	0.76
Total equity and liability	100.00	100.00	100.00	100.00	100.00

Source : Annual Report

Table 4.4. Shows the balance sheet of Nepal LIC. The total fixed assets of the company were in fluctuating trend and it was highest in year 2075/76 i.e is 52.45 percent and lowest in the year 2072/73 i.e is 15.81 percent. The total current assets of the company were also in fluctuating trend and it was highest in year 2072/73 and lowest in year 2075/76. Similarly the total capital and reserve were

highest in year 2072/73 and lowest in year 2074/75 i.e 95.39 and 92.12 percent. Company also shows that its current liabilities is also in fluctuating trend that it was highest in year 2075/76 and lowest in year 2073/74. The paid up capital during the study period is also in fluctuating trend it is higher in year 2076/77 i.e 7.06 percent and lowest in year 2072/73 i.e is 5.97 percent.

Table 4.5

National life Insurance Company Limited
Comparative Balance Sheet Statement
For the year 2072/73 to 2076/77

Particular	Years				
	2072/73 (%)	2073/74 (%)	2074/75 (%)	2075/76 (%)	2076/77 (%)
Fixed assets net	3.86	3.13	2.46	1.89	1.62
long term investment	27.41	61.17	64.06	61.35	62.18
Total fixed assets	31.27	64.30	66.52	63.24	63.79
policy loan	7.38	61.17	9.79	10.73	11.68
other term loan	0.54	0.45	0.44	0.48	0.58
Total Current Assets	60.79	26.97	23.25	25.54	23.95
Total Assets	100.00	100.00	100.00	100.00	100.00
paid up capital	7.78	7.96	6.37	8.97	7.52
Reserve and surplus	2.22	1.90	1.76	1.64	2.63
life assurance fund	84.02	83.09	82.61	80.33	81.64
catastrophe reserve	0.56	0.65	0.71	0.65	0.71
Total capital and reserve	94.57	93.61	91.45	91.60	92.50
Total current liabilities	1.98	1.84	2.29	2.05	2.25
provision for unexpired risk	1.20	1.09	1.14	1.31	1.26
claims payable	0.60	0.75	1.09	1.29	0.79
other provision	1.65	2.72	4.04	3.75	3.19
Total equity and liability	100.00	100.00	100.00	100.00	100.00

Source : Annual Report

Table 4.5 Shows the balance sheet of National LIC. The total fixed assets of the company were in fluctuating trend and it was highest in year 2074/75 i.e is 66.52 percent and lowest in the year 2072/73 i.e is 31.27 percent. The total current assets of the company were also in fluctuating trend and it was highest in year

2072/73 and lowest in year 2074/75. Similarly the total capital and reserve were highest in year 2072/73 and lowest in year 2074/75 i.e 94.57 and 91.45 percent. Company also shows that its current liabilities is also in fluctuating trend that it was highest in year 2076/77 and lowest in year 2073/74. The paid up capital during the study period is also in fluctuating trend it is higher in year 2073/74 i.e 7.96 percent and lowest in year 2074/75 i.e is 6.37 percent.

4.2.2 Status of common size income Statement analysis

Common size income statement of the company has been prepared by assuming the total income as hundred. All the items of the income statement have been changed according to the percentage wise of the total income for the total five years period.

Table 4.6

Asian life Insurance Company Limited
Common size Income statement
For the year 2072/73 to 2076/77

Particular	Years				
	2072/73 (%)	2073/74 (%)	2074/75 (%)	2075/76 (%)	2076/77 (%)
Net premium	80.71	73.70	71.83	73.25	70.06
Income from overall business	19.29	26.30	28.17	26.75	29.94
Total income(A)	100.00	100.00	100.00	100.00	100.00
Expenses	0.00	0.00	0.00	0.00	0.00
Gross benefit and Claim payment	5.84	5.82	5.10	7.54	8.55
Claim ceded to reinsurer	0.06	0.45	0.20	0.31	0.34
Gross change in contract liabilities	89.01	73.07	72.12	67.42	63.27
Net benefit and claimed paid(a)	94.79	78.45	77.02	74.65	71.48
other overall expenses (b)	11.20	18.77	21.10	21.22	19.71
Total benefit claims and expenses (B)	95.28	97.22	98.12	95.86	91.19
Profit before tax	2.95	2.78	1.88	4.14	8.81
less income tax	0.52	0.60	0.32	0.10	4.64
profit for the year	2.43	2.18	1.56	4.04	4.17

Source : Annual Report

Table 4.6 shows the common size income statement of Asian LIC for last five years. The shows study that net premium of the company is highest in 2072/73 i.e

80.71percent and lowest in 2076/77 i.e 70.06 percent Similarly income from overall business seen to be 19.29% in 2072/73, 26.30% in 2073/74,28.17% in 2074/75, 26.75% in 2075/76 and 29.94% in 2076/77.Likewise total benefit benefitclaims and expenses for the company is 95.28% in 202/73, 97.22% in 2073/74, 98.12% in 2074/75, 95.86% in 2075/76 and 91.19% in 2076/77.the profit of the company is also in fluctuating trend the highest percentage of profit is in year 2076/77 i.e is 4.17%and lowest in 2075/76 i.e is1.56%.

Table 4.7

Life Insurance corporation Limited
Common size Income statement
For the year 2072/73 to 2076/77

Particulars	Years				
	2072/73 (%)	2073/74 (%)	2074/75 (%)	2075/76 (%)	2076/77 (%)
Net premium	78.42	75.70	71.44	71.47	70.13
Income from overall business	21.58	24.30	28.56	28.53	36.77
Total Revenue(A)	100.00	100.00	100.00	100.00	100.00
Expenses					
Claim payment	8.01	16.11	16.64	18.13	17.75
Claim ceded to reinsurer	0.00	0.46	0.59	0.22	0.10
Net claimed paid(a)	8.01	15.65	16.05	80.46	79.23
other overall expenses (b)	18.04	80.50	70.76	14.47	13.29
Total benefit claims and expenses (B)	85.03	96.15	86.81	94.93	92.51
Profit before tax	4.06	3.85	13.19	5.07	7.49
less income tax	1.39	2.58	3.54	3.48	4.09
profit for the year	2.44	1.27	9.66	1.58	3.40

Source : Annual Report

Table 4.7 shows the common size income statement of Li Corporation for last five years. The shows study that net premium of the company is highest in 2072/73 i.e 78.42 percent and lowest in 2076/77 i.e 70.13 percent Similarly income from overall business seen to be 21.58% in 2072/73, 24.30% in 2073/74, 28.56% in 2074/75, 28.53% in 2075/76 and 36.77% in 2076/77. Likewise total benefit claims and expenses for the company is 85.03% in 202/73, 96.15% in 2073/74, 86.81% in

2074/75, 94.93% in 2075/76 and 92.51% in 2076/77.the profit of the company is also in fluctuating trend the highest percentage of profit is in year 2075/76 i.e is 9.66%and lowest in 2073/74 i.e 1.27%.

Table 4.8

Surya life Insurance Company Limited
Common Size Income Statement
For the year 2072/73 to 2076/77

Particular	Years				
	2072/73 (%)	2073/74 (%)	2074/75 (%)	2075/76 (%)	2076/77 (%)
Net premium	85.12	79.08	73.28	80.69	76.10
Income from overall business	14.88	20.92	26.72	19.31	23.90
Total income(A)	100.00	100.00	100.00	100.00	100.00
Expenses					
Gross benefit and Claim payment	10.30	10.76	8.14	8.86	11.83
Claim ceded to reinsurer	2.95	2.74	1.52	1.66	1.35
Gross change in contract liabilities	60.55	56.14	51.25	56.74	55.62
Net benefit and claimed paid(a)	67.90	64.17	57.87	63.94	66.11
other overall expenses (b)	28.28	27.71	32.82	29.19	25.54
Total benefit claims and expenses (B)	96.18	91.88	90.69	93.13	91.64
Profit before tax	3.82	8.12	6.32	6.87	8.36
less income tax	1.72	1.61	2.15	2.34	0.28
Profit for the year	5.54	9.73	4.17	9.21	8.07

Source : Annual Report

Table 4.8 shows the common size income statement of Surya life insurance for last five years. The study shows that net premium of the company is highest in 2072/73 i.e 85.12 percent and lowest in 204/75 i.e 73.28 percent Similarly income from overall business seen to be 14.88% in 2072/73, 20.92% in 2073/74, 26.72% in 2074/75, 19.31% in 2075/76 and 23.90% in 2076/77.Likewise total benefit claims and expenses for the company is 96.18% in 202/73, 91.88% in 2073/74, 90.69% in 2074/75, 93.13% in 2075/76 and 91.64% in 2076/77.the profit of the company is also in fluctuating trend the highest percentage of profit is in year 2075/76 i.e is 9.21%and lowest in 2075/76 i.e 4.17%.

Table 4.9
National Life Insurance company Limited
Common size Income statement
For the year 2072/73 to 2076/77

Particular	Years				
	2072/73 (%)	2073/74 (%)	2074/75 (%)	2075/76 (%)	2076/77 (%)
Net premium	74.69	78.44	74.74	74.03	73.07
Income from overall business	25.31	21.56	25.26	25.97	26.93
Total income(A)	100.00	100.00	100.00	100.00	100.00
Expenses					
Gross benefit and Claim payment	26.53	27.51	24.83	25.32	24.46
Claim ceded to reinsurer	2.41	2.16	2.09	1.30	0.99
Gross change in contract liabilities	0.00	0.00	0.00	0.00	52.30
Net benefit and claimed paid(a)	24.12	25.35	22.73	24.02	75.77
other overall expenses (b)	65.58	65.83	68.92	70.10	15.61
Total benefit claims and expenses (B)	89.70	91.17	91.65	94.12	91.38
Profit before tax	10.30	8.55	8.39	5.91	8.62
less income tax	1.69	1.38	2.21	2.33	2.79
profit for the year	8.61	7.18	6.18	3.58	5.94

Source : Annual Report

Table 4.9 shows the common size income statement of National LIC for last five years. The study shows that net premium of the company is highest in 2073/74 i.e 78.44 percent and lowest in 2076/77 i.e 73.07 percent Similarly income from overall business seen to be 25.31% in 2072/73, 21.56% in 2073/74, 25.26% in 2074/75, 25.97% in 2075/76 and 26.93% in 2076/77. Likewise total benefit claims and expenses for the company is 89.70% in 2072/73, 91.17% in 2073/74, 91.65% in 2074/75, 94.12% in 2075/76 and 91.38% in 2076/77. the profit of the company is also in fluctuating trend the highest percentage of profit is in year 2072/73 i.e is 8.61% and lowest in 2076/77 i.e 3.58%

Table 4.10
National Life Insurance company Limited
Common size Income statement
For the year 2072/73 to 2076/77

particular	Years				
	2072/73 (%)	2073/74 (%)	2074/75 (%)	2075/76 (%)	2076/77 (%)
Net premium	78.99	80.08	75.67	76.73	76.61
Income from overall business	21.01	19.92	24.33	23.27	23.39
Total income(A)	100.00	100.00	100.00	100.00	100.00
Expenses					
Gross benefit and Claim payment	35.44	21.70	29.19	27.22	17.11
Claim ceded to reinsurer	0.44	0.59	0.38	0.35	0.41
Gross change in contract liabilities	43.55	52.34	46.15	49.33	60.76
Net benefit and claimed paid(a)	78.55	73.46	74.97	76.21	77.46
other overall expenses (b)	17.55	17.21	16.69	18.29	17.68
Total benefit claims and expenses (B)	96.09	90.67	91.66	94.50	95.14
Profit before tax	8.26	8.19	8.34	5.50	4.86
less income tax	0.76	2.05	0.00	1.01	1.75
profit for the year	6.55	6.54	6.71	4.49	3.11

Source :Annual report

Table 4.10 shows the common size income statement of Nepal LIC for last five years. The study shows that net premium of the company is highest in 2073/74 i.e 80.08 percent and lowest in 2075/76 i.e 75.67 percent Similarly income from overall business seen to be 21.01% in 2072/73, 19.92% in 2073/74, 24.33% in 2074/75, 23.27% in 2075/76 and 23.39% in 2076/77. Likewise total benefit claims and expenses for the company is 96.09% in 2072/73, 90.67% in 2073/74, 91.66% in 2074/75, 94.50% in 2075/76 and 95.14% in 2076/77. the profit of the company is also in fluctuating trend the highest percentage of profit is in year 2072/73 i.e is 6.55% and lowest in 2076/77 i.e 3.11%.

