LIFE INSURANCE COMPANIES IN NEPAL: A CRITICAL APPRAISAL

THESIS SUBMITTED FOR THE DEGREE OF

DOCTOR OF PHILOSOPHY

IN

COMMERCE

Supervisor

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Submitted By

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DEDICATED TO

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SHRI DEVI DAS GHIMIRE

&

MY MOTHER

SMT. INDIRA GHIMIRE

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I, Rabindra Ghimire, certify that the work embodied in this Ph.D. thesis is my own bonafide work carried out by me under the supervision of Prof. Prashant Kumar for a period of two years and nine months from September 2012 to May 2015 at Faculty of Commerce, Banaras Hindu University. The matter embodied in this Ph.D. thesis has not been submitted for the award of any other degree/diploma.

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Rabindra Ghimire

Preface

The importance of life insurance is unquestionable in modern economies as it serves a broad public interest and is vital to individuals' security. Realising the importance of life insurance for individual and economic development, Government of Nepal established Rastriya Beema Sansthan (RBS) in 1968. Government followed financial liberalisation policy in 1980s as a result privately owned eight life insurance companies were established. The status of the life insurance industry in terms of penetration is 0.87 percent and in terms of density is US $ 6.1 in 2012. It shows the unpleasing growth of life insurance industry over the more than four and half decade.

The rationale behind the study of "Life Insurance Companies in Nepal: A Critical Appraisal" has been derived in the context of increasing number of life insurance companies in Nepal on one hand and on the other hand the insurance inclusion is poor and growth is quite slow. The activity of life insurers is the subject of great concern for policyholders, shareholders, Government, society, and economy at large since a financially sound and healthy life insurance company can deliver its services in a more effective way as compared to the financially weak company. In this milieu, the present study is an endeavour to delve the performance of life insurance companies in terms of various activities like: product offered, policies enforced, geographical outreach, efficiency of employee, Agent, and branch, and financial efficiency. It also examines the contribution of life insurance companies in economic development of Nepal and evaluates the life insurance industry from policyholders' and experts' perspectives. Further, it provides suggestions to concerned authority for the betterment of the life insurance companies in Nepal.

In pursuit of the above, the present study has been well arranged under the following nine chapters in a coherent manner.

First chapter sheds light on historical overview of life insurance industries, statement of the problem, research problem, objective of the study, significance of the study, operational definition, assumptions and limitations, and organization of the study.

Second chapter includes review of the previous studies on life insurance products, financial performance, efficiency of insurance companies, theoretical and empirical studies on relationship between insurance and economic development.

Third chapter deals with entire research methodology which includes research design, conceptual framework, population and sample of the study, sampling techniques, procedures of data collection and pilot study. It further discusses about the data analysis tools and methods of interpretation.

Fourth chapter covers the history life insurance industry, insurance regulatory framework, current activities of Insurance Board of Nepal, insurance policy of Government of Nepal. Further, it also includes the brief introduction of life insurance companies, organisational structure, human resources, and market concentration index.

Fifth chapter discusses about the plans offered by life insurance companies, products structure, and growth in number of policies enforced. It deals with status of claim settlement, distribution channels, and district-wise geographical coverage of life insurance companies.

Sixth chapter examines the efficiency of employees, agents, branch in terms of number of policies enforced, gross premium income, and expenditure. Financial efficiency has been discussed based on operating expenses to net premium, investment interest to investment assets, death claims to gross premium, and bonus rate.

Seventh chapter examines the contribution of life insurance companies in economic development of Nepal in terms of resources mobilisation, investments, employment generation, contribution to Exchequer, and corporate social responsibility.

Eighth chapter appraises the life insurance companies from the perspective of policyholders and experts. The views of respondents has been obtained in different aspects of life insurance viz.: products, geographical outreach, agents, return on investment, benefits to customers, creation of employment along with contribution of life insurance companies in financial sector, capital market, infrastructure development, industrialisation, and poverty reduction.

Ninth chapter contains the summary of findings and conclusions along with suggestions to concerned authorities for the improvement in life insurance companies in Nepal. Further, scope for the further research also has been included.

List of Acronyms

ACFE	Association of Certified Fraud Examiner
ADB	Asian Development Bank
AIRDC	Association of Insurance and Reinsurance of Developing Country
AICPCU	American Institute for Chartered Property Casualty Underwriter
AMB	Anticipated Money Back
BFIs	Banks and Financial Institutions
BR	Bonus Rate
CEO	Chief Executive Officer
CGGD	Corporate Good Governance Directives
CIPA	Commission Income per Agent
CIRC	China Insurance Regulatory Commission
DCGC	Deposit and Credit Guarantee Corporation
DCGP	Death Claims to Gross Premium
DoFE	Department of Foreign Employment
FSA	Financial Services Agency
FY	Fiscal Year
GDP	Gross Domestic Product
GICs	General Insurance Companies
GoN	Government of Nepal
GPPA	Gross Premium per Agent
GPPB	Gross Premium per Branch
GPPE	Gross Premium per Employee
GS	Government Securities
HFC	Housing Finance Company
IAIS	International Association of Insurance Supervisors
IB	Insurance Board of Nepal
ICDC	Insurance Congress of Developing Countries
ICAI	The Institute of Chartered Accountants of India
ICAN	The Institute of Chartered Accountants of Nepal
IDRA	Insurance Development and Regulatory Authority
ILO	International Labour Office

IIIA	Investment Income to Investment Assets
IMF	International Monetary Fund
IRDA	Insurance Regulatory and Development Authority
LICs	Life Insurance Companies
MCR	Minimum Capital Requirement
MoF	Ministry of Finance
MoHP	Ministry of Health and Population
NEA	Nepal Electricity Authority
NEPSE	Nepal Stock Exchange Ltd.
NGO	Non-Governmental Organisation
NAIC	National Association of Insurance Commissioners
NIC	Nepal Insurance Company
NPPE	Net Profit per Employee
NRB	Nepal Rastra Bank
NTIC	Nepal Transportation and Insurance Company
OAGC	Office of the Auditor General of Canada
OECD	Organisation for Economic Development and Cooperation
OENP	Operating Expenses to Net Premium
OEPB	Operating Expenses per Branch
PEPA	Policy Enforced per Agent
PEPB	Policy Enforced per Branch
PEPE	Policy Enforced per Employee
RPPA	Renewal Premium per Agent
RBS	Rastriya Beema Sansthan
SAIRF	South Asian Insurance Regulators Forum
SEBON	Securities Board of Nepal
TPI	Third Party Insurance
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
USAID	United States Agency for International Development
WBCSD	World Business Council for Social Development
WHO	World Health Organisation

CHAPTER ONE

INTRODUCTION

The chapter deals with background of the study, historical overview of life insurance, insurance penetration and density, statement of the problem, research questions, objectives of the study, and significance of the study. Further, it includes operational definition of the term used, assumptions and limitations of the study, and organization of the study.

1.1 Background of the Study

Life insurance is a great invention of human civilisation. Huebner[1] established the concept of “human life value” which is regarded as the economic and philosophical framework of life insurance. **White (2009)** argues that Huebner’s concept of human life value is more than just a proposition that a human life has an economic value. Conceptually, human life value involves several important concrete elements, among them the socioeconomic relation is the most important one. Actually, insurance of human life means the insurance of the productive capacity of a person which ensures continuity of income in case of unemployment, disability or death of insured and protect to the family members from the financial paucity.

A well-performing and financially sound life insurance industry benefits consumers, producers and stockholders **(Bikker, 2012).** Life insurance companies offer a variety of products in order to provide the financial protection in two extreme situations either living too long or dying too young (**NCAER, 2011**). It provides financial security to individual, encourages for long term savings, and provides fund for developmental activities. In Nepalese economy, the economic significance of insurance sector is increasing since last decade.

Life insurance companies hold huge amount of policyholders' fund. After the series of events of life insurance failures, regulators have shown keen interest on assessment of risk profile and they have introduced various techniques in order to analyse the

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[1] S. S. Huebner (1882-1964) is father of modern life insurance education.

performance of life insurance companies with effective regulation and prudential supervision for the protection of large number of policyholders **(Das et al, 2003)**.

In Nepal, Rastriya Beema Sansthan started life insurance business from 1973. In private sector, first life insurance company was established in 1988. During 25 years period (1988-2012), the number of private sector life insurance companies reached to eight. There has been considerable interest of researchers in banking and capital market sectors but they have paid less attention in insurance sector. In this context, the present study entitled **"Life Insurance Companies in Nepal: A Critical Appraisal"** has been carried out to. The rationale behind the appraising of life insurance performance is increasing interest of policyholders and investors towards the life insurance sector, growing share of life insurance to financial sector and globally rising the financial vulnerability in life insurance industry. The study has examined the performance of life insurance companies from different perspectives like: product offered and policies enforced, geographical outreached, efficiency and performance, and contribution to economic development based on the activities accomplished during the five years period (2008-2012).

Product is one of the most important criteria to be considered while appraising the performance of life insurance company. According to **Black and Skipper (1999)**, product should be affordable to potential customers and available easily. The performance of the company largely depends on performance of employees and Agents. Financially sound life insurance companies can contributes to economic development by mobilising the higher amount of resources, providing sufficient investments in development projects, creating more employment opportunities and contributing more amount to Government treasury.

1.2 Historical Overview of Insurance

There is no common opinion among the historians about the date and place of first life insurance policy issued. Human life is surrounded by risk and uncertainty so that people invented risk management mechanism since early stage of human civilisation. The early methods of transferring or distributing risk were practiced by Chinese traders as early as the third millennia BC. These merchants travelling rapidly in treacherous river would expertly distribute their goods across many vessels to spread the loss due to any single vessel's capsizing. In the passage of time, people from others places also adopted different risk management techniques. In course of search of a risk managing and mitigating techniques, a unique product like "insurance" had been evolved **(Trenerry, 1926)**.

According to **Zelizer (1981)** the earliest known occurrence of insurance dates back to the Babylonian period approximately 2250 B.C. They developed a type of loan insurance for maritime business. The historians claim that the "Hammurabi Code" about 1750 B.C was one of the first forms of written insurance policy. An early form of life insurance "burial clubs" was in practice in ancient Rome which covered the cost of funeral expenses and assisted survivors financially. The organized history of insurance was started from the medieval age after industrialization in Europe. The Greeks and Romans organized guilds and benevolent societies and introduced the health and life insurance around 600 AD. During the fourteenth century, trade was expanded so it was common for traders having marine insurance. Eventually, traders, along with ship owners and merchants became the organizers of insurance themselves. The Lloyds coffee house in London was the meeting place of traders is predecessor of famous Lloyds of London **(Motihar, 2010).**

Systematic and formalised practice of underwriting was become possible after invention of actuary tables, methods of probabilities and calculator. In 1693, the first mortality table was created based on Pascal's triangle which was followed by life insurance companies. The first insurance company was formed in London in 1688 but earlier to that event first life insurance policy was issued to William Gibbons of London in June 18, 1583 for the period of one year. He was died in May 29, 1584. The policy was purchased by Richard Martin paying £ 383.

Fire insurance business was started in 1667 aftermath of the great fire in London. **Soghra (2013)** states that first life insurance company was founded in London in 1706 by William Talbot and Sir Thomas Allen in the name of Amicable Society for a Perpetual Assurance Office. In USA, first American insurance company was founded in the British colony of Charleston, SC in 1787 and fire insurance companies were formed in New York City and Philadelphia in 1794. The first American insurance corporation was sponsored by a church "the Presbyterian Synod of Philadelphia" for their ministers and their dependents. There was religious prejudice against the practice of insurance but the concept gradually declines over the period **(Buley, 1953).**

In India, history of insurance began after establishment of The Oriental Life Insurance Company in 1818. Bombay Assurance Company in 1823 and Madras Equitable Life Insurance Society in 1829 were established. First indigenous general insurance company was the Indian Mercantile Insurance Company Limited set up in Bombay in 1907 **(Kumar, 1994)**. Parliament of India passed the Life Insurance of India Act on June 19, 1956 creating the Life Insurance Corporation of India. It consolidated the 245 private life insurers and other entities offering life insurance services including 154 life insurance companies, 16 foreign companies and 75 provident companies. Similarly, 117 General Insurance companies were amalgamated and converted into four nonlife insurance companies: New India, United India, National, and Oriental in 1973. Government of India opened insurance sector to private investors with up to 26 percent foreign investment in 2000. Currently, there are all together 52 insurance companies among them 24 are life insurance companies (one state owned and 23 privately owned), 27 are general insurance companies (six state owned and 21 privately owned). There is a state owned reinsurance company namely General Insurance Corporation of India. Out of six companies one company is specialised in agriculture insurance i.e. Agriculture Insurance Corporation Ltd. and another is specialised in export i.e. Export Credit Guarantee Corporation Ltd. Out of 21 privately owned company four companies are specialised in the sector of health insurance **(IRDA, 2014)**[2]**.**

In Nepal, insurance was introduced during 1930s by Indian insurance companies. First domestic nonlife insurance company was established in 1947. Government of Nepal established a composite insurer in 1968. The number of insurance company reached to 25 including 8 life insurance, 16 nonlife insurance and one composite (life and non-life) insurance company till mid July 2012 **(Insurance Board, 2012).**

Now, insurance is becoming widely available financial instrument. There are numerous insurance products or lines of business that encompasses personal, commercial, marine, aviation, agriculture, life, health, financial, and engineering etc. **Feyan, Lester and**

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[2] www.irda.org.in

Rocha (2011) state that insurance sector grown up in different economies differently. The insurance market has been influenced by economic, social, cultural and demographic factors such as: per capita income, income distribution, population size, size of public pension system and country's social security system, inflation, the availability of private credit, and ownership structure of insurance companies.

1.3 Evolution of Insurance in Nepal

Modern history of financial institution in Nepal started after establishment of Nepal Bank Limited in 1937. The organised and formal insurance business was started from 1947 after establishment of Nepal Transport and Insurance Company (NTIC) by the joint effort of Nepal Bank Limited and domestic investors.[3] Prior to 1947 the demand of insurance was fulfilled by the Indian based insurance companies. Even after establishment of domestic insurer, the growing demand of insurance hardly fulfilled by a single domestic company so that there was the presence of Indian insurance companies to fulfil the demand of insurance. In 1967, The Oriental Insurance Company of India established its branch office in Kathmandu.

The insurance Act "Insurance Act, 1968" and "Rastriya Beema Sansthan Act, 1968" were enacted in 1968. Rastriya Beema Sansthan started nonlife insurance business from 1968 and life insurance business from 1973. Another Indian nonlife insurance company "National Insurance Company" opened its branch office in Kathmandu in 1974. Government adapted financial liberalisation policy during the 1980s as a result National Life and General Insurance Company was established in 1988 as a composite insurer. In order to address various problems in insurance sector, Insurance Act, 1992 was enacted in 1992. The Insurance Board replaced the Insurance Committee in 1992. After 1992, Government implemented economic liberalisation policy more effectively. During the period of 18 years (1992- 2008), additional 7 life and 13 nonlife insurers were established by private investors. The number of life, nonlife and composite insurance companies reached to 8, 16 and one respectively. In the meantime "Insurance Pool" was established by initiation of Government and nonlife insurance companies in 2003. The Insurance Pool provides the reinsurance service to the domestic nonlife insurance companies against the loss occurs due to terrorist activities only. Among 24 privately owned

[3] In 1991, the name of company has been changed in to Nepal Insurance Company.

companies, highest number of companies (18) were established by domestic investors, three companies were jointly established by domestic and foreign investors, and three companies were established by foreign investors **(Insurance Board, 2012).**

The total paid up capital of 21 private sector companies and nonlife department of Rastriya Beema Sansthan (excluding three companies established by foreign investors) reached to Rs. 4 billion by mid July 2012 which was listed in Nepal Stock Exchange Ltd **(NEPSE, 2012).** Nepalese nine life insurance companies have offered 81 different plans under term, endowment and whole life categories. They collected more than Rs. 13 billion gross premium during 2012. The number of policies enforced reached to almost 2.8 million and investment amount reached approximately Rs. 51 billion till mid July 2012. Similarly, 16 nonlife insurance companies have collected Rs. 7.3 billion premium by selling almost 0.72 million policies during FY 2011/12 and the investable fund of nonlife insurance reached to Rs. 8.6 billion by mid July 2012 **(Insurance Board, 2012)**.

1.4 Insurance Penetration and Density

The performance and potential of insurance sector is universally measured by insurance penetration and insurance density. Penetration refers to gross premium as percentage to Gross Domestic Product and density refers to gross premium to number of population which is measured in dollar.

1.4.1 Insurance Penetration

The insurance penetration of life and nonlife insurance sector of Nepal, neighbouring countries and world average during 2008-2012 has been presented in Table-1.1:

Table-1.1: Insurance Penetration in Nepal and Other Countries

(in percentage)

Country	Types of Insurance	2008	2009	2010	2011	2012
Nepal	Life	0.64	0.71	0.81	0.84	0.87
	Nonlife	0.51	0.49	0.60	0.57	0.53
	Total	**1.15**	**1.20**	**1.41**	**1.41**	**1.40**
India	Life	4	4.6	4.4	3.4	3.17
	Nonlife	0.6	0.6	0.71	0.7	0.78
	Total	**4.6**	**5.2**	**5.11**	**4.1**	**3.95**
Sri Lanka	Life	0.6	.6	0.6	0.6	0.5
	Nonlife	0.9	.9	0.9	0.6	0.7
	Total	**1.5**	**1.4**	**1.5**	**1.2**	**1.2**

Country	Types of Insurance	2008	2009	2010	2011	2012
China	Life	2.2	2.3	2.5	1.8	1.7
	Nonlife	1	1.1	1.3	1.2	1.3
	Total	**3.2**	**3.4**	**3.7**	**3**	**3**
Pakistan	Life	0.3	0.3	0.3	0.4	0.3
	Nonlife	0.4	0.4	0.4	0.3	0.6
	Total	**0.7**	**0.7**	**0.7**	**0.7**	**0.9**
World Average	Life	4.1	4	4	3.8	3.7
	Nonlife	2.9	3	2.9	2.8	2.8
	Total	**7**	**7**	**6.9**	**6.6**	**6.5**

Source: IRDA Annual Report, various years.

The above table shows that life insurance penetration ratio of Nepal has increased from 0.64 percent (in 2008) to 0.87 percent (2012) while nonlife insurance penetration ratio has shown fluctuating increasing trend from 0.51 percent (in 2008) to 0.53 percent (in 2012). Insurance penetration ratio of Nepal has been found higher than Pakistan and Sri Lanka but significantly lower than India, China and world average.

1.4.2 Insurance Density

The insurance density of life and nonlife insurance sector of Nepal, neighbouring countries and world average has been exhibited in Table-1.2:

Table-1.2: Insurance Density in Nepal and Other Countries

(In USD)

Country	Types of Insurance	2008	2009	2010	2011	2012
Nepal	Life	2.8	3.2	4.4	5.3	6.2
	Nonlife	2.3	2.2	3.3	3.6	3.7
	Total	**5.1**	**5.4**	**7.6**	**8.9**	**9.9**
India	Life	41.2	47.7	55.7	49.0	42.7
	Nonlife	62.0	67.0	87.0	10.0	10.5
	Total	**103.2**	**114.7**	**142.7**	**59.0**	**53.2**
Sri Lanka	Life	12.8	11.8	N/A	15.0	14.8
	Nonlife	19.3	17.7	N/A	18.0	18.2
	Total	**32.1**	**29.5**	**N/A**	**33.0**	**33.0**
China	Life	71.7	81.1	93.6	99.0	102.9
	Nonlife	33.7	40.0	71.4	64.0	76.0
	Total	**105.4**	**121.1**	**165.0**	**163.0**	**178.9**
Pakistan	Life	2.8	3.0	3.4	4.0	5.3
	Nonlife	4.0	3.6	3.0	4.0	3.4
	Total	**6.8**	**6.6**	**6.4**	**8.0**	**8.7**

Country	Types of Insurance	2008	2009	2010	2011	2012
World Average	Life	369.7	341.2	364.3	378.0	372.6
	Nonlife	264.2	253.9	262.7	283.0	283.1
	Total	**633.9**	**595.1**	**627.0**	**661.0**	**655.7**

Source: IRDA Annual Report, various years and Swiss Re, 2013.

N/A: Data are not available.

Similar to life insurance penetration, the life insurance density of Nepal has increased from US $ 2.8 to US $ 6.2 while non-life insurance density has increased with mild fluctuation from US $ 2.3 to US $ 3.7 during 2008 to 2012. The life insurance density of Nepal is very low as compared to India, China, Sri Lanka and world average but it has been found quite higher as compared to Pakistan.

1.5 Statement of the Problem

Life insurance companies occupy considerable position in economy. Financially sound and healthy life insurance company can deliver its services to customers more effective way as compared to the financially weak company. Therefore, there is the equal concern of policyholders, shareholders, regulating authority, Government, and society about the performance of life insurance companies. The performance of life insurers rests on number of factors among them affordability and availability of product is an important factor. Nepalese life insurers have offered various plans under Whole Life, Endowment, and Term products but still there is no such a study that explore the product wise structure and share of policies enforced of each company. The study tries to get answer on how extent these products are suitable and popular among the customers.

The status of life insurance business in Nepal in terms of penetration is 0.87 percent which is significantly lower than world average. The insurance inclusion is less than 10 percent of total population **(Insurance Board, 2013).** The growth of insurance business depends on the efforts of the employee and Agents to large extent. That present study is an attempt to assess the efficiency of employees and Agents.

Life insurance companies provide long term fund for developmental activities. Many studies have suggested that developing countries can get more benefits from life insurance **(UNCTAD, 1982).** Nepal needs huge amount of fund in order to invest in development projects but current domestic savings hardly meets increasing demand of infrastructure development funds. In this context, the role of life insurance companies needs to be examined in terms resources mobilisation and investments.

The employment creation is another major contribution of life insurance. In Nepalese context, the role of life insurance companies need to be examined in employment generation for permanent employees and for Agents. Similar to other business organisation, LICs also pay tax to government so that the study tries to explore the contribution of LICs to Exchequer.

1.6 Research Questions

The study seeks the answer of following descriptive research problems:

I. What is the status of products offered by life insurance companies?
II. What is the product wise structure of policies enforced of life insurance companies?
III. What is the geographical outreach of life insurance companies?
IV. What is the efficiency of employee, Agents and branch offices of life insurance companies?
V. What is the contribution of life insurance companies in economic development in terms of resources mobilization, investment, employment generation, and contribution to Exchequer?
VI. What is the opinion of policyholders and experts regarding the activities of life insurance companies?

1.7 Objectives of the Study

The objective of the study is to appraise the performance of life insurance companies. The study has the following objectives:

I. To study the products offered and geographical coverage of life insurance companies.
II. To assess the efficiency of life insurance companies.
III. To examine the contribution of life insurance companies in economic development of Nepal.
IV. To evaluate the life insurance industry from policyholders' and experts' perspectives.
V. To give suggestions for the betterment of life insurance companies in Nepal.

1.8 Significance of the Study

Life insurance company is an integral part of financial system similar to banks and capital market. The performance of life insurance company is a subject of concerned to policyholders, shareholders, regulator, and Government. Financially sound life insurance company can offer higher amount of bonus to its policyholders and higher amount of dividend to shareholders. They also able to contribute more amount of tax to government, create more employment opportunity, and provide more resources to government and private sector as compared to the company having poor financial status.

Present study examines the efficiency of life insurance companies and evaluates their performance on the basis of various activities such as: number of products offered, number of policies enforced, geographical outreach in terms of number of districts covered. Similarly, efficiency of employee, Agents, branch and financial efficiency have been considered. Likewise, the contribution of life insurance industry in economic development has been evaluated in terms of the gross premium collection (resources mobilisation), investment, contribution to government treasury and employment generation on the basis of the activities performed by life insurance companies during the five years period (2008-2012). The study provides policy implication to life insurance companies, Insurance Board, and Government for the betterment of the life insurance industry.

1.9 Operational Definition of the Term Used

The operational definition of the term frequently used in this report has been defined in the context of the study as follows:

Appraisal: The appraisal is the process of measuring the efficiency, effectiveness, productivity, and performance of overall organisation which consists of performance of human resource and financial position.

Beneficiaries: A beneficiary is the recipient of the proceeds of the policy from insurer when the named insured dies. The name of beneficiary should be mentioned in the contract at the time of policy purchase or prior to the death of the policyholder. Otherwise, beneficiary is determined as per the legal heir.

Economic Development: Economic development involves development of human capital, increasing the literacy ratio, improve important infrastructure, improvement of health and safety and others areas that aims at increasing the general welfare of the citizens. It is a process whereby an economy's real national income increases over a long period of time.

Efficiency: Economics point of view efficiency is getting any given results with the smallest possible inputs or getting the maximum possible output from given resources. Business point of view, efficiency means ability to produce a desired result with a minimum effort, expense, or wastage.

Endowment Plan: An Endowment plan is a savings life insurance plan with a specific maturity date. In case an unfortunate event like death or disability occurs to the policyholder during the period, the sum assured will be paid to beneficiaries / nominee. Upon surviving the term, the maturity proceeds of the policy become payable.

Financial Performance: Financial performance is the process of measuring the results of firm's outcomes in monetary terms. It is used to measure firm's overall financial health given period of time and can also be used to compare similar firms across the same industry or compare industries or sectors in aggregation.

General Insurance: In general insurance contract is other than life insurance contract. In this contract, one party (the insured) pays a specified amount of money, called a premium, to another party (the insurer). The insurer, in turn, agrees to compensate the insured for specific future losses. The losses covered are listed in the contract, and the contract is called a policy.

Health Insurance: A type of insurance coverage that pays for medical and surgical expenses that are incurred by the insured. Health insurance can either reimburse the insured for expenses incurred from illness or injury or pay the care provider directly.

Insurance Premium: The specified amount of payment required periodically by an insurer to provide coverage under a given insurance plan for a defined period of time. The premium is paid by the insured party to the insurer, and primarily compensates the insurer for bearing the risk of a payout should the insurance agreement's coverage be required.

Life insurance: Life insurance is a contract between a policyholder and an insurer, where the insurer promises to pay the beneficiary / nominee a sum of money up on the death of the insured person or after the maturity of the policy. The insured agrees pay the premium either regularly or in a lump sum for the risk.

Microinsurance: Microinsurance is the protection of low-income people having daily income between approximately $1 to $4 per day, against the specific perils in exchange for regular premium payment proportionate to the likelihood and cost of the risks involved.

Social Insurance: Compulsory public insurance program that protects against various economic risks (e.g., loss of income due to sickness, old age, or unemployment). The terms social insurance and social security are sometimes used interchangeably.

Term Life Plan: A life insurance policy which provides an insurance cover upon the death of the life insured within the policy term as per the terms and conditions of the contract. These types of plans only cover the risk of the death and on expiry of the policy term, the policyholders does not get anything in return on survival.

Third-party insurance: Third-party insurance is an insurance policy purchased for protection against the actions of another (a third) party. It is purchased by the insured (the first party) from an insurance company (the second party) for protection against damage from the actions of another party (a third party).

Whole Life Plan: A saving insurance plan with a non-specific period is called a Whole Life Plan. This plan covers the individuals throughout their life. On the death of the life insured, the nominee / beneficiary is paid the sum insured along with the bonus accumulated up until that point in time.

1.10 Assumptions and Limitations of the Study

Due to the time, resources and fund constraints, present study has some limitations. Out of nine life insurance companies, the appraisal has been done only for eight private sector life insurance companies. Rastriya Beema Sansthan, public sector composite company has not been included in the study because its published data are not available. The reason is that its financial statements have not been audited for last so many years.

The appraisal of life insurance companies has been done based on five years period (2008-2012).

1.11 Organization of the Study

The entire study has been organized into nine chapters. Brief outline of each chapter has been mentioned below.

Chapter 1: Introduction

The chapter sheds light historical overview of life insurance industries, statements of the problem, and research problem. It further includes objectives of the study, significance of the study, operational definition, assumptions and limitations along with organization of the study.

Chapter 2: Review of Literature

The chapter discusses about the importance of life insurance, different types of life insurance products, reviews the previous studies on financial performance and efficiency of insurance companies, theoretical and empirical studies on relationship between insurance and economic development.

Chapter 3: Research Methodology

The chapter includes research design, conceptual framework of the study and research process. The chapter further includes details accounts of population and sample of the study, sampling techniques, procedures of primary and secondary data collection, pilot study, sources of data, along with data analysis tools and techniques.

Chapter 4: Life Insurance Companies in Nepal: An Overview

The chapter covers the history life insurance industry and current activities of regulatory authority. It deals with the evolution of Nepalese insurance industry, insurance policy of Government of Nepal, insurance regulatory framework, major activities performed by Insurance Board of Nepal. Further, it also includes the brief introduction of life insurance companies, organisational structure, human resources and market concentration index. The chapter also briefly highlights the market structure, products and market concentration index of non-life insurance companies, and gives an introduction of Insurance Pool and Deposit Insurance and Credit Corporation.

Chapter 5: Product Structure and Geographical Outreach

The chapter discusses about the plans offered and policies enforced by life insurance companies, products structure, and growth of number of policies enforced. It deals with status of claim settlement, distribution channels, and district wise geographical coverage of life insurance companies.

Chapter 6: Efficiency of Life Insurance Companies

The chapter includes the efficiency of employees, Agents, branch in terms of number of policies enforced, gross premium income, and expenditure. Further, it discusses the financial efficiency based on operating expenses to net premium, investment interest to investment assets, death claims to gross premium, and bonus rate.

Chapter 7: Life Insurance Companies and Economic Development

The chapter discusses role of life insurance companies in economic development of Nepal in terms of resources mobilisation, investments, employment generation, tax to Exchequer, and corporate social responsibility.

Chapter 8: Appraisal of Life Insurance Companies: Policyholders' and Experts' Perspectives

The chapter discusses the views of policyholders and experts regarding the different perspectives of life insurance viz.: products, service to rural and remote sector, role of Agents, return on investment, benefits to customers, creation of employment along with contribution of life insurance companies in financial sector, capital market, infrastructure development, industrialisation, along with poverty reduction.

Chapter 9: Findings and Suggestions

The chapter contains the summary of findings of entire study, conclusions and suggestions to Life Insurance Companies, Insurance Board, and Government for the development and promotion of life insurance industries in Nepal.

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CHAPTER TWO

REVIEW OF LITERATURE

The chapter discusses about the fundamental concept of life insurance, efficiency, and financial performance. It includes findings of the relevant studies on efficiency and financial performance of international insurance market along with contribution of life insurance companies to economic development.

2.1 Meaning of Life Insurance

Human being is surrounded by numbers of perils which may cause of health loss, income loss, professional liabilities, and death. Life insurance is a great invention of human civilisation which provides security against the risks. It is a mechanism of risk diversification and loss indemnification by pooling and spreading of risk among the large numbers of risk exposures. Life insurance provides financial security to dependents in case of premature death of breadwinners or termination of income of policyholders due to the dismemberment and permanent disability.

Legal point of view, life insurance may be defined as a contract consisting of one party (the insurer) who agrees to pay other party (the insured) or his beneficiary, a certain sum upon a given contingency against which insurance is sought. The contract describes the limitation of the insured events, specifies the exclusions in order to limit the liability of the insurer. Common example of exclusion clauses are the suicide clause, fraud clause etc.

Life insurance contract is based on some underlying features which is called principles of life insurance. These principles are: i) Elements of a valid contract, ii) Insurable Interest, iii) Utmost good faith, iv) Assignment and Nomination, v) Premium, vi) Return of Premium **(Rejda, 2007).** However, the principle of return of premium is not applicable for some kind of insurance contract if the specified event not happens.

Hamsell (1999) defines life insurance as a social device which provides financial compensation for the effects of misfortune. The payment is being made from the accumulated contributions of all parties participating in the scheme.

According to **White (2009)** insurance of human life means the insurance of the productive capacity of a person which ensures continuity of income in case of unemployment, disability or death of insured and protects the family members from the financial paucity.

Feyen, Lester and Rocha (2011) highlight importance of life insurance as it provides financial security and better investment opportunity. Further, life insurance offers quality of life to policyholders by removing anxiety, uncertainty, and fear. It controls the unnecessary expenditure and stabilises the income even during the adverse circumstances.

Skipper (1997) and **Outreville (2011)** emphasize the importance of life insurance to economy since it encourages to policyholders for regular and long term savings, mobilizes resources, provides fund for developmental activities as an institutional investor and maintains financial stability.

2.2 Life Insurance Product

Life insurance is a type of financial instrument and is an intangible product. It is a long term contract between insured and insurer. The contract is an assurance and long term commitment to each other. On the basis of risk coverage and cash value benefits, life insurance products can be divided basically in two categories: i) Product that protects against the risk but has no cash value which is known as term product, and ii) Product that protects against the risk and has cash value which is known as endowment product. Insurance companies offer various types of life insurance products under each category.

According to **Cockerell (1964)** life insurance product is a legal contract between insured and insurer where all terms and conditions, benefits and riders are included. The life insurance can be defined as "a contract where insurer promises to pay a designated beneficiary a sum of money (the "benefits") in exchange for a premium, upon the death of the insured person or after completion of specified period".

Life insurance companies offer different types of products according to the requirements of the customers. The needs of policyholders depend on age, marital status, family structure, income structure, and social security services obtain from the state, future plan of the policyholders and so on. The financial requirement of policyholders may be different due to the stage of life cycle. The need of policyholder in different stages of their life cycle and suitable life insurance product has been illustrated in Table-2.1:

Table-2.1: Life Insurance Products for Different Stages of Life

Life Stage	Primary Need	Suitable Life Insurance Plans
Young and Single	Asset creation	Wealth creation plans
Young and Just married	Asset creation and protection	Wealth creation and mortgage protection plans
Married with kids	Children's education, Asset creation, and protection	Education insurance, mortgage protection and wealth creation plans
Middle aged with grown up kids	Planning for retirement and asset protection	Pension plan and mortgage protection
Across all life-stages	Health protection	Health Insurance

Source: ICICI Prudential Life, www.iciciprulife.com/

2.3 Life Insurance Products in Nepal

Nepalese life insurance companies are selling following Term, Endowment, and Whole Life products since many years.

2.3.1 Term Product

The term plan is pure protection plan and it has no cash value benefit. The premium of term plan is lower than Endowment and Whole Life plan. It provides death benefits in case of death of policyholders. Organisations purchase term plan to their employees, banks and financial institutions purchase to protect their loan against the premature death of borrowers, cooperatives and other member based organisations also procure the term plans to provide financial protection to family of the members. In addition to general term plan, following plans are available in Nepalese life insurance market.

I. Group Term Plan

Group Term plan provides financial protection to more than one policyholder under the single contract. Generally, Group Term plan is popular among the employer, member based organisations, bankers, and credit organisations. Employer purchases group insurance for the financial protection to the family members of their employees. Similarly, banks purchase credit term plan to protect their loan. Group plan reduces the administrative cost so that the premium of group plan is cheaper than the individual term plan.

All life insurance companies of Nepal have offered group term plans. For example, Nepal Life has offered a group term plan for employee. The scheme has some binding rules, such as: the minimum number in a group should be at least 50 person, contribution, employer contribution should be at least 50 percent total premium and at least 75 percent employees working under the organisation require to participate in Groups plan scheme initially and remaining employees also need to join on Group plans later on. The age of insured should be in between 18 to 55 years, sum assured varies from Rs. 50,000 to 3,50,000 but flexible depends on size of the group. Member of this plan can participate without medical check-up and health requirements up to the age of 45 years. After the age of 45, employee should declare that his health is good.

II. Foreign Employment Term Plan

This plan has been designed in order to provide better financial protection to Nepalese migrant who are working in foreign countries. There is the uniformity on premium, benefits and terms and conditions of term plans enforced by different companies. Prior to 2012, worker purchased the plan on voluntarily basis after since 2012 it became mandatory to every foreign migrants worker. The benefit package includes Rs. 5,00,000 death benefits, cost of transportation of deceased body from abroad to home in actual basis and ritual expenses. In case of dismemberment of insured, the plan provides disability benefits according to terms and conditions **(Insurance Board, 2012).**

III. Personal Accident and Health and Critical Illness Plan

MetLife has introduced health and critical illness related product. This is additional rider and supplementary product of life insurance. Under this plan policyholders get reimbursement on medical expenses of critical diseases as listed in contract.

2.3.2 Endowment Product

The endowment insurance provides maturity and death benefits. This plan is better for those who loves and cares his family and cares own life also. There are various types of endowment products such as: i) Pure endowment, ii) Joint endowment, iii) Double endowment, iv) Anticipated endowment, v) Child endowment, vi) Pension endowment, vii) Group insurance. Some popular endowment plans offered by Nepalese life insurance companies are as follows:

I. Anticipated Endowment Plan

The plan is also known as Money Back Plan. Under this plan insured gets certain portion of sum assured prior to the maturity of policy and remaining sum assured plus total vested bonus gets at maturity date. In case of death of policyholders within the policy period, beneficiary gets total sum assured without deducting the amount that already have been received. This policy provides return to policyholders comparatively earlier than other plans. It covers risk and provides better investment opportunity so that the rate of premium of this type of policy is slightly higher than other endowment plan.

All companies have offered money back plan under their own brand name. For example, National has offered "Amrit Barsha", Nepal has offered "Jeevan Samriddi", LIC has offered "Dhan Firta Yojana", MetLife has offered "Three Payment Plan", Asian has offered "Agrim Endowment", Surya has offered "Ashadhan", Gurnas has offered " Gurans Agrim Bhuktani" and Prime also has offered "Prime Dhana Sagar".

II. Limited Payment Endowment Plan

The plan requires pay total amount of premium at least five years prior to the maturity date. Generally, such type of plan is available for 5, 10, 15, 20 and 30 year term. For example, Nepal Life has offered "NLIC Jeevan Jyoti" plan having 10 years to 30 years term.

III. Single Premium Endowment Plan

Under this plan, policyholder requires to pay entire amount of premium at the time of plan purchase. For example, LIC has offered Single Premium Endowment plan under the brand name of "Jeevan Ashtha".

IV. Child Endowment Plan

This policy has been designed in order to support to child education and social activities in case of premature death of breadwinner. The terms and condition of child endowment plan is quite different than other policies. The plan can be purchased by newly born child to up to age of 10 to 11 years. The risk is covered only after certain age (between 5 to 7 years). The ownership of the policy automatically transfers to child when he/she reaches to 18 years. All LICs have issued child endowment plan under their own brand name.

V. Couple Endowment Plan

The plan covers the lives of both husband and wife under the single policy. This plan provides benefits two times i.e. at the time of death of one couple and at maturity. In case of death of couple at the same time, beneficiary gets double amount of sum assured plus vested bonus rate. Rastriya Beema Sansthan, Nepal Life, and Asian Life have offered "Jeevan Sathi", "Jeevan Sarathi", and "Dampati Suraksha" plans respectively.

VI. Pension Plan

The objective of pension plan is to provide the financial protection during the retirement period. There are different terms and condition of Pension plan. Some plan provides financial protection to entire life while other support for certain period. Pension plan is a newly introduced product in Nepalese life insurance market. Four companies have offered Pension product. National has offered "Bhabishya Britti", MetLife has offered "Subhabishya Beema Aajeewan Aaya" Asian has offered "Asian Pension Beema Yojana", Prime has offered "PrimeLife Pension Plan".

National Life has offered three different types of schemes under this plan. First scheme provides monthly annuity to insured from the next month after completion of the payment till the maximum age of 95 years. Second schemes provides annuity till age of 95 years and provides sum assured after age of 95 years. Third schemes provides annuity for 15 years period but if annuitant dies prior to the completion of 15 years, nominee gets the annuity amount for the remaining period.

2.3.3 Whole Life Product

The Whole Life product has some features of Term and Endowment product. The plan charges lesser premium than Endowment plan. The plan provides benefits to after the death of policyholder. It is suitable to lower income class people who has no capacity to pay higher amount of premium. There are various types of Whole Life products available in international life insurance markets such as: i) Single premium Whole Life, ii) Continuous premium Whole Life, iii) Modified Whole Life, iv) Limited payment Whole Life, v) Convertible Whole Life etc.

In Nepal, RBS and Nepal Life have offered "RBS Whole Life" and "Jeevan Sahara" plan respectively. Nepal Life provides the benefits to policyholders after 70^{th} birthday of policyholders.

2.4 Meaning of Appraisal

According to Cambridge Advanced Learner's Dictionary, "appraisal" means to examine someone or something in order to judge their qualities, success, or needs". The appraisal is the process of measuring the efficiency, effectiveness, productivity and performance of overall organisation which consists of performance of human resource and financial position. Financial performance depends on many quantitative and qualitative factors. There has been considerable interest of researchers on appraisal of insurance companies, financial performance, and efficiency in international insurance markets in last few decades.

According to **Black and Skipper (1999)** there are four basic criteria should be considered while appraising the life insurance companies. These are financial soundness and performance, product availability, service quality, and ethical behaviour.

There are number of approaches in practice in order to measure the firm's efficiency and financial performance. Among them some widely used methods are: Balanced Scorecard (BSC) model (**Kaplan and Norton, 1996),** Frontier Efficiency method **(Cummins and Weiss, 1998),** CARAMELS parameter which measures the financial soundness of insurance company **(Das, Davies and Podpiera, 2005),** Stochastic Frontier Analysis approach **(Nawi, Ahmad and Aleng, 2012)**, Data Envelop Analysis method (**Demerdash, Khodary and Tharwat, 2013)** etc.

2.5 Meaning of Efficiency

The efficiency is originally industrial engineering concepts that came of age in the early twentieth century. Management theorists like Frederick Taylor and Frank and Lillian Gilbreth designed time and motion studies primarily to improve the efficiency. **(Kanigel, 1997).**

There are several definitions of efficiency. Efficiency is a productive capacity of organisation. It is ability of firm producing desired goods or services with minimum resources, expenses and wastage. Efficiency assumed to be improved when more outputs of a given quality are produced with the same or fewer resource inputs, or when the same amount of output is produced with fewer resources.

According to **Office of the Auditor General of Canada (2007)** efficiency indicates how well an organization uses its resources to produce goods and services. Thus, it focuses on resources (inputs), goods and services (outputs), and the rate (productivity) at which inputs is used to produce or deliver the outputs. Inputs are resources (e.g., human, financial, equipment, materiel, facilities, information, energy and land) used to produce outputs.

Outputs are goods and services that produced to meet client's needs. Quantity refers to the amount, volume, or number of outputs produced. Quality refers to various attributes and characteristics of outputs such as reliability, accuracy, timeliness, service courtesy, safety, and comfort.

Productivity is the ratio of the amount of acceptable goods and services produced (outputs) to the amount of resources (inputs) used to produce them. Productivity is expressed in the form of a ratio such as cost or time per unit of output.

According to **Jarraya and Bouri (2012)** Koopmans is the first who proposes a measure of efficiency concept and Debreu the first who empirically evaluates the efficiency. Debreu proposes the use of resources coefficient expressed by the input-output ratio. Similarly, **Jorgenson et al. (1987), Rao, Christopher, and Battese (2005)** also suggest the input out ratio to obtain the operational efficiency.

Farrell (1957) states that the efficiency of a firm consists of two components: technical efficiency (TE), which reflects the ability of a firm to obtain the maximal output from a given set of input or to use the minimal input to obtain a fixed level of output, and allocative efficiency, which reflects the ability of a firm to use input in optimal proportions, given their respective prices. These two measures are then combining to provide economic efficiency.

Brockett et al. (1998) finds that independent agent distribution system is more efficient than direct system involving company representatives or employed agents in USA.

Kazemi (2007) defines efficiency as a ratio of expected result and real result. Efficiency is yield ratio of real yield to scale and anticipated yield. It is the ratio that derives dividing the amount of work that is done to work that should be done.

2.6 Empirical Studies on Efficiency of Life Insurance Company

Some pertinent studies on efficiency and financial performance in international insurance markets and their findings have been discussed as below.

Rai (1996) examines the cost efficiency of insurance firms located in 11 countries over 1988-1992 and found that X-inefficiencies[1] not only vary by country but by size and specialization. Firms in Finland and France have the lowest, while firms in the United Kingdom have the highest X-inefficiency. On average, small firms are more cost efficient than large firms. Firms grouped into those offering single or specialized services also operate more cost efficiently than those offering a combination of life and nonlife services (combined firms).

Cummins and Zi (1996) analyse the efficiency of insurance companies with 445 U.S. life insurance companies for five years (1988-1992) period using two different methodologies: Data Envelopment Analysis (DEA) and Free Disposal Hull (FDH) mathematical programming. The study finds different result on the same sample while applying the different methodologies. They advised to use more than one methodology when analyzing the efficiency to ensure that the findings are not being driven by specification errors.

Bernier and Sedzro (2002) examine the efficiency of 69 Canadian insurance companies for the period of five years (1996-1999) and find that the efficiency scores in the industry vary significantly by insurers' size, i.e. larger firms are more efficient than smaller firms. The size has a significant impact on cost efficiency while size does not matter on revenue efficiency. The study suggests that many insurers seem to have a hard time choosing the cost-minimizing combination of inputs, the most efficient insurers are close to achieving the optimal choice of outputs, therefore maximizing revenues, and there is evidence of a lack of “scale” mostly among small insurers. The potential acquisition candidates are indeed among the small insurers which badly need to increase their cost efficiency through the improvement of their allocative efficiency.

Jametti and Sternberg (2003) compare the cost efficiency of private and public property insurance providers in Switzerland including 18 years data (1981-1998) of 19 causality and property insurers based on claims to premium ratio. The study shows

[1] X-inefficiency is the difference between efficient behavior of businesses assumed or implied by economic theory and their observed behavior in practice. It occurs when technical-efficiency is not being achieved due to a lack of competitive pressure. The concepts of x-inefficiency were introduced by Harvey Leibenstein. Source: Harvey, L. (1966). Allocative Efficiency vs. X-Efficiency. American Economic Review. 56 (3), 392–415

that the public insurance providers are about 20 percent more cost efficient than their private counterparts.

Greene and Segal (2004) explore the relationship between cost inefficiency and profitability in the U.S. life insurance industry using the Stochastic Frontier (SF) method. The study finds that cost inefficiency in the life insurance industry is substantially relative to earnings and that inefficiency is negatively associated with profitability (Return on equity) and stock (shareholder-owned) companies are as efficient and profitable as mutual (policyholder-owned) companies.

Luhnen (2009) assesses the efficiency and productivity in German property-liability insurance industry covering the period from 1995 to 2006 using Data Envelopment Analysis. The study finds the improvement in efficiency about 15 percent in terms of technical and 45 percent in terms of cost efficiency during the study period. Furthermore, total factor productivity and efficiency growth are found to be low with growth rates of 1.3 percent (in 1995) and 0.6 percent (in 2006). Further, the study concludes that firm size, distribution channels, ownership of forms, product specialization, financial leverage, and premium growth are the major determinants of the efficiency of property-liability insurance company.

According to **Eling and Luhnen (2009),** there is steady efficiency growth in international insurance markets during 2002–2006 with large efficiency differences between the 36 countries. They find highest efficiency for Denmark and Japan, the lowest for the Philippines, stock companies are more efficient than mutual and for economies of scale (i.e., larger companies) are more efficient than smaller companies, minor difference between distribution types (agency-based vs. direct writers) and very little evidence for economies of scope (i.e., multi-line insurers are not necessarily more efficient than mono-line insurers), not much difference between the two frontier efficiency methodologies: data envelopment analysis and stochastic frontier analysis.

Eling and Huang (2011) examine the efficiency of non-life insurance companies in fastest-growing markets of four emerging BRIC countries (Brazil, Russia, India, China) during the period of 2000–2008 using frontier efficiency analysis method. They find that Brazil has the most efficient followed by Russia, China, and India.

Saad and Idris (2011) analyze the performance of the insurance companies in Malaysia and Brunei. This study measures the efficiency of life insurance companies in Brunei and Malaysia for the year 2000-2005 using the Data Envelopment Analysis. This finding indicates that the bigger the size of the companies, the higher the probability for the companies to be more efficient in utilizing their inputs to generate more outputs. Due to the positive impact of both efficiency and technical changes, the overall total productivity change for these firms within the period of study has been found higher than 1.

Ismail, Alhabshi, and Bacha (2011) argue that takaful life insurance company has lower technical efficiency than conventional insurance. They further explore that organizational structure influences the efficiency and conventional insurers have higher scale efficiency than takaful company.

Natarajan (2013) divides the overall performance of life insurance companies in three broad areas: performance, productivity and investment portfolio. He suggests 43 criteria to examine the performance life insurance companies in case of Life Insurance Company of India. These criteria are divided in three different dimensions such as: 25 criteria to appraise the financial performance, 12 criteria to appraise the productivity, and 6 criteria to appraise the investment portfolio.

Mathur and Paul (2014) examine the efficiency of 20 nonlife insurance companies in India based on the one year (FY 2012/13) data. The study finds that only seven companies are completely efficient in terms of technical efficiency scores. The study shows that seven insurers were employing their inputs effectively and judiciously in producing the existing level of output. While on the other side, 13 insurers were reported as inefficient as they were operating below the efficient frontier. The study further highlighted the issue of inappropriate management and control of the inputs by them.

2.7 Meaning of Financial Performance

Financial performance analysis is the process of measuring the results of a firm's policies and operations in monetary terms. Financial performance analysis includes the assessment of the firm's financial status in terms of short term and long term solvency and financial sustainability for a longer period. It is a continuous process of regulator, rating agencies, Securities Board, financial analysts, ombudsman, and independent whistle blower for the protection of interest of customers and economy at a large.

Metcalf and Titard (1976) define the analysis of financial statements as a process of evaluating the relationship between component parts of financial statements to obtain a better understanding of the firm's position and performance.

Ohlson (1980) emphasises the importance of financial analysis since it provides early warning about the slowdown of firm's financial condition. Similarly, **Muresan and Wolitzer (2004)** also highlight the importance of ratio analysis method in order to obtain the financial position of organisation at certain point of time. The method provides a comprehensive idea about the financial performance of the company.

Financial ratios have long been used as a tool of evaluating the overall financial performance of a company. Ratio Analysis can also provide a profile of a firm, its economic characteristics and competitive strategies, its unique operating, financial, and investment characteristics.

2.8 Empirical Studies on Financial Performance

Kaplan and Norton (1996) propound Balanced Scorecard method to appraise the performance of the organisation. The Balanced Scorecard translates a company's vision and strategy into a coherent set of performance measures. They argue that the four perspectives of the scorecard: financial measures, customer knowledge, internal business processes, and learning and growth offer a balance between short-term and long-term objectives, between outcomes desired and performance drivers of those outcomes, and between hard objective measures and softer, more subjective measures.

Das, Davies and Podpiera (2003) propose some financial soundness indicators in order to analyse the financial performance and risk profile of insurance companies. These indicators cover the different aspects of the financial status of insurers like: capital adequacy, assets quality, management soundness, reinsurance and actuarial issues, earnings and profitability, liquidity, and sensitivity to market risk. These indicators are categorised in core set and encouraged set. Core set serves the fundamental and encouraged set provides the important additional financial information about the insurance companies.

Chen and Wong (2004) examine the solvency of life and nonlife insurance companies in Asian economies using the firms' data and macro data separately. The study finds that firm's size, investment performance, liquidity ratio, surplus growth, combined ratio, and operating margin significantly affects the financial health of general insurance companies while firm size, change in asset mix, investment performance, and change in product mix significantly affect the financial health of life insurance companies.

Sharma (2005) assesses the financial performance and managerial effectiveness of Indian public sector life and four nonlife insurance companies. Based on five years data (1999-2003), the study shows that there is variation on financial performance of nonlife insurance companies.

Peursem, **Zhou, Flood and Buttimore (2007)** state that insurance sector traditionally has been regarded as relatively stable segment of the financial system. But, recent changes in insurance industry have increased the vulnerability as similar to banking sector. Many stories of insurance failures such as: Ireland (1985), USA (1991), Canada (1994), Ethiopia (1997), Australia (2001), Japan (1997-2001), Korea (1998-2002)[2] have systematic implications. The study finds that the reason behind such failure of insurance companies is similar to bank failure.

Darzi (2011) in his Doctoral dissertation entitled "Financial performance of insurance industry in post liberalization era in India" compare the financial performance of public and private sector general insurance companies for the period 2004/05 to 2008/09. The study concludes that the financial performance of insurers in post liberalization period is better than during the pre-liberalization period.

Ahmed, Ahmed and Usman (2011) examine the impact of firm level characteristics (size, leverage, tangibility, risk, growth, liquidity, and age) on performance of listed life insurance companies of Pakistan over seven years period (2001- 2007) using the indicators as suggested by CARAMELS parameter. The result of ordinary least square regression analysis indicates that size, risk, and leverage are important determinants of performance of life insurance companies of Pakistan. The study further finds that the relationship between ROA with growth, profitability, age, and liquidity is insignificant.

Alrafadi and Yusuf (2011) compare between the benefits and problems using financial ratios analysis and Balanced Scorecard method in evaluating the overall control of the company and suggest that the Balanced Scorecard is more efficient than

[2] http://www.standardandpoors.com/spf/upload/Ratings_EMEA/2013-06-13_WhatMayCauseInsuranceCompaniesToFail.pdf

financial ratios analysis method. They suggest that both the balanced scorecard and financial ratios analysis are important tools for evaluating the performance but the scorecard method is more informative and effective than ratio analysis.

Kozak (2011) on the basis of 25 nonlife insurance companies in Poland probes that gross premiums is positive and significant parameter of profitability and efficiency of insurance companies. The study further shows negative relationship between profitability and lack of specialization or expertise in few cost effective products.

Charumathi (2012) enquires the financial status of 23 Indian life insurance companies taking three years (2008-2011) data. The study shows that Indian life insurance sector is the least profitable market for its shareholders among all Asian countries during 2010-2011. The study further examines that profitability of life insurers is positively and significantly influenced by the size as explained by logarithm of net premium and liquidity. The leverage, premium growth and logarithm of equity capital have negatively and significantly influenced the profitability of Indian life insurers. This study does not find any evidence for the relationship between underwriting risk and profitability.

Sinha (2013) compares the financial soundness of two Indian life insurers Bajaj Allianz and ICICI Prudential taking six years data (2005–2010). The study concludes that both companies give mix results and there is the room for improvement for both companies in the area of capital adequacy, liquidity, and operating expenses.

Akotey, Sackey, Amoah and Manso (2013) delve on the basis of 11 years data (2000-2010) of life insurance industry of Ghana and find that gross written premium have a positive relationship with insurers' profitability, and negative relationship with investment income. Further, the study shows that life insurers have been incurring large underwriting losses due to the overtrading and price undercutting. The results further reveals a setting-off rather than a complementary relationship between underwriting profit and investment income towards the enhancement of overall profitability of life insurers.

2.9 Concept of Economic Development

The main goal of economic development is improving the economic well-being of a people through the efforts that entails job creation, job retention, tax base enhancements, and quality of life.

Baldwin (1966) precisely defines the economic development as "a process whereby an economy's real national income increases over a long period of time". According to **Porter (1998)** the economic development as "long-term process of building a number of interdependent microeconomic capabilities and incentives to support more advanced forms of competition."

According to **Todaro and Smith (2003)** development is the process of improving the quality of all human lives and capabilities by raising people's levels of living, self-esteem and freedom. Economic development is a qualitative concept rather than merely a quantitative notion.

2.10 Contribution of Life Insurance Companies in Economic Development

United Nations Conference on Trade and Development (UNCTAD) recognised the importance of insurance and reinsurance to economic development in 1964 which motivated to academicians shifting their attention from banking and capital market sector to insurance sector.

The contribution of life insurance companies in economic development has been widely studied theoretical as well as empirical perspectives. In this ground, **Beck and Webb (2003)** claims that the life insurance market has become an increasingly prominent part of the financial sector over the past 40 years, providing a range of financial services for consumers and becoming a major source of investment in capital market.

Brainard (2008) contends that insurance contributes materially to economic development by improving the investment climate and promoting a more efficient mix of activities than would be undertaken in the absence of risk management instruments.

The status of investment of life insurance companies in Japan, India, China, and Nepal and the country specific studies on life insurance and economic development in these countries have been discussed in brief as follows:

2.10.1 Indian Perspective

There is long and triumphant history of life insurance in India. Currently, one public and 23 private sector insurers are doing life insurance business in India. On the basis of insurance premium income, India ranked in fifteenth position in the world in 2013 **(Swiss Re, 2013).** There is the legal provision to invest at least 15 percent of insurance fund in infrastructure sector. At the end of March 2013, almost Rs. 18,679 billion (Indian currency) life fund which equivalent to 34 percent of GDP was invested in Securities issued by Central Government (36.52%), securities issued by state government and other approved securities by regulators (18.97%), housing and infrastructure (8.48%), approved investments (32.53%) and other sectors of investments (3.5%). The life fund investments grew by 14.92 percent whereas general annuity and pension fund increased by 19.32 percent during 2013 **(IRDA, 2013).** The Life Insurance Corporation of India, state owned company had invested in power sector Rs. 942.94 billion, in housing sector Rs. 419 billion by the end of 2012. Its investment in central and state government securities and infrastructure sector reached to Rs. 7,378.8 and Rs. 9,193.06 billion respectively **(Annual Report, LIC of India, 2013).** In first three years of the Eleventh plan, insurance companies have shared 9 percent, Banks shared 56 percent, and remaining 35 percent fund have been shared by other sources **(MoCI, 2012).**

Vadlamannati (2008) based on 27 years (1980-2006) data of Indian GDP and insurance premium concludes that the contribution of insurance sector to economic development is positive and exhibits a long-run equilibrium relationship. The positive effect of insurance sector growth on economic development realizes one year later and not in the current year.

Subba and Srinivasulu (2013) argue that contribution of insurance considerably importance to poverty alleviation, infrastructure development, and the welfare of the poor. However, quantitative evidence on this point is not on very firm grounding in the context of India.

Ghosh (2013) finds long term relationship between life insurance industry and economic development using VAR-VECM model and Granger causality test. He suggests that life insurance sector improves the overall economic development but reverse is not significant in Indian context.

2.10.2 Chinese Perspective

In China, first insurance company People Insurance Companies of China was established in 1949. Currently, there are 56 life and 47 nonlife insurance companies are in operation**.** The China Insurance Regulatory Commission (CIRC) categorized insurers' investment portfolios into five classes. It capped investments in equities and real estate each at 30 percent of total assets and limited "other financial assets," which include banks' wealth management products and trusts to 25 percent but there is no capped in government bond and bank deposit **(CIRC, 2014)**[3]**.** Previously the upper limit of equity capital and mutual fund was 15 percent. Insurance companies have been allowed to invest in domestic infrastructure product through trust fund up to 6 percent and listed companies up to 15 percent **(IMF, 2012).** The provision permitted to life insurer investing sufficient amount of fund in infrastructure sector (up to 10 percent in unlisted companies). After this decision it is expected to invest almost USD $50 billion of fresh capital in unlisted companies.

Sun, Yu, and Zhong (2009) have examined the role of life insurance in economic growth taking two major variables: insurance premium and real GDP from 1980 to 2007 and conclude that aggregate insurance premium in China is positively cointegrated with country's GDP, population, the fraction urban population, number of foreign insurers, but negatively co-integrated with the market share of the country's largest insurer. The study further explores various factors that causes of limited development of Chinese insurance market which is influenced by cultural influence of collectivisms, strong government intervention, weak property right, and underdevelopment of the country's financial market.

Zhang, Wang and Wang (2012) based on the study of 286 Chinese cities over the period 2001–2006 argue that traditional indicators of financial development are positively associated with economic growth. They have used traditional cross-sectional regressions and first-differenced and system GMM estimators for dynamic panel data.

2.10.3 Japanese Perspective

Japan stands as a second largest economy in Asia[4] and third in world. Japan is the second biggest life insurance market in the world after the U.S., accounting for 20 percent of the world's premiums and more than half of the premiums originating in Asia. There are 43 life insurance companies operating in Japan. Japanese life insurance market had already reached saturation since 1980s with 90 percent of the households owning a life insurance policy. Japan has one of the world's highest rates of market penetration for the life insurance **(Swiss Re, 2013).**

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[3] http://www.circ.gov.cn/
[4] http://en.wikipedia.org/wiki/List_of_Asian_countries_by_GDP

During the same period Japan had massive life insurance fund available to invest in global market **(Inoue, 2009).** The life insurance companies moved heavily into foreign investments as deregulation allowed them to do so and as their resources increased through the spread of fully funded pension funds.[5] These assets permitted the companies to become major players in international money markets. During 2010, life insurers invested more than 70 percent of their investable fund in government bond, 13 percent loan to corporation, and 17 percent to other sectors (**IMF, 2012).**

The total fixed maturity securities account for 80 percent of the total invested assets in Japan with government bonds accounting for 55 percent of these. Close to 10 percent of the assets invested in securities are invested in corporate bonds with 6 percent in stocks and 5 percent in local government bonds. End of 2011, Y 257 trillion accounted as investment in different sectors **(LIAJ, 2013).**

2.10.4 Nepalese Perspective

According to Investment Policies of Insurance Board of Nepal, Nepalese life insurance companies should invest at least 25 percent of their investable fund in Government securities and maximum 20 percent fund in capital market instruments. Remaining fund should invest in time deposit of banks and financial institutions. Life insurance companies have invested more than Rs. 50 billion investable fund in above mentioned three sectors till mid July 2012. The investment policies do not permit to invest in infrastructure projects directly but investment in equity share up to 5 percent of total investment fund is allowed.

Even though insurance sub sector is a part of financial sector, life insurers do not provide credit to individual directly. Large amount of insurance fund has been channelised through banking system. The findings of some relevant studies on role of financial sector in economic development have been mentioned below:

Acharya (2003) argues that the impact of financial sector development on poverty alleviation is not visible directly in terms of diversification sources of credit supply to the rural areas or the rural poor or financing of priority areas for national development. Majority of the targeted credit programs have been unable to cater to the needs of the bottom 20 percent households directly because they lack other resources and knowledge to benefit from the saving credit programs.

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[5] http://en.wikipedia.org/wiki/Japanese_financial_system

Shrestha and Chowdhury (2007) state that incidence of poverty is adversely affected by financial liberalization. They further conclude that financial liberalization is positively associated with increased employment opportunities in both rural and urban areas but negatively associated with the bank credits to the poor.

Westermann (2012) finds that services sector has been expanding, the agricultural and manufacturing sectors have growing much more slowly. Service sector reacts strongly to increases domestic credit, while agriculture and manufacturing are largely unaffected.

Kharel and Pokhrel (2012) conclude that financial sector plays a key role in promoting economic growth compared to capital market in Nepal on the basis of empirical results using Johansen's cointegration vector error correction model taking aggregate 19 years annual data. They further argue that either the size of capital market is too small to seek the relationship or it is weakly linked to real economic activities.

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CHAPTER THREE

RESEARCH METHODOLOGY

The chapter discusses about research design, conceptual framework, population and sample of the study, sources of data, sampling techniques, data analysis techniques along with methods of interpretation.

3.1 Research Design

Research design is the plan, structure and strategy of investigation so conceived as to obtain answers to research questions or problems **(Kerlinger, 1986).** The study based on the following epistemological and ontological assumptions and research method.

3.1.1 Ontological Orientation of the Study

There are three philosophical positions commonly agreed to work under an ontological worldview such as: Objectivism, Constructivism, and Pragmatism. Objectivism believes on single reality, Constructivism believes on multiple reality while Pragmatism believes that only those things that are experienced or observed are real. Quantitative research accepts the single reality whereas in qualitative research researchers are accepting the idea of multiple realities (**Cresswell, 2007**). The present study follows the objectivist worldview.

3.1.2 Epistemological Orientation of the Study

According to **Bryman (2004)** epistemology is a theory of knowledge and concern of what is considered as acceptable knowledge in a particular discipline. There are three philosophical paradigms viz.: Positivism, Interpretivism, and Critical realism. Positivism emphasizes the objectivist approach to study the social phenomena and gives importance to quantitative analysis, surveys, and experiment research method. Interpretivism is an opposite approach to positivism. It believes that reality is socially constructed and multiple. People cannot be separated from their knowledge, therefore there is a clear link between the researcher and research subject.

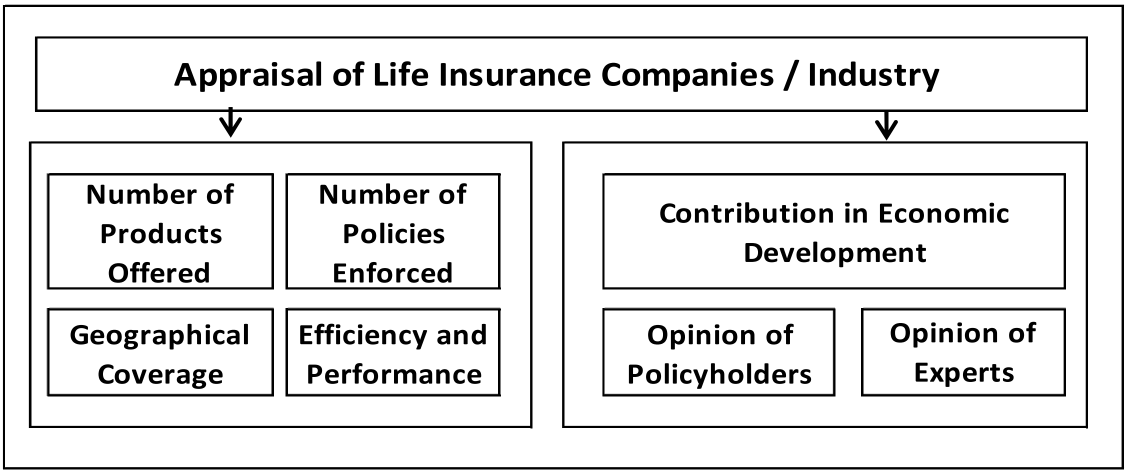
3.1.3 Research Methods

The study has been followed descriptive research design. Description emerges following creative exploration, and serves to organize the findings in order to fit them with explanations, and then test or validate those explanations (**Krathwohl, 1993** and **Brown, 2006**). Present study based on deductive reasoning since it follows the pattern of theory, hypothesis, observation and confirmation **(Marshall and Rissman, 1999).** The study is dominated by the quantitative research approach.

3.1.4 Conceptual Framework

Miles and Huberman (1994) define the conceptual framework as a visual or written product that explains, either graphically or in narrative form, the main things to be studied, the key factors, concepts, or variables and the presumed relationships among them. Present study aims to examine the performance of life insurance companies based on various activities. The conceptual framework of present study has been graphically presented in Figure-3.1.

Figure-3.1: Conceptual Framework for the Appraisal of Life Insurance Companies



In course of appraising the life insurance companies activities: i) Number of products offered, ii) Number of policies enforced, iii) Geographical coverage, iv) Efficiency of employee, Agents, Branch, along with financial efficiency of life insurance companies have been considered. Further, the performance of life insurance industry has been appraised based on following activities: i) contribution in economic development in terms of resource mobilisation, investments, contribution to Exchequer, employment generation and corporate social responsibility along with opinion of the ii) policyholders and experts regarding the performance of life insurance companies.

3.2 Research Hypotheses

Hypothesis is usually considered as the principal instrument in research. Theoretically it is assumed that hypothesis should be clear and precise, capable of being tested, specific with limited scope and consistent with the substantial body of established fact **(Kothari, 1985)**. In every research, first hypothesis need to formulate, then data have to collect and hypothesis require to test using appropriate statistical tools and suitable data sets. Hypothesis are categorised in two types: i) Null hypothesis (hypothesis of no difference or no association) which is denoted by $H_{0,}$ and ii) Alternative hypothesis (hypothesis of difference or association) which is denoted by H_1.

Present study proceeds with the formulating following null hypotheses.

H_0: There is no relationship between the number of products offered and number of policies enforced.

H_0: There is no relationship between the number of products offered and Gross Premium.

H_0: There is no relationship between the number of policies enforced and number of employee, number of Agent, number of branch, and geographical outreach (number of district covered).

H_0: There is no association between the objectives of buying life insurance and demographic and economic attributes of respondents.

3.3 Period of the Study

Among the eight life insurance companies under study, four companies were established in 2008 so that the study period covers five years period from FY 2008 to FY 2012.

3.4 Sources of Data

The study has used both primary as well as secondary data.

3.4.1 Sources of Primary Data

The primary data have been collected through field survey using two different sets of structured questionnaire. Set 1 questionnaire was issued to policyholders who have already got benefits from life insurance companies and beneficiaries who have already got death benefits and the Set 2 questionnaire was issued to experts in insurance sector.

3.4.2 Sources of Secondary Data

Secondary data have been obtained from Annual Reports, Financial Statements, Government publications, and official websites of concerned organisations like Insurance Board of Nepal, Life and Non-life Insurance Companies, Central Bureau of Statistic, Government line agencies, Nepal Rastra Bank, IRDA, and IAIS.

3.5 Population of the Study

There are two types of population under study viz.: life insurance companies and respondents.

3.5.1 Life Insurance Companies

There are nine life insurance companies operating in Nepal. Since the non-availability of the audited financial statements of Rastriya Beema Sansthan, public sector composite insurer during the study period (2008-2012), the study has taken private sector eight life insurance companies. The list of private sector life insurance companies, year of establishment, and ownership structure has been presented in Table-3.1:

Table-3.1: List of Life Insurance Companies in Nepal

Name of Company	Year of Establishment	Ownership Structure
1. National Life Insurance Co. Ltd	1988	98% domestic capital
2. Nepal Life Insurance Co. Ltd.	2001	100% domestic capital
3. MetLife Alico Insurance Co. Ltd.	2001	55% foreign capital (LIC of India)
4. Life Insurance Corporation (Nepal) Ltd.	2001	100% foreign capital (MetLife Alico)
5. Asian Life Insurance Co. Ltd.	2008	100% domestic capital
6. Surya Life Insurance Co. Ltd.	2008	100% domestic capital
7. Gurans Life Insurance Co. Ltd.	2008	100% domestic capital
8. Prime Life Insurance Co. Ltd.	2008	100% domestic capital

Source: Annual Report, 2012/13, Insurance Board

3.5.2 The Respondents

The population of respondents has been divided in two broad strata: i) Policyholders and beneficiaries who have already got maturity or death benefits from life insurance companies, and ii) Experts in insurance sector. Following respondents have been considered as an "experts" for this study: Executives and staffs working under life and non-life insurance companies, Agents of LICs and GICs who have got the license at least five years before, Officials of regulating agency of insurance companies, Securities Board of Nepal, Stock Exchange Ltd., Nepal Rastra Bank (central bank), Office bearers, senior staffs, and members of The Institute of Chartered Accountants of Nepal, Government policymakers, academicians, professional experts in the field of insurance, banking, and accounting.

3.6 Sampling Techniques

There is no possibility to prepare the sampling frame for both types of potential respondents: policyholders and experts in insurance sector. The population of both types of respondents is infinite so that non-probability sampling method has been followed to select the respondents. Purposive, judgmental, and quota sampling techniques have been followed while selecting the respondents i.e. policyholders, beneficiaries and experts in the insurance sector.

3.7 The Questionnaire

In order to obtain the opinion of the policyholders and experts in the sector of insurance, two sets of questionnaires have been constructed.

3.7.1 Questionnaire to the Policyholders

The Set-1 Questionnaire has been used to obtain the opinion of the policyholders. It includes general information of respondents including demographics attributes in first part, the information related to loan and investments in second part, information regarding the claims settlements in third part. In fourth part, likert type 15 statements have been included to get the opinion of respondents on different aspects of life insurance such as: products and their information, benefits of life insurance, role of life insurance on poverty reduction. The Set-1 questionnaire has been exhibited in Appendix-1.

3.7.2 Questionnaire to the Experts

The Set-2 Questionnaire has been used to obtain the opinion of experts. It includes likert type 18 statements in first part which includes different aspects of life insurance such as: products, customer's satisfaction, return to policyholders, role of life insurance on poverty reduction, support to financial sector, and employment creation. In second part information of respondents has been included. The Set-2 questionnaire has been exhibited in Appendix-2.

3.7.3 Scale of Measurement

The opinion of respondents has been obtained by five point likert scale ranges from 1 to 5. The Likert scale was propounded by Rensis Likert in 1932. It is widely used to measure the opinion, belief, attitude of respondent on a particular issue. It is a bipolar scaling method, measuring either positive or negative response on proposition. The same tool has been used to measure the policyholders' and experts' opinion to appraise the life insurance companies in Nepal. The five point scale consists of following alternatives opinion on particular statement:

1 refers to Strongly Disagree (SD)

2 refers to Disagree (DA)

3 refers to Neutral (N)

4 refers to Agree (A)

5 refers to Strongly Agree (SA)

The opinion "Strongly Disagree" and "Disagree" means disagreement on particular issue while "Agree" and "Strongly Agree" means agreement of respondents on particular issue. The opinion "Neutral" means neither agreement nor disagreement regarding particular proposition. Respondents were requested to choose the "Neutral" option if he has not idea about the statement and suggested to avoid this option as far as possible.

3.7.4 Pilot Study, Final Study, and Cronbach's Alpha

The purpose of conducting the pilot study prior to final study is to examine the feasibility of an approach that is intended to be used in a larger scale study **(Leon, Davies and Kraemer, 2011).** The pre-test (pilot) study has been completed with 25 policyholders and 35 experts using the Set-1 and Set-2 questionnaire respectively. The questionnaires have been further modified as per the suggestions of respondents. The reliability and internal consistency of the questionnaire has been tested using SPSS software. The value of Cronbach's Alpha for Set-1 and Set-2 questionnaire have been found 0.744 and 0.881 respectively. According to **George and Mallery (2003)** the value of Cronbach's Alpha is acceptable for Set-1 and good for Set-2 questionnaire. After the pilot test, questionnaires have been modified and final study has been carried out. The opinion of 170 policyholders and 370 experts has been obtained. The sample respondents who have already included for pilot study have not been included in the final study. Again the internal consistency has been tested using the Cronbach's Alpha (α). The value of Cronbach's Alpha of Set 1 and Set 2 questionnaire for pilot study and final study has been presented in Table-3.2.

Table-3.2: Value of Cronbach's Alpha of Pilot and Final Study

Set No.	Pilot Study		Final Study		Number of Items
	Number of Sample	Cronbach's Alpha	Number of Sample	Cronbach's Alpha (α)	
1	25	0.744	170	0.781	15
2	35	0.881	370	0.894	18

Source: Field Survey, 2014.

Similarly, KMO test also has been administered to find the sample adequacy. The value of KMO test for Set-1 and Set-2 questionnaire have been found 0.76 and 0.87 respectively. These value show that Set-1 questionnaire is good and Set-2 questionnaire is meritorious for further data analysis (**Snedecor and Cochran, 1989).**

3.7.5 Response Rate of Questionnaire

The Set 1 and Set 2 questionnaires were distributed to 250 policyholders and 500 experts respectively. Proper follow up also have been carried to respondents in order to obtain the highest number of responses. The response rate has been shown in Table-3.3:

Table-3.3: Responses Rate of Field Survey

Types of Respondents	Number of Questionnaires		Response Rate (%)
	Distributed	Received	
1.Policyholders and beneficiaries	250	170	68
2. Experts	500	370	74
Total	**750**	**540**	**72**

Source: Field Survey, 2014

Out of 250 questionnaire distributed to policyholders and beneficiaries, 170 (68%) set of questionnaire were received with complete information. Likewise, out of 500 sets of questionnaire distributed to experts 370 (74%) sets of questionnaire were received in a usable condition. In aggregate, the response rate of both sets of questionnaires has been found 72 percent.

3.8 Data Analysis Tools

Data analysis is one of the most important and onerous undertaking of quantitative research. In order to analyse the data, different statistical tools have been used. Prior to analyse the data, first both primary and secondary data have been entered in to MS Excel and SPSS Software. The outlier and poor quality data have been removed. Attempt has been made to ensure that the data are appropriate and sufficient for analysis. Following descriptive and inferential statistical tools have been used to analyse the data.

3.8.1 Descriptive Statistics

The objective of descriptive statistics is summarizing and presenting the information more concise and understood way **(Mann, 1995).** Descriptive statistics provide simple summaries about the sample. Number of descriptive tools such as: frequency, mean, mode, percentage, standard deviation, ratio, table, graph, diagram and chart along with single and cross table have been used to analyse the data. These tools make the presentation more effective and easier to understand. Moreover, trend, growth rate, and rank value also have been used to analyse the data and interpret the result.

Trend analysis is the techniques of comparing the data over the period to identify any consistent results or tendency. It provides the information about the direction of the changes of particular phenomena within the period under the study.

Ratio also has been used to assess the efficiency and financial performance of the company. Ratio describes the numerical relationship between two variables in terms of percentage, proportion, time or sometimes in monetary term. There are three types of comparison in practice: i) Comparison the ratio between different years, ii) Comparison the ratio between the different firms, and iii) Comparison the ratio of particular company with industry average **(Khan & Jain, 1999).**

3.8.2 Inferential Statistics

Inferential statistics, both parametric and non-parametric deal with drawing conclusions and in some cases making predictions about the properties of a population based on information obtained from a sample. They are also used to investigate differences between the groups and testing the hypothesis **(Geisser & Johnson, 2006).** In this study Cronbach's Alpha, Correlation, and Chi Square test have been used.

Chi-square (χ^2) test has been used to measure the association and independence between two categorical variables. The test is applied in nominal to nominal data and nominal to ordinal data. The formula of Chi Square test has been presented below.

Chi-Square Test (χ^2) $= \sum_{i=1}^{r}\sum_{j=1}^{c}\left[\frac{(O_{ij}-E_{ij})^2}{E_{ij}}\right]$

Where,

r = number of rows

c = number of columns

O_{ij} = Observed frequency for cell ij

E_{ij} = Expected Frequency for cell ij

i= number of cell in contingencies table which runs from 1 …. .. n.

Decision is taken on the basis of *p* value of Chi Square statistic. The *p* value of Chi-square (χ^2) test less than 5 percent shows that there is significant association between two variables, otherwise the association is not significant.

The correlation (also known as Karl Pearson Product Moment Coefficient Correlation) measures the linear relationship between two variables **(Huck, 2012).** The value of correlation coefficient (r) ranges between 1 to -1. The value of correlation coefficient more than 0 indicates that the relation between two independent variables are positively correlated while less than 0 shows that these variables are negatively correlated and correlation 0 means there is no relationship between two variables. Positive value indicates that two variables move in the same direction and negative value indicates that two variables move in the opposite direction.

The formula of correlation (r) is shown as below:

Correlation (r) = $$\frac{\sum_{i=1}^{n}(x_i-\bar{x})(y_i-\bar{y})}{\sqrt{\sum_{i=1}^{n}(x_i-\bar{x})^2\sum_{i=1}^{n}(y_i-\bar{y})^2}}$$

Where,

n = number of paired observation, x bar and y bar are the mean of observation x and y.

x_i, y_i = pair of observation, I tends from 1 to n.

bar x_i, y_i = mean value of observation x and y.

Cronbach's Alpha (α) has been used to obtain the internal consistency between the statements included in a set of questionnaire.

3.9 Methods of Interpretation

3.9.1 Comparison between the Companies

Comparison between old companies and new companies has no meaning since the size of the organisation and volume of the business of newly established company is comparatively lower as compared to old companies. The objective of grouping of companies in old and new group is to make the comparison more meaningful and logical. Eight companies under study have been divided in two groups "Old group" and "New group" based on date of establishment.

Under the "Old group" following companies have been included.

1) National Life (established in 1988),
2) Nepal Life (established in 2001)
3) Life Insurance Corporation (Nepal) (established in 2001)
4) MetLife (established in 2001)

Similarly, under the "New group" following companies have been included.

1) Asian Life (established in 2008)
2) Surya Life (established in 2008)
3) Gurans Life (established in 2008)
4) Prime Life (established in 2008)

3.9.2 Ranking of the Company

Rank value explains the hierarchical position of particular company among the competitors. In order to compare the companies based on their performance or efficiency, each company has been given the rank value as: 1, 2, 3, and 4. The rank value 1 refers that the company is the most efficient or the best performing and 4 refers that the company is least efficient or worst performing company in a particular area.

3.9.3 Opinion of Respondents

The opinions of respondents obtaining from five points likert scale questionnaires have been discussed based on descriptive statistics. Mode view has been mentioned while displaying the views of respondents in frequency table.

The total number of frequency of agree and strongly agree shows the agreement on particular statement. Similarly, total number of frequency of disagree and strongly disagree shows the disagreement on particular statement. Conclusion has been drawn based on the comparison between the views of agreement and disagreement.

The frequency of neutral view has not been taken into consideration if the frequency is less than the frequency on agreement or disagreement.

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CHAPTER FOUR

LIFE INSURANCE COMPANIES IN NEPAL: AN OVERVIEW

The chapter covers the history life insurance industry and current activities of regulatory authority. It deals with the evolution of Nepalese insurance industry, insurance policy of Government of Nepal, insurance regulatory framework, major activities performed by Insurance Board of Nepal. Further, it also includes the brief introduction of life insurance companies, organisational structure, human resources and market concentration index. The chapter also briefly highlights the market structure, products and market concentration index of non-life insurance companies, and gives an introduction of Insurance Pool and Deposit Insurance and Credit Corporation.

4.1 Evolution of Insurance Industry in Nepal

The process of industrialization in Nepal started after establishment of *Udyog Parishad* in 1935 and promulgation of Company Act, 1936. Subsequently, the *Gharelu Ilam Prachar Adda* (Office for the Promotion of Cottage Skills) was also established in the same period. As a result more than one dozen industries were established during 1940s with joint efforts of Nepalese and Indian industrialists. During this period, demand of insurance was fulfilled by Indian life and non-life insurance companies. Modern history of insurance in Nepal started from 1947 after the establishment of Nepal Transportation and Insurance Company by 100 percent domestic capital **(Insurance Board, 2012)**.

The history of Nepalese insurance industry is almost seven decades old. During the period, only two insurance Acts were implemented. On the basis of insurance related Act, the history of insurance in Nepal has been divided in three phases viz.: i) Pre regulation period which covers to period till 1967, ii) Insurance Committee period which starts from 1968 and ends by 1991, and iii) Insurance Board period which starts from 1992.

4.1.1 Pre-regulation Period

In the absence of separate insurance related act in the country, insurance business was regulated by Company Act[1] till 1967. During 1947-1968, only three insurance companies were established. The documented history of Nepalese insurance industry started from 1947 after the establishment of "Nepal Transportation and Insurance Company" (*Nepal Mal Chalani Tatha Beema Company*) by joint efforts of Nepal Bank Ltd[2] and local investors .The capital of the company was Rs. 0.5 million which was financed by Nepal Bank Ltd. (83%) and local investors (17%)[3] **(NIC, 1997).** The name of the company was converted into "Nepal Insurance and Transportation Company" (NTIC) in 1959 and again changed into "Nepal Insurance Company" in 1991. The objective behind the establishment of NTIC was exclusively to protect the cash and important documents of Nepal Bank Limited while transported across the country. Besides, it transported the goods of local traders from the custom offices Birgunj to capital city Kathmandu. The NTIC itself was not sufficient to meet the demand of general insurance. In order to fulfil the demand and supply gap, number of Indian insurance companies such as: United India Insurance, Hindustan General Insurance, Starling Insurance, Ruby General Insurance were established and sold their policies in Nepal. The Oriental Fire Insurance Company operated general insurance business in Nepal since 1956 by establishing its branch office. The office was later registered in 1967[4] under the Nepalese Act and still the company has continued its operation across the country.

In the meantime, Government of Nepal realized the requirement of another domestic insurance company and a study team was formed to provide the suggestions about the structure of the new insurance company to be established by the Government. According to the suggestion of the study team, Government of Nepal established Rastriya Beema Sansthan (RBS) under the Company Act in 1967. The aim behind the establishment of Government owned company was to meet the increasing demand of life and non-life

[11] Company Act 1936 was revised two times during the period in 1950 and 1964

[2] Nepal Bank was the first financial institution of Nepal established in 1937 by Government of Nepal and general public with 40 percent and 60 percent equity participation respectively. Source: http://www.nepalbank.com.np/

[3] Investors were Nepal Bank-10,000 shares, Kharidar Govinda Prasad Gorkhali -100 shares, Siddi Das Shrestha -1,500 shares, Girjalal Shrestha-500 shares, source: Swarna Jayanti Smarika, Nepal Insurance Company Ltd., 1997

4 Source: http://www.orientalinsurance.com.np/

insurance inside the country and minimize the flow of domestic capital to foreign countries. RBS became the national flagship insurance company, which is the first life and non-life (composite) insurance company established by government.

4.1.2 Insurance Committee Period

During the Insurance Committee period (1968 to 1991) many activities were carried out for the development of insurance industry. The Insurance Act, 1968 was approved and implemented by October 25, 1968. This Act is regarded as a milestone in the history of Nepalese insurance industry. Insurance Committee was formed as an Apex body to regulate the insurance business in a systematic manner. The first meeting of Insurance Committee was held on May 14, 1968.

Rastriya Beema Sansthan Act, 1968 also enacted on October 25, 1968 which converted the status of RBS from the private limited company to public enterprise. During the inception period of RBS, it had received technical cooperation from various organizations including LIC of India[5], UNO[6], UNCTAD[7] and other re-insurance companies **(Pant, 1993)**[8]**.** Rastriya Beema Sansthan started non-life insurance business from February 23, 1968 and life insurance business from February 18, 1973. Meanwhile, LIC of India closed its branch office in Nepal and stopped to issue new policies from Dec 1, 1974 as well as it handed over the policies to RBS with its assets and liabilities. This event can be regarded as a noteworthy co-operation extended by LIC of India to Nepalese life insurance industry **(Insurance Committee, 1975).** In the meantime, National Insurance Company (Indian non-life insurance company) established its branch in Nepal in 1974.

Government of Nepal adopted liberalization policy in 1980s and welcomed private investor in financial sector. As a result, National Life and General Insurance Company was established as a second composite insurance company in 1988. This was first joint venture company between Nepalese investors (Rastriya Banijya Bank[9] and individual)

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[5] Undertaking of Government of India which was established in 1956.