4.3 Cash Flow Analysis

Cash Flow Analysis helps to understand actual changes in financial position between two periods. It measures the changes that have taken place between two balance sheet

dates. It includes cash from operating activities, cash from investing activities and cash from financial activities.

4.3.1 Cash from Operating Activities

The operating activities on the CFS include any sources and uses of cash from business activities. In other words, it reflects how much cash is generated from a company's products or services.

Table 4.11
Cashflow from operating activities

year	Asian LIC	Surya LIC	Li corporation	Nepal LIC	National LIC
2072/73	421397	165552	470891	711581	182482
2073/74	159923	142306	233636	670633	223864
2074/75	83676	81656	548695	300011	300011
2075/76	288531	67770	738367	347267	347267
2076/77	252702	49115	838615	418516	418516
Total	1206229	506399	2830204	2448008	1472140
Average	241246	101280	566041	489602	294428

Source : Annual report

This analysis shows the amount of cash derived from operating activities by five insurance companies during the study period. It is seen that Li corporation has more average operating income than other insurance companies.

4.3.2 Cash from Investing activities

Investing activities include any sources and uses of cash from a company's investments. Purchases or sales of assets, loans made to vendors or received from customers, or any payments related to mergers and acquisitions (M&A) are included in this category. In short, changes in equipment, assets, or investments relate to cash from investing.

Table 4.12
Cashflow from investing activities

Years	Asian LIC	Surya LIC	Li corporation	Nepal LIC	National LIC
2072/73	(4090525)	(559447)	(4684334397)	(7490768)	(1992072.1)
2073/74	(1244210)	(802125.3)	(5663686709)	(10717071)	(2027081.92)
2074/75	(345761.7)	(1055536)	(4807491474)	(2855917)	(2855917.22)
2075/76	(3404091)	(2333486)	(6152538220)	(4497467)	(4497466.56)
2076/77	(2630269)	(2333486)	(7370807603)	(3621669)	(3621668.96)
Total	(11714857)	(7084080)	(28678858)	(29182892)	(14994206.8)
Average	(2342971))	(1416816)	(5735772)	(5836578)	(2998841.35)

Source: Annual report

The table shows the amount of cash invested by the insurance companies. The table reveals that it is negative in all five insurance companies during the study period. which shows that company invested more in fixed assest.

4.3.3Cashflow from financing activities

Cash from financing activities includes the sources of cash from investors and banks, as well as the way cash is paid to shareholders. This includes any dividends, payments for stock repurchases, and repayment of debt principal (loans) that are made by the company.

Table 4.13
Cashflow from financing activities

Years	Asian LIC	Surya LIC	Li corporation	Nepal LIC	National LIC
2072/73	3389289	0	(11257401)	(22815789)	(16091461)
2073/74	(14738929)	134698374	465999726	436275843	17432417
2074/75	399259350	241834458	(514671170)	0	0
2075/76	810745888	921338988	8429542	(1144462953)	(11444629)
2076/77	(1083868)	821338986	(531255960)	(390615471)	(390015471)
Total	119757130	2119210806	(582755263)	5093790128	1500954546
Average	399190577	706403602	(1942517543)	1697930043	500318182

Source: Annual report

The table shows the amount of cash derived from the financing activities. The average of Surya Lic is highest among other insurance company. The average of financing activities of Li corporation is negative it shows that Li corporation have invested more in Financing activities.

4.4 Performance Analysis

This chapter presents the data analysis of information collected on the Financial performance of insurance companies in Nepal. The collected data are recorded systematically and organized them to analyze using different tools and techniques. So, this chapter is the main body of the study which concerned with presentation, analysis and interpretation of collected data.

In order to analyze the Financial Performance of Insurance companies in Nepal the necessary information and data are collected through audited financial statement, annual reports. The major variables of this study are current ratio, Debt equity ratio, operating expenses ratio Cashflow ratio Return on equity, Return on assets etc. which are very sensitive and pertinent for the study. Only collecting and presenting the data are not sufficient for the study purpose. Therefore, various financial and statistical tools have applied to examine the Financial Performance Analysis of Insurance Companies in Nepal.

4.4.1 Liquidity Ratio (current ratio)

Liquidity ratios are devices to judge the company's ability to meet its short-term current obligations and provide measure of liquidity position. There shouldn't be the condition of lower and higher liquidity. Lower liquidity indicates the failure of meeting the company's current obligations and adverse result. On the other hand, higher liquidity indicates idle assets which is also not good as it earns nothing. So, it is essential for the corporation to maintain the balance of liquidity position. A liquidity ratio called the current ratio assesses a company's capacity to settle short-term debts or those that are due within a year. It explains to investors and analysts how a business can use its present assets to the fullest extent possible to pay down its current liabilities and other payables. The current ratio contrasts the total current assets and liabilities of a business.

Table 4.14
Current Ratio of Sample Insurance Companies

FY	Insurance Companies				
	Asian LIC	Surya LIC	Nepal LIC	Li corporation	National LIC
2076/77	1.445	1.375	1.343	1.563	1.262
2075/76	1.007	1.611	1.218	1.900	1.208
2074/75	1.079	1.965	1.944	1.656	1.181
2073/74	1.969	1.076	1.990	0.542	1.440
2072/73	1.358	1.242	0.234	1.789	1.687
2071/72	1.114	1.078	1.120	1.103	1.161
Minimum	1.0070	1.0762	0.2336	0.5424	1.1613
Maximum	1.9686	1.9654	1.9903	1.8995	1.6871
Mean	1.3286	1.3912	1.3082	1.4253	1.3234
SD	0.35662	0.34573	0.64338	0.51230	0.20470

Sources: From Appendix

Table 4.14 Shows the current ratio of Asian LIC, Surya LIC Nepal LIC, Life Ins corporation, National LIC for last five years. The current ratio of Asian LIC for the year 2071 /72 was 1.114 times. Similarly in 2072/73 it was increased to 1.358 times for 2073/74 it was increased to 1.969 for year 2074/75 it was again decreased to 1.079 for 2075/76 it was again decreased to 1.007 and for year 2076/77 was 1.445 times. The ratio of Surya LIC for the year 2071 /72 was 1.078 times. similarly in 2072/73 it was increased to 1.242 times for 2073/74 it was decreased to 1.076 for year 2074/75 it was again increased to 1.965 for 2075/76 it was again decreased to 1.611 and for year 2076/77 was 1.375 times. similarly the ratio of Nepal LIC for the year 2071 /72 was 1.120 times. similarly in 2072/73 it was decreased to 0.243 times for 2073/74 it was increased to 1.990 for year 2074/75 it was again decreased to 1.944 for 2075/76 it was again 1.218 and for year 2076/77 was 1.343 times. similarly the ratio of life insurance corporation for the year 2071 /72 was 1.103 times likewise in 2072/73 it was increased to 1.789 times for 2073/74 it was decreased to 0.542 for year 2074/75 it was again increased to 1.656 for 2075/76 it was again increased to 1.218 and for year 2076/77 was 1.563 times. similarly the ratio of National LIC for the year 2071 /72 was 1.161 times likewise in 2072/73 it was increased to 1.687 times for 2073/74 it was decreased to 1.440 times for year 2074/75 it was again decreased to 1.181 for 2075/76 it was again increased to 1.208 and for year 2076/77 was 1.262 times. The

average of Asian, Surya, Nepal, Li corporation and National life insurance are 1.3286,1.3912,1.3082,1.4253,and 1.3234 respectively. In comparison Li corporation have higher average ratio than Surya LIC, Asian LIC, Nepal LIC and National LIC which shows the better performance Li corporation. Likewise S.D. are 0.3562,0.3457,0.6433,0.5123,and 0.2047 for Asian ,Surya, Nepal, Li corporation and National life insurance companies .from the above analysis it is known that these five insurance companies have weak liquidity position because their current ratio is below the standard i.e. 2:1

4.4.2 Leverage Ratio (Debt Equity Ratio)

The leverage ratios are also termed as capital structure ratio. They are computed in order to get insight in the long-term financial status of the company. These ratios show the company's current debt-paying ability. The risk of the company can be diversified by issuing bond and debentures or by using creditor ship capital. The owners, creditors and outsiders are interested in firm's debt-paying ability. If the company is high levered, then the firm will face difficulties to raise funds, not only from the creditors but also from the owners too. The owners of the company may take advantages if the firm raises funds through the debt.