[6] Jeffry William Hudson, Fellow, Chartered Insurance Institute worked on behalf of United Nation,

[7] Sukhmay Chaudhary, Marine Specialist worked for 9 months supported in Non-life sector,

[8] According to Mr. Raghu Pant former Officer of RBS, Mr G,H,L.Walters from UNO, Mr Brian Laxock from Swiss Reinsurance Company. Actuary K.V. Claridge, Mercantile and General of UK also supported in different time.

[9] Hundred percent state owned commercial bank.

and foreign investor. During 1968-1991, only two new companies were established[10] and the end of the period number of insurance companies reached to five.

4.1.3 Insurance Board Period

Insurance Board period started since 1992 and the period is still continuing. During this period, Government of Nepal framed dozen of new Acts and amended many existing Acts to create the favourable legal environment for the economic liberalisation. Government welcomed private investors in banking, insurance and capital market sector emphasizing the role of private sector in the economic growth and poverty reduction on a sustainable basis **(Adhikary, Pant and Dhungana, 2007).**

Insurance Act, 1992 was enacted in 1992 and repealed the previous Insurance Act, 1968. The objective of new Act was to create the dynamic and workable environment to insurance industry and systematic regulation and promotion of Insurance Business[11]. The Insurance Board was established in 1992 as an apex body for insurance regulation. The role and responsibility of the Board and Insurance committee is almost same but Board has more authority and autonomy as compared to Committee **(Humagain, 2011).** In the meantime, Insurance Board had taken various strategic decisions, issued number of directives to maintain the insurance business more dynamic and vibrant.

During 1992-2008, Insurance Board had provided license to additional seven life and 16 non-life insurance companies. Keeping in mind the supply and demand side of the insurance market, Insurance Board closed to grant license for new companies for both life and non-life insurance companies after 2008[12]. Number of companies established in three different phases, cumulative figure and growth rate has been presented in Table-4.1.

Table-4.1: Number of Insurance Companies Established in Different Phases

Phases		**Types of Company**			**Total**	**Growth (%)**
		Non-life	**Life**	**Composite***		
Pre-regulated Period (1947-1967)	New Co.	2	-	1	3	-
	Total Co.	**2**	**-**	**1**	**3**	
Insurance Committee Period (1968-1991)	New Co.	1	-	1	2	67
	Total Co.	**3**	**-**	**2**	**5**	
Insurance Board Period (1992 onwards)	New Co.	13	8	-1	20	400
	Total Co.	**16**	**8**	**1**	**25**	

Source: Annual Report, Insurance Board, 2012.

[10] Rastriya Beema Sansthan is counted before 1968 period.
[11] According to the preamble of Insurance Act, 1992
[12] This report has been prepared based on the data available till Jan 2014.

*Company operating both life and non-life insurance business

A composite insurer "National Life and General Insurance Company" was converted into life insurer in 2005[13]. It is apparent from the Table-4.1 that the growth of insurance companies during pre–regulated and Insurance Committee period has been found unsatisfactory though during the Insurance Board period it has been found significant i.e. 400 percent. The economic liberalization policy followed by the then Government became instrumental to increase the number of insurance companies.

The name of insurance companies, year of established and type of business have been shown in the following Table:

Table-4.2: Insurance Companies Operating in Nepal

Name	Year	Type	Name	Year	Type
I. Pre-regulated Period (1947-1967)					
1.Nepal Insurance Company	1947	Non-life	2. The Oriental Insurance Company	1967	Non-life
3. Rastriya Beema Sansthan	1968	Life and Non-life			
II. Insurance Committee Period (1968-1991)					
1.National Insurance Company	1974	Non-life	2. National Life Insurance Company	1988	Life
III. Insurance Board Period (1992 onwards)					
1.Himalayan General Insurance	1993	Nonlife	2.United Insurance Company	1993	Non-life
3.Premier Insurance Company	1994	Non-life	4.Everest Insurance Company	1994	Non-life
5.Neco Insurance Company	1996	Non-life	6.Sagarmatha Insurance Company	1996	Non-life
7.Alliance Insurance Company	1996	Non-life	8.N.B. Insurance Company	2000	Non-life
9. Nepal Life Insurance Company	2001	Life	10. MetLife Alico Insurance Company	2001	Life
11. Life Insurance Corporation (Nepal)	2001	Life	12. Prudential Insurance Company	2002	Non-life
13.Shikhar Insurance Company	2004	Non-life	14.Lumbini General Insurance Company	2005	Non-life
15.NLG Insurance Company	2005	Non-life	16.Siddartha Insurance Company	2006	Non-life
17.Asian Life Insurance Company	2008	Life	18.Surya Life Insurance Company	2008	Life
19.Gurans Life Insurance Company	2008	Life	20.Prime Life Insurance Company	2008	Life

[13] The non-life department of National Life and General Insurance company converted to NLG insurance.

Source: Annual Report of Insurance Board, 2012.

The major historical events of Nepalese insurance industry have been presented in a chronological order as follows:

<u>Major Historical Events of Insurance Industry in Nepal</u>

1947: First non-life insurance company "Nepal Insurance Company" (then Nepal Transportation and Insurance Company) was established.

1967: First composite insurance company "Rastriya Beema Sansthan" was established as a private company under Company Act. First foreign company The Oriental Insurance Company was established

1968: Insurance Act, 1968 and Rastriya Beema Sansthan Act, 1968 were enacted on Oct 25, 1968.

1973: Rastriya Beema Sansthan started life insurance business.

1974: LIC of India handed over the life insurance policy of Nepalese citizens to RBS and took away its branch office from Nepal.

1988: First joint venture composite insurance company "National Life and General Insurance Company" was established.

1992: Insurance Act, 1992 was enacted. Insurance Board was established as an apex regulatory body of insurance sector.

1993: Insurance Regulation, 1993 was enacted.

2001: First time in Nepal, 100 percent domestic private sector life insurance company "Nepal Life Insurance Company", first joint venture company "Life Insurance Corporation (Nepal), and first branch of foreign life insurance company "MetLife Alico" were established. "Fire Tariff Directive" was issued.

2003: "Insurance Pool" was established with joint efforts of Government and non-life insurers to offer limited reinsurance services for non-life business sector.

2005: "Investment Directive for Life and Non-life Insurers" was issued.

2008: "Life and Non-life Insurers' Reinsurance Directive" and "Life and Non-life Insurers' Liability Valuation Directive", "Marine Tariff Directive" were issued**.** New licenses for four life insurers were issued.

2009: Nine directives, First Mortality Table, 2009, and Code of Ethics to Surveyor were issued. "Third Party Insurance Policy for Vehicle" became mandatory.

2012: "Foreign Employment Term Insurance" became mandatory. "Merger Directive" and "Corporate Good Governance Directive" were introduced.

2013: "Crops and Livestock Insurance Directives, 2012" was introduced jointly by Insurance Board and Ministry of Agricultural Development. "National Health Insurance Policy, 2013" was released by Ministry of Health and Population.

4.2 Types of Insurance Companies

Insurance companies are divided in four categories based on the ownership structure viz.: i) State ownership, ii) Cent percent domestic private ownership, iii) Foreign and domestic private joint venture, and iv) Cent percent foreign ownership. Similarly, based on nature of the business, insurance companies are divided in three types: i) Life, ii) Non-life, and iii) Composite. Since Insurance Act, 1992 does not allow to operate both life and non-life business by the same company therefore Government planned to convert the RBS as life insurer. The non-life insurance business of RBS will be continued under the separate company [14]. Besides these companies, Government also planned to establish a re-insurance company in the public and private partnership model near future. Currently, Insurance Pool has provided re-insurance to general insurance company for limited products related to terrorism, riots and strikes. Deposit and Credit Guarantee Corporation (DCGC) provides the insurance to certain limit of deposit and credit of banks and financial institutions.

The insurance companies according to the ownership structure and nature of business have been presented in Table-4.3 up to the mid July, 2012.

Table-4.3: Types of Insurer

Ownership Structure	Types of Insurer			Total	Percentage
	Life	Non-life	Composite		
1. Government owned	-	-	1	1	4
2. Private sector	5	13	-	18	72
3. Joint venture	2	1	-	3	12
4. Foreign company	1	2	-	3	12
Total	**8**	**16**	**1**	**25**	**100**
Percentage	**32**	**64**	**4**	**100**	

Source: Annual Reports of Insurance Board, 2013

[14] Till Feb 2014, work was in progress to split the RBS in two organizations, according to the CEO of Rastriya Beema Sansthan and Officials of Insurance Section, Ministry of Finance.

The above table shows the different types of insurance companies in Nepal, doing life, non-life and composite business up to the mid July 2012. There are 25 insurance companies in Nepal consisting of 18 in private sector, 3 in joint venture and 3 foreign companies and one government owned company. The government owned company is doing the business of both life and non-life insurance. Out of 25 insurance companies eight insurance companies are doing life while 16 insurance companies are doing non-life business.

4.3 Insurance Policy of Government of Nepal

Insurance products are used by developed countries to provide the social security to their citizens[15]. It provides financial protection at the time of unemployment, illness, old age and in the state of disability **(Saltman, 2004)**. Developed countries have given more preference to insurance as compared to developing countries **(UNCTAD, 2007).**

Nepal Government still has not framed a comprehensive and consolidated national insurance policy to provide the social security to her citizen. Government of Nepal has made mandatory two policies viz. i) Third Party Insurance, and ii) Foreign employment term policy. Similarly, Crop and Livestock Insurance policy have been framed and implemented voluntary basis. Health Insurance policy have been approved but not implemented till date.

4.3.1 Third Party Insurance Policy

Third party insurance policy (TPI) provides compensation package to the victims of vehicle accident. Prior to the 2009, there was the provision of maximum compensation of Rs. 20,000 to the victims of the vehicle accident. The amount was not sufficient for the dependents and family members of died person. In order to address the problem, TPI policy became mandatory since 2009. The compensation package for TPI policy increased to Rs. 500,000 in case of death from vehicle and up to Rs 200,000[16] for medical treatment in case of injury.

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[15] http://www.jica.go.jp/ english/our_work/thematic_issues/social/pdf/guideline_social.pdf

[16] Vehicle Transportation and Management Act, 1992 Clause 148-152, and Vehicle Transportation and Management Rule, 1997, Third amendment, 2009, Section 52-55

The rate of premium of vehicle for TPI policy has been fixed Rs. 1,000 for motorcycle and Rs. 10,000 for bus. The TPI policy provides financial support to injured and dependents of deceased person in road accident.

4.3.2 Foreign Employment Term Insurance Policy

The number of Nepalese migrant workers increased tremendously during the last decade[17]. Most of the workers belong to low income class. They have been worked in very risky environment in foreign countries. As a result large number death cases happen every year. [18] The situation of family members becomes miserable while their breadwinner died abroad. Government made mandatory the Foreign Employment Term Insurance Policy since January 9, 2012 which is applicable to all foreign migrant labours. The term of policy ranges from 1 to 5 years and premium rate varies from Rs. 1,025 to 10,000 depending on the age of insured and term of policy. The death benefits amount has been fixed Rs. 500,000. In addition, beneficiaries are entitled to get Rs. 100,000 for dead body transportation from foreign country to their home and Rs. 50,000 for ritual formality[19]. The compulsory term life insurance provides encouraging effect to society. This policy can be considered as a social security schemes adopted by Government in 100 percent self-contributory model.

4.3.3 Crop and Livestock Insurance Policy

The contribution of agriculture sector to GDP is 35.36 percent **(Economic Survey, 2014)**. Livelihood of more than two third populations depends on agriculture but there was no agriculture related insurance till 2012. Long awaited "Crop and Livestock Insurance Directives" became effective by the joint efforts of Ministry of Agricultural Development and Insurance Board. Six insurance plans viz.: i) Rice, ii) Potato, iii) Fruits, iv) Cattle, v) Poultry, and vi) Fish were implemented by non-life insurance companies from January 2013. Besides these plans, insurers can develop new plans and sell after getting the approval from Insurance Board. Government provides subsidy to policyholders up to 50 percent on premium and insurers provide 90 percent compensation

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[17] From 2008 to 2013 , 600% increased in migrant labour, 2.2 million are leaving for foreign employment during last 6 years.Source: http://nepal.iom.int/jupgrade/index.php/en/press-room/18-topic-details/115-art-latest-news-28

[18] Total of 828 migrant workers died in 2013 in 15 different countries, mostly in the Gulf region and Malaysia. source: http://www.myrepublica.com/portal/index.php?action=news_details&news_id=85851

[19] Department of Foreign Employment, Government of Nepal, www.dofe.gov.np, Insurance Board of Nepal

against the loss based on cost of production. The insurance premium of plan ranges between five to seven percent of the sum assured **(Insurance Board, 2013).**

4.3.4 National Health Insurance Policy

There is free of cost health care facility to government civil servants including army and police form Government hospital but public has to pay for medical treatment and medicine except general health check-up and medical examination. A study shows that more than 90 percent of the medical expenditure is born by out of pocket expenses **(MoHP, 2012).**

Government announced National Health Insurance Policy, 2013 which aims to provide universal health insurance facilities to public **(MoHP, 2013).** The proposed National Health Insurance Fund Board will manage everything for the health insurance. Government has carried out pilot study programs in several parts of the country. But, full-fledged universal health program is still not in operation due to the lack of proper Acts and implementing agency.

4.4 The Insurance Regulation

The regulatory framework of insurance industry includes a set of acts, regulations, directives, manuals, circulars and decisions made by Government and regulatory authority from time to time related to insurance business. The sets of regulation provide legal foundation and guidelines to regulate and operate the business. Regulating insurance industry covers the registration, supervision, monitoring and development of insurance companies, Agents, Surveyors, Brokers and other stakeholders associated with insurance industry. The regulator is an autonomous entity created by Act or ordinance.

4.4.1 Objectives of Insurance Regulation

The major objectives of the insurance regulation are to formulate and enforce the standards, issue the license, prevent the excessive and potentially destructive competition, protect the interests of insurance policyholders and insurance beneficiaries, promote and develop insurance industry and ensure the prompt settlement of claims of insurance **(Rejda, 2013).**

There is always conflict between the policyholders and shareholders. Life insurance policyholders expect more return on their investments, non-life policyholders expect more compensation against the loss of property, and shareholders expect more dividend. The role of regulator in the insurance sector is to ensure the viability, integrity and stability. Strong regulatory system increases the public confidence towards the institutions and Government. Life insurance companies are financial institution so that they need for prudential regulation **(Das, Davies and Podpiera, 2003).**

4.4.2 Insurance Regulatory Body in Different Countries

Most of the countries have separate autonomous body created by special law for the regulation of insurance business as other business like banking, pension fund *etc.* In different countries, insurance regulator is known by different names as follows. In India it is known as Insurance Regulatory and Development Authority (IRDA)[20], and in USA, National Association of Insurers Commissioner (NAIC)[21]. Similarly, in Pakistan, the insurance regulatory body is known as Insurance Division of Securities and Exchange Commission [22], in Bangladesh, Insurance Development and Regulatory Authority (IDRA)[23], in Sri Lanka, Insurance Board of Sri Lanka[24] and in Japan, Financial Services Agency (FSA)[25].

4.4.3 International Association of Insurance Supervisors

International Association of Insurance Supervisors (IAIS) was established in 1994. It is the international standard setting body responsible for developing and assisting in the implementation of principles, standards and other supporting material for the supervision of the insurance sector. This is a voluntary membership organization of insurance supervisors and regulators representing more than 200 jurisdictions in nearly 140 countries.[26] The objective of IAIS is to promote effective and globally consistent supervision of the insurance industry in order to develop and maintain fair, safe and stable insurance markets for the benefit and protection of policyholders and to contribute

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[20] Established in 2000 under the Insurance Regulatory and Development Authority Act, 1999 Source: www.irda.gov.in

[21] State insurance regulators created the NAIC in 1871 to address the need to coordinate regulation of multistate insurers. Source: www. naic.org

[22] The SECP regulates and monitors the Insurance Sector from January 2001, through powers vested in the Insurance Ordinance, 2000 and the Companies Ordinance, 1984

[23] The Insurance Act 2010 and IDRA Act, 2010 enforced from 18 March 2010

[24] established with effect from 1st March 2001 by Regulation of Insurance Industry Act, 2000

[25] Established in 1988 and supervise the insurance seating the under Prime minister Office http://www.fsa.go.jp/en/about/pamphlet.pdf

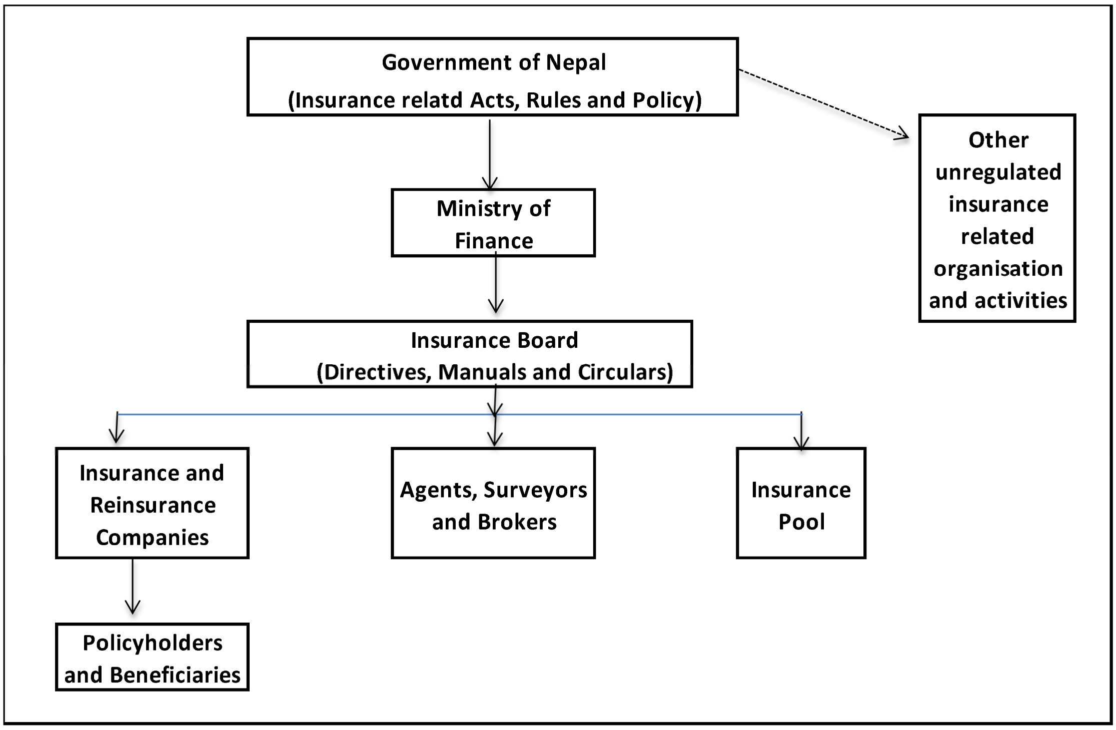
[26] Source: http://www.iaisweb.org

to global financial stability. Being a founder member, Nepal should be responsible to follow the principles and standards issued by IAIS.

4.4.4 Insurance Regulatory Framework in Nepal

The insurance regulatory framework in Nepal includes number of Acts, rules and directives which confer the authorities to Insurance Board to regulate the insurance industry. Insurance Board is an apex body of insurance industry. The insurance regulatory framework of Nepal has been presented in Figure-4.1.

Figure 4-1: Insurance Regulatory Framework in Nepal



Sources: Developed by Author based on Insurance Act, 1992.

The Board gets necessary supports and instructions from Government through Ministry of Finance. The scope of regulation of Insurance Board includes insurance companies, Insurance Pool and Agents, Brokers and Surveyors. Insurance Board concerns with the insurance related activities carried out by other than insurance companies. The proposed Insurance Act which is under the consideration of Parliament is quite dynamic to address the various contemporary problems including the unregulated insurance sector[27].

[27] The draft Insurance Act was formulated almost four years before still not enacted from the parliament
Source: www.bsib.org.np

Insurance Board directly regulates commercial insurers (25 nos.), Insurance Pool (1 no.), Surveyors (202 nos.) and agents (66,859 nos.)[28]. Other organizations which performed insurance activities in different model have been regulated by Government agencies.

4.4.4.1 Insurance Act, 1968

Insurance Act and Regulation were enacted in 1968 and 1969 respectively. Insurance Committee was the regulatory body of insurance regulation. It was formed by Government of Nepal with five persons including Chairman. The Chairman and other four members to be nominated by Council of Ministry for three years tenure and they were eligible for reappoint. The committee performed various regulatory activities such as: i) Registration, renewal and cancellation of insurance companies, surveyor, broker, and agents, ii) Enquiry and investigation of companies, and condition of charging of penalty to company.

According to this Act, insurer requires to submit financial statements to Insurance Committee within three months after completion of fiscal year. Insurer requires for actuarial valuation of financial status and liabilities at least once in five years period. Insurer need to maintain minimum required reserve fund to meet the liabilities as per the instruction of Insurance Committee. The Insurance Committee functioned till 1991 and was replaced by Insurance Board after enactment of Insurance Act, 1992.

4.4.4.2 Rastriya Beema Sansthan Act, 1968

Rastriya Beema Sansthan Act, 1968 is another important regulation that regulates the working of Rastriya Beema Sansthan. The main provisions of the Act include the formation of Board of Director, procedures of appointment of Chief Administrator of the Sansthan, provisions for general meeting, fund management, accounts and audits. It also includes the powers, liabilities, functions and duties of the Corporation. The Act has been amended in 2007 and 2010.

4.4.4.3 Insurance Act, 1992

Insurance Act, 1992 enacted on December 16, 1992 and amended two times (in January 4, 1996 and Jan 29, 2002). The aim of this Act is to systematize, regularize, develop and regulate the insurance business through the dynamic and effective regulating body. It

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[28] Annual Reports of Insurance Board, 2012

includes seven chapters: i) Preliminary, ii) Constitution and Management of the Board, iii) Functions, Duty and Power of the Board, iv) Registration of insurer, cancellation of registration and liability, v) Provision relating to insurance agent, surveyor and broker, vi) Fund and Audit, vii) Miscellaneous. The Board has power to frame the rules which have to be approved by the Government of Nepal prior to implementation. Insurance Regulation, 1993 was issued in April 1, 1993 and amended two times. It contains seven chapters and 40 sections with 21 different schedules.

4.4.4.4 Other Insurance Regulations

There are many acts to be followed by insurance companies in course of their operation. Some acts which are concerned with insurance business are: i) Company Act, 2006 (applicable to all insurers except RBS), ii) Sundry Insurance Fund Operation Rules, 2003 (applicable to Insurance Pool), iii) Securities Act, 2007, iv) Income Tax Act, 2002, and iv) Asset (Money) Laundering Prevention Act, 2008 are applicable to all insurance companies.

4.5 Insurance Board of Nepal

Insurance Board is an apex body of insurance regulation. It was established under Section 3 of Insurance Act, 1992.

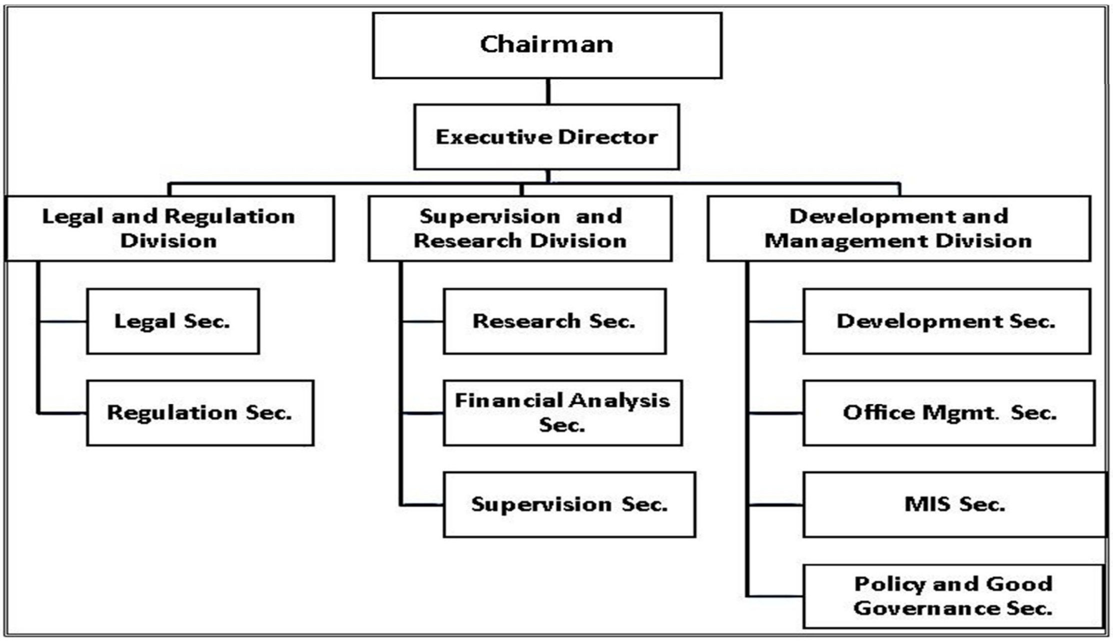
4.5.1 Organisational Structure of Insurance Board

Board is an autonomous body which comprises with 5 members including Chairman and other four members nominated by Government of Nepal. Tenure of all members is four years. Chairman is full time Chief Executive of the organisation. The structure of Board as per the Clause 3 (2) of Insurance Act, 1992 is as follows:

I.	Chairman	:	A person nominated or designated by Government
II.	Member	:	Representative, Ministry of Law, Justice and Parliamentary Affair
III.	Member	:	Representative, Ministry of Finance
IV.	Member	:	A person nominated by Government from among the persons having the special knowledge in the insurance business
V.	Member	:	A person nominated by Government from among the insured
VI.	Secretary	:	Staff of the Board designated by the Board

The organisational structure of the Insurance Board has been presented in Figure-4.2.

Figure-4.2 : Organisational Structure of Insurance Board



Source: www.bsib.org.np

Sec. = Section, MIS= Management Information Section, Mgmt.= Management

The organisation of the Board has been divided in three Divisions and nine sections. Three divisions are: i) Legal and Regulation, ii) Supervision and Research, and iii) Management and Development. Under each division there are two, three and four sections respectively. Chairman is supported by Executive Director and other staffs.

4.5.2 Authority of Insurance Board

Insurance Act, 1992; and Regulation 1993 have conferred following power, responsibility and authorities to Insurance Board. Board has to perform various roles. These are regulatory, judiciary, supervisory and advisory, and promotional roles.

4.5.2.1 Regulatory Role

The Board has rights to register and renew the insurer, insurance agent, surveyor and broker and to cancel or cause to cancel such registration, should frame the different directives, guidelines, and manuals. It has the rights to issue the circulars as per the requirement of the insurance business. Board has the responsibility of protecting the interests of the policyholders.

4.5.2.2 Judiciary Role

Board has rights to arbitrate between the insurer and the insured. It can exercise semi judicial authority and take the decision similar to court if any dispute filed by insured against the insurer regarding the settlement of claim. It has also rights to take legal action against the insurers, surveyors, insurance agents and brokers.

4.5.2.3 Supervisory and Advisory Role

Board formulates supervisory frameworks and supervise the insurers by two approaches: i) Off-site inspection, and ii) On-site inspection (comprehensive and unexpected). Insurer requires to get prior approval to open new branches, acquire foreign currency and purchase fixed assets more than certain limit as prescribed by Board. The Board provides necessary suggestions to the Government of Nepal as a policy advisor in the sector of insurance.

4.5.2.4 Promotional Role

Board has developed its own capacity and exposure through the presence in different international forum like: International Association of Insurance Supervisors (IAIS), Association of Insurance and Reinsurance of Developing Country (AIRDC), Insurance Congress of Developing Countries (ICDC), South Asian Insurance Regulators Forum (SAIRF). Participation on these forums and institutions help to develop relationship with regulating agencies of different countries.

4.5.3 Activities of Insurance Board

Insurance Board has issued various prudential regulations for safeguarding the public interest, to encourage the corporate governance and maintaining the financial stability. Some major activities performed by Board are presented below.

4.5.3.1 Issuance of Directives, Manuals and Circulars

Insurance Board has issued directives, manuals and circulars for the effective regulation of insurance industry. Most of the directives and manuals were issued during 2008-09 and 2012-13. Some notable directives, manuals and circulars have been presented in Table-4.4.

Table-4.4: Directives and Manuals Issued by Insurance Board

I. Directives	
1. Fire Tariff Related Directive, 2001 2. Investment Directives of Life and Non-life Insurers, 2005 3. Life and Non-life Insurers' Liability Valuation Directives, 2008 4. Life and Non-life Insurers' Reinsurance Directives, 2008 5. Marine Tariff Directives, 2008 6. Insurer's Earmarked Related Directives, 2009 7. Internal Control System Related Directive, 2009 8. Long Form Audit Report Related Directives, 2009 9. Promoter's Share Related Directives, 2009 10. Share Transaction Related Directive, 2009 11. Share Transaction Related Directive, 2009 12. Motor Tariff Related Directive¸2009 13. Directives for Selection Criteria of Statutory Auditor, 2009	14. Directives of Preparation of Financial Statements of Life and Non-life Insurers, 2009 15. Directives to Stop Financial Investments in Money Laundering and Terrorist Activities, 2012 16. Corporate Good Governance Related Directive, 2012 17. Foreign Employment Term Life Insurance Related Directives, 2013 18. Agriculture and Livestock Insurance Directive, 2013 19. Insurer Merger and Acquisition Directives, 2013 20. Solvency Margin Directive, 2013 for Life Insurers
II. Manual, Code of Ethics and Circulars	
1. Onsite and Offsite Inspection Manual of Insurer, 2007 2. Mortality Table of Nepal, 2009	3. Code of Ethics of Surveyor, 2009 4. Circulars: issued 78 circulars during 2007-2013

Source: Annual Reports of Insurance Board, Various Years., www.bsib.org.np

4.5.3.2 Imposing Minimum Capital Requirement

Insurance Board has rights to impose to insurers to maintain the minimum paid up capital for the long term solvency of the firm, to minimise the solvency risk and increase the risk retention capacity of insurers. Regulator may determine the amount of minimum capital requirement (MCR). It may use any one approach among the various approaches such as: i) Absolute capital approach[29], ii) Capital adequacy ratio approach[30], iii) Risk based

[29] Insurance Board of Nepal www.bsisb.org.np

capital ratio approach[31], iv) Solvency margin ratio approach[32]. Till 2013, Insurance Board followed the absolute capital approach. The approach determines the minimum capital of the firm independently without based on any financial indicators of the company. In 1968, the minimum capital requirement was Rs. 2 million for both life and non-life insurance.[33] Till 2002, MCR was increased by many times: Rs. 30 million, Rs. 50 million and Rs. 250 million. In 2010, the MCR increased to Rs. 360 and in July, 2013 the MCR provision again increased to Rs. 500 million for life and 250 million for non-life insurers **(Annual Reports, 2012).** This approach treats to all companies equally and imposed equal MCR ignoring the different risk profile and assets quality that companies have.

4.5.3.3 Solvency Margin Directive for Life Insurers

Insurance Board has introduced Solvency Margin Directive, 2013 for life insurers. The objective of this directive is to maintain sufficient amount of capital every time as per the risk absorbed by the company. Insurer need to maintain appropriate amount of capital according to the amount of liabilities, quality of assets and overall risk profile. Solvency margin ratio of the company on a particular date is determined by dividing the availability solvency margin by required solvency margin. According to directive, the solvency margin ratio should be at least 1.5. If solvency ratio of insurance companies falls below 1.5 but is above one, close supervision and carry out on-site inspection is required. If the ratio falls below one, regulator should take enforcement action or ask for capital injection to ensure solvency of the company. The current provision is more scientific as compared to the previous absolute capital approach. Lower ratio indicates that the company requires additional capital or it needs more close supervision by insurer.

4.5.3.4 Grievances Redressal

One of the major duties of regulator is to settle the grievances of customers in timely and fairly manner. Insurance Board has given authority by Section 8 (d) and (d1) of Insurance Act, 1992 to resolve the cases filed against the insurers. The cases can be settled either by arbitration or deciding as a judiciary authority. It is the responsibility of regulator to

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[30] Das, Das, U. S., Davies, S., N., & Podpiera, R. (2003).
[31] National Association of Insurance Commissionaire http://www.naic.org/cipr_topics/ topic_ risk_ based_ capital.htm
[32] Life Insurance Association of Japan, 2009
[33] Insurance Act, 1968, Clause 6 (b)

provide the justice to insured and insurers after due investigation of cases lodged by insured. Board already had settled 41 disputes[34]. Among them 24 cases were decided in favour of policyholders and 17 cases were decided in favour of insurers **(Annual Report, 2011).**

4.5.3.5 Promotional Activities

Board is responsible to promote the insurance business through various means. The most challenging job is raising the awareness to potential customers. Board has been disseminating insurance related information through national daily newspaper regularly. Similarly, the promotional materials can be heard on a regular basis from local radio channels inside the Kathmandu valley. The Board has also carried out different activities such as: oratory competition, publication of magazine, inclusion of insurance related course in secondary level curricula. Basic trainings for agents, surveyors, actuarial training for staffs, and refresher trainings for Surveyors also have been carried out by Board every year.

Board has published "Collections of Decisions of Board" in two volumes and a booklet *"Beema Chinari* (Introduction of Insurance)". These materials are found useful to Agents, Surveyors, insurers and everyone who take interest on Insurance. It has also published a tri-monthly magazine "Insurance News and Views" since 2000 but it is not published on regular basis after 2011.

Thus, the Insurance Board has played dynamic role for the better regulation to insurance industry. For the efficient functioning of the Board, it should be resourceful in terms of human resources, data, and expertise knowledge. In addition, autonomy should also be provided to Board for the effective regulation of the insurance industry.

4.6 Life Insurance Companies in Nepal

There are nine life insurance companies operating their business. Out of them, one is public sector undertaking and eight companies are owned by private sector.

4.6.1 Rastriya Beema Sansthan

Rastriya Beema Sansthan is public sector undertakings established in 1968 during the third five year plan (1965-1970). It is national flagship insurance company. The objective

[34] Collection of decisions by Insurance Board Part I and Part II published in 2009.

behind the establishment of Rastriya Beema Sansthan (RBS) was to prevent the large amount of capital flow to foreign countries as insurance premium, promote the domestic insurance market and mobilize the domestic resources for the economic development of country.[35]

The corporation has life and non-life department and each department has different shareholders. The life department of the Sansthan has three types of shareholders: i) Government of Nepal (27.78%), ii) Nepal Rastra Bank (55.55%), and iii) Nepal Bank Ltd. (16.67%). The non-life department has two types of shareholders: i) Government (87.73%), and ii) public (12.27%). At the time of establishment, its paid up capital was Rs. 2.5 million. Currently, its capital was increased to Rs. 500 million as per the regulatory provision of Insurance Board.

The company has enjoyed privilege of monopoly market till 1987 and oligopoly market till 2000[36]. After 2001, it faced competition with many players. Due to the internal management problems, RBS could not published its audited financial statements and annual reports since FY 2002/03.

4.6.2 National Life Insurance Company

National Life Insurance (National) was established in 1988 (formerly known as National Life and General Insurance Company) as composite insurer by private sector investors. The company continued its operation till 2005 and separated in life and non-life companies according to the Insurance Act, 1992 Section 12(a1)[37]. This was the first joint venture company comprising of domestic investors (45%), state owned commercial bank of Nepal (10%), foreigners (10%) and public participation 35 percent. Now the foreign investment has reduced to 2 percent and domestic investment has increased to 53 percent. The company has Rs. 401 million paid up capital which is the highest among the life insurers in 2012.

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[35] Preamble of Rastriya Beema Sansthan Act, 1968.

[36] In 1988, National Life and General Insurance Company established. In 2001, three more and in 2008 four additional companies were established.

[37] Non-life business was separated under the new company "NLG non-life Insurance Company from 2005 October 9.

4.6.3 Nepal Life Insurance Company

Nepal Life Insurance Company (Nepal) was established on May 4, 2001. It is the first company established by 100 percent domestic investors in private sector. The objective of the company is to provide the life insurance service to every family to make them economically safe and secure. The company has paid-up capital of Rs. 375 million financed by promoters (80%) and public (20%). The company has highest equity capital and technical reserve fund among the life insurers in 2012.

4.6.4 MetLife Alico Insurance Company

MetLife Alico (MetLife) is a U.S. based multinational life insurance company. Branch of MetLife was established on August 2, 2001 and started business by 2002. Alico was acquired by MetLife on November 1, 2010 then its name was converted into MetLife Alico. MetLife Alico is the first and only foreign life insurance company working in Nepal by establishing the branch office. Government of Nepal permitted to operate its business without issuing paid up capital in Nepal. The head office of the company need to be liable to pay all types of liabilities of policyholders and stakeholders in case of the assets of the branch is not sufficient to meet such liabilities.

4.6.5 Life Insurance Corporation (Nepal)

Life Insurance Corporation (Nepal) (LIC) was established on August 7, 2001 as a joint venture company. It started business from September 1, 2001. This is first joint venture life insurance company in Nepal having majority share of foreign investor. Life Insurance Corporation (Nepal) has paid up capital of Rs. 250 million which was financed by Life Insurance Corporation of India (55%), Vishal Group of Nepal (25%) and remaining 20 percent capital was raised from public offering.

4.6.6 Asian Life Insurance Company

Asian Life Insurance Company (Asian) received license along with other three companies in 2008. The company has got operating license from Insurance Board on February 7, 2008 and started its business by April 3, 2008. Asian is the second life insurance company having 100 percent domestic equity capital from private sector investors. Board compelled to new companies to increase their capital to Rs. 360 million by July 2011. The paid up capital of the company at the time of establishment was Rs.

252 million. It was increased to Rs. 360 million by mid July 2010. There are 68 promoters who have invested 70 percent capital comprising of 6 institutional promoters invested 10 percent, 62 individual investors invested 60 percent and remaining 30 percent was raised from public.

4.6.7 Surya Life Insurance Company

Surya Life Insurance Company (Surya) is the seventh life insurance company in terms of date of establishment. It has established on March 19, 2008. Company has Rs. 252 million paid up capital which increased to Rs. 360 million in 2010. The 70 percent capital was financed by promoters i.e. institutional investors (20%), and individual investors (50%). The remaining 30 percent capital was raised from public.

4.6.8 Gurans Life Insurance Company

Gurans Life Insurance Company (Gurans) started its business from March 31, 2008. The company was established by 100 percent domestic capital. The total paid up capital was Rs. 252 in 2008 and increased to Rs. 360 million in 2010. The capital was financed by promoters (70%) and public (30%). Out of promoters, 4 percent was financed by institutional and 66 percent was financed by individual investors.

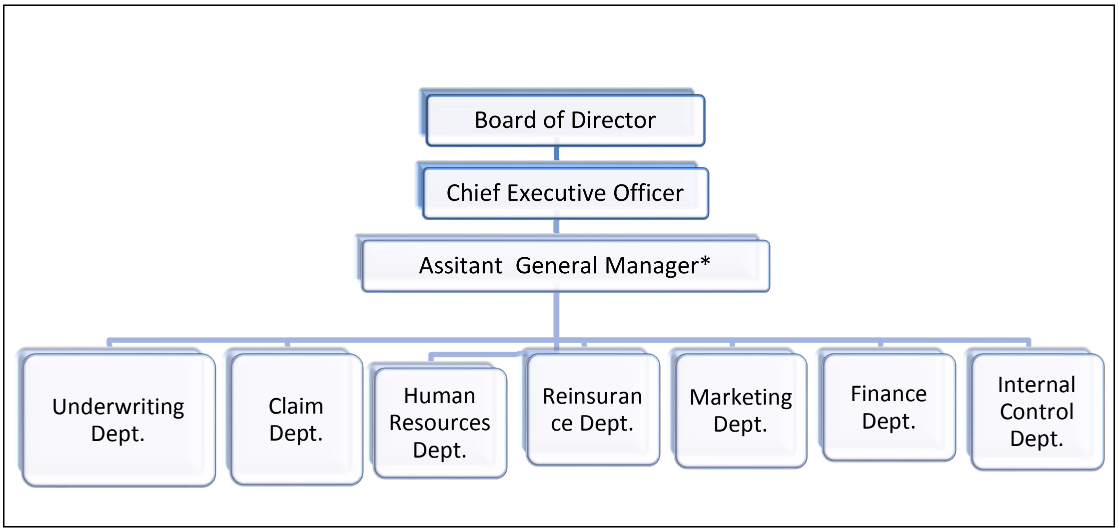
4.6.9 Prime Life Insurance Company

Prime Life Insurance Company (Prime in short) is the youngest company among nine life insurers. It has got operating license from Insurance Board on May 6, 2008. The company has Rs. 250 million paid up capital in 2008 which increased to Rs. 360 million in 2010 and Rs. 432 million in 2012. The capital was raised from domestic organised sector (53%), individual promoters (17%) and public (30%).

4.7 Organisational Structure of Life Insurance Company

The Corporate Good Governance Directives (CGGD), 2012 has been introduced by Insurance Board. This directive aims to enhance the corporate good governance practice in both life and non-life insurance companies. The objective of CGG directive is to encourage the insurers to improve corporate culture in their organisations and maintain the standard of works and service quality of each department in a minimum standard. The directive has greater impact on insurance companies. This impact can be seen gradually in different aspects of life insurance such as: organisational relations, customer care and service quality of agents and staffs. A general organisational structure of insurance company has been presented in Figure-4.3:

Figure-4.3: Organisational Structure of Insurance Companies



Source: Corporate Good Governance Directives, 2012, Insurance Board

** Organisation can create more than one post or remove the post as per the requirements.*

Dept. = Department

According to CGGD, insurer should establish at least seven departments in the corporate office of the insurance company in the name of i) Underwriting, ii) Human Resources, iii) Claim, iv) Reinsurance, v) Marketing, vi) Financial Management, and vii) Internal Control Department. Company should appoint the Chief Executive Officer and Department Head according to the minimum educational qualification and relevant work experience as prescribed by the directive.

4.8 Staffs and Agents in Life Insurance Companies

There are strict provisions in CGGD regarding the academic qualification and experience that need to be followed by insurers while selecting the Chief Executive Officer and Head of Departments. Insurer has right to fix the educational qualification of rest of the staffs. Agents are universally accepted channel of distribution for life insurance products. In Nepal there is the domination of individual agents in distribution channel. Agents require to get licence from Insurance Board by the recommendation of a particular company. One agent can work for more than one insurer.

The number of staffs and agents of each company on mid July 2012 and their percentage has been exhibited in Table-4.5:

Table-4.5: Number of Staffs and Agents in Life Insurance Companies

Name of LICs	Staffs		Agents	
	Number	Percentage	Number	Percentage*
National	239	17.5	22,217	33
Nepal	217	15.9	33,649	50
LIC	90	6.6	25,142	38
MetLife	97	7.1	2,500	4
Asian	238	17.4	41,872	63
Surya	97	7.1	2,730	4
Gurans	130	9.5	7,200	11
Prime	260	19.0	21,824	33
Total	**1368**	**100**	**66,859**	

Source: Annual Reports of LICs, FY 2008-2012 and Annual Report of Insurance Board, 2012.
** Percentage = Agents associated in 2012 / Total registered agents in Insurance Board in 2012*

The above table shows that the number of staff has reached to 1,368 in eight life insurance companies while the total number of registered agents in Insurance Board has reached to 66,859 on mid July 2012.

It has been found that in spite of newly established company, Prime has highest (19%) number of staffs, followed by National (17.5%), Asian (17.4%), Nepal (15.9%). Similarly, Gurans stood in fifth position having 9.50 percent staffs, followed by Metlife and Surya with same number of staffs (7.1%), and LIC has lowest number of staffs (6.6%). Thus, it may be said that joint venture and foreign branches have least number of staffs as compared to the domestic companies.

As regards the numbers of agents, 62.6 percent of total registered agents are associated with Asian which is highest among the eight companies. The second highest number of agents are associated with Nepal (50%) followed by LIC (38%). National and Prime have almost same number of agents (33%), followed by Gurans (11%) while Surya and MetLife have 4.1 percent and 3.7 percent of total agents respectively.

It may be concluded that there is huge variation in number of agents associated with each companies, but most of the companies are having more than 30 percent of total registered agents except in case of Surya, MetLife, Gurans. It may be suggested life insurers should hire committed agents to enhance their quality and business.

4.9 Market Concentration of Life Insurance Industry

Market concentration ratio is an indicator to measure the degree of competition among the firms. Concentration ratios are usually used to show the extent of market control of the largest firms in the industry and to illustrate the degree to which an industry is oligopolistic[38].The market concentration has been measured using Herfindahl–Hirschman (HH) Index which is widely applied in competition law.[39] Market shares are expressed as fractions. The ratio ranges from 0 to 1.0. The HH index below 0.01 indicates a highly competitive index, below 0.15 indicates unconcentrated index and 0.15 to 0.25 indicates moderate concentration whereas above 0.25 indicates high concentration which means there is domination of particular firm in market. The HH Index of insurance companies is derived on the basis of gross premium written by each company. The HH Index of life insurance companies has been presented in Table-4.6.

Table-4.6: Herfindahl–Hirschman Index of Life Insurance Industry

Year	2008	2009	2010	2011	2012	Trend
HH Index of Life Insurance Industry	0.21	0.17	0.16	0.15	0.16	F/I

Source: Annual Reports of LICs, FY 2008-2012, Annual Reports of Insurance Board, 2012

F=fluctuate, I=increase

The HH Index of life insurance industry ranges between 0.15 to 0.21. The trend of concentration ratio of life insurance industry has been observed fluctuating and decreasing. The index shows that there is moderate concentration in industry. Thus, it may be conclude that there is domination of few companies in life insurance market.

4.10 Overview of Non-life Insurance Industry in Nepal

Life and non-life insurance are like a two faces of a coin. Both sectors are equally important for individual, institutions and economy. Life insurance focuses on protection on the earnings of policyholders, mobilising resources and channelizing the resources in industrialisation and development sectors. Non-life insurance sector provides protection against the loss of property and liabilities, and supports for the development of

[38] http://en.wikipedia.org/wiki/Concentration_ratio
[39] http://en.wikipedia.org/wiki/Herfindahl_index

industrialisation. In Nepal, non-life insurance business was started 25 years prior to life insurance business and number of companies is more than life insurance companies.

4.10.1 Market Share and Branches of Non-life Insurance Companies

There are 17 non-life insurance companies in Nepal. The market share of each company based on their gross written premium along with the number of branches during FY 2011/12 has been presented in following Table:

Table-4.7: Market Share and Branches of Non-life Insurance Company

SN	Name of Company	Market Share (%)	Branch Office	SN	Name of Company	Market Share (%)	Branch Office
1	Nepal	7	15	10	Sagarmatha	8	18
2	Oriental	6	10	11	Alliance	5	11
3	RBS	11	10	12	N.B.	2	13
4	National	5	9	13	Prudential	3	7
5	Himalayan	7	7	14	Shikhar	10	11
6	United	3	7	15	Lumbini	4	10
7	Premier	3	8	16	NLG	7	24
8	Everest	9	12	17	Siddhartha	5	13
9	Neco*	4	15		**Total**	**100**	**200**

Source: Insurance Board, Annual Reports, 2011/12.

** based on Annual Report of FY 2010/11.*

The above table shows that 17 non-life insurance companies have 200 branch offices scattered all over Nepal. It has been observed that out of 17 companies eight companies are having 6 percent and above market share of non-life insurance business. Rastriya Beema Sansthan has been found highest (11%) followed by Shikhar (10%), Everest (9%) and Sagarmatha (8%). Nepal, Himalayan and NLG have 7 percent and Oriental has 6 percent market share. Since average market share is about 6 percent, nine companies have market share less than average. Siddhartha Alliance and National have 5 percent, Lumbini and Neco have 4 percent, Prudential, Premier and United have 3 percent and NB has 2 percent market share.

4.10.2 Products of Non-life Insurance Companies

Nepalese non-life insurance companies have offered wide ranges of products similar to foreign insurers. These products are related to: i) Personal insurance which covers health and accidental benefits, ii) Property insurance which covers the risk of theft, burglary, and destroy of property by different means, iii) Liability insurance which guaranteed against the professional fidelity. Insurance Regulation, 1993 Rule 5 specifies the non-life insurance business in six broad categories such as: i) Fire, ii) Marine, iii) Engineering and Contractor's All Risk, iv) Motor, v) Aviation, and vi) Miscellaneous insurance. Under the category of miscellaneous insurance, numerous products are available. Most common products are mentioned below but the list is not exhaustive.

Personal health and accident Insurance, ii) Professional Indemnity, iii) Product Liability Insurance, iv) Travelling Medical Insurance, v) Bankers' Blanket, vi) Loss of Profits Insurance, vii) Fidelity Guarantee Insurance viii) Crops and livestock insurance products. Under the crops and livestock insurance products six different policies have been sanctioned by Insurance Board and these all products require to sell by non-life insurers. These products are: rice, potato, fruits, cattle, poultry and fish.

4.10.3 Income Structure of Non-life Insurance Company

The income source of non-life insurance companies has been categorised in two broad spectra: i) Premium income, and ii) Other income. The other income is further divided as: i) Income from investments, ii) Reinsurance commission, iii) Other direct income, iv) Provision for unpaid claim and unexpired risk and other income. During five years period (2008-2012), the share of core business income was 49 percent followed by provision on unclaimed paid and unexpired risk (35%), reinsurance commission (11%) and return from investments (6%).

The average income structure of non-life insurance along with market share and ranking of six different types of business for the period from 2008 to 2012 have been exhibited in the following table:

Table-4.8: Average Income Structure of Non-life Insurance Companies

Type of Business	Average Income FY 2008-2012 (Rs. million)	Market Share	
		Percentage	Rank
1. Fire	926	17	2
2. Marine	344	6	4
3. Aviation	149	3	6
4. Motor	3,358	61	1
4 Engineering	210	4	5
6. Miscellaneous	534	10	3
Total	**5,522**	**100**	

Source: Annual Reports of Non-life Insurance Companies, FY 2008-2012.

Table 4.8 illustrates that among six types of non-life insurance business, average market share of motor business has been found highest (61%) followed by fire (17%), miscellaneous (10%), marine (6%), engineering (4%), and the aviation business reported lowest market share (3%) during the five years period.

4.10.4 Market Concentration Ratio

The HH Index of non-life insurance companies is calculated on the basis of gross premium written by 17 companies during five years period (2008-2012) which reveals the competition status among the general insurance companies. The market concentration ratio in terms HH Index of non-life insurance industry has been presented in Table-4.9.

Table-4.9: Market Concentration Index of Non-life Insurance Industry

Year	2008	2009	2010	2011	2012
HH Index Non-life Insurance Industry	0.07	0.08	0.07	0.07	0.07

Source: Annual Reports of Non-life Insurance Companies, FY 2008-2012 and Annual Report of Insurance Board, 2012

During the study period, HH Index has been found 0.07 in all the years except 2009 (0.08) means there is almost constant on the ratio. The ratio is below than 0.15 which indicates that there is no concentration in non-life insurance industry over the study period. Thus, it may be said that non-life insurance industry is more competitive as compared to life insurance industry.

4.11 Insurance Related Other Institutions

Besides, life and non-life insurance companies registered under Insurance Board, other institutions also provide different types of insurance services in Nepal. The two important organisations are: i) Insurance Pool, and ii) Deposit and Credit Guaranteed Corporation.

4.11.1 Insurance Pool

Insurance Pool (*Akashmik Kosh*) was established in 2003 under the Sundry Insurance Fund Operation Rules, 2003. The Pool is not required to be registered under Insurance Board, but it function under the close supervision of Insurance Board. During the period of armed conflict across the country, foreign reinsurance companies refused to accept reinsurance coverage against the risk of riots, sabotage, strikes, vandalism, and terrorist activities. Government provided Rs. 50 million as seed money and the equal amount was shared by the non-life insurers to establish the reinsurance pool which aims to reinsure against the above mentioned risk. The pool currently holds funds more than Rs 1.5 billion. The pool is managed by a Board of Directors formed by Government of Nepal as follow:

(a) Person specified by the Government of Nepal	: Chairperson
b) Three representatives nominated by the Government of Nepal on condition to be proportionately represented the insurers	: Member
(c) Fund manager appointed by Government of Nepal	: Member Secretary

Fund Manager is full time staff nominated as Chief Executive Officer. He looks after day to day administration and manages the fund. Government has planned to establish a reinsurance company since 2008 but still it is in progress. Currently, on an average Rs 2.4 billion equivalent foreign currency is outflowing annually in term of reinsurance premium. If this pool is converted into full-fledged reinsurance company, such domestic reinsurance company may stop plight of foreign currency to some extent.

4.11.2 Deposit and Credit Guarantee Corporation

The concept of deposit insurance was emerged from United States in 1933.[40] It is recognized internationally as an important component of a country's financial safety net and has been implemented in 106 countries around the world. In Asia, India had implemented the concept first by establishing Deposit Insurance Corporation on January 1, 1962. In Nepal, Deposit Insurance and Credit Corporation was established by Government of Nepal in 1974 as a private company registered under Company Act. It started deposit guaranteed scheme since 2010. Currently, the company provides guarantee to every depositors up to Rs. 200,000 and to every creditors up to Rs. 5 million. The details of services charges, mode of payment, coverage amount and condition of coverage of both schemes have been presented in Table-4.10.

[40] http://www.fdic.gov/bank/historical/brief/brhist.pdf

Table-4.10: Deposit and Credit Guarantee Schemes

Insurance Scheme	Maximum amount	Service Charge		Mode of payment	Coverage Amount	Remarks
		Rate	Pay by			
Deposit	Rs. 200,000	0.20% p.a.	Banks	0.10 half yearly	100% deposit	Sum of Savings and Fixed deposits covers
Credit						
Small and Medium size Entrepreneurs credit	Maximum Rs. 5,000,000 (including principal and interest)	0.75% p.a.	Banks	0.375% half yearly	75% of default loan	After specified period, to be paid to bank only actual loss amount.
Microfinance and marginalised class credit	Maximum Rs. 90,000 Rs. 200000	0.5% p.a.		0.25% half yearly	75% of default loan	without collateral with collateral
Livestock Credit	Maximum Rs. 90,000	8% of total credit	3% by borrower 5% by Govt. subsidy	Once a period	80% 40% 25%	For productive cattle For cow, ox, horse, donkey For others unproductive

Source: Annual Reports, 2012, DCGC.

4.11.3 Other Non-Regulated Insurance Activities

Insurance Act, 1992 has authority to regulate life and non-life commercial insurers, Surveyors and Agents who have got license from Insurance Board. But, there are some organisations which provide insurance schemes without getting license from Insurance Board. The sector can be categorised as unregulated or informal insurance sector (**World Bank, 2009**). There are four categories of insurance products offered by informal sector: i) Health Insurance, ii) Livestock Insurance, iii) Crops Insurance, and iv) Credit Insurance. Above products are micro insurance in nature and they have been offered by various organisations such as: i) Government agency, ii) Microfinance institutions, iii) Private Hospital, iv) Non-Governmental Organisations (NGOs), v) Cooperatives, vi) Banks and financial institutions, vii) Projects, and viii) Trade unions. These schemes were funded by different agencies such as: Government of Nepal, different international organisation and national developmental social organisations and trade union.

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Sundry Insurance Fund Operation Rules, 2003

Transportation and Management Act, 1992

Vehicle Transportation and Management Rules, 1997

CHAPTER FIVE

PRODUCTS STRUCTURE AND GEOGRAPHICAL OUTREACH

The chapter discusses about the plans offered by life insurance companies, product wise structure, and growth of number of policies enforced. It deals with status of claims settlement, distribution channels, and district wise geographical coverage of life insurance companies.

5.1 Life Insurance Products in Nepal

Life insurance product is a legal contract between the insurer and the policyholder. Normally, the terms "product", "plan", and "policy" are used interchangeably. More precisely, "product" denotes the common name of insurance policy. According to Section (4) of Insurance Regulation, 1993, Nepalese life insurance companies are allowed to sell four types of insurance products namely: i) Whole Life, ii) Endowment, iii) Endowment plus Whole, and iv) Term. The "plan" refers to policy offered by the particular company. Under each product many plans can be designed as per the requirement of the customers.

There is a wide range of life insurance plans available in Nepalese life insurance market. The product and plans offered by life insurance companies till mid July 2012 are as follow:

5.1.1 Whole Life Product

The whole life product provides sum assured and bonus to nominee after the death of the policyholder. The premium required to be paid till the death or up to the certain age of policyholder as mentioned in the contract. The objective of this product is to provide financial protection to dependents after the death of breadwinner. The rate of premium of this product is quite lower as compared to endowment product.

First time in Nepal, this product was introduced by Rastriya Beema Sansthan in the name of "Whole life assurance plan" **(RBS, 2011)**[1]. But, in this study the plans of Rastriya Beema Sansthan have not included. Among the eight private sector life companies, only Nepal Life is selling this product as "Jeevan Sahara plan". The whole life assurance plan provides benefits to the nominee after the death of

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[1] Agent's Directives, 2011; Rastriya Beema Sansthan.

policyholder whereas Jeevan Sahara plan provides maturity benefits after 70th birthday or after the death of policyholders whichever is earlier. The minimum sum assured of Jeevan Sahara plan has been fixed to Rs. 50,000 and the upper limit depends on the affordability of the policyholder **(Nepal Life, 2012)**.

5.1.2 Endowment Product

The endowment product provides maturity benefit or death benefit to insured whichever is earlier. There are 57 different plans available under the endowment product in Nepalese life insurance market. The number of endowment plans offered by LICs up to the mid July 2012 has been presented in Table-5.1.

Table-5.1: Endowment Plans in 2012

Endowment Plan	Number of Plan		Name of Company
	(N)	(%)	
1. General endowment	14	27	Eight Life Insurance Companies
2. Child endowment	14	27	Eight Life Insurance Companies
3. Anticipated money back	9	16	Eight Life Insurance Companies
4. Pension	5	10	National, LIC, MetLife, Asian and Prime
5. Single or limited payment	5	10	Nepal, LIC, Asian, Gurans and Prime
6. Joint endowment	3	6	National, Nepal, and Asian
7. Women endowment	2	4	LIC and Prime
Total	**52**	**100**	

Source: Annual Reports of LICs, FY 2012; Agent's Directives and Official Websites of LICs.

The above table shows that all eight life insurance companies have offered general (14), child (14) and anticipated money back (9) plans. Similarly, five companies offered pension plan (5) and single or limited payment plan (5), three companies have offered joint plan (3), and two companies have offered women endowment plan (2).

The above analysis concludes that including general plan, all companies have focussed on child and anticipated money back plan while some companies have offered pension, joint and single payment plan but very few companies have offered women specific plan.

5.1.3 Endowment plus Whole Life Product

The endowment plus whole life product has the features of whole life and endowment products. It provides benefit to policyholder in two ways: after the maturity of policy and after the death of the policyholder. The premium of this product is quite higher than the endowment product.

The product offered by National, LIC, Asian, Surya and Gurans during 2012 has been shown in Table-5.2:

Table-5.2: Endowment plus Whole Life Plans in 2012

Endowment plus Whole Life Plan	Name of Company
1. Jeevan Amrit	National
2. Jeevan Anand (plan number 342)	LIC
3. Endowment with Whole Life insurance plan (Sukhi Jeevan)	Asian
4. Endowment cum Whole Life plan	Surya
5. Gurans endowment with Whole Life plan	Gurans

Source: Annual Reports of LICs FY 2012, Agent's Directives, and Official Websites of LICs.

The above table exhibits that there are only five different endowment plus Whole life plans offered by five life insurance companies.

5.1.4 Term Product

The term product provides death benefit in case of death of policyholder within the policy period. It does not provide cash benefit if the policyholder survives after the policy period. This product is more suitable for corporate sectors where risk of larger number of policyholders is required to cover by low amount of premium. Nepalese life insurers have offered 16 different term plans. The life insurance plans under term products has been shown in Table-5.3:

Table-5.3: Term Plans in 2012

Term Plan	Number of Plans		Name of Company
	(N)	(%)	
1. General term	6	38	National, Nepal, LIC, MetLife, Prime and Gurans
2. Foreign employment term	5	31	National, Nepal, Asian, Surya, and Prime
3. Credit term	4	25	National, MetLife and Prime
4. Health term	1	6	MetLife
Total	**16**	**100**	

Source: Annual Reports of LICs FY 2012, Agent's Directives, and Official Websites of LICs.

The above table shows that all LICs have offered term insurance plan. Most of the companies have more than one plan. Out of 16 term plans, 10 are specific (foreign employment, credit, and health) and six are general. Foreign employment plans of different companies have similar features whereas rest 11 plans are slightly different from each other. Furthermore, MetLife has introduced health term plan in four different features: i) Lump sum package, ii) Life time income package, iii) Combined package, and iv) Accident and sickness in hospital income package.

5.1.5 Growth of Life Insurance Plans

Life insurance companies have offered different types of life insurance plans. The growth of life insurance plans of eight companies during 2008-2012 has been shown in Table-5.4:

Table-5.4: Growth of Life Insurance Plans during 2008-2012

Name of LICs	2008	2009	2010	2011	2012	Growth over 2008 (%)
I. Old Companies						
National	5	7	8	10	12	140
Nepal	10	10	10	10	11	10
LIC	6	6	8	8	9	50
MetLife	4	7	8	8	9	125
Sub Total	**25**	**30**	**34**	**36**	**41**	**64**
II. New Companies						
Asian	7	7	7	8	9	29
Surya	6	6	6	7	7	17
Gurans	5	5	5	5	7	40
Prime	7	7	7	9	10	43
Sub Total	**25**	**25**	**25**	**29**	**33**	**32**
Total	**50**	**55**	**59**	**65**	**74**	**48**

Source: Annual Reports of LICs FY 2012, Agent's Directives, and Official Websites of LICs.

The above table shows the number of life insurance plans offered by eight life insurance companies during the five years period. The total number of plans of private sector eight life insurance companies was 50 in 2008 which has increased by 48 percent and reached to 74 in 2012. National has highest (140%) and Nepal has lowest (10%) growth during the period. In 2012, highest number of plans was offered by National (12) followed by Nepal (11), Prime (10). LIC, MetLife and Asian has 9 plans while lowest number of plans (7) offered by Surya and Gurans. It has been observed that 55 percent plans are offered by old four companies and 45 percent plans are offered by new four companies.

5.1.6 Company wise Product and Number of Plans

There are four different types of products offered by life insurance companies. The company wise product and number of plans of eight private sector life insurance companies under each product category has been presented in Table-5.5:

Table-5.5: Company wise Product and Number of Plan in 2012

Name of LICs	Name of Product				Total	
	Whole Life	Endowment	Whole plus Endowment	Term	Number	Percentage
I. Old Companies						
National	-	8	1	3	12	16
Nepal	1	9	-	1	11	15
LIC	-	7	1	1	9	12
MetLife	-	6	-	3	9	12
Sub Total	**1**	**30**	**2**	**8**	**41**	**55**

Name of LICs	Name of Product				Total	
	Whole Life	Endowment	Whole plus Endowment	Term	Number	Percentage
II. New Companies						
Asian	-	7	1	1	9	12
Surya	-	4	1	2	7	9
Gurans	-	5	1	1	7	9
Prime	-	6	-	4	10	14
Sub Total	**-**	**22**	**3**	**8**	**33**	**45**
Total	**1 (1%)**	**52 (70%)**	**5 (7%)**	**16 (22%)**	**74 (100%)**	**100**

Source: Annual Reports of LICs FY 2012, Agent's Directives, and Official Websites of LICs.

The above table shows the company wise products and number of plans of eight life insurance companies in 2012. It has been found that companies have offered highest number of Endowment products (52) followed by term (16), Whole Life plus Endowment (5) and least number of products has been offered under Whole Life (1). It is apparent from the above analysis that companies are selling highest number of endowment plans including whole life plan as compared to Term plans. Old companies have offered 33 endowment and 8 term products whereas new companies have offered 25 endowment and 8 term products. The analysis shows that old companies have offered more plans than new companies.

5.2 Product Structure and Life Insurance Policies

The products enforced during the study period (2008-2012) by eight private sector life insurance companies are classified has been discussed under three categories: i) Endowment, ii) Anticipated money back, and iii) Term. All endowment, whole life, and endowment plus whole life plans have been included under endowment product while all money back plans have been included under the anticipated money back product. Similarly, all types of term plans have been included under term product.

5.2.1 National Life Insurance Company

National life is the second oldest life insurance company of Nepal followed by Rastriya Beema Sansthan. Currently, it has 12 different plans viz.: i) Jeevan Amrit (endowment and whole life), ii) Endowment plan, iii) Couple Amrit- endowment assurance, iv) Pension plan, v) Child education and marriage- endowment, vi) Amrit Barsha- money back endowment, vii) Group endowment, viii) Money back endowment, ix) Foreign Employment- term, x) Saral Amrit (term and money back payment), xi) Kamal Amrit-term, and xii) Bal Amrit-endowment.

The number of policies enforced during 2008-2012, growth of policies over 2008, and product wise structure has been presented in Table-5.6:

Table-5.6: Product Structure and Growth in Number of Life Insurance Policies of National

Types of Product	Number of Policies Enforced						Trend	Growth over 2008		Product wise Structure (%)
	2008	2009	2010	2011	2012	Total		Number	%	
Endow	65113	103011	126368	154845	181954	631291	I	116841	179	53
AMB	10598	16767	24915	26024	25680	103984	F/I	15082	142	9
Term	10298	16292	58973	161319	205429	452311	I	195131	1895	38
Total	**86009**	**136070**	**210256**	**342188**	**413063**	**1187586**	**I**	327054	**380**	**100**

Source: Annual Reports, FY 2008-2012.
Endow=Endowment plans, AMB=Anticipated Money Back Plan
I=increase, F=fluctuate

The above table shows the product structure in terms of endowment, anticipated money back and term along with number of policies enforced under each product over the period of past five years from the year 2008 to 2012. The highest number of policies has been issued under endowment plan showing the share of 53 percent followed by term plan showing the share of 38 percent. The lowest number of policies has been issued under AMB plan showing a share of 9 percent only. The endowment plan and term plan have shown an increasing tendency while the AMB plan has shown a fluctuating increasing tendency during the period under consideration. The growth over 2008 has been observed highest in case of term policies showing a growth of 1895 percent while in case of endowment it has been observed 179 percent. The AMB plan has shown a growth of 142 percent over the year 2008. It may be said that term policies have been more popular and accepted by the people while the endowment plan has shown a normal growth. The AMB plan has not shown a significant growth because these policies are generally accepted by the business people because of the money back feature of the policy. Thus, it may be concluded that the company should put more emphasis in popularising the AMB plan among the general people also. The continuous increase in the number of insurance policies under different products shows the interest of the people towards the life insurance is increasing gradually.

5.2.2 Nepal Life Insurance Company

Nepal life initiated its business from 2001 as 100 percent domestic insurance company. It has offered 11 different policies such as: i) Surakshit Jeevan beema yojana, ii) Group insurance plan-endowment, iii) Keta-Keti jeevan bima, iv) Jeevan

Laxmi-endowment, v) Jeevan Sahara–endowment, vi) Jeevan Sarathi beema yojana-endowment, vii) Foreign employment expatriate policies- Term, viii) Nepal Life Saral Jeevan beema yojana- endowment, ix) New term life insurance, x) Jeevan Sambridhi-anticipated plan, xi) Nepal Life Jeevan Jyoti plan.

The number of policies enforced during the five years (2008-2012) and product structure has been presented in Table-5.7:

Table-5.7: Product Structure and Growth in Number of Life Insurance Policies of Nepal

Types of Product	Number of Policies Enforced						Trend	Growth over 2008		Product wise Structure (%)
	2008	2009	2010	2011	2012	Total		Number	%	
Endow	111367	179056	245651	288022	306107	1130203	I	194740	175	66
AMB	14663	19470	23219	23765	30794	111911	I	16131	110	7
Term	0	243	55947	118282	299759	474231	I	299516*	123258*	27
Total	**126030**	**198769**	**324817**	**430069**	**636660**	**1716345**	**I**	510630		**100**

Source: Annual Reports, FY 2008-2012.
I=increase
**Growth over 2009*

The above table exhibits the product structure in terms of endowment, anticipated money back, and term along with number of policies enforced under each product over the last five years period from 2008 to 2012. The highest number of policies has been issued under endowment plan with 66 percent share followed by term plan with 27 percent share whereas the lowest number of policies has been issued under AMB plan having the share of 7 percent only. During the study period all policies have shown increasing trend. The number of term policies was sold only 243 in 2009 which has reached almost 300,000 in 2012. The growth over 2008 in endowment plan has been observed 175 percent followed by AMB plan 110 percent. In terms of number of policies sold, it has been observed that company has focused to term plan followed by endowment plans. The growth of AMB plan is not showing a satisfactory growth. It is suggested that the company should promote the sales of anticipated money back policies as its share among the three policies is quite low. The impressive growth of policies indicates the role of the company is significant in the development of the life insurance industry.

5.2.3 Life Insurance Corporation (Nepal)

Life Insurance Corporation (Nepal) commenced its business from 2001 as a joint venture company. It has offered nine different policies such as: i) Endowment (Plan Number 333), ii) Bima Kiran (Plan Number 344), iii) Griha Laxmi (Plan Number

343), iv) Jeevan Anand (Plan Number 342), v) Child Plan (Bal Mamata 340 and Bal Saneha 341), vi) Jeevan Tarang- endowment (Plan Number: 345), vii) Money back (Plan Number: 334, 335, 336, 337, 339), viii) Jeevan Astha - endowment (plan Number 347, 348), ix) Amulya Jeevan term (Plan Number: 346).

The number of policies enforced during the five years (2008-2012), their trend and growth over 2008, and product wise structure has been shown in Table-5.8:

Table-5.8: Product Structure and Growth in Number of Life Insurance Policies of LIC

Types of Product	Number of Policies Enforced						Trend	Growth over 2008		Product wise Structure (%)
	2008	2009	2010	2011	2012	Total		Number	%	
Endow	79221	115267	139206	152073	174793	660560	I	95572	121	76
AMB	23195	29316	36784	43298	48041	180634	I	24846	107	21
Term	0	422	2865	8959	18252	30498	I	17830	4225	3
Total	**102416**	**145005**	**178855**	**204330**	**241086**	**871692**	**I**			**100**

Source: Annual Reports, FY 2008-2012.
I=increase.

The above table exhibits the product structure in terms of endowment, anticipated money back, and term plan, and number of policies enforced under each product for five years period from 2008 to 2012, and growth over 2008. The highest number of policies has been issued under endowment plan with 76 percent share followed by AMB plan with 21 percent share whereas the lowest number of policies has been issued under Term plan with the share of 3 percent only. During the study period, all the products have shown increasing trend. The growth of endowment plan has been observed 121 percent followed by AMB plan 107 percent over the year 2008. The company has started selling the term policies since 2009 and within the four years period it has increased from 422 policies to more than 18,252 policies. It is clear from the product structure that there is the domination of endowment policies (76%) over the term policies (3%). The LIC has realised the importance of the term policies in 2011 and increased the sales significantly. The Government of Nepal has made mandatory for the issue of the term policy to foreign migrant workers **(DOFE, 2012).** Accordingly, the company has started selling term policies to foreign migrant workers. The higher growth of policy enforced is the witness of remarkable contribution of company to the life insurance sector.

5.2.4 MetLife Alico Life Insurance Company

MetLife Alico started life insurance business in Nepal from 2002. It has offered nine plans viz.: i) Endowment plan, ii) Three payment plan (3PP), iii) Education protection plan (EPP), iv) Subhabishya Beema Aajeewan Aaya (pension plan), v) Educare: education saving plan-credit care, vi) Micro insurance, vii) Future care (DPS), viii) Employee benefit- group insurance plan and, ix) Accident and health.

The number of policies enforced during the five years (2008-2012), along with their trend, and growth over 2008, and product wise structure has been presented in Table-5.9:

Table-5.9: Product Structure and Growth in Number of Life Insurance Policies of MetLife

Types of Product	Number of Policies Enforced						Trend	Growth over 2008		Product wise Structure (%)
	2008	2009	2010	2011	2012	Total		Number	%	
Endow	57819	62691	62700	63097	64882	311189	I	7063	12	32
AMB	63412	66626	64953	63788	63057	321836	F/D	-355	-1	33
Term	7697	10411	48351	128667	136954	332080	I	129257	1679	35
Total	**128928**	**139728**	**176004**	**255552**	**264893**	**965105**	**I**			**100**

Source: Annual Reports, FY 2008-2012.
I=increase, F=fluctuate, D=decrease.

The above table shows the product structure in terms of endowment, anticipated money back and term plan and number of policies enforced under each product over the last five years period from 2008 to 2012. The company has sold almost equal number of policies under three product categories during the last five years period. It has been found that company has sold highest number of policies under term plan (35%) followed by anticipated money back plan (33%) and endowment plan (32%). During the study period, endowment and term policies has been shown an increasing trend while anticipated money back plan has shown fluctuating decreasing trend. Comparing among the three products, the growth has been observed highest of term plan (1679%) followed by endowment plan (12%) whereas AMB plan has negative growth (1%). The growth and composition of the different policies shows that company has given highest priority to term plan because the term plan provides larger amount of financial protection by paying smaller amount of premium. It has been suggested that the company should maintain current growth of the term plan and put more efforts in selling endowment and money back policies by following the aggressive marketing strategy.

5.2.5 Asian Life Insurance Company

Asian life started its business by 2008. It has offered nine different life insurance policies namely: i) Asian endowment, ii) Endowment with whole life insurance plan,

iii) Joint life (dampati suraksha) endowment, iv) Asian money back, v) Asian child endowment, vi) Bal bhabishya, vii) Asian limited payment endowment (Jeevan ratna), viii) Pension, and ix) Foreign employment term plan.

The number of policies enforced during the five years (2008-2012), trend, growth over 2008, and product structure has been presented in Table-5.10:

Table-5.10: Product Structure and Growth in Number of Life Insurance Policies of Asian

Types of Product	Number of Policies Enforced						Trend	Growth over 2008		Product wise Structure (%)
	2008	2009	2010	2011	2012	Total		Number	%	
Endow	10596	127549	113063	163827	181886	596921	I	171290	1617	65
AMB	444	5344	5666	7181	7620	26255	I	7176	1616	3
Term	1359	16359	149632	104397	23328	295075	F/I	21969	1617	32
Total	**12399**	**149251**	**268361**	**275405**	**212834**	**918250**	**I**			**100**

Source: Annual Reports, FY 2008-2012.
I=increase.

The above table exhibits the product structure in terms of endowment, anticipated money back, and term plan along with number of policies enforced under each product category over the last five years period from 2008 to 2012. It has been found that all three types of products have shown almost similar growth rate (1617%) over 2008. The endowment policies have shown an increase of 171,290 policies, AMB policies have shown an increase of 7,176 policies, and term policies have shown an increase of 21,969 policies during 2008-2012. The highest number of policies has been issued under Endowment plan with 65 percent share followed by term plan with 32 percent share and least number of policies has been sold under the AMB plan with 3 percent share during the study period. The term policies decreased by 78 percent in 2012 which indicates that the company has not given proper attention on sale of term policy. Thus, it may be concluded that the company should put more efforts in increasing the sales of AMB and the term plan.

5.2.6 Surya Life Insurance Company

Surya started life insurance business from 2008. The company has offered seven different products such as: i) Surya endowment-51, ii) Endowment cum whole life, iii) Surya money back plan (Ashadhan), iv) Group endowment plan, v) Surya endowment plan for children, vi) Surya life shield term, and vii) Foreign term insurance.

The number of policies enforced during the five years (2008-2012), their trend and growth over 2008, and product structure has been presented in Table-5.11:

Table-5.11: Product Structure and Growth in Number of Life Insurance Policies of Surya

Types of Product	Number of Policies Enforced						Trend	Growth over 2008		Product wise Structure (%)
	2008	2009	2010	2011	2012	Total		Number	%	
Endow	180	446	1299	2095	33217	37237	I	33037	18354	33
AMB	164	4201	13288	23291	30403	71347	I	30239	18438	64
Term	0	1500	1518	539	21	3578	F/D	-1479	-99	3
Total	**344**	**6147**	**16105**	**25925**	**63641**	**112162**	**I**			**100**

Source: Annual Reports, FY 2008-2012.
I=increase, D=decrease.

The above table exhibits the product structure in terms of endowment, anticipated money back, and term plan and number of policies enforced under each product category over the last five years period from 2008 to 2012. The highest number of policies has been issued under AMB plan showing the share of 64 percent followed by endowment plan showing the share of 33 percent. The lowest number of policies has been issued under term plan showing a share of 3 percent only. The endowment plan and AMB plan have shown an increasing tendency while the term plan has shown a fluctuating decreasing tendency during the study period. The number of policies enforced has shown an increase of 33,037 policies under endowment plan followed by AMB plan 30,239 policies over 2008. The company has sold 1500 term policies in 2009 which has decreased to 21 in 2012 showing a negative growth of 1479 policies. It is obvious that Surya has given more emphasis on the sale of endowment and AMB plans. It is suggested that Surya has to analyse the negative performance of term plan and find out the effective measures to overcome the negative performance by increasing the sale of term plan. The company has done significant efforts to make the AMB plan more popular among the customers.

5.2.7 Gurans Life Insurance Company

Gurnas started its life insurance business from 2008. It offers following plans: i) Gurans endowment with profit policy, ii) Gurans money back endowment with profit policy, iii) Gurans endowment with whole life policy, iv) Limited payment endowment with profits, v) Gurans Sanjivani pre-payment insurance policy, vi) Child endowment, and vii) Gurans term life assurance policy.

The number of policies enforced during the five years (2008-2012) and product structure has been shown in following table:

Table-5.12: Product Structure and Growth in Number of Life Insurance Policies of Gurans

Types of Product	Number of Policies Enforced						Trend	Growth over 2008		Product wise Structure (%)
	2008	2009	2010	2011	2012	Total		Number	%	
Endow	19	5944	16514	28795	52050	103322	I	52031	273847	83
AMB	3	713	1851	3791	6264	12622	I	6261	208700	10
Term	0	0	0	5918	2453	8371	D	-3465*	-59*	7
Total	**22**	**6657**	**18365**	**38504**	**60767**	**124315**	**I**			**100**

Source: Annual Reports, FY 2008-2012.
I=increase, D=decrease.
**Growth over 2011.*

The above table shows the product structure in terms of endowment, anticipated money back and term plan along with number of policies enforced under each product over the last five years period from 2008 to 2012. The highest number of policies has been sold under endowment plan (83%) followed by anticipated money back plan (10%).

The number of policies enforced under endowment and AMB plans has shown an increasing trend during the study period. Company started to sell the term plan after three years of its establishment. The company has issued 5918 policies under term plan in the year 2011 which has decreased to 2453 policies in the year 2012. This shows the surrender of policies which is not in favour of the company.

It has been observed that number of policies under endowment and AMB plans has increased by more than 52 thousand and 6 thousand respectively during the period of five years. The company has given most preference to endowment plan but no efforts have been made for selling of term policies. It may be concluded that the company should popularise the sales of term and AMB policies.

5.2.8 Prime Life Insurance Company

Prime started the life insurance business from the year 2008. It has offered 10 plans namely: i) Prime Life Jivan Surakshya (endowment and whole life), ii) Prime Life Saral Jivan (endowment), iii) Prime Life Swarnim (endowment), iv) Prime Life Naari Jeevan Beema (endowment), v) Prime Life Dhan Sagar (money back), vi) Prime Life Karja Surakshyan (term), vii) Prime Life Baideshik Rojgar (term), viii) Prime Life pension plan, ix) Prime Life single payment, and x) Prime Life credit care.

The product structure and growth in number of policies along with their trend during the period of five years have been shown in the following table:

Table-5.13: Product Structure and Growth in Number of Life Insurance Policies of Prime

Types of Product	Number of Policies Enforced						Trend	Growth over 2008		Product wise Structure (%)
	2008	2009	2010	2011	2012	Total		Number	%	
Endow	181	7542	24315	49096	70069	151203	I	69888	38612	14
AMB	96	879	2563	7568	14177	25283	I	14081	14668	3
Term	31	101414	202393	244742	327991	876571	I	327960	1057935	83
Total	**308**	**109835**	**229271**	**301406**	**412237**	**1053057**	**I**			**100**

Source: Annual Reports, FY 2008-2012.
I=increase,

The above table exhibits the product structure in terms of endowment, anticipated money back and term along with number of policies enforced under each product over the last five years period from 2008 to 2012. The highest number of policies has been issued under term plan with 83 percent share followed by endowment plan with 14 percent share whereas the lowest number of policies has been issued under AMB plan with the share of 3 percent only. During the study period all policies have shown an increasing trend. The number of policies under term plan has increased by 327,960 followed by endowment plan (69,888) and least number of policies has increased under the AMB plan (14,081) during five years period. The growth of term plan is good while the endowment plan is satisfactory and AMB plan is unsatisfactory.

5.2.9 Aggregate Product wise Structures of Life Insurance Companies

Aggregate product wise structure of endowment plan (END), anticipated money back plan (AMB) and term plan (TERM) sold by eight life insurance companies based on the policy enforced during the period of five years (2008-2012) has been presented in Table-5.14.

Table-5.14: Aggregate Product wise Structure of Life Insurance Companies

Product Category	Proportion of Policies Enforced by Old Companies				Proportion of Policies Enforced by New Companies			
	National	Nepal	LIC	MetLife	Asian	Surya	Gurans	Prime
END (%)	53	66	76	32	65	33	83	14
AMB (%)	9	6	21	33	3	64	10	3
TERM (%)	38	28	3	35	32	3	7	83
Total (%)	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
SD (%)	18.26	24.78	31.05	1.25	25.33	24.90	35.14	35.41

Source: Annual Reports of LICs, FY 2008-2012

END: Endowment including Whole Life plan, AMB: Anticipated Money Back plan, TERM: Term plans

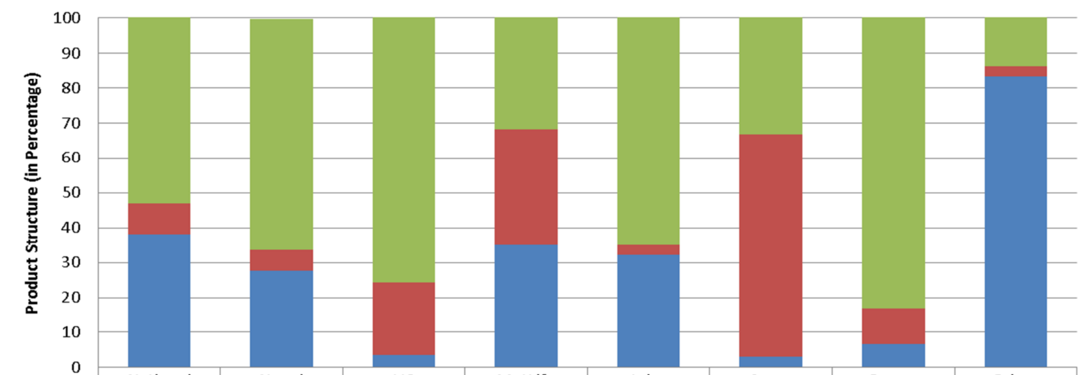
SD: Standard Deviation

The above table shows that during the study period, MetLife has enforced almost equal portion of three types of policies i.e. Endowment (32%), Anticipated Money

Back Plan (33%) and Term plan (35%). The variation of product wise structure in terms of standard deviation has been found lowest of MetLife (1.25%) and highest of LIC (31.05%) among the old companies. Similarly, among the new companies, Surya has lowest (24.9%) and Prime has highest (35.41%) standard deviation in the proportion of three types of policies enforced. The proportion shows that companies have given more priority to Endowment plans followed by Term and least priority has been given to AMB plans.

The Figure-5.1 shows the proportion of endowment plan (END), anticipated money back plan (AMB) and term plan (TERM) sold by each companies during five years period.

Figure-5.1: Product wise Structure of Life Insurance Companies



	National	Nepal	LIC	MetLife	Asian	Surya	Gurans	Prime
END	53	66	76	32	65	33	83	14
AMB	9	6	21	33	3	64	10	3
TERM	38	28	3	35	32	3	7	83

Source: Annual Reports of LICs, FY 2008-2012

The above figure exhibits the product wise structure of eight life insurance companies on the basis of policy enforced during the five years period from 2008 to 2012. The stacked bar graph clearly shows that National, Nepal, LIC, Asian and Gurans have given preference on endowment plan, Surya has given priority on AMB plan, and Prime has given emphasis on term plan. MetLife, unlike to others companies has given almost equal preference to endowment and AMB plans with slightly higher preference to term plan. Similar way, among the three types of products, endowment plan has given the least priority by Prime, AMB plan by National, Asian, and Prime. Term plan has been sold in least percentage by LIC, Surya and Gurans.

The above analysis concludes that there is no similarity on product structure among the companies. It is also found that there is no balance between the three products in each company. Some companies have focussed on one type of product excessively. If companies have maintained proper balance among the different kind of plans, loss on one types of product may offset by the profit of another plan.

5.2.10 Change in Product Structure

The product wise structure of each company in 2008 and 2012 is not similar. The aggregate product structure of eight life insurance companies in 2008 in 2012, along with average of five years period based on total policy enforced has been presented in Table-5.15.