Table 4.15
Debt Equity Ratio of sample insurance companies

FY	Insurance companies				
	Asian LIC	Surya LIC	Nepal life LIC	Li corporation	National LIC
2076/77	7.694	2.914	10.212	19.217	8.070
2075/76	6.780	3.808	7.406	16.247	7.049
2074/75	9.624	2.752	5.434	17.761	8.702
2073/74	10.553	0.130	0.443	1.580	8.567
2072/73	9.009	0.043	0.517	7.837	8.721
Minimum	6.780	0.043	0.443	1.580	7.049
Maximum	10.553	3.808	10.212	19.217	8.721
Mean	8.732	1.929	4.802	12.528	8.222
SD	1.506	1.730	4.295	7.547	0.706

Source :From Appendix

Table 4.15 shows the Debt equity ratio of of Asian LIC, Surya LIC, Nepal LIC, Life Ins corporation and National LIC for last five years. The debt equity ratio of Asian LIC for the year 2072/73 was 9.009 times. Similarly in 2073/74 it was increased to 10.553 times for 2074/75 it was decreased to 9.624 for year 2075/76 it was again decreased to 6.780 and for year 2076/77 was 7.694 times. The ratio of Surya LIC for the year 2072 /73 was 0.043 times. similarly in 2073/74 it was increased to 0.130 times for 2074/75 it was increased to 2.752 for year 2075/76 it was again increased to 3.808 and for year 2076/77 was 2.914 times. Similarly the ratio of Nepal LIC for the year 2072 /73 was 0.443 times. similarly in 2073/74 it was increased to 0.517 times for 2074/75 it was increased to 5.434 for 2075/76 it was again increased to 7.406 and for year 2076/77 was 10.212 times. similarly the ratio of life insurance corporation for the year 2072 /73 was 7.837 times likewise in 2073/74 it was decreased to 1.580 times for 2074/75 it was again increased to 17.761 for 2075/76 it was again decreased to 16.247 and for year 2076/77 was 19.217. similarly the ratio of National LIC for the year 2072/73 was 8.721 times likewise in 2073/74 it was decreased to 8.567 times for 2074/75 it was increased to 8.702 times for year 2075/76 it was again decreased to 7.049 for and for year 2076/77 was 8.070 .The average of Asian, Surya, Nepal, Li corporation and National life insurance are 8.732,1.929,4.802,12.528,and 8.222 respectively. In comparison Li corporation have higher average ratio than Surya LIC, Asian LIC, Nepal LIC and National LIC which shows the better performance of Li corporation. Likewise S.D. are 1.506,1.730,4.295,7.547,,and 0.706 for Asian ,Surya, Nepal, Li corporation and National life insurance companies .

4.4.3 Operating Expenses Ratio

The operating expense ratio (OER) is a measurement of the cost to operate a piece of property, compared to the income brought in by the property. It is calculated by dividing a property's operating expense (minus depreciation) by its gross operating income. OER is used for comparing the expenses of similar properties. An investor should look for red flags, such as higher maintenance expenses, operating income, or utilities that may deter him from purchasing a specific property.

Table 4.16
Operating Expenses Ratio

FY	Insurance Companies				
	Asian LIC(%)	Surya LIC(%)	Nepal LIC(%)	LI corp(%)	National LIC(%)
2076/77	28.660	16.066	10.010	18.750	11.290
2075/76	25.030	15.080	10.360	20.060	10.940
2074/75	23.880	19.060	14.690	19.050	11.560
2073/74	25.360	15.080	14.060	17.710	10.640
2072/73	24.060	13.090	13.070	21.030	13.770
Minimum	23.880	13.090	10.010	17.710	10.640
Maximum	28.660	19.060	14.690	21.030	13.770
Mean	25.398	15.675	12.438	19.320	11.640
SD	1.928	2.180	2.140	1.271	1.241

Source From appendix

Table 4.16 shows the Operating Expenses Ratio of Asian LIC, Surya LIC, Nepal LIC, Life Ins corporation and National LIC for last five years. The Operating Expenses Ratio of Asian LIC for the year 2072/73 was 24.060 percent. Similarly in 2073/74 it was increased to 25.360 percent for 2074/75 it was decreased to 23.880 percent for year 2075/76 it was again increased to 25.360 percent and for year 2076/77 was 28.660 percent. The ratio of Surya LIC for the year 2072 /73 was 13.090 percent. Similarly in 2073/74 it was increased to 15.080 percent for 2074/75 it was increased to 19.060 percent for year 2075/76 it was again decreased to 15.080 percent and for year 2076/77 was 16.066 percent. Similarly the ratio of Nepal LIC for the year 2072 /73 was 13.070 percent. For year 2073/74 it was increased to 14.060 percent for 2074/75 it was again increased to 14.690 percent for 2075/76 it was decreased to 10.360 percent and for year 2076/77 was 10.010 percent. Similarly the ratio of life insurance corporation for the year 2072 /73 was 21.030 percent likewise in 2073/74 it was decreased to 17.710 percent for 2074/75 it was again increased to 19.050 percent for 2075/76 it was again increased to 20.060 and for year 2076/77 was 18.750 percent. Similarly the ratio of National LIC for the year 2072/73 was 13.770 percent

likewise in 2073/74 it was decreased to 10.640 percent for 2074/75 it was increased to 11.560 percent for year 2075/76 it was again decreased to 10.940 for and for year 2076/77 it was 11.20. The average of Asian, Surya, Nepal, Li corporation and National life insurance are 25.398, 15.675, 12.438, 19.320, 11.640 respectively. In comparison Asian has higher average ratio than Surya LIC, Li corporation, Nepal LIC and National LIC which shows the better performance of Asian LIC. Likewise S.D. are 1.928, 2.180, 2.140, 1.271, and 1.241 for Asian, Surya, Nepal, Li corporation and National life insurance companies.

4.4.4 Cashflow Ratio (operating cashflow ratio)

The operating cash flow ratio is a measure of the number of times a company can pay off current debts with cash generated within the same period. A high number, greater than one, indicates that a company has generated more cash in a period than what is needed to pay off its current liabilities. An operating cash flow ratio of less than one indicates the opposite; the firm has not generated enough cash to cover its current liabilities. To investors and analysts, a low ratio could mean that the firm needs more capital.

Table 4.17
Cashflow from Operating ratio of Sample insurance companies

FY	Insurance Companies				
	Asian LIC	Surya LIC	Nepal LIC	Li corp	National LIC
2076/77	2.364	2.072	1.900	4.615	5.505
2075/76	1.694	4.717	1.458	5.954	5.337
2074/75	2.188	5.162	4.557	8.018	5.326
2073/74	5.572	7.309	5.749	7.438	6.401
2072/73	7.875	3.506	8.814	4.635	4.459
Minimum	1.694	2.072	1.458	4.615	4.459
Maximum	7.875	7.309	8.814	8.018	6.401
Mean	3.938	4.554	4.495	6.132	5.406
SD	2.681	1.952	3.008	1.568	0.691

Source From appendix

Table 4.17 shows the Operating cashflow Ratio of Asian LIC, Surya LIC, Nepal LIC, Life Ins corporation and National LIC for last five years. The Operating cashflow Ratio of Asian LIC for the year 2072/73 was 7.875 times Similarly in 2073/74 it was decreased to 5.572 times for 2074/75 it was decreased to 2.188 times for year 2075/76 it was again decreased to 1.694 times and for year 2076/77 was 2.634 times .The ratio of Surya LIC for the year 2072 /73 was 3.506 times . similarly in 2073/74 it was increased to 3.7309 times for 2074/75 it was decreased to 5.162 times for year 2075/76 it was again decreased to 4.717 and for year 2076/77 was 2.072 times. Similarly the ratio of Nepal LIC for the year 2072 /73 was 8.814 times. For year 2073/74 it was decreased to 5.744 for 2074/75 it was again decreased to 4.557 for 2075/76 it was decreased to 1.458 times and for year 2076/77 was 1.900 times . Similarly the ratio of life insurance corporation for the year 2072 /73 was 4.634 likewise in 2073/74 it was increased to 7.438 times for 2074/75 it was again increased to 8.018 for 2075/76 it was again decreased to 5.954 and for year 2076/77 was 4.615 times. similarly the ratio of National LIC for the year 2072/73 was 4.459 likewise in 2073/74 it was decreased to 6.401 times for 2074/75 it was decreased to 5.326 times for year 2075/76 it was again decreased to 5.324 for and for year 2076/77 it was 5.505 times. The average of Asian, Surya, Nepal, Li corporation and National life insurance are 3.938, 4.554, 4.495, 6.132, and 5.406 respectively. In comparison Asian life insurance corporation have higher average ratio than Surya LIC, Asian LIC, Nepal LIC and National LIC which shows the better performance of Asian LIC. Likewise S.D. are 2.681, 1.952, 3.008, 1.568, and 0.691 for Asian, Surya, Nepal, Li corporation and National life insurance companies .

4.5 Correlation analysis of financial performance and other independent variable

This shows that the correlation coefficient and significant value to find out the relationship between, ROA, ROE and independent variables. The coefficients show the magnitude and direction of the relationship, whether it is strong, weak, positive and negative. The higher the values the stronger the relationship, and the smaller the coefficient is an indicator of a weak relationship. The sign also shows the direction of the relationship. The positive sign shows a positive relationship and the negative shows the opposite. The eight fiscal years' data have been taken for achieving the

Table 4.18
Bivariate Correlation Analysis between Variable

Pearson Correlation	ROA	ROE	CR	DER	CFOR	OER
ROA	1.000					
ROE	0.405*	1.00				
CR	-0.426*	-0.103	1.00			
DER	-0.525**	-0.094	0.249	1.00		
CFOR	0.342	0.127	-0.033	0.059	1.00	
OER	-0.354	-0.514**	0.210	0.252	-0.093	1.00

Source: calculate from SPSS software

** Correlation is significant at the 0.01 level (2-tailed)

* Correlation is significant at the 0.05 level (2-tailed)

Table 4.18 shows that the Pearson correlation coefficient between the dependent and independent variables taken in the study. It depicts that correlation coefficient of ROA with CR and DER are -0.426 and -0.525 respectively, which indicates there is significant negative relationship between ROA and CR and DER at 5% and 1% significant level of 2-tailed test respectively. It indicates that when the independent variable increases, ROA and vice versa. In addition, the correlation coefficient of ROA with CFOR is 0.342, which indicates a positive relationship, but ROA with OER is -0.354, which indicates a negative relationship between ROA and OER, but both are not statistically significant.

In contrast as table no. 4.5 shows that the result of correlation coefficient of ROE with OER is -0.514, which explains there is significant negative relationship between ROE and OER at 1% significant level of 2-tailed test. It indicates that the higher the OER, that means lower the ROE of insurance company. In others, the result of correlation coefficient of ROE with CFOR is 0.127, which shows there is a positive relationship, but ROE with CFOR and DR are -0.103 and -0.094, which indicates a negative relationship between them and both are not statistically significant.

4.6 Regression analysis of financial performance and other independent variable

Multiple regression analysis is used to determine the relationship between financial performance (ROA and ROE) and the current ratio, debt-equity ratio, operating expenses ratio, and cash flow operating ratio, where ROA is the dependent variable and the CR, DER, OER, and CFOR are the independent variables.

4.6.1 Regression Result: ROA as dependent variable and other independent variable

Table 4.19
ROA Model Summary

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.720 ^a	.519	.422	1.709

Source : Calculate From SPSS software

Predictors: (Constant), OER, CFOR, CR, DER

Dependent Variable : ROA

Table 4.19 depicts the summary model of the regression analysis between the independent variables (CR, DER, OER, and CFOR) and the dependent variables (ROA and ROE). The R column contains the value of R, which can be thought of as one measure of the quality of the dependent variable's prediction. The value of R in this case is 0.720, indicating a high level of prediction. The coefficient of determination, represented by the R square column, is the proportion of variance in the dependent variable that can be explained by the independent variable. The value of R square is 0.519 in this case, which means that current ratio, debt-equity ratio, operating expenses ratio, and cashflow from operating ratio explain 51.9% of the variation in ROA, while other factors explain the remaining 48.1%.

Similarly, after adjusting the degree of freedom, adjusted R square is 0.422, indicating that different behavioral factors explain 42.2 percent of the variation in ROA. The standard error of estimate is 1.708, indicating that the variability of the observed value of ROA from the regression line is 1.709 units.

Table 4.20
Analysis of Variance (ANOVA)

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	62.846	4	15.711	5.385	.004 ^b
	Residual	58.351	20	2.918		
	Total	121.197	24			

Source :Calculation from SPSS Software

Dependent Variable: ROA

Predictors: (Constant), OER, CFOR, CR, DER

The results of the analysis of variance are shown in table 4.20. The F statistic of 5.385 indicates that the regression is significant as a whole. The result in table 4.7 indicates that the current ratio, debt-equity ratio, operating expenses ratio, and cashflow from operating ratio can predict financial performance such as ROA of Nepalese insurance companies. The F-value illustrates the strong correlation between financial performance and the influencing variables.

Coefficient Matrix

Table 4.21
Coefficient Matrix

Model		Unstandardized Coefficients		t	Sig.
		B	Std. Error		
1	(Constant)	5.381	1.822	2.953	.008
	CR	-1.546	.921	-1.679	.109
	DER	-.197	.074	-2.664	.015
	CFOR	.378	.172	2.198	.040
	OER	-.064	.068	-.948	.354

Dependent Variable: ROA

In this study, ROA served as the dependent variable, and the goal was to build a linear regression function of the variables. The study developed the following regression equation using the data in table 4.21.

Equation for the theoretical regression model: $Y = \alpha - B_1X_1 + B_2X_2 + B_3X_3 + B_4X_4 + \varepsilon$

The recognized regression formula is: $ROA = 5.381 - 1.546*CR - 0.197*DER + 0.378*CFOR - 0.064*OER$

Table 4.21 shows the regression results for the study' of financial performance of insurance companies in Nepal. The results show that the positive relationship between ROA and CFOR is significant, with a beta coefficient of 0.378. On the other hand, the negative relationship between ROA and CR, OER, and DER is insignificant, with beta coefficients of 1.546, 0.197, and 0.064, respectively. The analysis results show that CFOR has a negligible positive impact on ROA. findings also show that CR, OER, and DER have a negligible negative impact on ROA.

4.6.2 Regression result : ROE as dependent variable and other independent variable.

Table 4.22
ROE Model summary

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.521 ^a	.271	.126	4.14296866

Source: Calculate from SPSS Software

Predictors: (Constant), OER, CFOR, CR, DER

Dependent variable: ROE

Table 4.22 depicts the summary model of the regression analysis between the independent variables (CR, DER, CFOR and OER) and the dependent variables (ROA and ROE). The R column contains the value of R, which can be thought of as one measure of the quality of the dependent variable's prediction. Here the value of R in this case is 0.521, indicating a good level of prediction. The coefficient of determination, represented by the R square column, is the proportion of variance in the dependent variable that can be explained by the independent variable. The value of R square is 0.271 in this case, which means that 27.1% variation in ROE is

explained by current ratio, debt-equity ratio, operating expenses ratio, and cashflow from operating ratio and remaining 72.1%. is explained by other factor.

After adjusting for the degree of freedom, the adjusted R square is 0.126, indicating that different behavioral factors explain 12.06 percent of the variation in ROE. The standard error of estimate is 4.14296866, indicating that the variability of the observed value of ROE from the regression line is 4.14296866 units.

Statistical Significance

The F ratio in the ANOVA table tests whether the overall regression model is a good fit for the data. The P value should be less than alpha value that is 0.05. If it is less than 0.05 then independent variable significantly predict the dependent variable otherwise independent variable doesn't significantly predict the dependent variable.

Table 4.23
Analysis of Variance(ANOVA)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	127.866	4	31.966	1.862	.157 ^b
	Residual	343.284	20	17.164		
	Total	471.150	24			

Source calculate from SPSS software

Dependent Variable: ROE

Predictors: (Constant), OER, CFOR, CR, DER

The table 4.23 displays the results of the analysis of variance. With a F statistic of 1.8621. The model formed with ROE and CR, OER CFOR and DER is insignificance since the P-value i.e 0.157 is greater than 0.05 with F-stastics of 1.862.

Coefficient Matrix

Table 4.24
Coefficient Matrix

Model		Unstandardized Coefficients		Standardized Coefficients	Sig.
		B	Std. Error	Beta	
1	(Constant)	19.382	4.420		.000
	CR	-.006	2.234	-.001	.998
	DER	.027	.180	.031	.880
	CFOR	.169	.417	.078	.689
OER		-.422	.165	-.514	.019

Dependent Variable: ROE

In this study, ROE served as the dependent variable, and the goal was to build a linear regression function of the variables. The study developed the following regression equation using the data in table 4.24.

Equation for the theoretical regression model: $Y = \alpha - B_1X_1 + B_2X_2 + B_3X_3 + B_4X_4 + \varepsilon$

The recognized regression formula is: $ROE = 19.382 - 0.006 * CR + 0.027 * DER + 0.169 * CFOR - 0.422 * OER$

Table 4.24 presents the regression results for the determinant of financial performance of insurance companies in Nepal under the study. The result shows that there is significant positive relationship between ROE DER and CFOR with beta coefficient is 0.027 and 0.169. On other hand there, the beta coefficients for the negative relationships between ROE and CR and OER are 0.006 and 0.422, respectively. The result of the analysis shows that DER and CFOR has significant positive affects ROE. The result also shows that CR, and OER have insignificant negative effect on ROE.

4.7 Major Finding

The study is concerned with financial performance of insurance companies in Nepal over different seven fiscal years from FY 202/73 to FY 2076/77. Secondary sources have been used to collect required data and information to meet the objectives of the

study. The primary sources of secondary data used in the study are annual reports provided by the relevant insurance companies. The financial tools for data analysis in this study are the current ratio (CR), debt-equity ratio (DER), operating expenses ratio (OER), cashflow from operating ratio (CFOR), return on assets (ROA), and return on equity (ROE). Similar to this, the statistical methods utilized to support the result throughout the course of five year include mean, standard deviation, coefficient of variation, correlation, and regression models. The major findings of this study can be summarized as follows:

- i. According to ROA analysis, the average ROA of all insurance companies under the study is positive and consistent Surya LIC has highest average return on assets i.e. 5.1621% and Asian LIC has lowest average return on assets i.e. 0.808 %.
- ii. According to ROE analysis, Nepal LIC has highest average return on equity i.e. 28.623 % and Asian LIC has lowest average return on equity i.e. 8.325%.
- iii. Cashflow from operating activities were positive during the whole fiscal year Life insurance corporation has highest average operating income than other insurance companies.
- iv. Cashflow from investing activities were negative during the whole fiscal year which shows Nepal LIC have invested more than other insurance companies.
- v. Cashflow from financing activities were positive during the study period which shows surya life insurance have highest average financing activities.
- vi. According to CR analysis, Current ratio of all of the insurance companies showed slightly fluctuating trend. All of the insurance companies could not maintain the conventional standard of 2.1. However, the life insurance corporation has a highest average CR and Nepal life insurance has lowest average CR
- vii. According to DER analysis, Li corporation has highest average ratio and Surya LIC has lowest average ratio.
- viii. According to OER analysis, Asian LIC has highest average operating expenses ratio i.e. 25.398 %. And National LIC has lowest average

operating expenses ratio i.e. 11.640 %. likewise the standard deviation of Surya LIC is higher than other insurance companies,

- ix. According to CFOR analysis, Li corporation has highest average operating cashflow ratio i.e. 6.132 times. Asian LIC has lowest average financial expenses ratio i.e. 3.938 Similarly Nepal LIC has highest standard deviation and National LIC has lowest standard deviation.
- x. From the bivariate correlation analysis, ROA is a positive correlation with CFOR, but there is significant negative correlation between ROA and CR and DER. Similarly, ROE is a positive correlation with CFOR, but there is significant negative correlation between ROE and OER.
- xi. The multiple regressions analysis shows that there is positive relationship between ROA and CFOR. But negative relationship between ROA and CR, OER & FER. Similarly, there is positive relationship between ROE, DER and CFOR But negative relationship between ROE and CR and OER.

4.8 Discussion on Finding

This study is based to investigate the financial performance analysis of Nepalese life insurance companies in Nepal. The study applied a descriptive and research design. The study data gathered systematically for the 5 years period of time in order to answer a research question. The sample of 5 life insurance companies in Nepal was conducted in this study. Data has obtained from secondary sources such as the annual report of the life insurance companies.

From the bivariate correlation analysis, ROA is a positive correlation with CFOR, but there is significant negative correlation between ROA and CR and DER. Similarly, ROE is a positive correlation with CFOR, but there is significant negative correlation between ROE and OER and CR. The result is consistent with the previous studies Muda et al. (2013) found the positive relationship between liquidity and leverage ratio and financial performance. This is in line with the finding of Lartey, Antwi, & Boadi (2013) who researched on relationship between liquidity and profitability of listed banks on the Ghana stock exchange and found out that there were a very weak positive relationship between liquidity and profitability. Further this result is consistent with the result of the study of Malik (2011) who researched determinants of insurance companies' profitability of Pakistan and find out that leverage ratio showed

negative but significant relationship with ROA. Likewise this result is different with the result the study of Ajanthan (2013) who investigated the relationship between liquidity and profitability of trading companies in Sri Lanka and found out there is a significant relationship between liquidity and profitability.

The multiple regressions analysis shows that there is positive relationship between ROA and CFOR. But negative relationship between ROA and CR, OER & FER. Similarly, there is positive relationship between ROE, DER and CFOR But negative relationship between ROE and CR and OER. The result is consistent with the studies of Ghazouani et al (2013), Ezra(2013), Dietrich et al.(2009), Sufian (2011), Birhanu(2012) and Amdemikael(2012). Therefore, the liquidity ratio operating cost and leverage ratio negatively affect the performance of insurance companies.

CHAPTER V

SUMMARY AND CONCLUSION

This final chapter involves Summary, conclusions and implications of the research work. The facts and findings from secondary data analysis are presented in this chapter. The three subsections that make up this chapter are section 5.1, which presents the summary, part 5.2, which presents the conclusions, and section 5.3, which presents the implications based on the study's findings.

5.1 Summary

Insurance Business is carried out with the objectives of offering financial protection to human beings from the loss out of control of human beings. Today, the popularity of insurance business growing day by day. It is considered as a great achievement in the financial world with its purpose of providing the protection to man made progress, not to discourage the man from the fear of possible accident and not to block the progress, and developments. Insurance business also provides capital for the economic development of the nation. In this way insurance business plays the integral role in the national financial system. The growing numbers of insurance companies are competing with each other to attract policyholders with different types of insurance policies

This study conducted to investigate the Financial performance analysis of life insurance companies in Nepal. The study applied a descriptive and analytical research design. The study data gathered systematically over a period of time in order to answer a research question. The sample of 5 life insurance companies in Nepal was conducted in this study. Data was obtained from secondary sources such as the financial statements of the life insurance companies. . The measure ratio analysis consists of current ratio, Debt equity ratio, Operating expenses ratio, Return on equity ratio and return on assets ratio. A correlation analysis is used to examine the relationship between financial performance and its determinants. A multiple regression analysis was undertaken to study the relationship between independent variables and dependent variables. The significance of the results was tested at 5% significance level in a 2-tailed test. A statistical package like (statistical package for social sciences) SPSS 25 version was used in order to examine the data The necessary

information for this study was acquired by the researcher from yearly reports released by the pertinent development banks throughout the previous seven years. Additionally, required information can be found on the Nepal Stock Exchange's website. The study's primary data sources came from a variety of published sources, and secondary data sources were used to compile the study.