Table-5.15: Product Structure during 2008-2012

Types of Product	2008		2012		Total		Growth over 2008 (%)
	Number of Policies Enforced	Product wise Structure (%)	Number of Policies Enforced	Product wise Structure (%)	Number of Policies Enforced	Product wise Structure (%)	
Endow	324496	71	1064958	46	3621926	52	228
AMB	112575	25	226036	10	853872	12	101
Term	19385	4	1014187	44	2472715	36	5132
Total	**456456**	**100**	**2305181**	**100**	**6948513**	**100**	**405**

Source: Annual Reports of LICs, FY 2008-2012

The total number of policy enforced by eight life insurance companies under each product and percentage of share in product structure in 2008 and 2012 and growth over 2008 in percentage have been shown in above table. In aggregate 0.45 million policies were enforced till mid July 2008 which has increased to 2.3 million in mid July 2012. It has been observed that term policies have shown an increase of 5132 percent followed by endowment policies (228%) and AMB policies (101%) over the five years period. During the study period, the share of endowment policies has been decreased from 71 to 46 percent and the share of AMB policies has also decreased from 25 to 10 percent while the share of the term policies has increased from 4 to 44 percent during 2008 - 2012. The trend of product structure exhibits that term policy is becoming more popular while AMB plan is less popular in recent years. The reason behind popularising of term plan may be the mandatory provision of Government of Nepal for all Nepalese who leaves for foreign countries as foreign migrant workers must have a term policy. The number of Nepalese foreign migrant workers in different countries reached to 1.7 million by mid July 2012 **(DOFE, 2012)[2].** The

[2] The term policy is specially designed, term of policy ranges from 1 to 5 year and premium ranges from Rs. 1025 to 3500 for 1 year term policy to Rs. 3550 to 10,000 for 5 year term policy.

product structure in 2008, in 2012 and average of five years period clearly exhibited by Pie charts presented in Figure-5.2, 5.3 and 5.4 respectively:

Figure-5.2: Product wise Structure in 2008

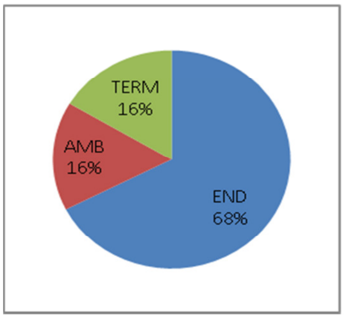


Figure-5.3: Product wise Structure in 2012

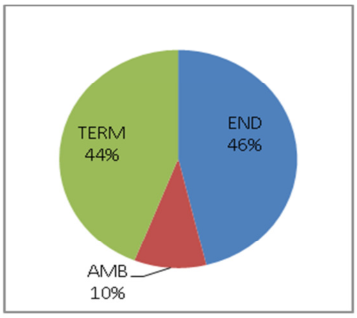
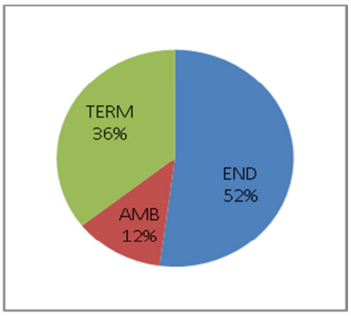


Figure-5.4: Average Product wise Structure in 2008 – 2012



Source: Annual Reports of LICs, FY 2008-2012

END: Endowment Plan, AMB: Anticipated Money Back Plan, TERM: Term Plan

During the study period, the highest number (52%) endowment policies were sold followed by Term (36%) and AMB (12%). The ratio of total endowment product (endowment plus AMB) and term product of Nepalese life insurance market during 2008-2012 has been found 64 and 36 percent respectively.

5.3 Company wise Policies Enforced

The number of policies enforced under all products categories increased by five folds from 2008 (456 thousand) to 2012 (2.3 million). The proportion of policy enforced of eight life insurance companies based on five years average (2008-2012) under endowment, anticipated money back, term plan and in aggregate plans and the rank of company has been presented in Table-5.16:

Table-5.16: Proportion of Policies Enforced

Name of LICs	Proportion of Policy Enforced (%)				Rank			
	Endow	AMB	Term	Total	Endow	AMB	Term	Total
I. Old Company								
National	17.4	13.3	18.3	17.3	3	4	2	2
Nepal	31.2	14.3	19.2	25.0	1	3	1	1
LIC	18.2	23.1	1.2	12.7	2	2	4	4
MetLife	8.6	41.1	13.4	14.0	4	1	3	3
II. New Company								
Asian	16.5	3.4	11.9	13.4	1	1	2	2
Surya	1.0	0.02	0.14	1.6	4	4	4	4
Gurans	2.9	1.6	0.3	1.8	3	3	3	3
Prime	4.2	3.2	35.4	15.3	2	2	1	1

Source: Annual Reports of LICs, 2008-2012

The above table shows the market share of policies enforced by eight life insurance companies under the three different plans: endowment plan, anticipated money back plan, term plan and total of three plans based on five years average. It has been observed that the highest number of endowment plan has been sold by Nepal (31.2%), highest number of AMB plan has been sold by MetLife (41.1%), and highest number of term plan has been sold by Prime (35.4%). Nepal sold highest number of total policies (25%).

The analysis concludes that old companies have enforced 92 percent AMB plan, 75 percent endowment plan, and 52 percent term plan. In aggregate, old four companies have enforced 69 percent policies and new four companies have enforced 31 percent total policies. It has been observed that new companies have sold higher number of term plans as compared to other two plans.

5.4 Test of Hypothesis

In order to know the linear relationship between the number of products offered and number of policies enforced by eight life insurance companies, the following null hypothesis has been formulated and tested using the Pearson Correlation Coefficient.

H_0: There is no relationship between the number of products offered and number of policies enforced.

The value of correlation coefficient (r) between the number of products offered and number of policies enforced has been found 0.95 which indicates that there is positive relationship between the number of products offered and number of policies enforced by life insurance companies. Therefore, the null hypothesis has been rejected.

5.5 Status of Claim Settlement

The claim settlement is one of the critical and important job of life insurers because claim is the ultimate benefits of policyholders but all claims requested by policyholders or beneficiaries may not be valid for payment. Settlement of death claims is more complex task and it might take longer period of time than maturity claims. Due to the various reasons all claims may not be settled within the fiscal year. The efficiency of life insurance companies depends on how efficiently company has settled the claims in time. If the portion of unsettled claims amount out of total claims amount is lower, the company can be said more efficient.

5.5.1 Composition and Growth in Claims Paid

The composition of different claims provides a general trend of claims paid and underwriting practices of life insurance companies. The amount of maturity claims, death claims, surrender and other claims paid along with percentage of each claims out of total claims paid during the five years period and the growth over 2008 has been shown in the following table:

Table-5.17: Composition and Growth in Claims Paid

(Rs. in million)

Types of Claims	2008	2009	2010	2011	2012	Total	Trend	Growth over 2008 (%)
Maturity	330.6 *(54.7)*	630.2 *(61.5)*	691.8 *(56.1)*	815.6 *(52.7)*	1038.5 *(53.4)*	3506.6 *(55.2)*	I	214
Death	66.2 *(10.9)*	148.4 *(14.5)*	256.0 *(20.8)*	380.2 *(24.6)*	484.6 *(24.9)*	1335.3 *(21.0)*	I	632
Surrender	203.7 *(33.7)*	242.7 *(23.7)*	283.6 *(23.0)*	335.9 *(21.7)*	395.8 *(20.4)*	1461.6 *(23.0)*	I	94
Other	4.3 *(0.71)*	2.8 *(0.27)*	1.0 *(0.08)*	16.6 *(1.07)*	25.7 *(1.32)*	50.4 *(0.79)*	F/I	498
Total	**604.7** *(100)*	**1024.0** *(100)*	**1232.4** *(100)*	**1548.3** *(100)*	**1944.5** *(100)*	**6353.9** *(100)*	**I**	**222**

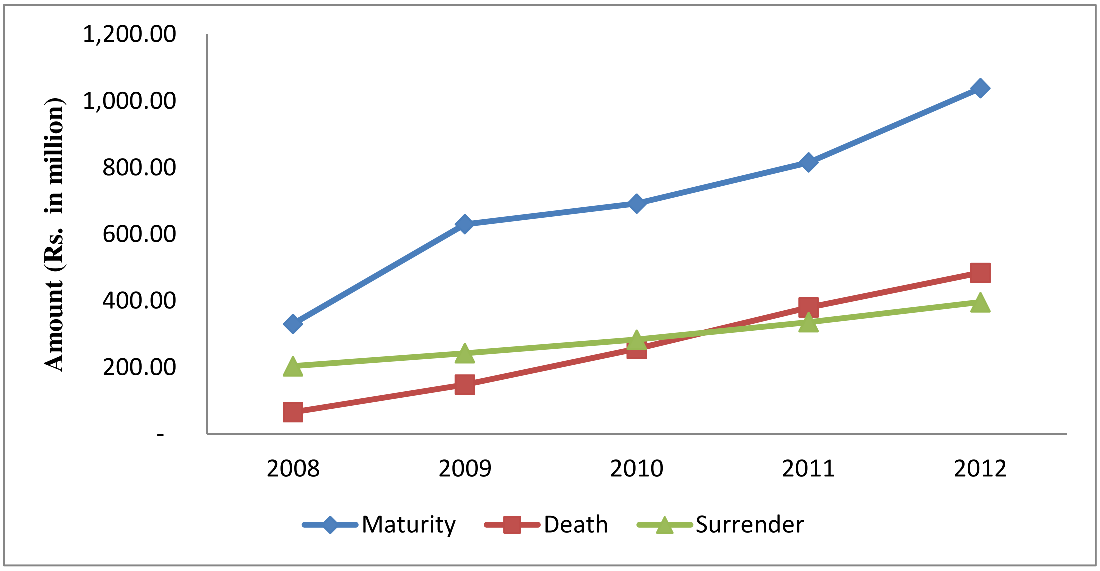
Source: Annual Reports of LICs, 2008-2012.
Figure in parenthesis indicates column percentage of respective cell.
**based on total*

The above table shows the total amount of maturity claims, death claims, surrender and other claims paid by eight life insurance companies during the five years period, and their growth over 2008. The maturity claims includes both partial and full maturity claims and other claims includes monthly instalment payment of death claims of child plans and the payments which are not included under three headings.

It has been found that the death claims has shown highest percentage of growth (632%) followed by others claims (498%), maturity claims (214%), and surrender (94%) over 2008. The amount of maturity and death claims paid and surrenders have shown increasing trend during the five years period. It has been found that the share of maturity claims is highest (55.2%) followed by surrender paid (23%) and death claims (21%). The portion of other claims is negligible (0.79%). The highest amount of maturity claims over death and surrender claims indicates that life insurance companies have not suffered from the excessive death claims and surrender expenses. It may be concluded that life insurance companies have meticulously done the underwriting of policies and the increase in amount of maturity claims also shown the growth in life insurance business. The amount of death claims has increased more than seven times during the period under the study. The reason behind the increase in amount of death claims is that the newly established life insurance companies have met death claims large in number. It is suggested that new companies should carefully underwrite the policies. The declining trend of share of surrender indicates that policyholders are becoming aware of life insurance and the companies are taking full care in underwriting of policies.

Figure-5.5 exhibits the trend of maturity claims, death claims and surrender paid during the five years period more clearly.

Figure-5.5: Trend of Maturity Claims, Death Claims and Surrender



Source: Annual Reports of LICs, 2008-2012.

5.5.2 Maturity Claims

The maturity claims includes both full maturity claims and partial maturity payment for anticipated money back plan. According to Insurance Regulation, 1993, Rule 31, sub rule 1 and 2, life insurer should inform to policyholders within the 15 days after payment of last instalment to get the maturity benefits. LICs should pay the maturity claims within seven days from the date of expiry of the life insurance policy. The maturity unpaid claims ratio is calculated using the following formula.

$$\textbf{Maturity unpaid claims ratio}\ (\%) = \frac{\textbf{Maturity Unpaid Claims}}{\textbf{Total Maturity Claims}} x100$$

The total maturity claims, unpaid claims and unpaid claims ratio of old and new life insurance companies for five years period has been presented in Table-5.18:

Table-5.18: Company-wise Maturity Claims

(Rs. in million)

Name of LICs	2008			2009			2010			2011			2012			Trend		
	Claims		Ratio (%)	Claims		Ratio (%)	Claims		Ratio (%)	Claims		Ratio (%)	Claims		Ratio (%)	Claims		Ratio (%)
	TC	UP		TC	UP		TC	UP		TC	UP		TC	UP		Paid	UP	
I. Old Companies																		
National	97	9	9	118	14	12	207	12	6	277	44	16	393	37	9	I	F/I	F/C
Nepal	53	11	21	69	11	15	79	26	33	83	25	30	209	31	15	I	F/I	F/D
LIC	22	-	-	53	-	-	64	1	0.8	65	0.5	0.7	117	-	-	I	D	D
MetLife	179	-	-	415	-	-	380	-	-	460	-	-	386	-	-	F/I	-	-
II. New Companies																		
Asian	-	-		-	-		-	-		-	-		1	-				
Surya	-	-		-	-		-	-		-	-		-	-				
Gurans	-	-		-	-		-	-		-	-		-	-				
Prime	-	-		-	-		-	-		-	-		-	-				
Total	**350**	**20**	**6**	**655**	**24**	**4**	**730**	**38**	**5**	**885**	**70**	**8**	**1106**	**68**	**6**	**I**	**F/I**	**F/C**

Source: Annual Reports of LICs, 2008-2012.
TC=Total claims amount (paid claims plus unpaid claims)
UP= Unpaid claims amount.

The above table shows the total maturity claims, unpaid claims and unpaid claims ratio along with their trend of old and new companies for five years period. It has been observed that LIC and MetLife have paid their maturity claims in time since no maturity claims are due during the period under the study. In case of National and Nepal life insurance companies the unpaid amount of maturity claims has shown fluctuating increasing tendency. It is suggested that National and Nepal life Insurance companies should take more efforts in settling the maturity claims in time. In case of new insurance companies no maturity claims is yet due because all the companies have been established in 2008.

5.5.3 Death Claims

Settlement of death claims is quite complicated than settlement of maturity claims due to the risky nature of the business **(ACFE, 2009).** The death claims are always a subject of inquiry prior to settlement. It is more risky in case of premature death claims. The higher death claims reduces the profitability and solvency of the company. Insurance Regulation, 1993, Rules 31, sub rule 3 to 5, has mentioned the procedure of death claims settlement. It has been mentioned that within the 30 days of receipt of claims application the company should settle the death claims. The death unpaid claims ratio is calculated using the following formula.

$$\textbf{Death unpaid claims ratio } (\%) = \frac{\textbf{Death Unpaid Claims}}{\textbf{Total Death Claims}} x100$$

The lower ratio is always desirable. The amount of death claims paid and unpaid claims and unpaid claims ratio of old and new companies for five years period has been shown in Table-5.19:

Table-5.19: Company-wise Death Claims

(Rs. in million)

Name of LICs	2008			2009			2010			2011			2012			Trend		
	Claims		Ratio (%)	Claims		Ratio (%)	Claims		Ratio (%)	Claims		Ratio (%)	Claims		Ratio (%)	Claims		Ratio (%)
	TC	UP		TC	UP		TC	UP		TC	UP		TC	UP		Paid	UP	
I. Old Companies																		
National	31	6	20	35	14	40	62	17	28	101	17	17	181	25	14	I	I	F/D
Nepal	19	6	31	26	5	18	51	12	24	84	17	20	120	18	15	I	F/I	F/D
LIC	23	7	33	25	1	6	28	1	2	35	0	1	44	0	0	I	D	D
MetLife	50	37	74	92	48	52	91	50	55	111	61	55	103	63	62	F/I	I	F/D
II. New Companies																		
Asian	-	-	-	13	-	-	49	-	-	65	3	4	53	9	16	F/I	I	I
Surya	-	-	-	1	-	-	1	0.3	41	2	0.6	33	3	1.3	44	I	I	F/I
Gurans	-	-	-	2	1	65	5	2	43	6	2	27	6	3	54	I	I	F/D
Prime	-	-	-	24	0.1	0.6	53	1	3	79	1	11	97	3	3	I	I	F/I
Total	**122**	**56**	**46**	**217**	**69**	**32**	**341**	**85**	**25**	**482**	**102**	**21**	**608**	**123**	**20**	**I**	**I**	**D**

Source: Annual Reports of LICs, 2008-2012.
TC=Total claims amount (paid claims plus unpaid claims)
UP= Unpaid claims amount.

The above table depicts the amount of total death claims, unpaid claims along with the unpaid claims ratio and their trend for the five years period. It has been observed that the aggregate amount of total death claims and unpaid claims have shown increasing tendency while the unpaid claims ratio has shown decreasing trend during the study period. In case of old companies the ratios of National, Nepal, and MetLife have shown the fluctuating decreasing trend while LIC has shown decreasing trend. It can be concluded that the death claims settlement practices of old companies have improved during 2008-2012. It has been observed that LIC has lowest unpaid claims ratio. Similarly, in case of new companies, the unpaid ratio of Asian, Surya and Prime has shown fluctuating increasing tendency while Gurans has shown fluctuating decreasing tendency. It is suggested that new companies should put more efforts in settling death claims in time.

5.5.4 Surrender Paid

The surrender of life insurance policy means unwillingness to continue the policy till to maturity date. In Nepal, policyholder can surrender his policy after completion of two years from the date of policy enforced. The surrender value paid by eight companies during five years period along with their trend has been presented in Table-5.20:

Table-5.20: Company-wise Surrenders Value Paid

(Rs. in million)

Name of LICs	2008	2009	2010	2011	2012	Total	Rank	Trend	Growth over 2008 (%)
I. Old Companies									
National	35	36	47	61	79	258	2	I	129
Nepal	29	40	51	73	92	285	3	I	218
LIC	21	28	43	53	73	218	1	I	240
MetLife	119	139	142	148	141	689	4	F/I	19
II. **New Companies**									
Asian	-	-	0.02	0.53	7.87	8.42	4	I	39,250*
Surya	-	-	-	0.17	0.62	0.79	2	I	265 **
Gurans	-	-	-	0.07	0.62	0.69	1	I	786 **
Prime	-	-	0.02	0.32	1.5	1.84	3	I	7,400 *
Total	**204**	**243**	**284**	**336**	**396**	**1463**		**I**	**94**

Source: Annual Reports of LICs, 2008-2012.

**Growth over 2010, **Growth over 2011,*

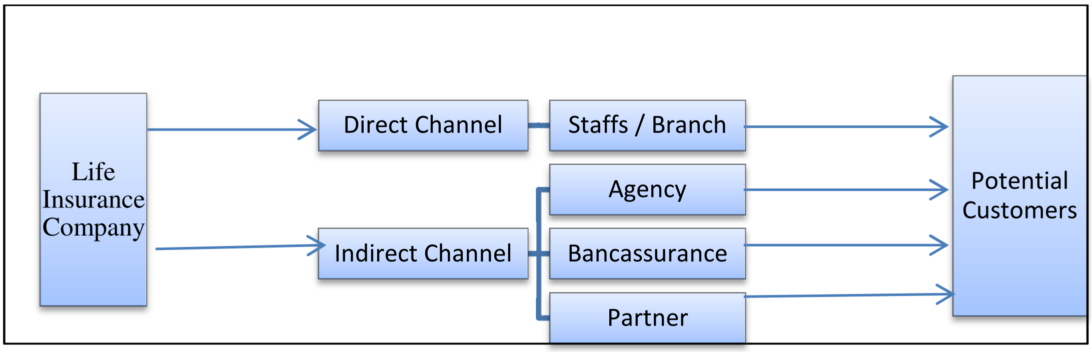
The above table shows the amount of surrender paid by old and new companies, their trend, and growth over 2008. It has been observed that the surrender amount paid by MetLife has shown fluctuating increasing trend while rest of the seven companies have shown increasing trend. The aggregate surrender value paid by companies has shown an increase of almost two times during the period under the study. Among the old companies MetLife has paid the highest amount (Rs. 689 million) while LIC has paid the lowest amount (Rs. 218 million) during the period of five years from 2008 to 2012. Similarly, among the new companies Asian has paid the highest amount (Rs. 8.42 million) while Gurnas has paid the lowest amount (Rs. 0.69 million) during the period under study. It may be concluded that these companies have not taken full care in underwriting the policies.

The increasing trend in surrenders is harmful for the healthy growth of life insurance industry. It increases the operating expenses and reduces the profitability. High proportion of surrender is not only the indication of poor performance of LICs but it reflects the poor attitudes of public towards the LICs. It may be suggested that the surrender can be reduced by proper counseling at the time of selling and by providing regular post sales services by agents.

5.6 Distribution Channel of Life Insurance Product

The distribution channels play greater role in life insurance companies since the life insurance product is a matter of solicitation. There are basically three indirect channels of distribution viz.: i) Agents, ii) Bancassurance (banks), and iii) Partner (Cooperatives, non-governmental organisation, microfinance institutions etc). Staffs of the company also involve in marketing of life insurance. Figure-5.6 shows the distribution channels adopted by Nepalese life insurance companies.

Figure-5.6: Distribution Channels of Life Insurance Product



Source: Based on Annual Reports LICs of Nepal.

Figure 5.7 exhibits that life insurance companies have adopted direct and indirect channel of distribution. The brief description of each channel has been presented below:

5.6.1 Staffs

Staffs of marketing department of corporate office and almost all staffs of the branch offices involve in marketing of life insurance. Corporate houses and government offices prefer to get life insurance offer for their employees directly from insurance companies. Role of staffs has been found effective to sell the products in corporate sector directly. Policyholders get special discounts if they purchase the policy from staffs than agents[3].

[3] LICs offer up to 8 percent discount on premium is the policy purchase from the staffs or office of the LICs directly.

5.6.2 Agents

Agents are universally accepted channel of distribution for life insurance products. In Nepal, there were almost 47,000 agents in 2008. The number increased by 43 percent and reached to almost 69,000 in 2012 (**Insurance Board, 2013**). They all are ties Agents and can sell the product more than one company at the same time. They are entitled to get the commission on the basis of premium collection. Besides, company provides incentives and administrative expenses to Agents based on their performance. Agents need to pass at least tenth class (School Leaving Certificate) examination and have undergone one week training on insurance organised by either Insurance Board or insurance companies. The license should be renewed each year. There is no need to sell even a single policy to renew the license but the recommendation of any insurer is compulsory either to get the new license or to renew the license. Nepalese Life Insurance companies have appointed Agents in large numbers.

5.6.3 Bancassurance

Bancassurance means selling the insurance products by bank to their customers. It is an emerging channel of distribution in Nepal. This channel is emerging as a natural pathway for the effective development of insurance **(Gonulal, Lester and Goulder, 2012).** Banks are more reliable and widely trusted institutions so that it is easier to sell insurance product to their clients through banking staffs. Currently National, Nepal, and Asian have appointed four to nine commercial banks as corporate agents. According to Insurance Board, nine commercial banks, three development bank and four financial institutions have taken agency license. Since banking sector has wider range of network with larger number of customers, banking channel may be the effective to deliver the insurance products across the country. There is the huge scope of Bancassurance in future as alternative channel of distribution since 253 banks and financial institutions are working with 3,138 branches across the 75 districts **(NRB, 2013).**

5.6.4 Partner

Partner model also becoming popular in Nepal to sell the insurance products in groups. LICs have collaborated with microfinance institutions, cooperatives and non-profit social organisations. These organisations act as intermediaries between commercial insurers and policyholders without getting license from Insurance Board.

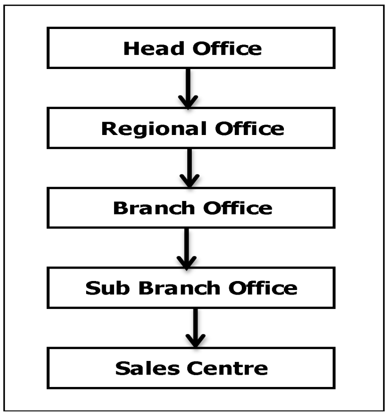
National, MetLife, and Prime have used partnership model of distribution with Jeevan Bikas Samaj (NGO), Nirdhan Uthan Bank and Manushi (MFIs) respectively. They provide credit life insurance to their clients **(Dhakal, 2011).** There is high potentiality of partner model of distribution in Nepal because Microfinance institutions, Cooperatives and NGOs have large number of clients and they have access to most of the villages across the country (**Planet Finance, 2013**). First, Insurance Board should bring these organisations under the regulatory framework of insurance then the model can be used to sell the micro insurance products effectively.

Obviously, among four distribution channels the role of Agents is dominant. Insurers should enhance the capacity of agents and also need to develop alternatives channels of distribution.

5.7 Geographical Outreach of Life Insurance Companies

Life insurance companies have extended their activities by establishing the branch offices in different parts of the country especially in cities, urban and semi urban areas. According to the Insurance Board, the branch offices of LICs should have minimum infrastructure (furniture, computer, telephone and internet, comfortable office space etc.) and sufficient number of human resources. Besides branch office, LICs have opened Regional Office, Sub Branch and Sales Counter as per their requirements. These all offices are known as field office. Figure-5.7 exhibits the hierarchy of head office and field office of life insurance companies.

Figure-5.7: Hierarchy of Head Office and Field Office



Source: Annual Reports and Websites of Insurance Board and LICs

The above figure shows full-fledged hierarchy of head office and field office. There is mandatory provision of establishment of Branch Office. Besides, company can establish Regional, Sub Branch, and Sales Centre as per their requirement. All LICs have opened their branch offices. In addition to branch office, Nepal, Gurans and Prime have Sub Branch and Regional office while Asian and Prime have Sub Branch. In addition, Nepal has Sales Centre also.

5.7.1 Growth in Number of Branch Offices

Branch office plays important role to promote the business. The main responsibility of branch office is to provide the basic services to policyholders. Branch accepts premium and issues the receipt, issue the life insurance policy, release the loan, and settle the claims. Branch office organise the trainings to agents, counsel the potential customers and provide logistics support to agents. The growth in number of branch offices of nine life insurance companies during the five years period has been presented in Table-5.21:

Table-5.21: Growth in Branch Offices of Life Insurance Companies

Name of LICs	2008	2009	2010	2011	2012	Rank*	Trend	Growth over 2008 (%)
I. Old Companies								
National	22	23	50	99	99	1	I	350
Nepal	12	18	20	23	23	2	I	92
LIC	12	12	14	15	15	3	I	25
MetLife	12	13	13	14	14	4	I	17
Sub Total	**58**	**66**	**97**	**151**	**151**			**160**
II. New Companies								
Asian	12	31	55	105	114	1	I	850
Surya	3	3	33	36	36	4	I	1100
Gurans	2	15	24	23	56	3	I	2700
Prime	1	19	46	81	96	2	I	9500
Sub Total	**18**	**68**	**158**	**245**	**302**			**1578**
Total	**76**	**134**	**255**	**396**	**453**			**496**

Source: Annual Reports of LICs, FY 2011/12

**Ranked based on number of branches in 2012.*

The above table shows the number of branch offices of LICs during five years (2008-2012), their trend and growth over 2008. Number of branches of all companies have shown increasing trend during five years period. In 2008, old companies have 58 branches and new companies have 18 branches while in 2012 the number of branch of new companies reached to 302 and old companies reached only 151 branches. It has been found that among the eight companies, Asian has highest number of branch

(114) among the new companies while National has highest number of branch (99) among the old companies in 2012.

5.7.2 Number of Branches in Operation

Administratively, Nepal is divided in 75 districts. The branches of life insurance companies have been established only in 68 districts. Number of branch offices in operation and number of districts covered by life insurance companies till mid July 2012 has been shown in Table-5.22:

Table-5.22: Number of Branches in Operation

Name of LICs	Number of Branch	Rank
I. Old Company		
National	63	1
Nepal	25	2
LIC	25	2
MetLife	14	3
II. New Company		
Asian	86	2
Surya	36	4
Gurans	59	3
Prime	108	1
Total	**416**	

Source: Annual Reports of LICs FY 2011/12 and websites of LICs.

The above table shows the number of branches of eight companies in operation and the rank according to the branch offices in 2012. There are 416 branches in operation of eight life insurance companies till mid-July 2012. Prime has highest number of branches (108) among eight companies followed by Asian (86). Among the old companies, National has highest number of branches (63) followed by Nepal and LIC (25). Similarly, MetLife (14) and Surya (36) have lowest number of branches among the old and new companies respectively. There is the huge variation on number of branch office among the LICs (from 14 to 108). There should be mandatory provision of establishment of minimum number of branch office across the country so that potential customers will get the insurance related services from their hometown. This provision also will be instrumental to increase the life insurance penetration of the country.

5.7.3 Life Insurance Inclusion in Nepal

Life insurance companies have established their branch offices in different districts. Total number of branch offices in each district established by eight life insruance companies has been exhibited in Table-5.23:

Table-5.23: Life Insurance Inclusion in Nepal

SN	Name of Districts	Number of District	Number of Branch
1	Taplejung, Solukhumbu, Rasuwa, Manang, Mustang, Humla and Dolpa	7	0
2	Khotang, Ramechhap, Mugu, Bajura	4	1
3	Sankhuwasabha, Pyuthan, Jajarkot, Kalikot	4	2
4	Bhojpur, Okhaldhunga, Mahottari, Gorkha, Lamjung, Myagdi, Rolpa, Salyan, Jumla, Bajhang, Doti	11	3
5	Panchthar, Dhankuta, Saptari, Dolakha, Sindhupalchowk, Arghakhachi, Gulmi, Baglung, Parbat, Rukum, Dailekh, Achham, Baitadi	13	4
6	Ilam, Terhathum, Sindhuli, Dhading, Syangja, Darchula,	6	5
7	Kavrepalanchowk, Nuwakot, Tanahu, Kapilvastu, Palpa, Bardiya, Surkhet, Dadeldhura,	8	6
8	Udayapur, Dhanusa, Rautahat, Lalitpur, Nawalparasi	5	7
9	Sarlahi, Bara, Bhaktapur, Kaski	3	8
10	Siraha, Kanchanpur, Banke, Chitwan, Parsa	3	9
11	Makwanpur, Dang, Rupandehi	2	14
12	Sunsari, Kailali	2	15
13	Morang	1	16
14	Jhapa	1	17
15	Kathmandu	1	25

Source: Annual Reports of LICs FY 2011/12 and websites of LICs.

The above table shows the name of districts, number of district and number of branch offices established by eight life insurance companies. It has been found that people of seven districts: Taplejung, Solukhumbu, Rasuwa, Manang, Mustang, Humla and Dolpa have not access to services of life insurance till 2012 mid July. These seven districts have 1.46 percent of total population **(CBS, 2011).** Likewise, four districts have only one branch and seven districts have more than 10 branches in each district till mid July 2012. Kathmandu district has 25 branch offices whereas more than fifty percent districts have less than five branch offices. In terms of number of branches offices, Kathmandu district has highest insurance inclusion while Taplejung, Solukhumbu, Rasuwa, Manang, Mustang, Humla and Dolpa have no insurance inclusion. It is suggested that the Government should encourage the LICs to expand their network in remote and rural areas by providing incentives.

5.7.4 Districts Coverage by Life Insurance Companies

Life insurance companies have established their branch offices in different districts. Some have established more than one branch in a district whereas some districts have been left. The number of districts covered by eight life insurance companies with their rank has been exhibited in Table-5.24:

Table-5.24: Districts Coverage by Life Insurance Companies in 2012

Name of LICs	Districts Covered	Rank
I. Old Company		
National	55	1
Nepal	23	3
LIC	25	2
MetLife	9	4
II. New Company		
Asian	65	1
Surya	32	4
Gurans	45	3
Prime	61	2
Total	**68**	

Source: Annual Reports of LICs FY 2011/12 and websites of LICs.

The above table exhibits the number of district covered by eight life insurance companies. It has been found that in case of new companies Asian has covered highest number of districts (65) followed by Prime (61). Similarly, in case of old companies, National has covered the highest number of districts (55) followed by LIC (25). Out of total 75 districts, there are only 68 districts have been covered by LICs till mid July 2012. The scenario reflects that there is no mandatory provision regarding establishment of branch offices.

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CHAPTER SIX

EFFICIENCY OF LIFE INSURANCE COMPANIES

The chapter examines the efficiency of employees, Agents, and branches of eight life insurance companies based on 10 different ratios. The chapter computes the efficiency of employees in terms of number of policies enforced, gross premium, personnel expenses and net profit. Similarly, efficiency of Agent has been evaluated in terms number of number of policies enforced, renewal premium, and commission income; and efficiency of branch has been analysed in terms of number of policies enforced, gross premium and operating expenses.

6.1 Concept of Efficiency

The efficiency is the foremost concerned of every business organisations. The empirical research on productive efficiency of firms initiated with the seminal works of Farrell during 1957 (**Salim, 2006).** Efficiency has been defined in different ways and perspectives. Economic point of view, efficiency is getting any given results with the smallest possible inputs or getting the maximum possible output from given resources[1]. Business point of view, efficiency means ability to produce a desired result with a minimum effort, expense, or wastage. Business organisation expects maximum amount of output from the given amount of resources or given amount of output from the minimum amount of resources (**Rumble, 1997**).

The terms efficiency, productivity and effectiveness are used interchangeably. Efficiency always expresses the relationship between an output and input. In addition to the input-output relation, output-output as well as input-input relation indicators are also to be taken into consideration **(Raneto et al, 2005 and Nabradi et al, 2010).**

Despite the ever rising importance of services industry to economy, measuring the efficiency in service industry has been found less practiced as compared to the manufacturing industries (**Fenn, Vencappa, Diacon, Klumpes, and Brien, 2013).** Life insurance companies apply the input out ratio to obtain the operational efficiency **(Jorgenson et al., 1987; Renato, Christopher, and Battese, 2005).** In life insurance companies operational expenses, claims expenses, commission expenses and capital expenses, head count (number of staffs, number Agents, number of branch), time or

[1] A Dictionary of Economics. Second Edition. Oxford University Press, 2002.

efforts are considered as input and total revenue, revenue of particular segment, number of policies enforced or numbers of customers etc. are considered as output **(Neely, 2002).**

The efficiency ratios of eight companies have been analysed, compared and discussed. Eight companies have been divided in two groups (four in each group) based on their date of establishment. Companies established prior to 2002 have been included in "Old group" and companies established in 2008 have been included in "New group" as:[2]

Companies under Old Group	Companies under New Group
National Life, Nepal Life, LIC of Nepal, MetLife	Asian Life, Surya Life, Gurans Life, Prime Life

6.2 The Efficiency Ratios under Study

The efficiency of eight life insurance companies in four specific areas viz.: i) Employees, ii) Agents, iii) Branch offices, and iv) Financial performance have been analysed by using the following efficiency ratios.

Table-6.1: Efficiency Ratios under Study

Area of Efficiency	Name of Ratios	Abbreviation
I. Employees	1. Policy enforced per employee ratio	PEPE
	2. Gross Premium per employee ratio	GPPE
	3. Net profit per employee ratio	NPPE
II. Agent	1. Policy enforced per Agent ratio	PEPA
	2. Renewal premium per Agent ratio	RPPA
	3. Gross premium per Agent ratio	GPPA
	4. Commission income per Agent ratio	CIPA
III. Branch	1.Policy enforced per branch ratio	PEPB
	2.Gross premium per branch ratio	GPPB
	3.Operating expenses per branch ratio	OEPB
IV. Financial Efficiency (Performance)	1. Operating Expenses to Net Premium Ratio	OENP
	2. Death Claims to Gross Premium Ratio	DCGP
	3. Investment Income to Investment Assets Ratio	IIIA
	4. Bonus Rate	BR

[2] Under old group, National was established in 1988 and rest of three were established on 2001. Under new group four companies were established in 2008.

6.3 Employee Efficiency

Among the various factors of production, human resource is regarded a dynamic and unique factor of production. Employee (also called staff or labour) plays major role to achieve the organisational goal. They are considered in number (head count) or in cost (personnel cost). Employee efficiency ratio measures how efficiently employees have been mobilised by organisation to increase the value of the firm **(Nabradi et al, 2010)**.

6.3.1 Growth in Number of Employees

The growth in number of full time employees working under eight life insurance companies, their trend during 2008-2012 has been presented in Table-6.2:

Table-6.2: Growth in Number of Employees in Life Insurance Companies

Name of LICs	2008	2009	2010	2011	2012	Average	Trend	Rank	Growth Over 2008 (%)
I. Old Companies									
National	98	112	178	217	239	169	I	2	144
Nepal	124	179	231	193	217	189	F/I	1	75
LIC	68	72	84	91	97	82	I	4	43
MetLife	100	89	84	93	90	91	F/D	3	-10
Sub Total	**390**	**452**	**577**	**594**	**643**	**531**	**I**		**65**
II. New Companies									
Asian	50	102	166	225	238	156	I	1	376
Surya	30	57	80	103	97	73	F/I	4	223
Gurans	9	41	86	120	130	77	I	3	1344
Prime	20	76	124	214	260	139	I	2	1200
Sub Total	**109**	**276**	**456**	**662**	**725**	**445**	**I**		**565**
Total	**499**	**728**	**1033**	**1256**	**1368**	**977**	**I**		**174**

Source: Annual Reports of LICs, FY 2008-2012
I=Increase, F=Fluctuate

The above table shows the number of employees working under eight life insurance companies, their trend, rank of each company based on five years average and growth over 2008. The number of employees of MetLife has shown fluctuating decreasing trend while Nepal and Surya have shown fluctuating increasing trend. The remaining five companies have shown increasing trend during the five year period. It has been found that the number of employees of new companies have shown higher growth (565%) than old companies (65%) during 2008-2012.

Based on five years average, Nepal has highest (189) and LIC has lowest (82) average number of employees among the old companies. Similarly, among the new companies, Asian has highest (156) and Surya has lowest (73) average number of employees during the study period.

6.3.2 Policy Enforced per Employee Ratio

Employees of life insurance companies play important role to increase number of policies enforced by selling the policies directly and by mobilising the sales force. The policy enforced per employee (PEPE) ratio measures the average number of policies enforced per employee. The ratio shows how efficiently company has mobilised its employees to enforce the policies. The PEPE ratio is derived by the following formula:

$$\textbf{PEPE Ratio} = \frac{\textbf{Total Number of Policies Enforced}}{\textbf{Number of Employees}}$$

Obviously, higher PEPE ratio is always desirable. The PEPE ratio, their trend, growth over 2008, and rank based on five years average has been presented in Table-6.3:

Table-6.3: Policies Enforced per Employee Ratio

(In number)

Name of LICs	2008	2009	2010	2011	2012	Average	Trend	Rank	Growth Over 2008 (%)
I. Old Companies									
National	878	1215	1181	1577	1728	1316	F/I	4	97
Nepal	1016	1110	1406	2228	2934	1739	I	3	189
LIC	1506	2014	2129	2245	2485	2076	I	2	65
MetLife	1289	1570	2095	2748	2943	2129	I	1	128
Old Average	**1172**	**1477**	**1703**	**2200**	**2523**	**1815**	**I**		**115**
II. New Companies									
Asian	248	1,463	1,617	1,224	894	1089	F/I	2	261
Surya	11	108	201	252	656	246	I	3	5622
Gurans	2	162	214	321	467	233	I	4	19022
Prime	15	1445	1849	1408	1586	1261	F/I	1	10196
New Average	**69**	**795**	**970**	**801**	**901**	**707**	**I**		**1199**
Average	**621**	**1136**	**1337**	**1500**	**1712**	**1261**	**I**		**176**

Source: Annual Reports of LICs, FY 2008-2012
I=Increase, F=Fluctuate

The above table exhibits the policy enforced per employee ratio of old and new life insurance companies, their trend, growth over 2008 along with and rank of companies based on five years average. The PEPE ratio of National, Asian and Prime have shown fluctuating increasing trend whereas ratio of rest five companies have shown increasing trend during the study period. The average number of policies enforced per employee ratio has increased by 176 percent over 2008. Among the old companies, MetLife has highest (2129) and National has lowest (1316) average PEPE ratio. Likewise, among the new companies, Prime has highest (1261) and Gurans has lowest

(233) average PEPE ratio. The average PEPE ratio of eight companies during five years period has been found 1261. It may be concluded that employees working under joint venture and foreign companies are more efficient as compared to domestic companies in terms of PEPE ratio. The increasing trend of aggregate ratio reveals that employees' efficiency of both old and new firms have improved significantly.

6.3.3 Gross Premium per Employee Ratio

The gross premium is prime income of life insurers. The gross premium per employee (GPPE) ratio measures how efficiently management has mobilised their staffs to collect gross premium. In other words, the ratio measures the average gross premium earned by employee during the particular year. The formula of gross premium per employee ratio is as follow:

$$\textbf{Gross Premium per Employee Ratio (Rs.)} = \frac{\textbf{Gross Premium}}{\textbf{Total Number of Employees}}$$

The higher ratio infers that employees are more efficient in terms of gross premium earnings. The gross premium per employee ratio of eight companies, their trend, along with the growth of GPPE ratio over 2008 has been exhibited in Table-6.4:

Table-6.4: Gross Premium per Employee Ratio

(Rs. in million)

Name of LICs	2008	2009	2010	2011	2012	Average	Trend	Rank	Growth over 2008 (%)
I. Old Companies									
National	7.23	7.22	8.09	7.40	9.13	7.82	F/I	4	26
Nepal	7.77	7.53	8.55	12.00	14.75	10.12	F/I	3	90
LIC	13.25	16.61	18.37	20.61	26.16	19.00	I	1	98
MetLife	13.62	17.11	17.45	15.41	16.51	16.02	F/I	2	21
Old Average	**10.46**	**12.12**	**13.11**	**13.86**	**16.64**	**13.24**	**I**		**59**
II. New Companies									
Asian	0.85	4.56	4.94	4.17	4.36	3.78	F/I	1	414
Surya	0.09	0.57	0.97	1.13	1.67	0.89	I	4	1,712
Gurans	0.02	0.82	1.03	1.64	2.47	1.20	I	3	13,458
Prime	0.08	3.68	3.46	3.15	3.62	2.79	F/I	2	4,671
New Average	**0.26**	**2.41**	**2.60**	**2.52**	**3.03**	**2.16**	**F/I**		**1,070**
Average	**5.36**	**7.26**	**7.86**	**8.19**	**9.83**	**7.17**	**I**		**83**

Source: Annual Reports of LICs, 2008-2012.

I=Increase, F=Fluctuate

The above table exhibits the gross premium per employee ratio of eight life insurance companies along with trend, rank and the ratio change over 2008. It has been found that the ratio of LIC, Surya and Gurans have shown increasing trend whereas National, Nepal, MetLife, Asian and Prime have shown fluctuating increasing tendency during the study period. The average growth of new companies has been found higher (1070%) than old companies (59%). Among the old companies LIC has highest (Rs.19 million) and National has lowest (Rs.7.82 million) average GPPE ratio. Likewise, among the new companies Asian has highest (Rs. 3.78 million) and Surya has lowest (0.89 million) average GPPE ratio.

The increasing trend in GPPE ratio shows the efficiency of employees in finalising the new proposals and efficient servicing of the existing proposals.

6.3.4 Net Profit per Employee Ratio

The ultimate goal of any organisation is to maximise the shareholders' wealth by increasing the net profit. The net profit per employee ratio shows the average earnings of employees. It further indicates that how effectively management has utilised the human resources to increase the firm's profitability. The net profit per employee (NPPE) ratio is calculated as:

$$\textbf{Net profit per employee ratio} = \frac{\textbf{Net Profit after Tax}}{\textbf{Total Number of Employees}}$$

Higher NPPE ratio is always desirable. Table-6.5 shows the net profit per employee ratio of eight companies along with their trend, and growth over 2008.