The third chapter, Research technique, has discussed many financial and statistical instruments. In financial tools, several ratios are utilized, and data analysis employs statistical techniques like mean, standard deviation, minimum and maximum, correlation coefficient, coefficient of determination, and multiple regression.

In the study report, data pertaining to Insurance activities have been gathered, presented in figures and tabular form, and attempted to be understood logically. The study's conclusions are then systematically listed after the data has been thoroughly examined utilizing a variety of monetary and statistical approaches. The fourth chapter of the research, "Data Presentation and Analysis," compiles all of these works.

The current chapter, which is labeled "summary, conclusion, and recommendations," is where the research's summary, conclusion, and suggestions are provided.

5.2 Conclusion

The study's main goal was to look into the factors that influenced the financial performance of Nepalese insurance companies . Current ratio, debt-equity ratio, operating expenses ratio, and cashflow ratio were used as independent variables in this study, and financial performance (ROA and ROE) was used as a dependent variable. Some of the striking corporate goals include the need to maximize profit maintaining high level of liquidity in order to guarantee safety. Liquidity is the statistically significant predictor of firms' profitability. Every stakeholder has interest in the liquidity situation of insurance company. So, insurance firm should ensure that it does not suffer from lack of or excess liquidity to cover up its short-term obligations

From the bivariate correlation analysis, ROA is a significant positive correlation with CFOR, but there is significant negative correlation between ROA and CR and DER. Similarly, ROE is a significant positive correlation with CFOR, but there is significant negative correlation between ROE and OER and CR. The multiple regression analysis shows that there is positive relationship between ROA and CFOR. It means that increase in CFOR leads to increase in return in asset. But insignificant negative relationship between ROA and CR, OER & DER. It means that increase in CR, OER and DER leads to decrease in ROA. Similarly, there is significant positive relationship between ROE, DER and CFOR. It means that increase in DER and CFOR leads to increase in return on equity. But insignificant negative relationship between ROE and CR and OER. It means increase in CR and OER leads to decrease in return on equity.

5.3 Implications

This study also has several implications pointing to interesting avenues for future research. So the implications and suggestions for future research are discussed here.

5.3.1 General Implication

Manager should balance between profitability and liquidity of their companies. This means they should maintain a tradeoff between profitability and liquidity. Profitability plays an important role in financial position companies.

This study examined the financial performance of life insurance companies in Nepal. The variables chosen were firm specific variables and may not be the only variables that determinants of Financial performance. It is recommended that further research could be conducted to establish whether macro-economic variables determinants of Financial performance. This study has been conducted in the context of Nepalese Insurance companies, with a short period of time and with small sample size. Future studies may deal with a wide area of firms with a long period.

5.3.2 Implication for the Future Research Work

- i. The study may be may useful for investors for taking investing decision.

- ii. The study is entirely based on secondary data and does not include primary data therefore future studies can be based on using primary data or both primary and secondary data.
- iii. The study may be literature and base research for further study in Future.
- iv. This study will advance the understanding of the community and assist other academics in writing additional research papers on financial topics. The study's findings can be used as a reference by academics who are writing dissertations for Bachelor's and Master's Degree programs provided in Nepal and elsewhere in the world.
- v. The findings of this study will assist finance managers and other financial officers in publicly traded firms in advising their management on the optimum source of funding that will increase the profitability of the company.
- vi. It is important to undertake research to determine how other companies' profits, particularly those in the manufacturing, financial, service, and non-listed industries, affect a company' to do comparison studies o

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Appendices

Asian life insurance company

FY	CA	CL	Total liabilities	Networth	CFOA	TA	Net profit	CR	ROA	ROE	D/A ratio	D/E ratio	CFOA RATIO
2076/77	154,472	106,902	2,186,033	284,108	252,702	2,470,141	26,910	1.444993	0.010894	0.094717	0.884983	7.694383	2.363878
2075/76	171,518	170,321	1,749,594	258,058	288,531	2,007,653	23,006	1.007032	0.011459	0.089152	0.871463	6.779840	1.694042
2074/75	121,959	131,888	1,348,520	140,121	288,531	1,488,642	9,140	1.079033	0.006140	0.065227	0.905873	9.623951	2.187692
2073/74	56,504	28,702	1,038,633	98,419	159,923	1,137,052	5,093	1.968605	0.004479	0.051744	0.913444	10.553157	5.571774
2072/73	22,476	16,551	828,889	92,005	130,329	1,420,161	10,607	1.357986	0.007469	0.115287	0.583659	9.009142	7.874546

Surya Life Insurance

FY	CA	CL	Total liabilities	Networth	CFOA	TA	Net profit	CR	ROA	ROE	D/A ratio	D/E ratio	CFOA RATIO
2076/77	106,500	77,472	828,784	284,381	1,605,552	1,137,438	33,563	1.374600	0.029508	0.118021	0.728641	2.914340	2.724289
2075/76	4,459	28,718	609,294	160,016	135,476	561,131	28,966	0.155264	0.051621	0.181019	1.085833	3.807705	4.717448
2074/75	31,087	15,817	414,432	150,587	81,656	565,020	18,654	1.965382	0.033015	0.123876	0.733483	2.752104	5.162407
2073/74	9,978	9,272	45,102	346,522	67,770	183,081	13,625	1.076175	0.074422	0.039320	0.246350	0.130156	7.309295
2072/73	8,931	14,008	36,480	844,667	49,115	190,480	13,246	0.637549	0.069541	0.015682	0.191514	0.043188	3.506115

Nepal Life Insurance

FY	CA	CL	Total liabilities	Networth	CFOA	TA	Net profit	CR	ROA	ROE	D/A ratio	D/E ratio	CFOA RATIO
2076/77	1,178,699	877,561	9,251,542	905,967	1,667,323	10,178,194	33,563	1.343154	0.010887	0.122315	0.908957	10.211784	1.899952
2075/76	805,048	661,175	6,856,151	925,754	963,744	7,781,906	28,966	1.217601	0.017172	0.144348	0.881038	7.406016	1.457622
2074/75	286,202	147,193	5,310,717	977,315	670,719	6,288,032	18,654	1.944392	0.023121	0.148759	0.844575	5.433988	4.556719
2073/74	66,462	116,666	344,256	776,680	670,693	3,015,383	13,625	0.569676	0.030067	0.116732	0.114167	0.443240	5.748814
2072/73	18,856	80,737	167,289	323,306	711,581	3,463,826	13,246	0.233551	0.083914	0.899036	0.048296	0.517433	8.813576

Life Insurance Cooperation

FY	CA	CL	Total liabilities	Networth	CFOA	TA	Net profit	CR	ROA	ROE	D/A ratio	D/E ratio	CFOA RATIO
2076/77	283,977	181,699	6,968,417	362,617	838,615	7,331,034	110,813	1.562903	0.009819	0.198508	0.950537	19.217005	4.615414
2075/76	235,566	124,013	5,602,057	344,796	738,367	5,946,853	133,630	1.899523	0.004990	0.086072	0.942020	16.247456	5.953935
2074/75	113,296	68,431	4,394,195	247,407	548,695	4,709,237	145,384	1.655626	0.028573	0.543861	0.933101	17.761020	8.018240
2073/74	109,591	202,049	265,940	168,349	4,533,636	1,287,844	90,663	0.542397	0.010481	0.080175	0.206500	1.579692	7.635833
2072/73	181,700	101,589	1,227,781	156,666	470,891	2,048,400	290,663	1.788580	0.015692	0.205172	0.599385	7.836922	4.635249

National Life Insurance

FY	CA	CL	Total liabilities	Networth	CFOA	TA	Net profit	CR	ROA	ROE	D/A ratio	D/E ratio	CFOA RATIO
2076/77	95,969	76,022	3,822,639	473,696	418,516	4,296,335	71,982	1.262385	0.017205	0.156049	0.889744	8.069814	5.505166
2075/76	78,622	65,070	3,060,828	434,196	347,267	3,495,796	29,677	1.208275	0.011033	0.088825	0.875574	7.049416	5.336837
2074/75	66,655	56,439	2,459,255	282,601	300,611	2,741,856	134,555	1.181011	0.018647	0.180920	0.896931	8.702212	5.326274
2073/74	52,236	36,264	2,031,340	237,124	232,131	2,268,464	13,497	1.440442	0.019468	0.186246	0.895469	8.566584	6.401150
2072/73	53,909	31,953	1,726,768	198,001	142,482	1,924,768	32,144	1.687121	0.018169	0.176625	0.897130	8.721023	4.459052

Current Ratio of Sample Insurance Companies

FY	Insurance Companies				
	Asian LIC	Surya LIC	Nepal LIC	Li corporation	National LIC
2076/77	1.445	1.375	1.343	1.563	1.262
2075/76	1.007	1.611	1.218	1.900	1.208
2074/75	1.079	1.965	1.944	1.656	1.181
2073/74	1.969	1.076	1.990	0.542	1.440
2072/73	1.358	1.242	0.234	1.789	1.687
2071/72	1.114	1.078	1.120	1.103	1.161
Minimum	1.0070	1.0762	0.2336	0.5424	1.1613
Maximum	1.9686	1.9654	1.9903	1.8995	1.6871
Mean	1.3286	1.3912	1.3082	1.4253	1.3234
SD	0.35662	0.34573	0.64338	0.51230	0.20470

Debt Equity Ratio of sample insurance companies

FY	Insurance companies				
	Asian LIC	Surya LIC	Nepal life LIC	Li corporation	National LIC
2076/77	7.694	2.914	10.212	19.217	8.070
2075/76	6.780	3.808	7.406	16.247	7.049
2074/75	9.624	2.752	5.434	17.761	8.702
2073/74	10.553	0.130	0.443	1.580	8.567
2072/73	9.009	0.043	0.517	7.837	8.721
Minimum	6.780	0.043	0.443	1.580	7.049
Maximum	10.553	3.808	10.212	19.217	8.721
Mean	8.732	1.929	4.802	12.528	8.222
SD	1.506	1.730	4.295	7.547	0.706

Operating Expenses Ratio

FY	Insurance Companies				
	Asian LIC(%)	Surya LIC(%)	Nepal LIC(%)	LI corp(%)	National LIC(%)
2076/77	28.660	16.066	10.010	18.750	11.290
2075/76	25.030	15.080	10.360	20.060	10.940
2074/75	23.880	19.060	14.690	19.050	11.560
2073/74	25.360	15.080	14.060	17.710	10.640
2072/73	24.060	13.090	13.070	21.030	13.770
Minimum	23.880	13.090	10.010	17.710	10.640
Maximum	28.660	19.060	14.690	21.030	13.770
Mean	25.398	15.675	12.438	19.320	11.640
SD	1.928	2.180	2.140	1.271	1.241