Table-6.5: Net Profit per Employee Ratio

(Rs. in '000)

Name of LICs	2008	2009	2010	2011	2012	Average	Trend	Rank	Growth over 2008 (%)
I. Old Companies									
National	4	214	89	516	403	245	F/I	4	9088
Nepal	34	45	27	(344)	2,883	529	F/I	1	8431
LIC	75	1,119	(75)	(276)	1,771	523	F/I	2	2265
MetLife	(128)	437	665	404	288	333	F/I	3	-325
Old Average	**(4)**	**454**	**177**	**75**	**1,336**	**408**	**F/I**		**-35690**
II. New Companies									
Asian	66	491	361	200	479	319	F/I	2	620
Surya	87	32	156	166	303	149	F/I	4	249
Gurans	235	215	160	79	327	203	F/I	3	39
Prime	42	759	303	533	485	424	F/I	1	1064
New Average	**107**	**374**	**245**	**245**	**398**	**274**	**F/I**		**271**
All Average	**52**	**414**	**211**	**160**	**867**	**341**	**F/I**		**1567**

Source: Annual Reports of LICs, FY 2008-2012
I=Increase, F=Fluctuate

The above table exhibits that NPPE ratios of all companies have shown fluctuating increasing trend. The average NPPE was Rs. 52,000 in 2008 which has increased to Rs. 867,000 in 2012 showing an increase of 1567 percent. The probable cause behind such sharp fluctuation of NPPE ratio is due to the fluctuation in reported net income of the company. The net income of life insurance companies require to report based on the Actuarial valuation. The valuation of all companies have been done each three years interval (in 2008 and 2011) so that the net profit of LICs has been declared by companies according to the report of Actuary in succeeding years (in 2009 and 2012 respectively). After Actuarial valuation, the net profit of the companies has been found excessively increased.

It has been found that the average NPPE ratio of Nepal is highest (Rs.529,000) and National is lowest (Rs. 245,000) among the old companies. Similarly, Prime has highest (Rs. 424,000) and Surya has lowest (Rs. 149,000) average NPPE ratio among the new companies. The increasing trend of average NPPE ratio shows that the efficiency of employees has improved significantly during the study period.

6.4 Efficiency of Agents

Agents are primary distributor of life insurance products. The performance of LICs largely depends on the efficiency of Agents. Insurance Board has authority to grant the agency license to the eligible applicants who have passed School Leaving Certificate (SLC)[3] examination and attended a training course run by Insurance Board or LICs. In addition, applicant should be recommended by any life insurer to get the life insurance agency license.[4] License should be renewed each year to keep the agency profession continue. Agents are allowed to sell the products of more than one company at a time.

6.4.1 Number of Agents of Life Insurance Companies

The growth in number of Agents affiliated with eight LICs during the five years period has been presented in Table-6.6:

Table-6.6: Growth in Number of Agents of Life Insurance Companies

Name of LICs	2008	2009	2010	2011	2012	Average	Trend	Rank	Growth over 2008 (%)
I. Old Companies									
National	5,474	6,289	8,457	14,736	22,217	11,435	I	3	306
Nepal	16,043	11,938	20,751	25,598	33,649	21,596	F/I	1	110
LIC	13,756	16,875	19,714	22,189	25,142	19,535	I	2	83
MetLife	3,836	3,242	2,149	2,331	2,500	2,812	F/D	4	-35
Old Average	**9,777**	**9,586**	**12,768**	**16,214**	**20,877**	**13,844**	I		**114**

[3] After completion of 10th grade study.
[4] Rule 21 of Insurance Regulation, 1993.

Name of LICs	2008	2009	2010	2011	2012	Average	Trend	Rank	Growth over 2008 (%)
II. New Companies									
Asian	7,811	10,571	21,500	33,091	41,872	22,969	I	1	436
Surya	234	1,826	1,682	2,135	2,730	1,721	F/I	4	1067
Gurans	31	616	2,840	4,898	7,200	3,117	I	3	23126
Prime	395	2,906	6,978	13,904	21,824	9,201	I	2	5425
New Average	**2,118**	**3,980**	**8,250**	**13,507**	**18,407**	**9,252**	I		**769**
All Average	**5,947**	**6,783**	**10,509**	**14,860**	**19,642**	**11,548**	I		**230**

Source: Annual Reports of LICs, FY 2008-2012

F: Fluctuate, I: Increase, D: Decrease,

The above table shows the number of Agents affiliated with eight life insurance companies during five years period along with their growth over 2008. The rank has been given to each company based on the five years average.

The number of Agent affiliated with National, LIC, Asian, Gurans and Surya have shown increasing trend while Nepal and Surya have shown fluctuating increasing trend and MetLife has shown fluctuating decreasing trend. Among the old companies, Nepal has the highest (21,596) and MetLife has the lowest (2,812) average number of Agents. Likewise, among the new companies, Asian has the highest (22,969) and Surya has the lowest (1,721) average number of Agents.

6.4.2 Policy Enforced per Agent Ratio

The policy enforced per Agent (PEPA) ratio measures how many policies have been sold to potential customers by the Agent. It measures how efficiently company has mobilised its Agents to sell the policies. The PEPA ratio is derived by the following formula:

$$\textbf{Policy enforced per agent ratio} = \frac{\textbf{Total Number of Policies Enforced}}{\textbf{Total Number of Agents}}$$

Higher PEPA ratio is always desirable. Higher number of PEPA ratio obviously increases the volume of the sales. Table-6.7 shows the PEPA ratio of eight companies, for the period of five years from the year 2008 to 2012.

Table-6.7: Policy Enforced per Agent Ratio

(in number)

Name of LICs	2008	2009	2010	2011	2012	Average	Trend	Rank	Growth over 2008 (%)
I. Old Companies									
National	16	22	25	23	19	21	F/I	2	19
Nepal	8	17	16	17	19	15	F/I	3	138
LIC	7	9	9	9	10	9	F/I	4	43
MetLife	34	43	82	110	106	75	F/I	1	212
Old Average	**16**	**22**	**33**	**40**	**38**	**30**	**I**		**138**

Name of LICs	2008	2009	2010	2011	2012	Average	Trend	Rank	Growth over 2008 (%)
II. New Companies									
Asian	2	14	12	8	5	8	F/I	3	150
Surya	1	3	10	12	23	10	I	2	2200
Gurans	1	11	6	8	8	7	F/I	4	700
Prime	1	38	33	22	19	22	F/I	1	1800
New Average	**1**	**17**	**15**	**13**	**14**	**12**	**F/I**		**1300**
All Average	**9**	**20**	**24**	**26**	**26**	**21**	**F/I**		**189**

Source: Annual Reports of LICs, FY 2008-2012.
F: Fluctuate, I: Increase.

The above table shows the number of policies enforced by each Agent, along with their trend, growth over 2008 and rank of the companies based on five years average ratio. It has been observed that all companies have shown fluctuating increasing trend during the period under the study except Surya. Among the old companies average PEPA ratio has been found highest (75) in case of MetLife while the lowest (9) has been found in case of LIC. Similarly, among the new companies, Prime has the highest (22) average PEPA ratio while Gurans has the lowest (7) average PEPA ratio during the period under the study . Further, it has been also observed that old companies have shown declining trend in recent years. Similar trend has been also observed in case of new companies except Surya. Declining trend shows the poor efficiency of agents in selling new policies of the companies. It may be suggested that proper training should be given to agents from time to time specially in case of new policies introduced by the companies. Further, it has been suggested that Insurance Board should conduct written test and interview prior to issue the agency license. Similarly, renewal of agency license should be allowed after analysing the performance of agents in past years.

6.4.3 Renewal Premium per Agent Ratio

The renewal premiums are the subsequent premiums that are paid by the insured to the insurer in order to keep the policy in operation. Policyholder requires to pay certain amount of premium every year within the prescribed period on a regular basis till the maturity period. The renewal premium per Agent (RPPA) ratio measures the average amount of premium collected by Agents from the existing policyholders. The formula of RPPA is as follow:

$$\textbf{Renewal premium per agent ratio} = \frac{\textbf{Renewal Premium}}{\textbf{Total Number of Agents}}$$

Higher RPPA ratio is always desirable. Higher ratio indicates that agents are providing better services to policyholders. The RPPA ratio old and new companies during the five years period along with their trend has been shown in Table-6.8:

Table-6.8: Renewal Premium per Agent Ratio

(Rs. in '000)

Name of Companies	2008	2009	2010	2011	2012	Average	Trend	Rank	Growth over 2008 (%)
I. Old Companies									
National	98	94	124	61	55	86	F/D	2	-44
Nepal	43	74	57	62	58	59	F/I	3	35
LIC	52	51	55	62	67	57	F/I	4	30
MetLife	292	399	612	550	540	478	F/I	1	85
Old Average	**121**	**154**	**212**	**184**	**180**	**170**	**F/I**		**49**
II. New Companies									
Asian	-	3	12	17	18	12	F/I	2	531*
Surya	-	0.5	13	26	34	18	I	1	6903*
Gurans	-	2	8	13	20	11	I	3	1051*
Prime	-	0.1	6	10	14	7	I	4	10481*
New Average	**-**	**1**	**10**	**16**	**21**	**12**	**I**		**1544***
All Average	**121**	**78**	**111**	**100**	**101**	**91**	**F/D**		**29***

Source: Annual Reports of LICs, FY 2008-2012

**Growth over 2009*

F: Fluctuate, I: Increase, D: Decrease.

The above table shows the renewal premium per Agent ratio of eight LICs, and their rank based on five years average ratio during the period from 2008 to 2012 along with growth over 2008 for old companies and growth over 2009 for new companies. The RPPA ratio of National has shown fluctuating decreasing trend, while Nepal, LIC, MetLife, and Asian have shown fluctuating increasing trend. The RPPA ratio of Surya, Gurans and Prime have shown increasing trend during the study period. It has been found that the average growth of RPPA of new companies is higher (1544%) than old companies (49%).

The average RPPA ratio of MetLife is highest (Rs. 478,000) and LIC is lowest (Rs. 57,000) among the old companies. Similarly, Surya has highest (Rs. 18,000) and Prime has lowest (Rs. 7,000) average RPPA ratio among the new companies. The average RPPA ratio of both old and new companies have shown declining trend after 2010 which shows the inefficiency of agents in order to collect the premium from existing policyholders on a regular basis so that the surrender and lapse ratio could be reduced.

The reasons of lower efficiency of agents may be that companies have appointed large number of agents but they have not paid proper attention to enhance the selling skills and insurance knowledge to their agents. Besides, the unhealthy competition also may discourage to policyholders to renew the policy. It may be suggested that LICs should motivate Agents to provide the counselling and after sales services to existing policyholders in a regular basis so that the surrender and lapse ratio could be reduced.

6.4.4 Gross Premium per Agent Ratio

The gross premium includes first year premium, renewal premium, and single payment premium earned by company during the fiscal year. The gross premium per Agent (GPPA) ratio measures how efficiently Agent has acquired new business and renewed the existing business. The formula of GPPA is as follow:

$$\textbf{Gross Premium Per Agent ratio} = \frac{\textbf{Gross Premium}}{\textbf{Total Number of Agents}}$$

Higher GPPA ratio indicates that agents are more capable to obtain the new life insurance business and to maintain the existing business. The GPPA ratio of eight companies during the five years period, along with trend and growth over 2008 has been shown in Table-6.9:

Table-6.9: Gross Premium per Agent Ratio

(Rs. in '000)

Name of LICs	2008	2009	2010	2011	2012	Average	Trend	Rank	Growth Over 2008 (%)
I. Old Companies									
National	129	129	170	109	98	127	F/D	2	-24
Nepal	60	113	95	91	95	91	F/I	3	58
LIC	65	71	78	85	101	80	I	4	54
MetLife	355	470	682	615	594	543	F/I	1	67
Old Average	**152**	**195**	**256**	**225**	**222**	**210**	**F/I**		**46**
II. New Companies									
Asian	5	44	38	28	25	28	F/I	4	356
Surya	12	18	46	55	59	38	I	2	402
Gurans	5	55	31	40	45	35	F/I	3	743
Prime	4	96	61	48	43	51	F/I	1	1023
New Average	**7**	**53**	**44**	**43**	**43**	**38**	F/I		**551**
Average	**80**	**124**	**150**	**134**	**133**	**124**	**F/I**		**67**

Source: Annual Reports of LICs, FY 2008-2012

F: Fluctuate, I: Increase, D: Decrease.

From the above table it has been observed that National has shown fluctuating decreasing trend while LIC and Surya have shown increasing trend and remaining five companies have shown fluctuating increasing trend during the five years period. Among the old companies average GPPA ratio has been found highest (Rs. 543,000) in case of MetLife while the lowest (Rs. 80,000) in case of LIC. Likewise, among the new companies, it has been observed that Prime has the highest (Rs. 51,000) and Asian has the lowest (Rs. 28,000) average GPPA ratio over the five years period. Further, the average GPPA ratio has shown declining trend in recent years in case of both old and new companies. The declining trend of average GPPA ratio indicates that the efficiency of collection of first year and renewal premium of Agents is not up to the mark. The cause behind the poor efficiency of Agents in terms of GPPA ratio may be that companies have hired large numbers of new Agents but they have not provided proper training on life insurance products and selling skill. It may be suggested that LICs should provide proper orientation about the products and selling skills on a regular basis to their Agents.

6.4.5 Commission Income per Agent Ratio

Life insurance Agents are entitled to get certain percentage of commission according to the amount of premium they have collected. According to Insurance Regulation, 1993, the rate of commission ranges between 5 to 25 percent based on the term and types of policy[5]. The rate of commission for first and second year is higher than succeeding years. Similarly, the rate of commission is higher for long term policies, and policy for participating in profit. Commission income per Agent (CIPA) ratio measures how efficiently agents have taken insurance business seriously. The ratio is derived by following formula:

$$\textbf{Commission Income per Agent ratio} = \frac{\textbf{Total Commission Paid to Agents}}{\textbf{Total Number of Agents}}$$

Higher ratio is always preferable. The commission income per Agent ratio along with their trend and growth over 2008 has been presented in Table-6.10:

[5] Insurance Regulation, 1993 Rule 23 Sub Rule (1) and Schedule 11

Table-6.10: Commission Income per Agents Ratio

(Rs. '000)

Name of LICs	2008	2009	2010	2011	2012	Average	Trend	Rank	Growth Over 2008 (%)
I. Old Companies									
National	11.0	11.3	13.2	10.9	9.6	11.2	F/D	2	-13
Nepal	5.9	14.9	12.5	10.9	10.3	10.9	F/I	3	75
LIC	8.0	8.6	10.6	10.3	12.9	10.1	F/I	4	61
MetLife	36.3	38.1	48.0	42.6	38.4	40.7	F/I	1	6
Old Average	**15.3**	**18.2**	**21.1**	**18.7**	**17.8**	**18.2**	**F/I**		**16**
II. New Companies									
Asian	1.0	7.7	6.9	4.9	3.4	4.8	F/I	4	240
Surya	2.8	3.7	9.7	9.8	9.0	7.0	F/I	1	221
Gurans	1.0	10.1	6.2	7.9	8.2	6.7	F/I	2	720
Prime	0.8	10.3	7.5	6.7	5.6	6.2	F/I	3	600
New Average	**1.4**	**7.9**	**7.6**	**7.3**	**6.5**	**6.2**	**F/I**		**364**
All Average	**8.4**	**13.1**	**14.3**	**13.0**	**12.2**	**12.2**	**F/I**		**45**

Source: Annual Reports of LICs, FY 2008-2012

F: Fluctuate, I: Increase, D: Decrease.

The above table exhibits the ranking of companies based on five years average ratio for the period 2008-2012. The ratio of National has shown fluctuating decreasing trend whereas rest of seven companies have shown fluctuating increasing trend during the period under the study. The growth of new companies has been observed higher (364%) than old companies (16%) and the industry average CIPA ratio increased by 45 percent.

Among the old companies, MetLife has the highest (Rs.40,700) and LIC has the lowest (Rs. 10,100) average CIPA ratio. Among the new companies, Surya has the highest (Rs. 7,000) and Asian has the lowest (Rs. 4,800) average CIPA ratio. The declining trend of CIPA ratio during recent years in most of the companies shows the poor efficiency of Agents either acquiring the new business or servicing the existing business. It may be suggested that LICs should provide to their Agents a comprehensive training on various aspects of insurance, marketing skills, features of new products, way of customer care, salesmanship etc. Similarly, it may also be suggested that Agents should provide post sales services to their clients on a regular basis which will also helpful in developing the strong customer relationship.

6.5 Efficiency of Branch

The role of branch offices of life insurance companies is critical in promoting the life insurance business directly and indirectly because they have to deal with large number of policyholders, potential customers and Agents frequently. There are more than 450 branch offices established by eight LICs across the 68 districts till mid July 2012 which covered almost 91 percent districts and 98.5 percent population. Branch offices collect proposal and forward to Underwriting Department for further decision. Their function is to collect new and renewal premium, provide receipt to policyholders, provide loan and pay claims to policyholders. Besides, Branch offices also provide logistic support and training along with regular counselling to their Agents.

6.5.1 Growth in Number of Branch Offices

The growth in number of branch offices of eight life insurance companies during the five years period along with their trend has been exhibited in Table-6.11:

Table-6.11: Growth in Number of Branch Offices

Name of LICs	2008	2009	2010	2011	2012	Average	Trend	Rank	Growth over 2008 (%)
I. Old Companies									
National	22	23	50	99	99	59	I	1	350
Nepal	12	18	20	23	23	19	I	2	92
LIC	12	12	14	15	15	14	I	3	25
MetLife	12	13	13	14	14	13	I	4	17
Old Total	**58**	**66**	**97**	**151**	**151**	**105**	**I**		**160**
II. New Companies									
Asian	12	31	55	105	114	63	I	1	850
Surya	3	3	33	36	36	22	I	4	1100
Gurans	2	15	24	23	56	24	I	3	2700
Prime	1	19	46	81	96	49	I	2	9500
New Total	**18**	**68**	**158**	**245**	**302**	**158**	**I**		**1578**
Total	**76**	**134**	**255**	**396**	**453**	**263**	**I**		**496**

Source: Annual Reports of LICs, FY 2008 -2012.

I: Increase

The above table shows that number of branches of all companies has increased during the five years period under the study. It has been found that number of branches of old companies increased by 2.6 times and reached to 151while in case of new companies the branches increased by 17 times and reached to 302 during till mid July 2012. Among the old companies, National has established highest average number of branches (59) while MetLife has established lowest average number of branches (13). Similarly, among the new companies, Asian has established highest average number of branches (63) while Surya has established lowest average number of branches (22) during five years period under the study. The table depicts that new companies have established more average number of branches (158) as compared to old companies

(105). It has been found that there is high variation in number of branch among the old companies than new companies.

There should be mandatory provision regarding the minimum number of branch to be established by life insurance companies. This provision may increase the life insurance inclusion and rate of penetration in the country. Policyholders can get the regular services nearby their home, they can lodge their complaints timely, potential customers may get the life insurance related information at the door step.

6.5.2 Policy Enforced per Branch Ratio

The policy enforced per branch (PEPB) ratio measures the average number of policies sold by each branch. The PEPB ratio indicates how efficiently company has mobilised its branch offices to acquire the new business in terms of policies enforced. The PEPB ratio is calculated using the following formula:

$$\textbf{Policy enforced per branch ratio} = \frac{\textbf{Total Policies Enforced}}{\textbf{Total Number of Branch Office}}$$

Higher PEPB ratio indicates that branch office is more efficient to obtain the new business. Table-6.12 exhibits the policies enforced per branch, their trend, growth ratio over 2008 along with rank of each company based on average of five years ratio.

Table-6.12: Policy Enforced per Branch Ratio

(In number)

Name of LICs	2008	2009	2010	2011	2012	Average	Trend	Rank	Growth over 2008 (%)
I. Old Companies									
National	3,910	5,916	4,205	3,456	4,172	4,332	F/I	4	7
Nepal	10,503	11,043	16,241	18,699	27,681	16,833	I	1	164
LIC	8,535	12,084	12,775	13,622	16,072	12,618	I	3	88
MetLife	10,744	10,748	13,539	18,254	18,921	14,441	I	2	76
Old Average	**8,423**	**9,948**	**11,690**	**13,508**	**16,712**	**12,056**	**I**		**98**
II. New Companies									
Asian	1,033	4,815	4,879	2,623	1,867	3,043	F/I	2	81
Surya	115	2,049	488	720	1,768	1,028	F/I	3	1442
Gurans	11	444	765	1,674	1,085	796	F/I	4	9765
Prime	308	5,781	4,984	3,721	4,294	3,818	F/I	1	1294
New Average	**367**	**3,272**	**2,779**	**2,185**	**2,254**	**2,171**	**F/I**		**514**
All Average	**4,395**	**6,610**	**7,235**	**7,846**	**9,483**	**7,114**	**I**		**116**

Source: Annual Reports of LICs, FY 2008-2012.
F: Fluctuate, I: Increase.

The above table exhibits that PEPB ratios of Nepal, LIC, and MetLife have shown an increasing tendency whereas ratios of rest five companies have shown fluctuating increasing trend during the five years period. It has been found that the average per branch policies enforced ratio of new companies has increased with higher rate (514%) than old companies (98%). The overall growth of average PEPB ratio has been found 116 percent.

In terms of average PEPB ratio, Nepal is most efficient having average 16,833 policies enforced per branch and National is least efficient having average 4,332 policies enforced per branch among the old companies. Likewise, Prime is the most efficient having average 3,818 policies enforced and Gurans is the least efficient having average 796 policies enforced among the new companies. It has been found that new companies have not mobilised their branch offices efficiently which is witnessed by declining trend in recent years. It is suggested that management of new companies should increase the capacity of branch offices by providing necessary training and logistic supports to their employees and Agents in order to increase the insurance business.

6.5.3 Gross Premium per Branch Ratio

The gross premium of life insurance companies includes three types of premium income namely: first year premium, renewal premium, and single premium. The gross premium per branch (GPPB) ratio measures how much gross premium has earned by each branch during the fiscal year. The formula of GPPB ratio is as follow:

$$\textbf{Gross Premium per Branch ratio} = \frac{\textbf{Total Gross Premium}}{\textbf{Total Number of Branch Offices}}$$

Higher GPPB ratio is always preferable. The GPPB ratio of eight companies, their trend for five years period along with growth over 2008 has been presented in Table-6.13:

Table-6.13: Gross Premium per Branch Ratio

(Rs. in million)

Name of LICs	2008	2009	2010	2011	2012	Average	Trend	Rank	Growth over 2008 (%)
I. Old Companies									
National	32.2	35.2	28.8	16.2	22.0	26.9	F/D	4	-32
Nepal	80.2	74.9	98.7	100.7	139.2	98.8	F/I	3	73
LIC	75.1	99.7	110.2	125.0	169.2	115.8	I	1	125
MetLife	113.5	117.1	112.7	102.4	106.1	110.4	F/D	2	-6
Old Average	**75.2**	**81.7**	**87.6**	**86.1**	**109.1**	**88.0**	**F/I**		**45**
II. New Companies									
Asian	3.5	15.0	14.9	8.9	9.1	10.3	F/I	1	157
Surya	0.9	10.8	2.3	3.2	4.5	4.4	F/I	3	388
Gurans	0.1	2.2	3.7	8.6	5.7	4.1	F/I	4	6894

Name of LICs	2008	2009	2010	2011	2012	Average	Trend	Rank	Growth over 2008 (%)
Prime	1.5	14.7	9.3	8.3	9.8	8.7	F/I	2	546
New Average	**1.5**	**10.7**	**7.6**	**7.3**	**7.3**	**6.9**	**F/I**		**381**
All Average	**38.4**	**46.2**	**47.6**	**46.7**	**58.2**	**6.0**	**F/I**		**52**

Source: Annual Reports of LICs, FY 2008-2012.

F:Fluctuate, I: Increase, D: Decrease.

The above table depicts that GPPB ratio of LIC has shown increasing trend while National and MetLife have shown fluctuating decreasing trend. The ratios of remaining five companies have shown fluctuating increasing trend. However, ignoring the first year gross premium of four new companies, the GPPB ratio of Asian, Surya and Prime has shown decreasing trend from 2009 to 2012. Among the old companies, LIC has the highest (Rs. 115.8 million) while National has the lowest (Rs. 26.9 million) efficiency in terms of average GPPB ratio. Similarly, the average GPPB ratio of Asian has the highest (Rs. 10.3 million) and Gurans has the lowest (Rs. 4.1 million) among new companies.

Since the GPPB ratio of National and MetLife is declining, therefore, it is suggested that these companies should put more efforts in underwriting new business as well as servicing of the existing policies. For the purpose, the staff working in the branch and agents associated with their branch should be mobilised for their improved performance through training and educating them.

6.5.4 Operating Expenses per Branch Ratio

The operating expenses per branch ratio indicates that how efficiently company has controlled the operating expenses. The formula of operating expenses per branch (OEPB) ratio is as follows:

$$\textbf{Operating Expenses per Branch ratio} = \frac{\textbf{Operating Expenses}}{\textbf{Number of Branch Offices}}$$

Lower OEPB ratio is always desirable. Lower ratio indicates that company is running economically and it measures the cost efficiency of management. Table-6.14 has shown the OEPB ratio of eight companies, growth over 2008, along with their trend of ratio during 2008-2012.

Table-6.14: Operating Expense per Branch Ratio

(Rs. in million)

Name of LICs	2008	2009	2010	2011	2012	Average	Trend	Rank	Growth over 2008 (%)
I. Old Companies									
National	4.9	5.9	4.8	4.8	6.2	5.3	F/I	1	27
Nepal	13.7	17.8	26.9	27.1	35.4	24.2	I	3	160
LIC	14.6	21.9	26.7	28.2	40.5	26.4	I	4	177
MetLife	21.7	19.1	16.5	15.6	15.8	17.7	F/D	2	-27
Old Average	**13.7**	**16.2**	**18.7**	**18.9**	**24.5**	**18.4**	**I**		**79**
II. New Companies									
Asian	1.3	5.4	5.7	3.3	3.2	1.3	F/I	2	140
Surya	1.4	10.3	1.5	1.8	2.3	1.4	F/I	3	62
Gurans	1.2	1.6	2.3	5.0	3.1	1.2	F/I	1	161
Prime	3.0	4.2	4.2	4.7	4.3	3.0	F/I	4	46
New Average	**1.7**	**5.3**	**3.4**	**3.7**	**3.2**	**3.5**	**F/I**		**88**
All Average	**7.7**	**10.8**	**11.1**	**11.3**	**13.9**	**11**	**I**		**80**

Source: Annual Reports of LICs, FY 2008-2012

F: Fluctuate, I: Increase, D: Decrease.

The above table exhibits that National and all new companies have shown fluctuating increasing trend while Nepal and LIC have shown increasing trend. Similarly, the ratio of MetLife has shown fluctuating decreasing trend. The growth of average OEPB ratio of both old and new companies has been found almost equal. The increasing trend of OEPB ratio of most of the companies shows that companies are not running in economic way.

It has been found that among the old companies, LIC has highest (Rs.26.4 million) while National has lowest (Rs. 5.3 million) average OEPB ratio. Similarly, among the new companies, Prime has highest (Rs. 3 million) and Gurans has lowest (Rs. 1.2 million) average OEPB ratio. Since life insurance companies are custodian of the policyholders' fund, they should operate the companies in economic way. It may be suggested that insurance companies should take effective steps in controlling their operating expenses which is adversely affecting their profitability as well as claims of policyholders in the form of bonus.

6.6 Financial Efficiency

There are various aspects of measuring the organisational performance, among them financial efficiency or performance is one of the most important dimensions. The financial performance measurement is the process of quantifying the efficiency and effectiveness of past actions **(Neely, 2002).** Financial performance covers the four broad areas: liquidity, solvency, profitability, and stability of the organisation. There are number of objectives behind the analysis of financial performance. On the basis of financial analysis, organization can identify its strength and weakness and can prepare the strategy accordingly. The financial performance of LICs has been assessed based on expenses, investment return, and bonus rate related following four ratios.

6.6.1 Operating Expenses to Net Premium Ratio

The operating expense includes agent commission, medical fees, reinsurance commission expense, service charge, other direct expenses, and management expenses. It does not include claims expenses. Net premium is derived by subtracting the reinsurance commission from gross premium income. The operating expense to net premium (OENP) ratio reveals how efficiently company has controlled the operating expenses. The formula of OENP ratio is as follow:

$$\textbf{Operating Expenses Net Premium Ratio}\ (\%) = \frac{\textbf{Operating Expenses}}{\textbf{Net Premiums}} \boldsymbol{x100}$$

Lower OENP ratio is preferred by shareholders, policyholders and regulators. In order to protect the interest of the policyholders, regulator determines the limit of expenditure of insurers. According to Insurance Regulation, 1993, the operating expenses to net premium ratio of life insurance companies should not exceed 30 percent.[6] The OENP ratio of eight companies, their trend along with the change of ratio over 2008 has been illustrated in Table-6.15:

Table-6.15: Operating Expenses to Net Premium Ratio

(in percentage)

Name of LICs	2008	2009	2010	2011	2012	Average	Trend	Rank	Change over 2008 (%)
I. Old Companies									
National	15	17	18	35	32	24	F/I	3	17
Nepal	17	24	28	28	26	25	F/I	4	9
LIC	20	22	24	23	24	22	F/I	2	4
MetLife	20	17	15	15	15	16	D	1	(5)
Old Average	**18**	**20**	**21**	**25**	**24**	**22**	**F/I**		**6**
II. New Companies									
Asian	40	41	42	38	35	39	F/D	1	(5)
Surya	154	103	65	57	51	86	D	3	(103)
Gurans	1,466	77	65	59	55	344	D	4	(1,411)
Prime	200	38	57	63	49	81	F/D	2	(151)
New Average	**465**	**65**	**57**	**54**	**47**	**138**	**D**		**(418)**
Average	**241**	**42**	**39**	**40**	**36**	**80**	**F/D**		**(205)**

Source: Annual Reports of LICs, 2008-2012.

F: Fluctuate, I: Increase, D: Decrease.

[6] Insurance Regulation, 1992, Section 16.

The above table exhibits that OENP ratio of MetLife, Surya and Gurans have shown decreasing trend while Asian and Prime have shown fluctuating decreasing trend but National, Nepal and LIC have shown fluctuating increasing trend during the study period.

Among the old companies MetLife has lowest (16%) and Nepal has highest (25%) average OENP ratio. Likewise, among the new companies, Asian has lowest (39%) and Gurans has highest (344%) average OENP ratio.

The OENP ratio of Nepal, LIC and MetLife has been found below the 30 percent while in case of National it has been found more than 30 percent in the year 2011 and 2012 during the period under the study. It has been found that the OENP ratio of new companies in 2008 was excessively higher because of the year of establishment of these companies. The ratio of all new companies has been found in the range of 35 to 1466 percent during the study period. It may be suggested that all new companies are required to minimise their operating expenditure as per the norms.

6.6.2 Death Claims to Gross Premium Ratio

The death claims is unavoidable in life insurance business but higher death claims is not a good signal for the healthy growth of the life insurance industry. The efficiency of management can be seen from the claims ratio. The death claims to gross premium (DCGP) ratio indicates how much death claims has been paid by the company out of the gross premium earned during the fiscal year. The ratio is calculated using the following formula.

$$\textbf{DCGP Ratio}\ (\%) = \frac{\textbf{Death Claims}}{\textbf{Gross Premiums}} \boldsymbol{x}\ \mathbf{100}$$

Lower DCGP ratio is always desirable. Higher death claims decreases the profitability of the company and increase the cost of insurance. The DCGP ratio of eight companies, their trend along with change of ratio over 2008 has been illustrated in Table-6.16:

Table-6.16: Death Claims to Gross Premium Ratio

(Rs. in million)

Name of LICs	2008	2009	2010	2011	2012	Average	Trend	Rank	Change over 2008 (%)
I. Old Companies									
National	3.49	2.62	3.12	5.24	7.17	4.33	F/I	4	3.7
Nepal	1.38	1.56	1.95	2.88	3.19	2.19	I	2	1.8
LIC	1.68	1.94	1.76	1.83	1.75	1.79	F/I	1	0.1

Name of LICs	2008	2009	2010	2011	2012	Average	Trend	Rank	Change over 2008 (%)
MetLife	0.95	2.92	2.81	3.45	2.66	2.56	F/I	3	1.7
Old Average	**1.88**	**2.26**	**2.41**	**3.35**	**3.69**	**2.72**	**I**		1.8
II. New Companies									
Asian	-	2.83	6.02	6.59	4.26	4.93	F/I	3	1.4*
Surya	-	1.85	0.65	0.98	1.03	1.13	F/D	1	-0.8*
Gurans	-	1.63	3.39	2.33	0.86	2.05	F/D	2	-0.8*
Prime	-	8.65	11.97	11.58	9.96	10.54	F/I	4	1.3*
New Average		**3.74**	**5.51**	**5.37**	**4.03**	**4.66**	**F/I**		0.3*
All Average	**1.88**	**3.00**	**3.96**	**4.36**	**3.86**	**3.69**	**F/I**		0.9

Source: Annual Reports of LICs, 2008-2012.

**Growth over 2009, in first year they have not paid death claims.*

F: Fluctuate, I: Increase, D: Decrease.

The above table shows that DCGP ratio of National, LIC, MetLife, Asian, and Prime have shown fluctuating increasing trend while Nepal has shown increasing trend and Surya and Gurans have shown fluctuating decreasing trend during the study period.

The average DCGP ratio of LIC has been found the lowest (1.79%) while National has the highest (4.33%) among the old companies during the study period. Similarly, among the new companies, Surya has lowest (1.13%) and Prime has highest (10.54%) average DCGP ratio during the five years period. Thus, it may be suggested that National, Asian, and Prime should pay more attention while accepting the life insurance proposals and underwriting the policies.

6.6.3 Investment Income to Investments Assets Ratio

The investment income is the second largest income source of life insurers followed by gross premium. The investments assets include long term and short term investments. Life insurers are allowed to invest their fund in government securities, fixed deposits of banks, bond, debenture, preference share, equity share and mutual fund of Citizen Investment Trust. Within the limited investment alternatives insurers should maximise their return by efficient allocation of fund.

The investments income to investments assets (IIIA) ratio also known as investments yield indicates how efficiently company has invested its funds in different sectors to maximise the return on investment assets. The formula of IIIA ratio is as follow:

$$\textbf{IIIA Ratio}\ (\%) = \frac{\textbf{Investment Income}}{\textbf{Investment Assets}}\ \boldsymbol{x}\ \textbf{100}$$

Higher ratio is always desirable. It increases the firm's profitability. The investment income to investment assets ratio, their trends and rank based on five years average along with the ratio change over 2008 has been presented in Table-6.17:

Table-6.17: Investment Income to Investment Assets Ratio

(in percentage)

Name of LICs	2008	2009	2010	2011	2012	Average	Trend	Rank	Change over 2008 (%)
I. Old Companies									
National	5.00	9.73	6.54	8.81	8.99	7.8	F/I	1	3.99
Nepal	4.63	7.98	7.58	8.21	9.09	7.5	F/I	2	4.45
LIC	5.58	5.62	6.99	7.95	8.56	6.9	I	3	2.98
MetLife	3.66	5.35	6.20	8.17	7.37	6.1	F/I	4	3.70
Old Average	**4.72**	**7.17**	**6.83**	**8.28**	**8.50**	**7.10**	**F/I**		**3.78**
II. New Companies									
Asian	2.30	5.81	6.76	8.33	8.43	6.3	I	4	6.13
Surya	1.70	6.88	7.12	10.85	10.08	7.3	F/I	1	8.38
Gurans	2.40	7.21	9.02	8.14	8.74	7.1	F/I	2	6.34
Prime	0.82	6.23	7.46	9.52	9.06	6.6	F/I	3	8.24
New Average	**1.80**	**6.53**	**7.59**	**9.21**	**9.07**	**6.84**	**F/I**		**7.27**
Average	**3.26**	**6.85**	**7.21**	**8.75**	**8.79**	**6.97**	**I**		**5.53**

Source: Annual Reports of LICs, 2008-2012.

The above table illustrates that investment income ratio of LIC and Asian have shown increasing trend while the remaining six companies have shown fluctuating increasing trend during the period under the study.

Among the old companies the average IIIA ratio of National has been found highest (7.8%) while MetLife has shown the lowest (6.1%). Among the new companies, Surya has the highest (7.3%) and Asian has the lowest (6.3%) average investment income. The average investment return of LICs in 2008 has been found very low (3.26%) but in 2012, companies have achieved almost 3 times more return (8.79%). The increasing trends of investment income of all companies reveals that companies have improved their skill to manage their investment assets efficiently.

6.6.4 Bonus Rate

The bonus rate has been considered as one of the most important criteria while judging the financial efficiency of the life insurance policy. Bonus is the additional amount on basic sum assured that provides to policyholders under a with-profit life insurance policy. Higher bonus rate indicates that the company is financially sound. In the same company, there may be different bonus rate as per the types of policy and terms and conditions. Basically, bonus rate of endowment plan is higher as compared to whole life, and term plan. Bonus rate is expressed in rupees per thousand.

National, MetLife, Asian and Surya have declared single bonus rate while Nepal, LIC, Gurans and Prime have declared multiple bonus rate. The bonus rate of eight companies for 2008-2012, along with trend and growth over 2008 has been presented in Table-6.18:

Table-6.18: Bonus Rate of Life Insurance Companies

(Rs. '000)

Types of LICs	2008	2009	2010	2011	2012	Average	Rank	Trend	Growth over 2008 (%)
I. Old Companies									
National	56	56	56	56	56	56	3	C	0
Nepal*	71	71	80	80	80	76	1	I	13
LIC*	70	71	71	71	71	71	2	I	1
MetLife	25	25	25	25	25	25	4	C	0
Old Average	**56**	**56**	**58**	**58**	**58**	**57**		I	**5**
II. New Companies									
Asian	35	35	35	35	35	35	2	C	0
Surya	25	25	25	25	25	25	4	C	0
Gurans*	28	28	28	28	28	28	3	C	0
Prime *	32	32	32	50	50	39	1	I	56
New Average	**30**	**30**	**30**	**35**	**35**	**32**		I	**15**
Average	**43**	**43**	**44**	**46**	**46**	**44**		I	**8**

Source: Annual Reports of LICs, 2008-2012.

**Highest bonus rate is mentioned.*

C: Constant, I: Increasing.

The above table exhibits that among the old companies, the bonus rate of Nepal and LIC have shown increasing trend while National and MetLife have shown constant trend during the study period. Among the old companies, Nepal offers the highest average bonus rate (Rs.76 per thousand) followed by LIC (Rs. 71 per thousand), National (Rs. 56 per thousand) and the least bonus rate has been declared by MetLife (Rs. 25 per thousand) during the period under the study. The poor bonus rate of MetLife and National indicates that the financial performance of these companies is not sound as compared to Nepal and LIC. It may be suggested that National and MetLife should improve the financial efficiency of the company by underwriting the policies efficiently.

Similarly, among the new companies the bonus rate of Prime has shown increasing trend while remaining three companies have shown constant trend during the study period. Prime has registered highest bonus rate (Rs. 39 per thousand) followed by Asian (Rs. 35 per thousand), Gurans (Rs. 28 per thousand) and Surya (Rs. 25 per thousand) on average. The lower bonus rate of Surya and Gurans implies that their financial efficiency is not good. It may be suggested that new companies should put more efforts in mobilising of funds in the form of premium by increasing their business.

6.7 Test of Hypotheses

6.7.1 Number of Products Offered and Gross Premium

The linear relationship between the number of products offered and gross premium earned by eight life insurance companies has been tested formulating the following null hypothesis.

H_0: There is no relationship between the number of products offered and gross premium.

The value of correlation coefficient (r) between the number of products offered and gross premium has been found 0.74 which means there is positive relationship between the number of products offered and gross premium by life insurance companies. Therefore, the null hypothesis has been rejected.

6.7.2 Number of Policies Enforced and Number of Employee, Agent, Branch, and Geographical Outreach

In order to find the linear relationship between the number of policies enforced and number of employee, number of agent, number of branch, and number of districts covered by life insurance companies following hypothesis has been formulated.

H_0: There is no relationship between number of policies enforced and number of employee, number of Agent, number of branch, and geographical outreach.

The value of correlation coefficient between number of products offered and number of employee, number of Agent, number of branch, and geographical outreach has been tested by the Pearson Correlation the value of Correlation (r) has been presented in Table-6.19:

Table-6.19: Correlation with Number of Policies Enforced

	r	Relationship
Number of Employee	0.83	Positive
Number of Agent	0.53	Positive
Number of Branch	0.18	Positive
Geographical outreach (number of districts)	-0.07	Negative

r: Pearson correlation coefficient

The value of correlation coefficient (r) between the number of policies enforced and number of employee, Agent, and branch have been found positive. It can be said that there is positive relationship between the number of policies enforced and number of employee, number of policies enforced and number of Agent, number of policies enforced and number of branch. The value of correlation coefficient (r) between the number of policies enforced and geographical coverage (number of districts) has been found negative. It can be said that there is the negative relationship between number of policies enforced and geographical outreach. The null hypothesis has been rejected.

6.8 Strengths and Weaknesses of Life Insurance Companies

Strengths and weakness of life insurance companies have been identified based on the rank value (from 1 to 4) given each company considering the five years average efficiency ratio. The value 1 indicates that the company is the most efficient and value 4 indicates the least efficient among the companies under study. Similarly, efficiency of companies in each area viz.: employee, Agents, branch, and financial have been identified based mean rank value (average rank value of the ratios). The mean rank value of each area has been obtained dividing the sum of rank value by number of ratios included in this area. The lowest mean rank value indicates the highest efficiency and vice versa.

The rank value of 14 indicators and mean rank value in the four areas of efficiency have been exhibited in Table-6.20:

Table-6.20: Mean Rank Value of Life Insurance Companies

SN	Efficiency Ratio	Rank Value of Old Companies				Rank Value New Companies			
		National	Nepal	LIC	MetLife	Asian	Surya	Gurans	Prime
I	**Employee Efficiency**								
1	PEPE	4	3	2	1	2	3	4	1
2	GPPE	4	3	1	2	1	4	3	2
3	NPPE	4	1	2	3	2	4	3	1
Mean Rank Value		**4**	**2.3**	**1.7**	**2**	**1.7**	**3.7**	**3.3**	**1.3**
Rank		4	3	1	2	2	4	3	1
II	**Agent Efficiency**								
4	PEPA	2	3	4	1	3	2	4	1
5	RPPA	2	3	4	1	2	1	3	4
6	GPPA	2	3	4	1	4	2	3	1
7	CIPA	2	3	4	1	4	1	2	3

SN	Efficiency Ratio	Rank Value of Old Companies				Rank Value New Companies			
		National	Nepal	LIC	MetLife	Asian	Surya	Gurans	Prime
Mean Rank Value		**2**	**3**	**4**	**1**	**3.3**	**1.5**	**3**	**2.3**
Rank		**2**	**3**	**4**	**1**	**4**	**1**	**3**	**2**
III	**Branch Efficiency**								
8	PEPB	4	1	3	2	2	3	4	1
9	GPPB	4	3	1	2	1	3	4	2
10	OEPB	1	3	4	2	2	3	1	4
Mean Rank Value		**3**	**2.3**	**2.7**	**2**	**1.7**	**3**	**3**	**2.3**
Rank		4	2	3	1	1	3	3	2
IV Financial Efficiency									
11	OENP	3	4	2	1	1	3	4	2
12	DCGP	4	2	1	3	3	1	2	4
13	IIIA	1	2	3	4	4	1	2	3
14	BR	3	1	2	4	2	4	3	1
Mean Rank Value		**2.8**	**2.3**	**2.0**	**3.0**	**2.5**	**2.3**	**2.8**	**2.5**
Rank		3	2	1	4	2	1	3	2

Source: Annual Reports of LICs, FY 2008-2012.

The above table shows the mean rank value in four areas of efficiency. The best performing and poor performing companies based on mean rank value has been discussed below:

6.8.1 Efficiency of Employee

Among the old companies Life Insurance Corporation (Nepal) and among the new companies Prime have shown best efficiency. Similarly, the efficiency of National and Surya has been found poor among the old and new companies respectively. It may be suggested that National and Surya should provide training to their employees in different aspects of life insurance such as: underwriting, personal communication, marketing etc. in order to increase their efficiency.

6.8.2 Efficiency of Agent

MetLife and Surya have shown best performance among the old and new companies respectively. However, the efficiency of LIC among the old companies and Asian among the new companies has been found poor. It may be suggested that LIC and Asian should provide comprehensive training to Agents on regular basis and orientation should provide while lunching the new products. Further, renewal of agency license should be allowed after analysing the performance of agents in past years.

6.8.3 Efficiency of Branch

MetLife among the old and Asian among the new companies have shown best efficiency while National has shown lowest efficiency among the old companies and Surya and Gurans both have shown poor efficiency among the new companies. It has been suggested that National, Surya, and Gurans should mobilise effectively their staffs working under the branches and Agents associated with the branches by providing necessary training and logistic supports to their employees and Agents in order to increase the insurance business.

6.8.4 Financial Efficiency

Based on four financial indicators, LIC and Surya have shown highest efficiency among the old and new companies respectively. MetLife among the old companies and Gurans among the new companies have shown poor financial efficiency. It has been suggested that MetLife should increase the investment return to invest asset ratio by investing its fund in higher returnable sector. Similarly, it requires to reduce the death claims following the standard underwriting policies. Similarly, it may be suggested that Gurans should control its operating expenses and increase the gross premium income in order to increase the financial efficiency.

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Annual Reports of Deposit and Credit Guarantee Corporation, FY 2011/12

Annual Reports of Gurans Life Insurance Company, FY 2008-2012.

Annual Reports of Insurance Board, FY 2008-2012.

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Annual Reports of Life Insurance Corporation (Nepal), FY 2008-2012.

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Annual Reports of Prime Life Insurance, FY 2008-2012.

CHAPTER SEVEN

LIFE INSURANCE COMPANIES AND ECONOMIC DEVELOPMENT

The chapter examines the contribution of life insurance companies in economic development of Nepal in terms of resources mobilisation, investments, employment generation, tax to exchequer, and corporate social responsibility.

7.1 Contribution of Life Insurance Companies

The primary function of life insurance company is to provide financial protection to policyholders and their dependents. On other hand, life insurance companies as a financial intermediaries accumulate large amount of long term contractual fund in terms of premium. The scattered resources accumulated by life insurers are channelized in productive use through government and private sectors. UNCTAD acknowledged the importance of life insurance company in economic development stating that a matured insurance and reinsurance market is essential for the economic development of the country **(UNCTAD, 1964).**

In the same time, international organisations have also emphasised the importance of life insurance companies in economic development. Plenty of studies found the positive role of life insurance companies in economic development **(Ward and Zuerbruegg, 2000, Haiss and Sumegi, 2008**). However, **Outreville (2011)** argues that the role of life insurance companies in economic development is more effective in developed countries as compared to developing countries.

Life insurance business in Nepal started four decades back. There is lack of studies on contribution of life insurance companies in economic development of Nepal. The study highlighted the contribution of LICs to economic development of Nepal has been examined in terms resource mobilisation, investments, employment creation, tax pay to exchequer, and corporate social responsibilities.

7.2 Resources Mobilisation by Life Insurance Companies

The pace of development of any country depends on the availability of sufficient resources to finance the developmental activities. Government obtains required resources by mobilising the domestic resources. Life insurance companies (LICs) accumulate the savings of large number of policyholders in terms premium. The resources mobilised by life insurance companies has more maturity period as compared to resources mobilised by banks. The gross premium collected by eight life insurance companies during 2008 to 2012 along with growth over 2008 has been exhibited in Table-7.1:

Table-7.1: Contribution in Resources Mobilisation

(Rs. in million)

FY	2008	2009	2010	2011	2012	Total	Growth over 2008 (%)
Gross Premium	3,981	5,686	7,838	9,159	11,867	38,531	198

Source: Annual Reports of LICs, 2008-2012, Annual Report of Insurance Board, 2012

The above table shows that the gross premium has increased from Rs. 3,981 million (in 2008) to Rs. 11,867 million (in 2012) registering 198 percent growth rate during the study period. LICs have mobilised almost Rs. 39 billion resources during the five years period.

During 2008-2012, the life insurance penetration rate of eight life insurance companies has increased from 0.49 percent (in 2008) to 0.78 percent (in 2012)[1] while the world average penetration rate reported 4.1 percent and 3.7 percent in 2008 and 2012 respectively. The life insurance penetration rate of Nepalese life insurance companies has been found quite low. LICs should develop the alternative channels of distribution and extend their branches to districts and villages in order to increase the insurance inclusion.

7.3 Investments by Life Insurance Companies

Life insurance companies are financial intermediaries. They provide large amount of fund to government and private sector. The amount of investment by eight life insurance companies during 2008-2012 has been presented in Table-7.2:

[1] Life insurance premium penetration ratio = (Premium / Gross Domestic product) x 100 which was 0.49% in 2008, 0.58% in 2009, 0.66% in 2010, 0.67% in 2011 and 0.78% in 2012 and the 5 years' average is 0.63%.

Table-7.2: Investments by Life Insurance Companies

(Rs. in million)

FY	2008	2009	2010	2011	2012	Trend	Growth over 2008 (%)
Investments	14,663	18,567	23,753	31,486	38,093	I	160

Source: Annual Reports of LICs, 2008-2012.

The above table shows the total amount of investments by eight life insurance companies during five years period (2008-2012) along with growth over 2008. The investment made by LICs has shown an increasing trend during the period under the study. It has been found that life insurance companies have invested Rs. 14.6 billion fund in 2008 which increased to Rs. 38 billion in 2012 showing a growth of 160 percent. The figure shows that each year LICs are able to increase their investable fund in average by Rs. 5.8 billion during the five years period. It may be concluded that the funds invested by the LICs are used by the Government in the economic development of Nepal.

7.4 Investments Pattern of Life Insurance Companies

Life insurance companies are the custodians and trustees of policyholders. They need to invest the fund as per the investment guidelines issued by regulating authority. According to Investment policy issued by Insurance Board of Nepal, LICs can invest their fund in: i) Government securities, ii) Time deposit of banks and financial institutions, and iii) Mutual Fund, Preferred Stock and debenture of banks, and equity security of all listed companies.

The aggregate investments of eight life insurance companies in government securities, time deposits of banks and financial institutions (BFI) and capital markets during 2008-2012 has been exhibited in Table-7.3:

Table-7.3: Investments Pattern of Life Insurance Companies

(Rs. in million)

Sector of Investments	2008	2009	2010	2011	2012	Average	Growth over 2008 (%)	Investment Ratio (%)
Government Securities	4,588	5,558	5,747	10,530	12,683	7,821	176	31
Time Deposit*	9,245	12,042	16,770	19,642	23,428	16,225	153	64
Capital Market	830	967	1,236	1,314	1,982	1,266	139	5
Total	**14,663**	**18,567**	**23,753**	**31,486**	**38,093**	**25,312**	**160**	**100**

Source: Annual Reports of LICs, FY 2008-2012
**Time deposit in Banks and financial institutions*

7.4.1 Investment in Government Securities

According to Investment Policy, 2005 issued by Insurance Board, life insurance companies require to invest minimum 25 percent of their investable fund in government securities like: Treasury Bills, Development Bonds, Savings Certificates etc. but there is no restriction to invest more than 25 percent of total investable fund **(IB, 2005)**. These are risk free securities but the return on these instruments is comparatively lower than corporate securities and time deposits **(NRB, 2012).**[2]

Government obtain the large amount of fund to finance the development projects through internal debt by issuing such securities. Including LICs banks, pension fund, nonlife insurance companies and public also invest their fund in government securities. It has been found that investment of LICs in government securities has increased from Rs. 4,588 (in 2008) to Rs. 12,683 (in 2012) registering the growth of 176 percent. LICs have invested 6 percent additional fund in Government securities than mandatory provision (25%) during the five years period. It may be concluded that LICs have contributed significantly in economic development of Nepal.

7.4.2 Investment in Time Deposits of Banks and Financial Institutions

There is a mandatory provision in Investment Policy, 2005 issued by Insurance Board that LICs should invest minimum 35 percent of their investable fund in time deposit of banks but there is no restriction to invest more than 35 percent. It has been found that the Time deposit of LICs in banks has increased from Rs. 9,245 million to Rs. 23,428 million from 2008 to 2012 with 153 percent growth. It is reported that Life insurance companies have provided on an average Rs. 16 billion fund to banking sector annually.

The contribution of LICs in time deposit of banking system has been found 6 percent during 2008-2012[3]. Life insurance fund has longer maturity period as compared to the deposit of other organisation so that it may be said that LICs are permanent and

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[2] In 2012, the yield of 364 days T-Bills reported 2.72 percent and the yield of developments bond ranged between 5 to 9.5 percent.

[3] Rs. 266 billion time deposit in banking system during 2008-2012. Source: Quarterly Economic Bulletin Vol. 48, mid July, 2014, NRB.

institutional suppliers of long term fund to banks and financial institutions. Thus, the banks are channelizing these funds in the infrastructure development projects.

7.4.3 Investment in Capital Market

Capital market provides long term capital to government and private sector. Capital market is considered as a barometer of measuring the status of the economy. In Nepal, "Nepal Stock Exchange Ltd" operates the capital market since 1994. The capital market has mobilised Rs.110 billion resources of investors by selling primary securities of 216 public limited companies till mid July 2012 **(Annual Report of SEBON, 2013).** The above table (8.3) shows that LICs have invested Rs. 830 million fund in securities of listed companies and mutual fund in 2008 which has increased to Rs. 1,982 million in 2012. According to Investment Policy of Insurance Board, life insurance companies are permitted to invest maximum 20 percent of their investable fund in capital market. It has been found that LICs have invested only 5 percent of investable fund in capital market during 2008-2012. The contribution of LICs in capital market has been noticed 1.8 percent of total paid up capital of listed companies over the period under the study **(Annual Report of NEPSE, 2012).**

The investment pattern of LICs shows that life insurers have given more preference in maintaining the liquidity and solvency rather than increasing the profitability of the firm. It may be concluded that LICs prefer to invest their fund in more secured sectors (government securities and time deposit of bank) rather than riskier sector (capital market).

7.5 Sector-wise Investment in Capital Market by LICs

In Nepalese capital market various investment securities are available like: Ordinary Share, Preference Share, Bond, Debenture, and Unit of Mutual Fund. Life insurance companies are permitted to invest up to 20 percent of total investable fund in different securities as follows: i) Maximum 5 percent in unit of Mutual Fund run by Citizen Investment Trust, ii) Maximum 10 percent in Preference Shares (only non-transferable), Debenture issued by commercial banks, development banks and finance companies, and iii) Maximum 5 percent in Ordinary Shares of Public Limited Company listed in Nepal Stock Exchange Ltd. Table-7.4 shows the sector-wise investment in capital market by eight life insurance companies, their trend along with growth over 2008 and sector-wise ratio of investment based on the average investment during five years period.

Table-7.4: Sector-wise Investment in Capital Market by LICs

(Rs. in million)

Sector of Investment	2008	2009	2010	2011	2012	Average	Growth Over 2008 (%)	Trend	Sector wise Ratio (%)
Mutual Fund and BFI*	645	792	1,008	1,028	1,673	1,029	159	I	81
Housing Finance Company	123	111	157	210	234	167	91	F/I	13
Hydropower	56	57	57	61	61	58	10	I	5
Other Industries	6.7	6.8	14.7	14.7	14.7	11.5	120	I	1
Total	**830**	**967**	**1,236**	**1,314**	**1,982**	**1,266**	**139**	**I**	**100**

Annual Reports of LICs, 2008-2012.
** Bank and Financial Institutions*

7.5.1 Investment in Mutual Fund and Banking Sector

Investment in mutual fund and banking sector has shown an increasing trend during the period under consideration. It has been found that companies have invested highest amount of fund (81%) in Preference Share, Debenture and Ordinary Share of banks and financial institutions and in Mutual Fund during the five years period. The investment was Rs. 645 million in 2008 which has increased to Rs. 1,673 million in 2012 showing a growth of 159 percent.

7.5.2 Investment in Housing Finance Company

Housing Finance Company Ltd. (HFC) was established in 1989 as public limited company with joint venture between government and private sector. The objective of HFC is to provide personal housing loan. The company has provided Rs. 39 million loan to its customers and has accumulated Rs. 45 million deposits from its depositors till mid July 2012 **(Annual Report of HFC, 2012).**

The above table shows that investment in housing finance company made by life insurance companies has shown a fluctuating increasing trend during the period under the study. Nepal Life has invested Rs. 123 million fund in equity share of housing finance company in 2008 which has increased to 234 million in mid-July 2012 with 91 percent growth. Out of total capital market investment 13 percent fund has been invested in housing finance during five years period.

7.5.3 Investment in Hydropower Sector

Life insurance companies have invested in hydropower companies in the form of bonds and ordinary shares. The investment in 2008 was Rs. 56 million that has increased to Rs. 61 million in 2012. The growth of investment in hydropower sector has been found insignificant (10%) and the proportion of investment in hydropower sector also has been found only 5 percent of total investment in capital market.

National Life has invested Rs. 50 million on five years power bond issued by Nepal Electricity Authority (NEA)[4] and Rs. 1.67 million on common stock of Chilime Hydropower Company in 2012. Likewise, Nepal has invested in National Hydropower Company (Rs. 1.07 million). Similarly, LIC has invested total amount of Rs. 3.9 million in equity securities in three hydropower companies viz.: Chilime, Butwal and National Hydro Power Company, and Prime has invested Rs. 4.3 million in equity capital of Chilime Hydro Power Company in 2012.

7.5.4 Investment in Other Industries

Life insurance companies have invested their fund in ordinary share of other industries such as: hotel, telecommunication, Rubber Industries, Spinning Mills etc. National has invested in equity share of two five star hotels (Tara Goan Regency Hotel and Soaltee Hotel), Gorakhkali Rubber Udyog, Jyoti Spinning Mills, Nepal Film Udyog. Similarly, Nepal has purchased equity share of Nepal Telecom (largest telecommunication company) and Prime has invested in Bottlers Nepal Ltd. The total equity investment of LICs in industrial sector reported Rs. 6.7 million in 2008 which has increased to Rs. 14.7 million in mid July 2012 showing 120 percent growth rate.

7.6 Contribution in Generating Employment

Employment opportunity helps to reduce the poverty and increase the per capita income. **Walterskirchen (1999) and Saltz and Cebula (2001**) assert that employment and

[4] State owned power company

economic development have positive relationship. Life insurance industry provide two types of employment opportunities: salary based permanent employment to staffs, and commission based employment to Agents. Staffs are entitled to get the salary and benefits while Agents get only commission on the basis of gross premium they have written. There is limited employment opportunity for salary based staffs but there is boundless opportunity for earnings the commission income in case of Agents. The growth in number of full time staffs working under eight life insurance companies and number of Agents has been shown in Table-7.5:

Table-7.5: Growth in Number of Employees and Agents

(In number)

Types of Employment	**2008**	**2009**	**2010**	**2011**	**2012**	**Growth over 2008 (%)**
Employee	499	728	1033	1256	1368	174
Agents	46,576	48,697	68,196	75,521	66,859	44
Total	**47,075**	**49,425**	**69,229**	**76,777**	**68,227**	**45**

Source: Annual Reports of LICs, 2011/12 and Annual Report of Insurance Board, 2012

The above table exhibits the number of employees working under eight LICs and life insurance Agents registered under Insurance Board during the five years period, their trend along with growth over 2008. It has been found that the permanent employment opportunity for staffs has increased from 499 to 1,368 registering 174 percent growth over 2008. It may be suggested that LICs should create more employment opportunity by expanding their activities.

The number of Agents has increased from 46,576 to 66,859 with 44 percent growth during the five years period. In terms of number, it may be said that life insurance industry has offered more employment opportunity to Agents.

7.7 Contribution to Exchequer

Life insurance company as a business organisation contributes to government treasury paying various types of taxes and service charges. According to Income Tax Act, 2002; life insurance companies require to pay 30 percent corporate income tax on their net profit. Similarly, 15 percent tax should be deducted by LICs at the time of commission payment on commission income of Agents. The contribution of LICs in terms of corporate tax and tax on commission income for five years period along with growth over 2008 has been shown in Table-7.6:

Table-7.6: Contribution to Exchequer

(Rs. in million)

Types of Tax	**2008**	**2009**	**2010**	**2011**	**2012**	**Trend**	**Growth over 2008 (%)**
Tax on corporate income	57	114	23	132	248	F/I	335
Tax on commission income	62	96	137	162	199	I	221
Total	**119**	**210**	**160**	**294**	**447**	**F/I**	**276**

Source: Annual Reports of LICs, FY 2008-2012.

The above table exhibits the contribution of LICs to Exchequer in terms of corporate income tax and tax on commission income. Corporate income tax has shown fluctuating increasing trend while tax on commission income has shown increasing trend over the study period. The contribution of LICs in government exchequer has been found 0.16 percent out of total tax revenue of government.[5]

7.8 Corporate Social Responsibility Activities

As a corporate citizens company should fulfill certain social responsibility in the society **(Nelson, 2004).** Corporate social responsibility is continuing commitment by business to contribute to economic development while improving the quality of life of the workforce and their families as well as of the community and society at large **WBCSD (2012)**. Corporate social responsibility (CSR) has already become a mandatory in many countries but in Nepal CSR is still a voluntary activity.

7.8.1 Donation to Government

The Insurance Board and life and nonlife insurance companies have provided donation to Government of Nepal to Prime Ministerial National Natural Calamities Relief Fund **(Insurance Board, 2012).** The amount donated by life insurance companies has been shown in Table-7.7:

[5] Average tax revenue of government in 2008-2012 reported Rs. 150.01 billion. Source: Economic Survey, 2013.

Table-7.7: Donation to Government by Life Insurance Companies

Name of LICs	Amount (Rs.)
1. National Life	500,000
2. Nepal Life	601,000
3. LIC	500,000
4. MetLife	400,000
5. Asian Life	500,000
6. Surya Life	500,000
7. Prime Life	300,000
Total	**3,301,000**

Source: Insurance Board, 2012.

The above table shows the name of LICs and the amount donated by each company to Prime Ministerial National Natural Calamities Relief Fund. LICs have donated Rs. 3.3 million to Government of Nepal which has been used in the support of sufferers from natural disasters and catastrophe events.

7.8.2 Other Corporate Social Responsibility Activities

The corporate social responsibilities activities carried out by life insurance companies during 2008-2012 have been discussed below:

I. **National Life:** National Life provided Rs. 1 million life insurance coverage and Rs. 0.5 million accidental health insurance coverage to the 11 players of national cricket team. Scholarship has been given to student studying at Pokhara, and food and logistic support provided to the old age orphan residing inside the Pashupati Temple premises. The company has also conducted eye camp in Sindhupalchowk District.

II. **Nepal Life:** Nepal Life has donated cash for the renovation for Ganesh temple situated at Kamaladi, Kathmandu and provided assistance to poets for their literary works.

III. **Life Insurance Corporation (Nepal):** Life Insurance Corporation (Nepal) provided Rs. 100,000 cash support to blind students studying in Machhindra Higher Secondary School, Lagankhel, Lalitpur and Adarsha Higher Secondary School, Thimi, Bhaktapur.

IV. **Surya Life:** Surya Life provided scholarship to students studying in Sindhuli District. The scholarship was awarded by the Chief of District Office by organising a special function in district.

V. **Prime Life:** Prime Life provided financial support to the education and health related programs carried out in Kaski, Taplejung, Mustang, Solukhumbu, Dang, and Mugu Districts.

The above corporate social responsibilities activities are milestone in the history of life insurance. It is expected that such CSR activities may be helpful to increase the social prestige of life insurance among the public. It is suggested that LICs should publish all CSR activities and the cost incurred against such activities in their Annual Reports in details. Further, the LICs should conduct awareness programs to increase the social faith of public towards the life insurance industry.

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CHAPTER EIGHT

APPRAISAL OF LIFE INSURANCE COMPANIES: POLICYHOLDERS' AND EXPERTS' PERSPECTIVES

This chapter appraises the life insurance companies from the perspective of policyholders and experts. The views of respondents has been obtained in different aspects of life insurance viz.: products, geographical outreach, Agents, return on investment, benefits to customers, creation of employment along with contribution of life insurance companies in financial sector, capital market, infrastructure development, industrialisation, and poverty reduction.

8.1 Rationale of the Opinion Survey

Gianforte (2012) highlights the importance of the customers' survey to assess the performance of any organisation and concludes that customers' experience has become a key business success. The objective of the primary survey is to appraise the performance of life insurance companies with the different perspectives from the viewpoint of policyholders and experts. Policyholders are stakeholder of life insurance companies and their experience and observations may help to insurance companies as a constructive feedback. Likewise, staffs, agents and officials of regulating agencies, academicians and practitioners have valuable experience and critical observation on life insurance companies. The opinion of respondents undoubtedly provides inputs for the study and tries to balance the conclusion of the study.

There are various types of life insurance companies working in Nepal since 1968. There is variation among them in different perspectives viz.: ownership structure, volume of business, size, and performance. The opinion of respondents has been obtained in overall rather than particular company. The views of respondents represent the average scenario of life insurance industry. The opinion survey has been taken in two different strata of population: policyholders and experts.

8.2 Profile of Policyholders Respondents

The views of 170 respondents have been included in this study. The demographic and economic profile of the respondents has been tabulated in Table-8.1:

Table-8.1: Profile of Policyholders Respondents

Variable	Category	Frequency		Variable	Category	Frequency	
		Number	%			Number	%
I. Gender	Male	115	68	IV. Location	Urban	103	61
	Female	55	32		Rural	67	39
	Total	**170**	**100**		**Total**	**170**	**100**
II. Age	18 to 27	49	29	V. Occupation	Job	122	72
	28 to 37	69	41		Business	28	16
	38 to 47	40	23		Farmer	20	12
	48 to 57	12	7		**Total**	**170**	**100**
	Total	**170**	**100**	VI. Annual Income	Up to Rs. 160,000	87	51
III. Level of Education	Up to SLC	39	23				
	Under Graduate	107	63		Above Rs. 160,000	83	49
	Post Graduate and above	24	14				
	Total	**170**	**100**		**Total**	**170**	**100**

Source: Field Survey, 2014

The above table exhibits the profile of 170 policyholder respondents in terms of their gender, age, education, occupation, and annual income. It has been observed that among the respondents, 68 percent are male and 32 percent are female. Number of respondents having the age between 28-37 years has been found highest (41%) while the respondents having the age between 48 to 57 years (7%) has been found lowest. The profile of education of the respondents shows highest number of respondents are Undergraduate (63%) followed by SLC passed and Post Graduate. Among the respondents, 67 percent belongs to urban (Municipality) and 33 percent belongs to rural area. The survey shows that highest numbers of respondents (72%) are Jobholder followed by Businessman (16%) and Farmer (12%). Among the respondents, 79 percent have received maturity benefits while 21 percent have received death benefits. It has been found that 51 percent respondents have the annual income up to Rs. 160,000 while 49 percent have the income more than Rs. 160,000 at the time of policy purchase.

8.3 Approaches of Analysis

The opinion of respondents has been discussed with the help of descriptive statistic. Opinion of respondents in each statement has been discussed based on the percentage of respondents. Agreement and disagreement of the opinion has been discussed based on the total frequency i.e. agreement means frequency of agree (A) plus strongly agree (SA) and disagreement means frequency of disagree (D) and strongly disagree (SD).

8.4 Appraisal of Insurance Companies: Policyholders Perspectives

The information of respondents has been obtained about the objectives of buying life insurance, products diversification, right information from agents, area of investments, policies and loan facilities taken by respondents, claims settlement of policies, benefits from life insurance, poverty reduction and welfare from the life insurance.

8.4.1 Objective of Buying the Life Insurance Policy

People purchase life insurance basically to fulfill two basic objectives: i) Risk protection, and ii) Investment. Respondents were asked to express their opinion by selecting any one specific objective among the following: i) Security against uncertainty, ii) Regular savings, iii) Better return on investment, iv) Financial protection for dependents, v) Tax exemption benefits, and vi) Education for children. The motives of buying life insurance as opined by 170 respondents have been exhibited in Table-8.2:

Table-8.2: Objective of Buying Life Insurance

Objectives of Buying Life Insurance	Response Frequency	
	Number	Percentage
1. Regular savings	73	43
2. Security against the uncertainty in future	40	23
3. Financial protection for dependents	35	21
4. Provide education for children	12	7
5. Tax exemption benefits	9	5
6. Better return on investment	1	1
Total	**170**	**100**

Source: Field Survey, 2014.

The above table illustrates the frequency of the responses of 170 respondents regarding the objectives of buying life insurance. It has been found that highest (43%) number of respondents purchased life insurance for regular savings, followed by protection from uncertain future (23%), and security of their dependents (21%), Education to their children (7%), and tax exemption benefits are minor consideration for purchase of life insurance (5%). The notable feature is that only 1 percent respondents have purchased the life insurance policy for better return on investment. The analysis reveals that saving and security are major considerations for purchase of insurance.

Following hypothesis has been formulated to examine the association between the objectives of respondents behind the buying of life insurance policy and the demographic and financial attributes of the respondents.

H_0: There is no association between the objective of policyholders' buying life insurance and attributes: sex, age, locality, education, occupation, and income.

The above hypothesis has been tested by administering Chi-square test. The *p* value of Chi-square test and decision has been presented in Table-8.3:

Table-8.3: Attributes of Respondents and Objectives of Buying Life Insurance

Attributes of Respondents	*p* value	Result	Decision
1. Sex	0.47	$p > 0.05$	H_0 Accepted
2. Age	0.19	$p > 0.05$	H_0 Accepted
3. Locality	0.65	$p > 0.05$	H_0 Accepted
4. Level of Education	0.002	$p < 0.05$	H_0 Rejected
5. Occupation	0.23	$p > 0.05$	H_0 Accepted
6. Level of Income	0.45	$p > 0.05$	H_0 Accepted

Source: Field Survey, 2014.

The above table shows the different attributes of respondents, *p* value of Chi-square test and result of hypothesis. It has been found that among the six attributes, there is a significant association between the level of education of respondent and objective of buying life insurance. Remaining five attributes have no significant association with the objective of buying life insurance. The null hypothesis has been accepted in case of sex, age, locality, occupation and level of income of policyholders since the *p* value of Chi Square test is more than 5 percent. The null hypothesis has been rejected in case of level of education of policyholders as the *p* value of Chi Square test is less than 5 percent.

It may be concluded that only the level of education influences the motive of buying life insurance. **Beck and Webb (2003)** find that income doesn't play significant role while buying of life insurance which is similar to the findings of this study. But the findings contradict with the study of **Curak, Dzaja and Pepur (2013)** and **Banargee (2014)** as they find that age and occupation also influence the demand of life insurance.

8.4.2 Types of Products

The need of life insurance plans to customers varies according to their demographics and economic factors. In this context following two statements have been formulated and tried to obtain the opinion of policyholders using five point likert scale questionnaire.

1. Life insurance products are suitable for all.
2. Life insurance companies need to design affordable products for poor.

The views of respondents in number and percentage along with mode view have been exhibited in Table-8.4:

Table-8.4: Types of Products

Statements	Frequency of Respondents' Views						Mode view
	SD	D	N	A	SA	Total	
1. Life insurance products are suitable for all	52 (31)	56 (33)	10 (6)	45 (26)	7 (4)	170 (100)	D
2. Life insurance companies need to design affordable products for poor	14 (8)	12 (7)	2 (1)	45 (27)	97 (57)	170 (100)	SA

Source: Field Survey, 2014

SD= Strongly Disagree, DA=Disagree, N=Neutral, A= Agree, SA= Strongly Agree,

Figure inside the parenthesis indicates percentage of row total.

The statement "Life insurance products are suitable for all" is disagreed (including strongly disagree) by 64 percent respondents. At the time of field survey, endowment, term and whole life plans were available in the market. It may be suggested that LICs should also introduce investment linked plan. The statement "Life insurance companies need to design affordable product to poor" is agreed by 84 percent respondents. It can be concluded that companies have not offered affordable products to poor and vulnerable class so that it is the right time to enforce affordable products like micro insurance to low income and vulnerable group.

8.4.3 Right Information about the Product

Universally, life insurance products are sold by agents. Agents are responsible to provide the right information about the products to the potential customers on behalf of the company. According to Insurance Rules, the qualification of Agents should be at least School Leaving Certificate. Besides, week long training on life insurance is also required to get the life insurance agency license. There is no need to get the refresher training or continuing education for renewal of the license. The rules were framed few decades back. According to the changing scenario of the insurance industry the change in provisions are required. The role of agents is very crucial for the dissemination of accurate information about the product features and settlement procedures to potential customers. A study by **Xu and Zia (2012)** finds that the status of insurance literacy around the world is poor. In this context following two statements have been formulated and tried to obtain the opinion.

3. Life insurance agents are personal financial consultant.
4. Life insurance agents provide the right information about the products.

The views of respondents in number and percentage along with mode view have been exhibited in Table-8.5:

Table-8.5: Right Information about the Product

Statements	Frequency of Respondents' Views						Mode view
	SD	D	N	A	SA	Total	
3. Life insurance agents are personal financial consultant	7 (4)	18 (11)	21 (12)	87 (51)	37 (22)	170 (100)	A
4. Life insurance agents provide the right information about the products	5 (3)	15 (9)	21 (12)	97 (57)	32 (19)	170 (100)	A

Source: Field Survey, 2014

The above table demonstrates that the statement "Life insurance agents are personal financial consultant" is agreed by 73 percent respondents. It can be said that respondents have the positive impression towards the agents. Agents should acquire proper knowledge about the personal financial planning and need to provide the suggestion to their customers accordingly. The statement "Life insurance agents provide the right information about the products" is agreed by 76 percent respondents. If policies are sold without proper information and counseling, there are high chances of discontinuation of policies. Agents require to provide full information about the products available in the market so that on the basis information customers could select the best one as per his need and affordability.

8.4.4 Better Area of Investments

Endowment plans cover the risk and provide better investments opportunities to the policyholders. It has longer investment horizon and it forces for savings in a regular basis. In this perspective, the opinion of policyholders has been obtained on the following statements.

5. Life insurance encourages for long term savings.
6. Life insurance is a better area of investment.
7. Buying life insurance policy is more beneficial than savings in bank.
8. Bonus rate of life insurance companies is satisfactory.

The views of respondents in number and percentage along with mode view have been shown in Table-8.6:

Table-8.6: Better Area of Investments

Statements	Frequency of Respondents Views						Mode view
	SD	D	N	A	SA	Total	
5 Life insurance encourages for long term savings	- -	- -	5 (3)	48 (28)	117 (69)	170 (100)	SA
6. Life insurance is a better area of investment	1 (1)	3 (2)	11 (6)	65 (38)	90 (53)	170 (100)	SA
7. Buying life insurance policy is more beneficial than savings in bank	4 (2)	6 (4)	17 (10)	71 (42)	72 (42)	170 (100)	A/SA
8. Bonus rate of life insurance companies is satisfactory	13 (7)	20 (12)	32 (19)	86 (51)	18 (11)	169 (100)	A

Source: Field Survey, 2014

The above table exhibits that the statement "Life insurance motivates for long term savings" is agreed by 97 percent respondents. Similarly, the statement "Life insurance is a better area of investment" is agreed by 91 percent respondents. Likewise, the statement "Buying life insurance policy is more beneficial than saving in bank" is agreed by 84 percent respondents. The statement "Bonus rate of life insurance is satisfactory" is agreed by 62 percent respondents. On the basis of responses on above four different statements, it may be concluded that respondents believe on life insurance companies as a better sector of investments and life insurance encourages for long term savings. The opinion concludes that most of the policyholders are satisfied by purchasing the life insurance products. Thus, it may be suggested that life insurance companies should introduced attractive new products to increase the insurance inclusion.

8.4.5 Life Insurance Policies

The information regarding life insurance policies purchased by respondents and sum assured of policies have been demonstrated in Table-8.7:

Table-8.7: Life Insurance Policies

I. Number of Policy Purchased	**Number**	**Percentage**
1	166	97.6
2	2	1.2
3	1	0.6
5	1	0.6
Total	**170**	**100**
II. Types of Policy	**Number**	**Percentage**
Endowment plan	168	98.8
Whole Life plan	2	1.2
Total	**170**	**100**
III. Sum Assured	**Number**	**Percentage**
Up to Rs. 100,000	100	59
Rs. 100,001 to Rs. 500,000	63	37
Above Rs. 500,000	7	4
Total	**170**	**100**

Source: Field Survey, 2014

The above table exhibits the general information regarding the number of policies held by respondents, range of sum assured and policy loan obtained by respondents. It has been found that 166 respondents have only one policy each and remaining four respondents have two, three and five policies. There are only 2 respondents who have purchased whole life policies and remaining 168 policyholders have purchased endowment plan which shows that the endowment plans are more popular among the respondents. Highest number of respondents (59%) have sum assured up to Rs. 100,000 and lowest number of respondents have sum assured (4%) more than Rs.500,000.

8.4.6 Settlement of Claims

The respondents have got either maturity benefits or death benefits. The information regarding the time taken for claims settlement and level of satisfaction from claim settlements have been exhibited in the following table:

Table-8.8: Settlement of Claims

I. Types of Claims	**Number**	**Percentage**
Maturity Claims	134	79
Death Claims	36	21
Total	**170**	**100**
II. Time Taken for Claims Settlement	**Number**	**Percentage**
1 to 30 days	147	86
Above 30 days	23	14
Total	**170**	**100**
III. Level of Satisfaction	**Number**	**Percentage**
Highly satisfied	109	64
Satisfied	57	34
Not so satisfied	4	2
Total	**170**	**100**

Source: Field Survey, 2014

It has been observed that 79 percent maturity claims are settled by the life insurance companies which shows the efficiency of the companies in underwriting the policies. Similarly, 86 percent claims are settled within 30 days and remaining after 30 days. This shows that the policyholders (98%) are well satisfied with claims settlement procedure.

8.4.7 Benefits from the Life Insurance

There is no doubt that death benefits, secured return, and policy loan are major benefits of life insurance. In Nepalese context, the perception and understanding of policyholders regarding such benefits has been unearthed by formulating following statements:

9. Life insurance is one of the best ways to manage the long term problem.
10. Life insurance policy helps to lessen the difficulties.
11. Life insurance is a gift during the old age and for dependents.
12. Death benefit is the main benefit of life insurance.

The views of respondents in number and percentage along with mode view have been illustrated in Table-8.9:

Table-8.9: Benefits from the Life Insurance

Statements	Frequency of Respondents' Views						Mode view
	SD	D	N	A	SA	Total	
9. Life insurance is one of the best ways to manage the long term problem	1 (1)	7 (4)	7 (4)	73 (43)	82 (48)	170 (100)	SA
10. Life insurance policy helps to lessen the difficulties	4 (2)	22 (13)	30 (18)	74 (43)	40 (24)	170 (100)	A
11. Life insurance is a gift during the old age and for dependents	- -	2 (1)	5 (3)	63 (37)	100 (59)	170 (100)	SA
12. Death benefit is the main benefit of life insurance	6 (3)	13 (8)	8 (5)	68 (40)	75 (44)	170 (100)	SA

Source: Field Survey, 2014

The above table shows that the statement "Life insurance is one of the best ways to manage the long term problem" is agreed by 91 percent respondents. Similarly, the statement “Life insurance policy helps to lessen the difficulties” is agreed by 67 percent respondents. Likewise, the statement "Life insurance is a gift during the old age and for dependents" is agreed by 96 percent respondents. The statement "Death benefit is the main benefit of life insurance" is agreed by 84 percent respondents. Based on the opinion on above four statements it may be concluded that policyholders have acknowledged various benefits offered by life insurance. They agree that life insurance is a useful financial instrument to manage the long term problems and reduce the difficulties.

8.4.8 Poverty Reduction

Poverty in Nepal is deep rooted and widespread. More than 25 percent population falls below the absolute poverty line (**Economic Survey, 2013**). In terms of poverty, the position of Nepal ranked in 157 out of 183 countries **(UNDP, 2013).** Obviously, poor are suffered by various risks. The risks can be managed by insurance. In various countries government and insurance companies have launched poverty reduction program jointly **(IMF, 2011)[1].** In this context, the role of life insurance companies in poverty reduction in collaboration with Government as well as independently has been examined by formulating the following three statements.

13. Government may reduce the poverty through life insurance activities.
14. Life insurance companies are contributing to society.

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[1]Source: http://www.imf.org/external/pubs/ft/scr/2011/cr11154.pdf

15. Life insurance companies deliver their services to rural and remote sector.

The views of respondents in number and percentage along with mode view have been shown in Table-8.10:

Table-8.10: Poverty Reduction

Statements	Frequency of Respondents Views						Mode view
	SD	D	N	A	SA	Total	
13. Government may reduce the poverty through life insurance activities.	2 (1)	5 (3)	19 (11)	80 (47)	64 (38)	170 (100)	A
14. Life insurance companies are contributing to society.	2 (1)	9 (6)	24 (14)	88 (52)	46 (27)	169 (100)	A
15. Life insurance companies deliver their services to rural and remote sector.	57 (33)	39 (23)	14 (8)	35 (21)	25 (15)	170 (100)	SD

Source: Field Survey, 2014

The above table shows that the statement "Government may reduce the poverty through life insurance activities" is agreed by 85 percent respondents. The opinion infers that life insurance companies are capable to reduce the poverty but still government has not started such program through life insurance companies. It may be suggested that Government should deliver the poverty reduction program through LICs. The statement "Life insurance companies are contributing to society" is agreed by 79 percent respondents. It can be said that policyholders have realized the social contribution of life insurance. The statement "Life insurance companies deliver their services to rural and remote sector" is disagreed by 56 percent respondents. Majority of respondents are not ready to accept that LICs have rendered their services to rural and remote sector. The opinion is coincided with the reality because there are still some districts where insurance companies have not established there offices[2]. More than 90 percent population is still far from the service of life insurance[3]. The activities of life insurance are concentrated in cities and nearby the highway only. Therefore, it is suggested that life insurance companies should also provide their services in rural and remote sector.

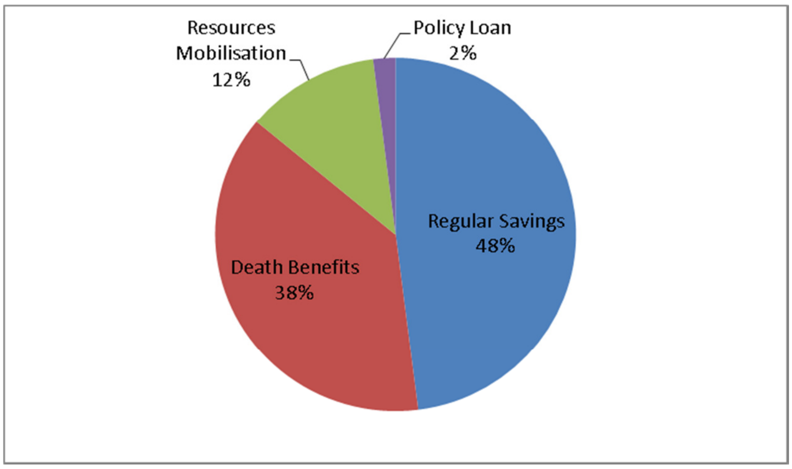
[2] Till mid July 2012, there was no access of life insurance offices in seven districts. During the field survey, three districts have no access of LICs branch.

[3] According to the Chairman of Insurance Board of Nepal, only 6 percent population has the life insurance policy. Source: http://www.aarthiknews.com/en/interviews/interview-with-chairman-of-beema-samiti-pro-punkt-dr-punkt-fatta-bahadur-kc/858.

8.4.9 Major Role of Life Insurance Companies

There are various roles of life insurance to policyholders and economy. The opinion of respondents has been obtained out of the following four alternatives such as: i) Death benefits, ii) Regular savings, iii) Policy loan, and iv) Resource mobilization. Respondents were requested to select the most important contribution of life insurance. The frequency of responses on four role of life insurance has been exhibited by Figure-8.1:

Figure-8.1: Major Role of Life Insurance Companies



Source: Field Survey, 2014.

The above figure shows the role of life insurance and their frequency in percentage among the four alternatives. It is exhibited that almost half of the total respondents (48%) agree on regular savings is the most important contribution of life insurance followed by death benefits (38%). Further, it has been observed that 12 percent respondents believed that resources mobilization is the role of life insurance companies while 2 percent respondents believe that loan to policyholders is an important role of life insurance. It may be concluded that majority of policyholders have purchased the life insurance for regular savings.

8.5 Profile of Expert Respondents

In this survey, executive and staffs of life and non-life insurance companies, agents of LICs who have at least five years of experience in the field of insurance, officials of regulatory authority, policymakers and professional consultants, Chartered Accountants, Bankers, Economist, Capital Market experts are considered as experts respondents.

Table-8.11 exhibits the demographic (gender, age, education, work experience, and profession) information of experts.

Table-8.11: Profile of Experts Respondents

Variables	Category	Frequency	
		Number	Percentage
I. Gender	Male	289	78
	Female	81	22
	Total	**370**	**100**
II. Age	Up to 30 years	12	3
	31 to 45 years	230	62
	46 to 60 years	121	33
	Above 60 years	7	2
	Total	**370**	**100**
III. Education	Up to Bachelors level	176	48
	Master level	181	49
	Above Master level	13	3
	Total	**370**	**100**
IV. Work Experience	5 to 10 years	156	42
	11 to 20 years	153	41
	21 to 30 years	42	11
	Above 30 years	19	5
	Total	**370**	**100**
V. Profession / Associated Organisation	Staff of Life Insurance Companies	71	19
	Agents of Life Insurance Companies	114	31
	Regulators, Experts, and Academicians	125	34
	Staffs of Non-life Insurance Companies	60	16
	Total	**370**	**100**

Source: Field Survey, 2014.

The above table exhibits the profile of the expert respondents. It has been found that out of total 370 respondents, 78 percent are male and 22 percent are female. Highest number of respondents (62%) are between the age group of 31 to 45 years followed by 46 to 60 years (33%). The education profile of respondents shows that 49 percent have Master degree followed by Bachelor's degree (48%) and 3 percent have the qualification above Master degree. It has been found that 42 percent respondents have work experience between 5 to 10 years followed by between 11 to 20 years (41%), and the least number of respondents (5%) have experience above 30 years. On basis of their profession, highest number of respondent (34%) represents the regulatory authorities of insurance, banking, capital market, and accounting along with Bankers, Chartered Accountants, Academicians and freelancer consultants followed by life insurance agent (31%), executives and staffs of life insurance companies (19%) and least number of respondents (16%) are the executives and staffs of general insurance companies. Among the 370 respondents, 185 (50%) are working inside the LICs and 50 percent are outside the LICs.