Cashflow from Operating ratio of Sample insurance companies

FY	Insurance Companies				
	Asian LIC	Surya LIC	Nepal LIC	Li corp	National LIC
2076/77	2.364	2.072	1.900	4.615	5.505
2075/76	1.694	4.717	1.458	5.954	5.337
2074/75	2.188	5.162	4.557	8.018	5.326
2073/74	5.572	7.309	5.749	7.438	6.401
2072/73	7.875	3.506	8.814	4.635	4.459
Minimum	1.694	2.072	1.458	4.615	4.459
Maximum	7.875	7.309	8.814	8.018	6.401
Mean	3.938	4.554	4.495	6.132	5.406
SD	2.681	1.952	3.008	1.568	0.691

Life insurance corporation balancesheet

Particular	Years				
	2072/73	2073/74	2074/75	2075/76	2076/77
Fixed assets net	0.75	0.61	0.49	0.43	0.34
long term investment	18.75	53.80	62.03	62.36	67.06
Total fixed assets	19.50	54.41	62.51	62.79	67.40
Policy loan	10.38	11.49	13.52	15.38	17.25
other term loan	0.16	0.13	0.10	0.09	0.09
Total Current Assets	69.96	33.97	23.87	21.74	15.26
Total Assets	100.00	100.00	100.00	100.00	100.00
paid up capital	3.65	3.52	2.79	2.49	2.66
Reserve and surplus	1.40	0.68	1.96	1.74	1.53
life assurance fund	90.46	88.52	88.18	89.64	88.37
catastrophe reserve	0.30	0.27	0.49	0.45	0.45
Total capital and reserve	95.81	92.99	93.42	94.31	93.01
Total current liabilities	3.47	5.33	4.50	5.32	6.27
provision for unexpired risk	0.40	1.42	0.25	0.10	0.04
claims payable	0.06	0.06	0.05	0.27	0.27
other provision	0.26	0.20	1.79	1.21	0.41
Total equity and liability	100.00	100.00	100.00	100.00	100.00

Asian life insurance companies

balance sheet

Particular	years				
	2072/73	2073/74	2074/75	2075/76	2076/77
Fixed assets net	2.36	1.99	1.47	1.21	0.95
long term investment	78.10	77.75	81.54	81.17	79.10
Total fixed assets	80.46	79.74	83.01	82.38	80.05
policy loan	3.17	4.02	5.47	7.22	9.83
other term loan	0.50	0.40	0.32	0.23	0.25
Total Current Assets	15.86	15.84	11.19	10.17	9.86
Total Assets	100.00	100.00	100.00	100.00	100.00
paid up capital	7.50	7.10	1.83	10.05	8.12
Reserve and surplus	3.15	1.67	1.23	2.13	2.44
life assurance fund	86.50	88.19	92.73	84.16	84.41
catastrophe reserve	0.35	0.33	0.27	0.30	0.34
Total capital and reserve	97.50	97.30	96.06	96.64	95.31
Total current liabilities	1.85	1.47	1.79	1.86	1.81
provision for unexpired risk	0.00	0.00	0.01	0.06	0.11
claims payable	0.10	0.10	0.10	0.07	0.08
other provision	0.56	1.12	2.05	1.38	2.69
Total equity and liability	100.00	100.00	100.00	100.00	100.00

Surya life insurance

Particular	years				
	2072/73	2073/74	2074/75	2075/76	2076/77
Fixed assets net	1.21	0.97	0.75	0.86	0.65
Long term investment	26.88	46.35	50.43	37.08	53.12
Total fixed assets	28.10	47.32	51.18	37.94	53.78
policy loan	2.46	3.53	4.30	5.90	6.52
other term loan	1.24	2.40	1.66	1.45	1.43
Total Current Assets	68.20	46.75	42.85	54.71	38.27
Total Assets	100.00	100.00	100.00	100.00	100.00
paid up capital	17.90	16.76	19.43	16.04	18.95
Reserve and surplus	9.21	9.03	5.81	4.61	6.05
life assurance fund	58.94	61.72	62.55	66.18	64.78
catastrophe reserve	0.88	0.97	1.01	1.09	1.05
Total capital and reserve	86.94	88.48	88.79	87.92	90.83
Total current liabilities	5.02	2.37	2.79	3.87	3.39
provision for unexpired risk	6.59	7.81	6.57	5.08	3.31
claims payable	0.02	0.01	0.25	0.34	0.02
other provision	1.44	1.32	1.60	2.80	2.60
Total equity and liability	100.00	100.00	100.00	100.00	100.00

Nepal life insurance company ltd

Particular	Years				
	2072/73	2073/74	2074/75	2075/76	2076/77
Fixed assets net	0.88	0.62	0.49	0.40	0.31
long term investment	14.93	27.28	47.31	52.05	42.09
Total fixed assets	15.81	27.90	47.80	52.45	42.40
policy loan	10.51	11.61	13.50	15.26	16.75
other term loan	1.60	1.06	0.61	0.67	0.87
Total Current Assets	72.06	59.42	38.09	31.62	39.99
Total Assets	100.00	100.00	100.00	100.00	100.00
paid up capital	5.97	6.10	7.05	7.05	7.06
Reserve and surplus	2.31	8.56	4.83	2.41	1.18
life assurance fund	86.49	77.91	79.54	83.20	84.00
catastrophe reserve	0.62	0.64	0.70	0.71	0.66
Total capital and reserve	95.39	93.22	92.12	93.37	92.90
Total current liabilities	2.22	2.30	2.19	2.77	4.31
provision for unexpired risk	0.85	0.70	0.47	0.47	0.45
claims payable	0.89	1.46	2.49	1.17	1.59
other provision	0.65	2.33	2.72	2.21	0.76
Total equity and liability	100.00	100.00	100.00	100.00	100.00

National life insurance balance sheet

particular	Years				
	2072/73	2073/74	2074/75	2075/76	2076/77
Fixed assets net	3.86	3.13	2.46	1.89	1.62
long term investment	27.41	61.17	64.06	61.35	62.18
Total fixed assets	31.27	64.30	66.52	63.24	63.79
policy loan	7.38	61.17	9.79	10.73	11.68
other term loan	0.54	0.45	0.44	0.48	0.58
Total Current Assets	60.79	26.97	23.25	25.54	23.95
Total Assets	100.00	100.00	100.00	100.00	100.00
paid up capital	7.78	7.96	6.37	8.97	7.52
Reserve and surplus	2.22	1.90	1.76	1.64	2.63
life assurance fund	84.02	83.09	82.61	80.33	81.64
catastrophe reserve	0.56	0.65	0.71	0.65	0.71
Total capital and reserve	94.57	93.61	91.45	91.60	92.50
Total current liabilities	1.98	1.84	2.29	2.05	2.25
provision for unexpired risk	1.20	1.09	1.14	1.31	1.26
claims payable	0.60	0.75	1.09	1.29	0.79
other provision	1.65	2.72	4.04	3.75	3.19
Total equity and liability	100.00	100.00	100.00	100.00	100.00

Financial Performance Analysis of Insurance Companies in Nepal

**A proposal submitted to the office of the Dean, Faculty of Management in partial
fulfilment of the requirements for the of Master's Degree**

by

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1.2 Background of the Study

In the beginning of civilization, the number of business, transactions were limited and they had taken a very small place. Business transaction could be recorded by the businessman himself. With the moves of times and advancement of human civilization, business activities have also been growing rapidly. No businessman can keep the record of daily transactions and interpret the component to identify the real financial picture of financial ability of the organization at present. In early days, the capital markets were relatively insufficient and unaware for the collection of funds from the individuals. Financial performance contains summarized information of the firm's financial affairs organized and systematically. The level of chief executive requires the financial performance to see the actual financial situation of the firm to owners, creditors and the general public. To know the financial performance of the firm, balance sheet and income statement (profit and loss account) are main documents. The financial information's are meant to represent the firm's financial situation to the user. We can say the financial statement (balance sheet and income statement) communicate information to the different parties. It is a source of information relating to the firm. Financial performance is obtained by analyzing the financial statements. So, "Financial statement is the process of identifying the financial strength and weakness of any corporation, by properly establishing relationships between the items of balance sheet and profit and loss account"(Pandey,1999:26). "This involves past, present and anticipated future financial assessment of the corporation. The focus of the financial analysis is based on key figures in the financial statements and the significant relationship that exists between them, the type of the relationship to be investigated by an analyst would largely depend upon his objective and purpose of evaluation"(Khan & Jain,1996:22).

Insurance is a device providing financial compensation to those who suffer from misfortune. Life insurance provides service of financial protection to surviving dependents after the death of an insured. Various service is provided based on the terms of Life Insurance policy. Risk management is quite challenging for Insurance Company as it collects small premium by promising to provide benefits in case of uncertain loss. So the insurance company should be prepared to pay claim of huge loss in time which can arise at any time.

Uncertain risks and losses are the hurdles of economic development of the nation. To overcome the risks and losses, insurance companies were realized to establish in 2004 B.S. in Nepal. Accordingly, Nepal MaalChalani Ra Beema Company was established in 2004 B.S. under the ownership of Nepal Bank Limited. After the arrival of democracy in 2007 B.S. establishment of financial institutions was done in different planning period. To save the loss of property due to uncertain accidents and entrance of complex mechanical age etc. insurance company was realized to establish. According to this, RastriyaBeemaSansthan Pvt. Ltd. was established under company act in 2024 B.S. It was converted into public company under RastriyaBeemaSansthan Act 2025. After that many insurance companies were established having different business types (life insurance business and non-life or general insurance business). Life insurance business sells life insurance, annuities and pensions products whereas non-life or general insurance business sells other types of insurance.

A wide range of insurance products is available across the globe. Insurance carriers as well as the government design various types of insurance products as per the demand of policyholders and society. Insurance products or services can be classified on different bases.

In the Nepalese insurance market, all types of insurers except mutual insurance and all types of products except linked investment products are available. Recently, social insurance products are introduced by Health Insurance Board and Social Security Fund. Micro insurance products are mandatory to sell by commercial insurers. We have a commercial reinsurance company and a deposit insurance company. Still, there is no separate micro-insurance company.

2. Problem Statement

2.1 Statement of Problem

Insurance business has played vital role in the field of individual's life, business enterprises and society. Insurance has given financial compensation against the uncertain possible events. It has reduced the risks and provided assurance. However, insurance companies have faced many problems in different business sectors. Insurance company are recently set up in Nepal but in short span of time

number of insurance are increase rapidly. This research highlight the problems relating with Insurance sector with respect to five life insurance company.

2.2 Research Questions

The study will try to answer the following research questions:

- i. What is the status of financial statement of sample insurance company?
- ii. What is the cashflow performance of selected insurance companies ?
- iii. Does the impact of cashflow on financial performance of selected insurance companies?

3. Objectives of the Study

- i. To examine the status of financial statement of sample insurance companies
- ii. To measure the cashflow performance of selected insurance companies.
- iii. To analyze the impact of cashflow on financial performance of selected insurance companies.

4. Rationale of the Study

Insurance companies are playing vital role in the economic protection of the business firm. They have provided essential knowledge to get protection from risk. They have given facilities to business firms for the foreign trade. In lump sum, Insurance companies have played active role in business firm, individual's life and society too.

The need of the study is to analyze the trend and suggest promotional measures in the area of financial management. It is well known that no company can expect growth with a weak financial position. So, the studies of financial aspect of these companies are necessary to analyze the financial performance and to give the suggestion improving the efficiency to earn maximum return. The need of this study is felt in the view of the management of the company that this study makes the management conscious to find out the major problem area of finance. This study may be useful to BeemaSamiti, the controlling body of insurance sector, to formulate the plans and policies.

5. Limitation of the study

The study is bounded with the following limitations:

- i. The study only deals with life insurance companies listed in NEPSE.
- ii. The study covers only seven year historical data of sample insurance company.
- iii. In this study, only the possible ratios have been calculated.
- iv. This reliability of the secondary data highly depends on the accuracy of the annual report of the concerned insurance companies.

6. Literature Review

This part includes the Review of previous studies, articles and conceptual framework for the related studies. More analysis is not sufficient to present real framework of the study. So review of related materials should be deal with to give the research a clear vision, past study and knowledge provides foundation to the present day.

6.1 Theoretical Review

As studied above the word financial statement has been frequently used. Question may arise here what financial statement is. “Financial statements contain summarized information of the firm’s financial affairs, organized systematically. They are the means to present the firm’s financial situation to the users”(Pandey,1999:29-30). Financial statements are especially prepared at the end of the accounting year or financial year. The financial statements are the annual reports of the organization or firm. Financial statements are used by investors and financial analyst to examine the company’s performance in order to make investment decisions. These statements are prepared very carefully and contain as much information as possible. Financial statements are the summary of the accounts of assets and liabilities, capital and profit and loss.

Batool and Sahi (2019) reveled that financial performance of any firm related to its profitability of that firm. The financial performance of the firm can be measure by some other different ways like gross margin rate, return on asset and return on equity.

Financial performance of the firm is very important to attract the attention of researcher, financial experts and management of other corporations.

Senol, Zeren, and Canakci (2020) mentioned that insurance business has several important functions within the economic structure such as providing insurance through the premiums collected by the insurance companies against the risks for the economic structure, managing these premiums collected through using the financial institutional role, risk management and transfer of the premiums into productive areas. While continuing on its activities, insurance business also enhances the economic development. In the study, a research on the relationship between insurance business and economic growth was conducted by using the data from 36 countries from the period between the years 1985- 2018. The result of the panel causality test introduced by Dumitrescu and Hurlin (2012) indicated that there is a mutual causality between life insurance business and economic growth and a one-way causality from economic growth to the non-life insurance business. These results brought the conclusions that rather than the non-life insurance business, life insurance business brings contributes more to the economic growth with the long term and regular resources that it provides.

6.2 Conceptual Review

In this section, the earlier studies and various articles related to this study will be presented. They are collected from various journals and magazines published all over the world. This will further add up to broaden our understanding of the issues related to our research work.

The history of insurance is as old as human civilization. Insurance was practised around 5000 years before (Vaughan, 1996). In ancient times, the risk was managed by entire members of the society where each member of the society contributed a certain amount of goods or money and signed in the contract as a contributor. Initially, entire people of the certain society have participated in insurance for mutual benefits. The concept of mutual insurance originated in England in the late 17th century to cover losses due to fire. The mutual insurance industry began in the United States in 1752 when Benjamin Franklin established the Philadelphia Contribution ship for the Insurance of Houses from Loss by Fire (Janet, Wadsley, & Artandi, 1994). Almost 400

insurers from 74 countries are members of the International Cooperative and Mutual Insurance Federation. Mutual insurers distribute the profits to their policyholders, raise the equity fund from policyholders, manage the company by the policyholders and there is no existence of separate stockholders (outsiders).

Primarily, insurance was originated as a social security device, gradually developed as a cooperative institution, further, it was developed in the form of mutual insurance while insurance companies now are operating as commercial institutions. Nowadays, the number of mutual insurers gradually decreases while stock insurers are dominant. Policyholders are entitled to get claims (nonlife) and claims and bonus (life) only, they have not right to elect the board of directors, the voice of policyholders carry over by the regulators and whistleblowers.

Modern insurance is a legal contract between an insurer and insured where the insurer promises to pay compensation in case of any financial loss occurs due to the covered risk and the insured promises to pay the premium. Insurance was considered a gambling and speculative device. Insurance is guided by many principles viz. principle of indemnity, insurable interest, subrogation, utmost good faith, contribution, risk mitigation and proximate causes which were developed over a long period to make the insurance business more professional and less speculative. Now, thousands of insurers and reinsurers are operating across the globe.

The working paper aims to discuss the life insurance claim payment effect on profitability, highlight some regulatory and development issues and prospects of the insurance industry in brief. The paper has been prepared based on secondary information, research papers and publications of concerned organizations.

Types of Insurance Service

A wide range of insurance products is available across the globe. Insurance carriers as well as the government design various types of insurance products as per the demand of policyholders and society. Insurance products or services can be classified on different bases.

In the Nepalese insurance market, all types of insurers except mutual insurance and all types of products except linked investment products are available. Recently, social

insurance products are introduced by Health Insurance Board and Social Security Fund. Microinsurance products are mandatory to sell by commercial insurers. We have a commercial reinsurance company and a deposit insurance company. Still, there is no separate micro-insurance company.

Evolution of Insurance Services in Nepal

The first homegrown general insurance company Nepal Mal ChalanitathaBeemaAdda (currently known as Nepal Insurance Company) was jointly established by Nepal Bank Limited and private investors in 1947. Indian companies sold general insurance policies without registering their office in Nepal from the 1930s till 1967 and life insurance policies till 1974. The insurance market was regulated after the passage of the Insurance Act, 1968. First life cum nonlife insurer RastriyaBeemaSansthan was established as a national flagship company in 1968 under a special act. Financial liberalization policy allowed the private sector (both domestic and foreign) to establish insurance companies in Nepal. Currently, 40 insurers (20 nonlife, 19 life and a reinsurer) are in operation. Besides commercial insurance, social insurance services and insurance for deposits and loans, community-based health insurance and insurance likely social protection activities are available in Nepal.

Life Insurance

Life insurance is a contract between the insured, insurers, insured pays the premium on a regular basis period, an insurer provides benefits to the insured as per the terms and conditions. Life insurance plans are two types viz. risk protection plan and risk protection cum investment plan. Investment plans are two categories viz. endowment plan and whole life plan.

- i) **Term Insurance Plan:** The term plan covers the risk but it has no saving/investment components so the premium is lower as compared to endowment and whole life. This plan is more popular in the corporate sector (for employees), financial institutions (for borrowers), and manpower companies (for foreign migrant workers) and less demanded among the individual, traders and professionals. The number of policies enforced increased over the period due to the decision of GON that term insurance is mandatory for foreign migrant workers.

- ii) **Endowment Plan:** Under the endowment plan, the policyholder either gets death benefit or maturity benefit which occurs earlier so the premium is higher than term and whole life plan. Various endowment plans are available in the market viz. general endowment, limited payment, a single payment, money back, child endowment, joint endowment, pension plan etc. Nowadays, critical illness benefits are also inbuilt to attract customers. Riders are common in the endowment plan.
- iii) **Whole Life Plan:** The plan covers the risk for the entire life of the policyholder and provides death benefits to beneficiaries. Some companies provide the benefits after certain age before the death of the policyholders. The whole life plan is suitable for those who do not have sufficient money for saving but need financial support at elder age and after death. Almost all life insurers have such type of product.

6.3 Empirical Review

According to J.N. Myer, financial statement analysis is largely a study of relationship among the various financial factors in a business as disclosed by the single set of statement and a study of the trend of these factors as shown in a series of statement (Myer 1961, P.4).

It is the process of determining the significant operating and financial statements. The goal of such analysis is to determine the efficiency and performance of the firm's mgmt, as reflected in the financial records and reports (Hampton 1998, P.98).

The main function of financial analysis is the pinpointing of the strengths and weaknesses of a business undertaking by regrouping and analysis of figures contained in financial statements, by making comparison of various components and by examining their content. This can be used by financial managers as the basis to plan future financial requirements by means of forecasting and budgeting procedures (Goyal & Mona Mohan 1997, P.356).

Financial analysis is process of identifying the financial strength & weakness of the firm by properly establishing relationship between the items of the B/S, which represents analysis snapshot of the firm's financial position analysis at analysis moment in time and next income statement, that depots analysis summary of the

firm's profitability overtime.(Vanhorn & Watchowtch, 1997,P.120).

Ghimire (2016) concluded that firm size, distribution channels, ownership of forms, product specialization, financial leverage, and premium growth are the major determinants of the efficiency of the property-liability insurance company. Also provides insight on the different types of efficiency of the Nepalese life insurance industry based on the DEA approach which may be useful to the regulator, operator, researchers, academicians and learners to frame an idea about the Nepalese insurance industry.

Basaula (2017) found in line with the fact that entrepreneurial development, launching innovative products, increased institutional delivery along inbound claim calls attracts the customers for policy repurchase. It has been claimed that life insurance has not only for security purposes but also has social prosperity through socio- claims that will meet customers' satisfaction.economic development. Claims management is considered one of the most valuable possessions of any insurer. Therefore, research needs to be carried out to find out a more efficient and effective method of handling

Aare, Alhassan, Asamoah, and Gyamfi (2017) provided emerging market evidence for VAIC and its various components (HCE, SCE and CEE). Specifically, examined the relationship between profitability and VAIC of both the life and the non-life insurance markets in Ghana using annual data from 2007 to 2011. Analysis of the VAIC shows that the intellectual capital performance of the industry is driven by the value added by human capital (HCE). Evidence is provided on how the three components of VAIC individually influence UNDP and ROA. The insurance industry is highly regulated in Ghana and that capital requirements regulation makes it difficult to attribute differences in profitability to an insurer's capital employed. However, HCE and SCE, in general, are found to be drivers of insurance firm profitability. Insurers concentrate on managing human capital, a component that when managed well can increase both CCE and SCE. Additionally, this study makes a case for insurers in Ghana and other developing markets to emphasize their IC as its performance improves the underwriting performance of insurance firms. The IC using VAIC for non-life insurers to be relatively higher than that of life insurers even though further analysis in terms of the various components of VAIC indicates that the life market needs to have capable IC to be profitable in Ghana.

Emmanuel and Goodwill (2018) Profitability determines an insurance company's ability to make claims payments as at when due. The purpose of the study is to examine the effect of claims management on the profitability of listed insurance companies in Nigeria. The findings in this study have revealed that ROA, which is a measure of profitability, has an indirect relationship with LR (loss ratio) and NC (net

Ghimire (2018) mentioned the different sources of income including investment income, commission and other income, premium income occupied the highest share by insurers. Premium income is the combination of the first income (written in the first time for new policy), and renewal income (written premium for existing policy from the second year). The trend of premium income of each company over the period has been found positive in the context of the Nepalese insurance market. According to the guidelines issued by Insurance Board, there are five types of real income sources of life insurer viz. premium, investment income, income from policy loan, other direct income, reinsurance commission, etc. Premium income contributes to the highest portion of total income. The premium is further divided as first, renewal and a single payment.

6.4 Research Gap

A research gap is a research question or problem which has not been answered appropriately or at all in a given field of study. This stage is very crucial to proceed with writing a literature review since research questions can be framed only when the gap is identified. The gap itself becomes the purpose of your research in the later stages. As per the tools for data analysis, here in this study, the statistical and financial tools. Although some previous research have been conducted in this similar topic but very few sample size have been taken which may not cover the whole population .

7. Research Methodology

The research methodology is the specific procedures or techniques used to identify, select, process, and analyze information about a research topic. Research methodology sets out overall plan associated with a study. It provides a basic framework on which the study is based. Before presenting the analysis and interpretation of data, it is necessary that research methodology be described first. This chapter presents all the necessary steps to be followed throughout this research

work in order to achieve and accomplish the objectives of the study. This chapter presents the type of method used; the reasons for choosing the method, data collection instruments and procedure, data analysis, ethical statement, trustworthiness and limitations of the methods have been used.

7.1 Research Design

The research methodology is the systematic way of solving research problems. This chapter refers to the overall research processes, which is a researcher conducts during his/her study. It includes research design, sources of data, population and sample and method of data collection and analytical tools. A research can be conducted on the basis of primary and secondary data. In this study all the data will be taken from secondary sources. The study will be based on historical data and using both financial and statistical tools for analysis of different variables. Result will be presented in simple way. Detail research methods are described in following heading.

7.2 Population and Sample

In Nepal, nineteen life insurance companies are operating their business. Among them Twelve are listed companies in Nepal Stock Exchange. Among the listed life insurance companies, five will be selected for research purpose. They are Sanima Life Insurance Company Limited, Asian Life Insurance company Limited, National Life Insurance Company Limited, Parbhu life insurance company ltd and Life Insurance Corporation (Nepal) Limited.

7.3 Nature and Source of Data

The data which are used in this research study are based upon secondary data. For this study, some necessary data has been collected from Nepal BeemaSamiti, the control body of insurance sectors of Nepal and from periodic bulletins published by the insurance companies. The seven years' audited balance sheets, income statements and other necessary accounts have been collected for the purpose of the study.

7.4 Data collection Instrument and Procedure

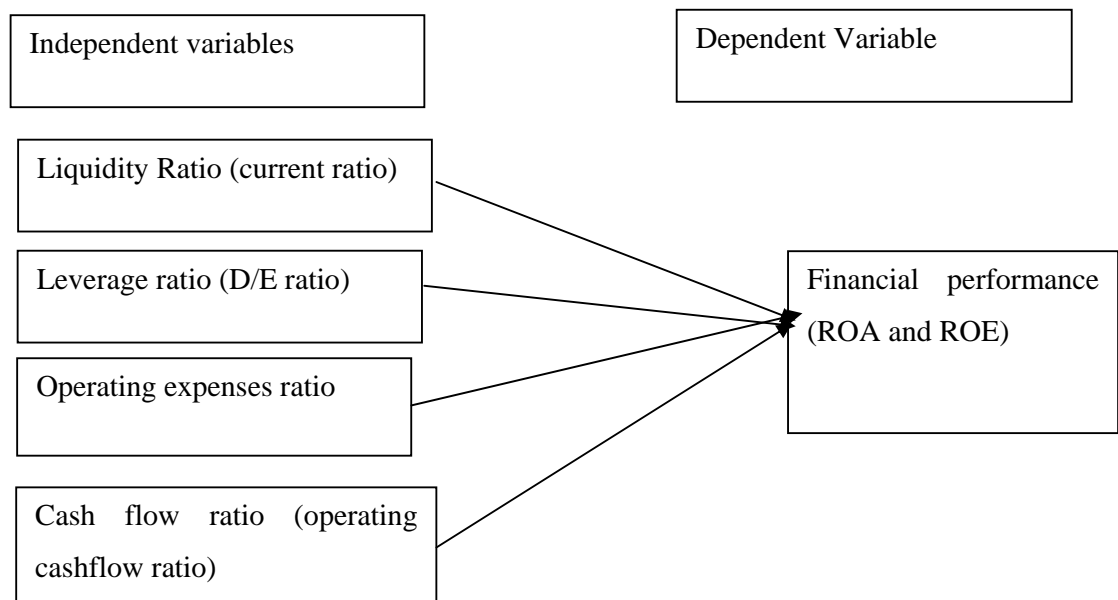
In this research secondary data are used. The secondary data have been employed from FY 2014/15-2020/21. The study is based on secondary data collection

techniques and primary data is also used as per the need . In Secondary data, information is already available that is gathered or publish by the financial institution, organization or researcher. The secondary data includes magazines, newspapers, books, journals etc. It may be either published data or unpublished data.

7.5 Data analysis Tools and Techniques

The study will be used various financial tools and statistical tools to analyze the data collected from various sources. Analysis data will be presented in the tabular format .Interpretation will be made in very simple way and detail of calculation which cannot be shown in the main body part. Summary, discussion, implication for future research critics of the study will be present finally. Appendices will be presented at the end of the studyThe collection data will be analyzed by using various factors and financial as well as statistical tools which are given and defined below.

7.6 Conceptual Framework and Variable



Source: Malik (2011)

Variable

Return on Asset

This is the ratio showing the contribution of company assets on the profitability of the

company. The greater the ratio the greater the company performance contributed by company assets of that company.

$$\text{Return on assets (ROA)} = \frac{\text{Net Income}}{\text{Total Assets}}$$

Return on Equity

This is the contribution of shareholders fund (equity) in the generation of company profit. It is a ratio of company profit to shareholders fund. The greater the ratio the greater the performance of a company generated by equity.

$$\text{Return on Equity (ROE)} = \frac{\text{Net Income}}{\text{Share Holders' Equity}}$$

Liquidity Ratio

Liquidity ratios measure the ability of the firm to meet its current obligations. This refers to the ability of an insurer to meet its short term obligations when it is due. It also shows the ability of an insurer to convert its assets in to cash as quickly as possible. In financial parlance, liquidity ratio generate than one manifest that the firms to be in good financial position.

$$\text{Current ratio} = \frac{\text{Current Assets}}{\text{current liabilities}}$$

Leverage Ratio (Debt equity ratio)

The term "financial leverage" refers to the use of finance. These are also known as solvency ratios or capital structure ratios. These ratios aid in judging the firm's long-term financial position by comparing the financial contributions of owners and creditors. These ratios are calculated to determine the company's capacity to use debt for the advantage of shareholders and reflect the capital structure position. The debt to assets ratio, the interest coverage ratio, and the debt-to-equity ratio are the three primary leverage ratio.

$$\text{Debt to equity ratio} = \frac{\text{Total liabilities}}{\text{Shareholder equity}}$$

Total liabilities= Long term liabilities + current liabilities.

Shareholders Equity = Share Capital + Shareholder's Reserve + Other Reserve + Profit & Loss (Credit Balance)

Operating Expenses Ratio (OER)

In real estate, the operating expense ratio (OER) measures the cost of maintaining a property in relation to the revenue it produces. It is computed by dividing a property's running costs (net of depreciation) by gross operating income. The costs of equivalent homes are compared using OER. An investor should be on the lookout for warning signs that can discourage him from buying a certain property, such as higher maintenance costs, operating revenue, or utilities. OER should be used between 60% and 80% of the time (although the lower, it is the better).

Statistical Tools

Data is analyzed using statistical concepts, formulas, and models. Mean, standard deviation, correlation analysis, and multiple regression analysis are used to analyze collected data in this research study.

Mean

The mean is calculated by averaging the sum of all values and dividing the result by the sample's total number of observations. It is an accurate representation of the complete dataset, which is split almost evenly between the two extremes. As a result, the mean is frequently referred to as a measure of central tendency. It is calculated with following relationship.

$$\text{Mean (X)} = \frac{\sum X}{n}$$

Where,

X= Arithmetic Mean

n = Total number of Observation

Standard deviation (SD)

The standard deviation is the square root of the average of the square distances of the observation from the mean. The standard deviation enables us to determine, with a great deal of accuracy, where the values of a frequency distribution are located in relation to the mean. Different formulae are used to calculate standard deviation; among them following formulae has been use here:

$$\text{S.D } (\sigma) = \frac{\sqrt{\sum(x-x)^2}}{n}$$

Vertical analysis

Vertical analysis is a method of financial statement analysis in which each line item is listed as a percentage of a base figure within the statement. Thus, line items on an income statement can be stated as a percentage of total income. while line items on a balance sheet can be stated as a percentage of total assets or liabilities, and vertical analysis of a cash flow statement shows each cash inflow or outflow as a percentage of the total cash inflows.

Correlation Analysis

Correlation analysis is a statistical tool that can be used to describe how closely one variable is related to another. The study employed both single and multiple correlations. Correlation co-efficient is defined as the association between the dependent variable and independent variable. It is a method of determining the relationship between these two variables. To calculate the Pearson correlation analysis SPSS version 25.0 database is used for tabulation and data analysis. Simple statistical tools like mean, standard deviation were analyzed. The following financial variables' correlation co-efficient have been calculated and evaluated.

Regression Analysis

The results of a correlation analysis show the movement in one direction but not the relative movement of the variables under study. We can determine the relative movement of variables thanks to regression analysis. There are two kinds of variables in regression analysis. The variable whose value is influenced or is to be predicted is referred to as the dependent variable, while the variable that influences the values or is used for prediction is referred to as the independent variable. Profitability indicators

(i.e., ROE and ROA) were identified as a dependent variable in the study, with CR, DER, OER, and CFOR as independent variables. The following variables' regression analysis has been computed and evaluated.

8. Expected Result

The expected results of the study depends on its objective which are as below

- i. To examine the status of financial statement of sample insurance companies
- ii. To measure the cashflow performance of selected insurance companies.
- iii. To evaluate the liquidity, assets management efficiency, profitability and risk position of sample insurance.
- iv. To analyze financial strength and weakness of the sample insurance companies.

9. Chapter Plan

This study has been organized over altogether five chapters. Starting from Introduction, Review of Literature, Research Methodology, data Presentation & Analysis and Summary, discussion and implication as get of the entire study. A brief outline of this chapter has been outlined as under.

The first chapter contained general background, statement of the problem, objective of the study, significant of the study and organization of the study.

The second chapter concerned with review of literature. This contained conceptual review, review from articles, review from thesis and research gap.

The third chapter deals with the research methodology, It contained research design, population and sample, sources of data, method of data analysis with tools.

The fourth chapter deals with data analysis and presentation through definite courses of research methodology and major finding of the study.

The fifth chapter last part of the study. It provided summary, discussion and implication for future research and critics of the study.

Extensive bibliography and appendices were also presented at the end of the thesiswork.

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