8.6 Appraisal of Insurance Industry: Experts' Perspectives

The opinion of experts has been obtained on different seven areas viz.: i) Suitable products and right information, ii) Service to policyholders, iii) Return to policyholders and shareholders, iv) Poverty reduction, (v) Support to development sector, vi) Support to financial sector, and vii) Employment opportunity.

8.6.1 Suitable Products and Right Information

Nepalese life insurance companies have offered various types of policies like: Term, Endowment, and Whole Life products but there is no Microinsurance products offered by LICs specially for the population belongs to below the poverty line. The insurance products are intangible financial instruments so that it is the responsibility of company and Agents (distribution channel) to provide accurate information about the products to their potential customers **(Brodie, 2009).** In this context, following three statements have been formulated to obtain the views of experts.

1. Life insurance companies have offered products as per the requirement of the customers.
2. Life insurance companies have designed affordable products to poor and vulnerable class.
3. Agents have provided sufficient information about the products.

The views of respondents in number and percentage along with mode view have been shown in Table-8.12:

Table-8.12: Suitable Products and Right Information

Statements	Frequency of Respondents' Views						Mode View
	SD	D	N	A	SA	Total	
1. Life insurance companies have offered products as per the requirement of the customers.	16	35	55	152	112	370	A
	(5)	(9)	(15)	(41)	(30)	(100)	
2. Life insurance companies have designed affordable products to poor and vulnerable class.	103	89	63	82	28	365	SD
	(28)	(24)	(17)	(23)	(8)	(100)	
3. Agents have provided sufficient information about the products.	12	65	52	183	58	370	A
	(3)	(18)	(14)	(49)	(16)	(100)	

Source: Field Survey, 2014

Figure inside the parenthesis indicates percentage of row total.
SD= Strongly Disagree, D=Disagree, N=Neutral, A= Agree, SA= Strongly Agree.

The above table shows that the statement "Life insurance companies have offered products as per the requirement of the customers" is agreed by 71 percent respondents. The statement "Life insurance companies have designed affordable products to poor and vulnerable class" is disagreed by 52 percent respondents. The view of respondent and existing situation of life insurance industry has been coincided since more than 25 percent population of Nepal still live below the absolute poverty line whose earnings is less than $2 per day **(Economy Survey, 2013).** They cannot afford the insurance products currently available in Nepal. The statement "Agents provide sufficient information about the products" is agreed by 65 percent respondents. Still there is one fifth portion of total respondents do not believe that agents provide sufficient information to their customers about the products. It may be suggested that Agents should disseminate the sufficient information about the different kinds of products offered by the companies more effectively and new affordable products should be designed to cater the needs of poor people by the insurance companies.

8.6.2 Satisfaction to Policyholders

Customer will be satisfied if company's performance meets the expectation of customers **(Parasauraman, Zeithaml and Berry, 1988).** Life insurance companies should be aware on providing full and accurate information to their policyholders in time, post sales service, and timely settlements of claims in fairly manner. Whether Nepalese LICs have performed these activities honestly is the matter of concern since these activities measure the performance of life insurance companies to some extent. In this context, the opinion of experts has been obtained on the following three statements.

4. Nepalese life insurance companies have given priority to the policyholders' satisfaction.
5. Claim settlement is easy in life insurance companies.
6. Life insurance companies have disseminated sufficient information to their customers.

The views of respondents in number and percentage along with mode view have been shown in Table-8.13:

Table-8.13: Satisfaction to Policyholders

Statements	Frequency of Respondents' Views						Mode View
	SD	D	N	A	SA	Total	
4. Nepalese life insurance companies have given priority to the policyholders' satisfaction.	6	31	52	182	99	370	A
	(2)	(8)	(14)	(49)	(27)	(100)	
5. Claims settlement is easy in life insurance companies	29	59	65	136	78	367	A
	(8)	(16)	(18)	(37)	(21)	(100)	
6. Life insurance companies have disseminated sufficient information to their customers	29	90	73	150	27	369	A
	(8)	(24)	(20)	(41)	(7)	(100)	

Source: Field Survey, 2014

The above table exhibits that the statement "Nepalese life insurance companies have given priority to the policyholders' satisfaction" is agreed by 76 percent respondents. In order to improve the services to their policyholders it is suggested to LICs to establish the customer redressal unit in their office so that they can get the feedback from the customers. The statement "Claim settlement is easy in life insurance companies" is agreed by 58 percent respondents. However, one fourth of the respondents are still disagree on above statements specially in case of the settlement of death claims. Companies have been suggested to settle the intimated death claims within time as mentioned in Insurance Regulations.[4] The statement "Life insurance companies have disseminated sufficient information to their customers" is agreed by 48 percent respondents and disagreed by 32 percent respondents while 20 percent respondents were neutral on this statement. It may be suggested that LICs should disclose the detailed information in their Annual Reports. Similarly, the official websites of companies also should be updated from time to time.

8.6.3 Return to Policyholders and Shareholders

Policyholders and shareholders are two major stakeholders in life insurance companies. The conflict of interest between these stakeholders always exists as both expect more return from the common resources of the company **(MacMinn and Yayuan, 2011).** Insurance Board has set a rule to divide the surplus fund of company 90 percent to policyholders' (technical reserve fund) and remaining 10 percent to shareholders' fund.[5] The return of policyholders' is reflected by bonus rate of company. Likewise, return of

[4] Insurance Regulation, 1993 Rule 31 Sub Rule 3 mentions that within 30 days death claims should be settled.

[5] Clause 7 of Directives of Life Insurers' financial analysis and liabilities Valuation, 2007

shareholders is net profit after tax. In this context, the views of experts regarding the return to policyholders and shareholders have been obtained on the following assumptions.

7. Life insurance companies have provided better return to policyholders.

8. Life insurance companies have provided better return to their shareholders.

The views of respondents in number and percentage along with mode view have been shown in Table-8.14:

Table-8.14: Return to Policyholders and Shareholders

Statements	Frequency of Respondents' Views						Mode View
	SD	D	N	A	SA	Total	
7. Life insurance companies have provided better return to policyholders.	7	34	49	222	58	370	A
	(2)	(9)	(13)	(60)	(16)	(100)	
8. Life insurance companies have provided better return to their shareholders.	4	31	67	187	79	368	A
	(1)	(8)	(18)	(51)	(22)	(100)	

Source: Field Survey, 2014.

The above table illustrates that the statement "Life insurance companies have provided better return to policyholders" is agreed by 76 percent respondents. Most of the respondents have purchased the policy from the old companies. The bonus rate of old companies is better than new companies. Similarly, the statement “Life insurance companies have provided better return to their shareholders” is agreed by 73 percent respondents. It may be concluded that policyholders and shareholders both are satisfied with the return.

8.6.4 Poverty Reduction

Nepal has been suffering from the vicious cycle of poverty. The life in rural and remote places is more difficult. People residing in rural and remote districts faced more risks in terms of health, infrastructure facilities and financial services as compared to urban area **(Rai, Hirai, Abe, and Ohno, 2002).** In this context, following statements have been formulated and views of respondents have been obtained regarding the contribution of LICs in rural and remote places.

9. Life insurance companies have played significant role to reduce the poverty.

10. Life insurance companies have provided service in rural and remote places.

The views of respondents in number and percentage along with mode view have been exhibited in Table-8.15:

Table-8.15: Poverty Reduction

Statements	Frequency of Respondents' Views						Mode View
	SD	D	N	A	SA	Total	
9. Life insurance companies have played significant role to reduce the poverty.	39	63	92	135	41	370	A
	(11)	(17)	(25)	(36)	(11)	(100)	
10. Life insurance companies have provided service in rural and remote places.	83	90	50	101	44	368	A
	(23)	(24)	(14)	(27)	(12)	(100)	

Field Survey, 2014

The above table exhibits that the statement "Life insurance companies have played significant role to reduce the poverty" is disagreed by 47 percent respondents. The analysis concludes that LICs have not played significant role to reduce the poverty. Similarly, the statement "Life insurance companies have provided service to rural and remote places" is disagreed by 47 percent and agreed by only 39 percent respondents. It may be suggested that LICs should put more efforts for insurance inclusion in such areas. Such activity will help to reduce the poverty to some extent.

8.6.5 Support for Development Activities

Life insurance companies are permitted to invest up to 20 percent of their investable fund in capital market out of which only 5 percent can invest in equity share of listed company, 5 percent in mutual fund run by Citizen Investment Trust and 10 percent in Preference Shares and Debentures of banks and financial institutions only. Besides, there is the mandatory provision to invest at least 25 percent of fund to government securities. The fund collected by government also has been used in development activities. In this context the opinion of experts has been obtained to know the views of experts on the following issues:

11. Life insurance fund has been used for industrialization.
12. Life insurance fund has been used in development activities.
13. Life insurance fund has been used in infrastructure development.
14. Life insurance fund has been used for the development of capital market.

The views of respondents in number and percentage along with mode view have been presented in Table-8.16:

Table-8.16: Support for Development Activities

Statements	Respondents' Views						Mode View
	SD	D	N	A	SA	Total	
11.Life insurance fund has been used for industrialization.	46 (13)	53 (14)	114 (31)	130 (36)	23 (6)	366 (100)	A
12. Life insurance fund has been used in development activities.	49 (13)	47 (13)	125 (34)	120 (33)	27 (7)	368 (100)	N
13.Life insurance fund has been used in infrastructure development.	48 (13)	67 (18)	107 (30)	115 (32)	26 (7)	363 (100)	A
14. Life insurance fund has been used for the development of capital market.	5 (1)	20 (6)	50 (14)	179 (49)	115 (30)	369 (100)	A

Source: Field Survey, 2014

The above table exhibits that the life insurance companies have indirectly contributed in the industrialisation, infrastructure development and capital market development since these companies are not allowed to invest their investable resources directly in the economic development of the country. Further, these companies are also not allowed to invest more than 20 percent their investable resources in capital market. Thus, the funds invested by life insurance companies are being used by the government of Nepal in developmental activities.

8.6.6 Support to Financial Stability

Financial stability implies the smooth operation of financial system without any disturbances and turbulence. Financial instability arises due to various reasons such as: lack of sufficient liquid assets in banking system, sharply increase in non-performing assets, declining the customers' trust towards the financial institutions etc. In this perspective, following statements have been formulated and response has been obtained from the experts.

15. Life insurance companies have provided necessary fund to banking industries
16. Life insurance companies maintain financial stability in the country.

The views of respondents in number and percentage along with mode view have been presented in Table-8.17:

Table-8.17: Support to Financial Stability

Statements	Respondents' Views						Mode View
	SD	D	N	A	SA	Total	
15.Life insurance companies have provided necessary fund to banking industries	9	20	93	159	82	363	A
	(2)	(6)	(25)	(44)	(23)	(100)	
16. Life insurance companies maintain financial stability in the country.	16	37	97	162	56	368	A
	(4)	(10)	(27)	(44)	(15)	(100)	

Source: Field Survey, 2014.

The statement "Life insurance companies have provided necessary fund to banking industries" is agreed by 67 percent respondents. The secondary data reveals that the amount of fixed deposit by LICs to banking sector is 6 percent of total fixed deposit in banking system during the five years period under the study. The statement "Life insurance companies maintain financial stability in the country" is agreed by 59 percent respondents. In the history of Nepalese financial system, very few number of banks faced financial instability during last decade. Overall financial system has not been suffered from the severe financial crises like the event occurred in US. It may be concluded that respondents are more positive on contribution of LICs in financial sector.

8.6.7 Employment Creation and Increase in Productivity

The views of experts have been taken in two perspective of employment. First, the role of life insurance industry as a job creator and seconds the impact of life insurance policies in the productivity of employee wherever they are working. There are almost 1400 employees working under LICs. Similarly, almost 67,000 Agents have got the agency license for life insurance till mid July 2012. There is plenty of scope for agents to manage their bread and butter from the life insurance industry. Besides the direct employment, life insurance creates indirect employment opportunities by contributing in the economic development of Nepal. In this context, the views of experts have been obtained on following two statements:

17. Life insurance industry provides better employment opportunity.

18. Group life insurance increases the productivity of employees.

The views of respondents in number and percentage along with mode view have been shown in Table-8.18:

Table-8.18: Employment Creation and Increase in Productivity

Statements	Respondents' Views						Mode View
	SD	D	N	A	SA	Total	
17. Life insurance industry provides better employment opportunity.	5 (1)	23 (6)	47 (13)	173 (47)	119 (33)	367 (100)	A
18. Group life insurance increases the productivity of employees	13 (4)	26 (7)	92 (25)	171 (46)	67 (18)	369 (100)	A

Source: Field Survey, 2014.

The above table shows that the statement "Life insurance industry provides better employment opportunity" is agreed by 80 percent respondents. Similarly, the statement "Group life insurance increases the productivity of employees" is agreed by 64 percent respondents. It has been found that respondents are more positive towards the role of life insurance industries in creating employment opportunity.

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CHAPTER NINE

FINDINGS AND SUGGESTIONS

The chapter includes major findings, conclusion and suggestions. The findings of Product structure and geographical outreach (chapter five), Efficiency of life insurance companies (chapter six), Life insurance companies and economic development (chapter seven), and Appraisal of life insurance companies: Policyholders' and experts' perspectives (chapter eight) have been presented chapter wise while conclusion of all chapters has been presented in combined form. In addition, suggestions have been offered to concerned authorities for the betterment of life insurance companies in Nepal.

9.1 Findings of the Study

9.1.1 Product Structure and Geographical Outreach

The number of plan offered by eight life companies has increased from 50 (in 2008) to 74 (in 2012) showing 48 percent growth. The number of plans under endowment product has been found highest (52) followed by term (16), whole plus endowment (5) and least number of plan has been offered under whole plan (1). Old companies have offered 33 endowment and 8 term products whereas new companies have offered 25 endowment and 8 term products. The analysis shows that old companies have offered more plans than new companies.

There are 14 general endowment plans, 14 child plans, and nine anticipated money back plans. Similarly, five companies offered pension plan, and five companies have offered single or limited payment plan, three companies have offered joint plan, and two companies have offered women endowment plan. Similarly, among the 16 different term plans, six plans are general, five plans related to foreign employment, four plans related to credit term, one is related to health. Foreign employment plans of different companies have similar features whereas rest 11 plans are slightly different from each other.

National has issued the highest number of policies under endowment plan showing the share of 53 percent followed by term plan showing the share of 38 percent. The lowest number of policies has been issued under AMB plan showing a share of 9 percent only. The endowment plan and term plan have shown an increasing tendency while the AMB plan has shown a fluctuating increasing tendency during the period under consideration. The growth over 2008 has been observed highest in case of term policies showing a growth of 1895 percent while in case of endowment it has been observed 179 percent. The AMB plan has shown a growth of 142 percent over the year 2008. It may be said that term policies have been more popular and accepted by the people while the endowment plan has shown a normal growth. The AMB plan has not shown a significant growth because these policies are generally accepted by the business people because of the money back feature of the policy. Thus, it may be concluded that the company should put more emphasis in popularising the AMB plan among the general people also. The continuous increase in the number of insurance policies under different products shows the interest of the people towards the life insurance is increasing gradually.

Nepal has issued highest number of plan under endowment plan with 66 percent share followed by term plan with 27 percent share whereas the lowest number of policies has been issued under AMB plan having the share of 7 percent only. During the study period all policies have shown increasing trend. The number of term policies was sold only 243 in 2009 which has reached almost 300,000 in 2012. The growth over 2008 in endowment plan has been observed 175 percent followed by AMB plan 110 percent. In terms of number of policies sold, it has been observed that company has focused to term plan followed by endowment plans. The growth of AMB plan is not showing a satisfactory growth. It is suggested that the company should promote the sales of anticipated money back policies as its share among the three policies is quite low. The impressive growth of policies indicates the role of the company is significant in the development of the life insurance industry.

Life Insurance Corporation (Nepal) has sold highest number of policies under endowment plan with 76 percent share followed by AMB plan with 21 percent share whereas the lowest number of policies has been issued under Term plan with the share of 3 percent only. During the study period, all the products have shown increasing trend. The growth of endowment plan has been observed 121 percent followed by AMB plan 107 percent over the year 2008. The company has started selling the term policies since 2009 and within the four years period it has increased from 422 policies to more than 18,252 policies. It is clear from the product structure that there is the domination of endowment policies (76%) over the term policies (3%). The LIC has realised the importance of the term policies in 2011 and increased the sales significantly. The Government of Nepal has made mandatory for the issue of the term policy to foreign migrant workers. Accordingly, the company has started selling term policies to foreign migrant workers. The higher growth of policy enforced is the witness of remarkable contribution of company to the life insurance sector.

MetLife Alico has sold highest number of policies under term plan (35%) followed by anticipated money back plan (33%) and endowment plan (32%). During the study period, endowment and term policies has been shown an increasing trend while anticipated money back plan has shown fluctuating decreasing trend. Comparing among the three products, the growth has been observed highest of term plan (1679%) followed by endowment plan (12%) whereas AMB plan has negative growth (1%). The growth and composition of the different policies shows that company has given highest priority to term plan because the term plan provides larger amount of financial protection by paying smaller amount of premium. It has been suggested that the company should maintain current growth of the term plan and put more efforts in selling endowment and money back policies by following the aggressive marketing strategy.

The Endowment, AMB and Term products of Asian Life have shown almost similar growth rate (1617%) over 2008. The endowment policies have shown an increase of 171,290 policies, AMB policies have shown an increase of 7,176 policies, and term policies have shown an increase of 21,969 policies during 2008-2012. The highest number of policies has been issued under Endowment plan with 65 percent share followed by term plan with 32 percent share and least number of policies has been sold under the AMB plan with 3 percent share during the study period. The term policies decreased by 78 percent in 2012 which indicates that the company has not given proper attention on sale of term policy. Thus, it may be concluded that the company should put more efforts in increasing the sales of AMB and the term plan.

Surya Life has issued highest number of policies under AMB plan showing the share of 64 percent followed by endowment plan showing the share of 33 percent. The lowest number of policies has been issued under term plan showing a share of 3 percent only.

The endowment plan and AMB plan have shown an increasing tendency while the term plan has shown a fluctuating decreasing tendency during the study period. The number of policies enforced has shown an increase of 33,037 policies under endowment plan followed by AMB plan 30,239 policies over 2008. The company has sold 1500 term policies in 2009 which has decreased to 21 in 2012 showing a negative growth of 1479 policies. It is obvious that Surya has given more emphasis on the sale of endowment and AMB plans. It is suggested that Surya has to analyse the negative performance of term plan and find out the effective measures to overcome the negative performance by increasing the sale of term plan. The company has done significant efforts to make the AMB plan more popular among the customers.

It has been observed that Gurans Life has sold the highest number of policies under endowment plan (83%) followed by anticipated money back plan (10%). The number of policies enforced under endowment and AMB plans has shown an increasing trend during the study period. Company started to sell the term plan after three years of its establishment. The company has issued 5918 policies under term plan in the year 2011 which has decreased to 2453 policies in the year 2012. This shows the surrender of policies which is not in favour of the company. The number of policies under endowment and AMB plans has increased by more than 52 thousand and 6 thousand respectively during the period of five years. The company has given most preference to endowment plan but no efforts have been made for selling of term policies. It may be concluded that the company should popularise the sales of term and AMB policies.

Prime has enforced highest number of policies under term plan with 83 percent share followed by endowment plan with 14 percent share whereas the lowest number of policies has been issued under AMB plan with the share of 3 percent only. During the study period all policies have shown an increasing trend. The number of policies under term plan has increased by 327,960 followed by endowment plan (69,888) and least number of policies has increased under the AMB plan (14,081) during five years period. The growth of term plan is good while the endowment plan is satisfactory and AMB plan is unsatisfactory.

The variation of product wise structure in terms of standard deviation has been found lowest of MetLife (1.25%) and highest of LIC (31.05%) among the old companies. Similarly, among the new companies, Surya has lowest (24.9%) and Prime has highest (35.41%) standard deviation in the proportion of three types of policies enforced. The proportion shows that companies have given more priority to Endowment plans followed by Term and least priority has been given to AMB plans.

In aggregate 0.45 million policies were enforced till mid July 2008 which has increased to 2.3 million in mid July 2012. It has been observed that term policies have shown an increase of 5132 percent followed by endowment policies (228%) and AMB policies (101%) over the five years period. During the study period, the share of endowment policies has been decreased from 71 to 46 percent, the share of AMB policies has also decreased from 25 to 10 percent but the share of the term policies has increased from 4 to 44 percent during 2008 - 2012. The trend of product structure exhibits that term policy is becoming more popular while AMB plan is less popular in recent years. The reason behind popularising of term plan may be the mandatory provision of Government of Nepal for all Nepalese who leaves for foreign countries as foreign migrant workers must have a term policy.

It has been observed that the highest number of endowment plan has been sold by Nepal (31.2%), highest number of AMB plan has been sold by MetLife (41.1%), and highest number of term plan has been sold by Prime (35.4%). Nepal sold highest number of total policies (25%). Nepal sold highest number of total policies (25%). The analysis concludes that old companies have enforced 92 percent AMB plan, 75 percent endowment plan, and 52 percent term plan. In aggregate, old four companies have enforced 69 percent policies and new four companies have enforced 31 percent total policies. It has been observed that new companies have sold higher number of term plans as compared to other two plans.

The value of correlation coefficient (r) between the number of products offered and number of policies enforced has been found 0.95 which indicates that there is positive relationship between the number of products offered and number of policies enforced by eight life insurance companies.

It has been found that the death claims has shown highest percentage of growth (632%) followed by others claims (498%), maturity claims (214%), and surrender (94%) over 2008. The amount of maturity and death claims paid and surrenders have shown increasing trend during the five years period. It has been found that the share of maturity claims is highest (55.2%) followed by surrender paid (23%) and death claims (21%). The portion of other claims is negligible (0.79%). The highest amount of maturity claims over death and surrender claims indicates that life insurance companies have not suffered from the excessive death claims and surrender expenses. It may be concluded that life insurance companies have meticulously done the underwriting of policies and the increase in amount of maturity claims also shown the growth in life insurance business. The amount of death claims has increased more than seven times during the period under the study. The reason behind the increase in amount of death claims is that the newly established life insurance companies have met death claims large in number. It is suggested that new companies should carefully underwrite the policies. The declining trend of share of surrender indicates that policyholders are becoming aware of life insurance and the companies are taking full care in underwriting of policies.

It has been observed that LIC and MetLife have paid their maturity claims in time since no maturity claims are due during the period under the study. In case of National and Nepal life insurance companies the unpaid amount of maturity claims has shown fluctuating increasing tendency. It is suggested that National and Nepal life Insurance companies should take more efforts in settling the maturity claims in time. In case of new insurance companies no maturity claims is yet due because all the companies have been established in 2008.

It has been observed that the aggregate amount of total death claims and unpaid claims have shown increasing tendency while the unpaid claims ratio has shown decreasing trend during the study period. In case of old companies the ratios of National, Nepal, and MetLife have shown the fluctuating decreasing trend while LIC has shown decreasing trend. It can be concluded that the death claims settlement practices of old companies have improved during 2008-2012. It has been observed that LIC has lowest unpaid claims ratio. Similarly, in case of new companies, the unpaid ratio of Asian, Surya and Prime has shown fluctuating increasing tendency while Gurans has shown fluctuating decreasing tendency. It is suggested that new companies should put more efforts in settling death claims in time.

The surrender amount paid by MetLife has shown fluctuating increasing trend while rest of the seven companies have shown increasing trend. The aggregate surrender value paid by companies has shown an increase of almost two times during the period under the study. Among the old companies MetLife has paid the highest amount (Rs. 689 million) while LIC has paid the lowest amount (Rs. 218 million) during the period of five years from 2008 to 2012. Similarly, among the new companies Asian has paid the highest amount (Rs. 8.42 million) while Gurnas has paid the lowest amount (Rs. 0.69 million) during the period under study. It may be concluded that these companies have not taken full care in underwriting the policies. The increasing trend in surrenders is harmful for the healthy growth of life insurance industry. It increases the operating expenses and reduces the profitability. High proportion of surrender is not only the indication of poor performance of LICs but it reflects the poor attitudes of public towards the LICs. It may be suggested that the surrender can be reduced by proper counseling at the time of selling and by providing regular post sales services by agents.

Nepalese life insurance companies have adapted four distribution channels: staffs, Agents, bancassurance, and partner. Role of staffs has been found effective to sell the products in corporate sector directly. Policyholders get special discounts if they purchase the policy from staffs than agents. In Nepal, there were almost 47,000 agents in 2008. The number increased by 43 percent and reached to almost 69,000 in 2012. Among four distribution channels the role of Agents is dominant. Bancassurance is another channel of distribution adopted by LICs. Nine commercial banks, three development bank and four financial institutions have taken agency license. National, Nepal and Asian have appointed four to nine commercial banks as corporate agents. LICs have collaborated with microfinance institutions, cooperatives and non-profit social organisations. These organisations act as intermediaries between commercial insurers and policyholders without getting license from Insurance Board. National, MetLife, and Prime have used partner model of distribution with Jeevan Bikas Samaj (NGO), Nirdhan Uthan Bank, and Manushi (MFIs) respectively. They provide credit life insurance to their clients.

Among the eight life insurance companies, all have opened their Branch offices. In addition to Branch offices, Nepal, Gurans and Prime have Sub Branch and Regional office while Asian and Prime have Sub Branch. In addition, Nepal has Sales Centre also.

Number of branches of all eight companies have shown increasing trend during five years period. In 2008, old companies have 58 branches and new companies have 18 branches while in 2012 the number of branch of new companies reached to 302 and old companies reached only 151 branches. It has been found that among the eight companies, Asian has highest number of branch (114) among the new companies while National has highest number of branch (99) among the old companies in 2012.

It has been found that people of seven districts: Taplejung, Solukhumbu, Rasuwa, Manang, Mustang, Humla and Dolpa have not access to services of life insurance till 2012 mid July. These seven districts have 1.46 percent of total population. Likewise, four districts have only one branch and seven districts have more than 10 branches in each district till mid July 2012. Kathmandu district has 25 branch offices whereas more than fifty percent districts have less than five branch offices. In terms of number of branches offices, Kathmandu district has highest insurance inclusion while Taplejung, Solukhumbu, Rasuwa, Manang, Mustang, Humla and Dolpa have no insurance inclusion. It is suggested that the Government should encourage the LICs to expand their network in remote and rural areas by providing incentives.

Among the old companies, National has covered highest number of districts (55) followed by LIC (25). Among the new companies, Asian has covered highest number of districts (65) followed by Prime (61). Similarly, out of total 75 districts, there are only 68 districts have been covered by LICs till mid July 2012. The scenario reflects that there is no mandatory provision regarding establishment of branch offices.

9.1.2 Efficiency of Life Insurance Companies

The number of employees of MetLife has shown fluctuating decreasing trend while Nepal and Surya have shown fluctuating increasing trend. The remaining five companies have shown increasing trend during the five year period. It has been found that the number of employees of new companies have shown higher growth (565%) than old companies (65%) during 2008-2012. Based on five years average, Nepal has the highest

(189) and LIC has the lowest (82) average number of employees among the old companies. Similarly, among the new companies, Asian has the highest (156) and Surya has the lowest (73) average number of employees during the study period.

The policy enforced per employee ratio of National, Asian and Prime have shown fluctuating increasing trend whereas ratio of rest five companies have shown increasing trend during the study period. The average number of policies enforced per employee ratio has increased by 176 percent over 2008. Among the old companies, MetLife has highest (2129) and National has lowest (1316) average PEPE ratio. Likewise, among the new companies, Prime has highest (1261) and Gurans has lowest (233) average PEPE ratio. The average PEPE ratio of eight companies during five years period has been found 1261. It may be concluded that employees working under joint venture and foreign companies are more efficient as compared to domestic companies in terms of PEPE ratio. The increasing trend of aggregate ratio reveals that employees' efficiency of both old and new firms have improved significantly.

It has been found that the gross premium per employee (GPPE) ratio of LIC, Surya and Gurans have shown increasing trend whereas National, Nepal, MetLife, Asian and Prime have shown fluctuating increasing tendency during the study period. The average growth of new companies has been found higher (1070%) than old companies (59%). Among the old companies LIC has the highest (Rs.19 million) and National has the lowest (Rs.7.82 million) average GPPE ratio. Likewise, among the new companies Asian has the highest (Rs. 3.78 million) and Surya has the lowest (0.89 million) average GPPE ratio. The increasing trend in GPPE ratio shows the efficiency of employees in finalising the new proposals and efficient servicing of the existing proposals.

The net profit per employee (NPPE) ratio was Rs. 52,000 in 2008 which has increased to Rs. 867,000 in 2012 showing an increase of 1567 percent. The probable cause behind such sharp fluctuation of NPPE ratio is due to the fluctuation in reported net income of the company. The net income of life insurance companies require to report based on the Actuarial valuation. The valuation of all companies have been done each three years interval (in 2008 and 2011) so that the net profit of LICs has been declared by companies according to the report of Actuary in succeeding years (in 2009 and 2012 respectively).

After Actuarial valuation, the net profit of the companies has been found excessively increased. It has been found that the average NPPE ratio of Nepal is highest (Rs.529,000) and National is lowest (Rs. 245,000) among the old companies. Similarly, Prime has highest (Rs. 424,000) and Surya has lowest (Rs. 149,000) average NPPE ratio among the new companies. The increasing trend of average NPPE ratio shows that the efficiency of employees has improved significantly during the study period.

The number of Agent affiliated with National, LIC, Asian, Gurans and Prime have shown increasing trend while Nepal and Surya have shown fluctuating increasing trend and MetLife has shown fluctuating decreasing trend. Among the old companies, Nepal has the highest (21,596) and MetLife has the lowest (2,812) average number of Agents. Likewise, among the new companies, Asian has the highest (22,969) and Surya has the lowest (1,721) average number of Agents.

It has been observed that all companies have shown fluctuating increasing trend during the period under the study. Among them old companies, average PEPA ratio has been found the highest (75) in case of MetLife while the lowest (9) has been found in case of LIC. Similarly, among the new companies, Prime has the highest (22) average PEPA ratio while Gurans has the lowest (7) average PEPA ratio. Further, it has been also observed that old companies have shown declining trend in recent years. Similar trend has been also observed in case of new companies except Surya. Declining trend shows the poor efficiency of agents in selling new policies of the companies. It may be suggested that proper training should be given to agents from time to time specially in case of new policies introduced by the companies. Further, it has been suggested that Insurance Board should conduct written test and interview prior to issue the agency license. Similarly, renewal of agency license should be allowed after analysing the performance of agents in past years.

The renewal premium per Agent ratio of National has shown fluctuating decreasing trend, while Nepal, LIC, MetLife, and Asian have shown fluctuating increasing trend. The RPPA ratio of Surya, Gurans and Prime have shown increasing trend during the study period. It has been found that the average growth of RPPA of new companies is higher (1544%) than old companies (49%). The average RPPA of MetLife is the highest

(Rs. 478,000) and LIC is the lowest (Rs. 57,000) among the old companies. Similarly, Surya has the highest (Rs. 18,000) and Prime has the lowest (Rs. 7,000) average RPPA ratio among the new companies. The average RPPA ratio of both old and new companies have shown declining trend after 2010 which shows the inefficiency of agents in order to collect the premium from existing policyholders. The reasons of lower efficiency of agents may be that companies have appointed large number of agents but they have not paid proper attention to enhance the selling skills and insurance knowledge to their agents. Besides, the unhealthy competition also may discourage to policyholders to renew the policy. It may be suggested that LICs should motivate Agents to provide the counselling and after sales services to existing policyholders in a regular basis so that the surrender and lapse ratio could be reduced.

Gross premium per Agents ratio of National has shown fluctuating decreasing trend while LIC and Surya have shown increasing trend and remaining five companies have shown fluctuating increasing trend during the five years period. Among the old companies average GPPA ratio has been found the highest (Rs. 543,000) in case of MetLife while the lowest (Rs. 80,000) in case of LIC. Likewise, among the new companies, it has been observed that Prime has the highest (Rs. 51,000) and Asian has the lowest (Rs. 28,000) average GPPA ratio over the five years period. Further, the average GPPA ratio has been found in declining trend in recent years in case of both old and new companies. The declining trend of average GPPA ratio indicates that the efficiency of collection of first year and renewal premium of Agents is not up to the mark. The cause behind the poor efficiency of Agents in terms of GPPA ratio may be that companies have hired large numbers of new Agents but they have not provided proper training on life insurance products and selling skill. It may be suggested that LICs should provide proper orientation about the products and selling skills on a regular basis to their Agents.

The commission income per Agent ratio of National has shown fluctuating decreasing trend whereas rest of seven companies have shown fluctuating increasing trend. The growth of new companies has been observed higher (364%) than old companies (16%) and the industry average CIPA ratio increased by 45 percent. Among the old companies, MetLife has highest (Rs.40,700) and LIC has lowest (Rs. 10,100) average CIPA ratio. Among the new companies, Surya has the highest (Rs. 7,000) and Asian has the lowest

(Rs. 4,800) average CIPA ratio. The declining trend of CIPA ratio during recent years shows the poor efficiency of Agents acquiring the new business. It may be suggested that LICs should provide to their Agents a comprehensive training on various aspects of insurance, marketing skills, features of new products, way of customer care, salesmanship etc. Similarly, it may also be suggested that Agents should provide post sales services to their clients on a regular basis which will also helpful in developing the strong customer relationship.

It has been found that number of branches of old companies increased by 2.6 times and reached to 151while in case of new companies the branches increased by 17 times and reached to 302 during till mid July 2012. Among the old companies, National has established highest average number of branches (59) while MetLife has established lowest average number of branches (13). Similarly, among the new companies, Asian has established highest average number of branches (63) while Surya has established lowest average number of branches (22) during five years period under the study. The table depicts that new companies have established more average number of branches (158) as compared to old companies (105). It has been found that there is high variation in number of branch among the old companies than new companies. There should be mandatory provision regarding the minimum number of branch to be established by life insurance companies. This provision may increase the life insurance inclusion and rate of penetration in the country. Policyholders can get the regular services nearby their home, they can lodge their complaints timely, potential customers may get the life insurance related information at the door step.

Policy enforced per branch ratios of Nepal, LIC, and MetLife have shown an increasing tendency whereas ratios of rest five companies have shown fluctuating increasing trend during the five years period. It has been found that the average per branch policies enforced ratio of new companies has increased with higher rate (514%) than old companies (98%). The overall growth of average PEPB ratio has been found 116 percent. In terms of average PEPB ratio, Nepal is the most efficient having average 16,833 policies enforced per branch and National is the least efficient having average 4,332 policies enforced per branch among the old companies. Likewise, Prime is the most efficient having average 3,818 policies enforced and Gurans is the least efficient having average 796 policies enforced among the new companies. It has been found that new companies have not mobilised their branch offices efficiently which is witnessed by declining trend in recent years. It is suggested that management of new companies should increase the capacity of branch offices by providing necessary training and logistic supports to their employees and Agents in order to increase the insurance business.

The gross premium per branch ratio of LIC has shown increasing trend while National and MetLife have shown fluctuating decreasing trend. The ratios of remaining five companies have shown fluctuating increasing trend. However, ignoring the first year gross premium of four new companies, the GPPB ratio of Asian, Surya and Prime has shown decreasing trend from 2009 to 2012. Among the old companies, LIC has highest (Rs. 115.8 million) while National is lowest (Rs. 26.9 million) efficiency in terms of average GPPB ratio. Similarly, the average GPPB ratio of Asian has highest (Rs. 10.3 million) and Gurans has lowest (Rs. 4.1 million) among new companies. Since the GPPB ratio of National and MetLife is declining, therefore, it is suggested that these companies should put more efforts in underwriting new business as well as servicing of the existing policies. For the purpose, the staff working in the branch and agents associated with their branch should be mobilised for their improved performance through training and educating them.

The operating expense per branch ratio of National and all new companies have shown fluctuating increasing trend while Nepal and LIC have shown increasing trend. Similarly, the ratio of MetLife has shown fluctuating decreasing trend. The growth of average OEPB ratio of both old and new companies has been found almost equal. The increasing trend of OEPB ratio of most of the companies shows that companies are not running in economic way. It has been found that among the old companies, LIC has highest (Rs.26.4 million) while National has lowest (Rs. 5.3 million) average OEPB ratio. Similarly, among the new companies, Prime has highest (Rs. 3 million) and Gurans has lowest (Rs. 1.2 million) average OEPB ratio. Since life insurance companies are custodian of the policyholders' fund, they should operate the companies in economic way. It may be suggested that insurance companies should take effective steps in controlling their operating expenses which is adversely affecting their profitability as well as claims of policyholders in the form of bonus.

The operating expenses to net premium ratio of MetLife, Surya and Gurans have shown decreasing trend while Asian and Prime have shown fluctuating decreasing trend but National, Nepal and LIC have shown fluctuating increasing trend during the study period. Among the old companies MetLife has lowest (16%) and Nepal has highest (25%) average OENP ratio. Likewise, among the new companies, Asian has lowest (39%) and Gurans has highest (344%) average OENP ratio. The OENP ratio of Nepal, LIC and MetLife has been found below the 30 percent while in case of National it has been found more than 30 percent in the year 2011 and 2012 during the period under the study. It has been found that the OENP ratio of new companies in 2008 was excessively higher because of the year of establishment of these companies. The ratio of all new companies has been found in the range of 35 to 1466 percent during the study period. It may be suggested that all new companies are required to minimise their operating expenditure as per the norms.

The Death claims to gross premium ratio of National, LIC, MetLife, Asian, and Prime have shown fluctuating increasing trend while Nepal has shown increasing trend and Surya and Gurans have shown fluctuating decreasing trend during the study period. The average DCGP ratio of LIC has been found the lowest (1.79%) while National has the highest (4.33%) among the old companies during the study period. Similarly, among the new companies, Surya has lowest (1.13%) and Prime has highest (10.54%) average DCGP ratio during the five years period. Thus, it may be suggested that National, Asian, and Prime should pay more attention while accepting the life insurance proposals and underwriting the policies.

The investment income to investment asset ratio of LIC and Asian have shown increasing trend while the remaining six companies have shown fluctuating increasing trend during the period under the study. Among the old companies the average investment income of National has been found highest (7.8%) while MetLife has shown the lowest (6.1%). Among the new companies, Surya has the highest (7.3%) and Asian has the lowest (6.3%) average investment income. The average investment return of LICs in 2008 has been found very low (3.26%) but in 2012, companies have achieved almost 3 times more return (8.79%). The increasing trends of investment income of all companies reveals that companies have improved their skill to manage their investment assets efficiently.

Among the old companies, the bonus rate of Nepal and LIC have shown increasing trend while National and MetLife have shown constant trend during the study period. Among the old companies, Nepal offers the highest average bonus rate (Rs.76 per thousand) followed by LIC (Rs. 71 per thousand), National (Rs. 56 per thousand) and the least bonus rate has been declared by MetLife (Rs. 25 per thousand) during the period under the study. The poor bonus rate of MetLife and National indicates that the financial performance of these companies is not sound as compared to Nepal and LIC. It may be suggested that National and MetLife should improve the financial efficiency of the company by underwriting the policies efficiently.

Similarly, among the new companies the bonus rate of Prime has shown increasing trend while remaining three companies have shown constant trend during the study period. Prime has registered highest bonus rate (Rs. 39 per thousand) followed by Asian (Rs. 35 per thousand), Gurans (Rs. 28 per thousand) and Surya (Rs. 25 per thousand) on average. The lower bonus rate of Surya and Gurans implies that their financial efficiency is not good. It may be suggested that new companies should put more efforts in mobilising of funds in the form of premium by increasing their business.

Among the old companies Life Insurance Corporation (Nepal) and among the new companies Prime have shown best employee efficiency. Similarly, the efficiency of National and Surya has been found poor among the old and new companies respectively. It may be suggested that National and Surya should provide training to their employees in different aspects of life insurance such as: underwriting, personal communication, marketing etc. in order to increase their efficiency.

MetLife and Surya have shown best performance in terms of Agent efficiency among the old and new companies respectively. However, the efficiency of LIC among the old companies and Asian among the new companies has been found poor. It may be suggested that LIC and Asian should provide comprehensive training to Agents on regular basis and orientation should provide while lunching the new products. Further, renewal of agency license should be allowed after analysing the performance of agents in past years.

MetLife among the old and Asian among the new companies have shown best branch efficiency while National has shown lowest branch efficiency among the old companies and Surya and Gurans both have shown poor efficiency among the new companies. It has been suggested that National, Surya, and Gurans should mobilise effectively their staffs working under the branches and Agents associated with the branches by providing necessary training and logistic supports to their employees and Agents in order to increase the insurance business.

Based on four financial indicators, LIC and Surya have shown highest efficiency among the old and new companies respectively. MetLife among the old companies and Gurans among the new companies have shown poor financial efficiency. It has been suggested that MetLife should increase the investment return to invest asset ratio by investing its fund in higher returnable sector. Similarly, it requires to reduce the death claims following the standard underwriting policies. Similarly, it may be suggested that Gurans should control its operating expenses and increase the gross premium income in order to increase the financial efficiency.

The value of correlation coefficient (r) between the number of products offered and gross premium has been found 0.74 which means there is positive relationship between the number of products offered and gross premium by life insurance companies. Therefore, the null hypothesis has been rejected.

The value of correlation coefficient (r) between the number of policies enforced and number of employee (0.83), Agent (0.53), and branch (0.18) have been found positive. It can be said that there is positive relationship between the number of policies enforced and number of employee, number of policies enforced and number of Agent, number of policies enforced and number of branch. The value of correlation coefficient (r) between the number of policies enforced and geographical coverage (number of districts) has been found negative (-0.07). It can be said that there is the negative relationship between number of policies enforced and geographical outreach. The null hypothesis has been rejected.

9.1.3 Life Insurance Companies and Economic Development

The gross premium has increased from Rs. 3,981 million (in 2008) to Rs. 11,867 million (in 2012) registering 198 percent growth rate during the study period. LICs have mobilised almost Rs. 39 billion resources during the five years period. During 2008-2012, the life insurance penetration rate of eight life insurance companies has increased from 0.49 percent (in 2008) to 0.78 percent (in 2012) while the world average penetration rate reported 4.1 percent and 3.7 percent in 2008 and 2012 respectively. The life insurance penetration rate of Nepalese life insurance companies has been found quite low. LICs should develop the alternative channels of distribution and extend their branches to districts and villages in order to increase the insurance inclusion.

Eight life insurance companies have invested Rs. 14.6 billion fund in 2008 which increased to Rs. 38 billion in 2012 showing a growth of 160 percent. The figure shows that each year LICs are able to increase their investable fund in average by Rs. 5.8 billion during the five years period. It may be concluded that the funds invested by the LICs are used by the Government in the economic development of Nepal.

It has been found that investment of LICs in government securities has increased from Rs. 4,588 (in 2008) to Rs. 12,683 (in 2012) registering the growth of 176 percent. LICs have invested 6 percent additional fund in Government securities than mandatory provision (25%) during the five years period. It may be concluded that LICs have contributed significantly in economic development of Nepal.

It has been found that the time deposit of LICs in banks has increased from Rs. 9,245 million to Rs. 23,428 million from 2008 to 2012 with 153 percent growth. It is reported that Life insurance companies have provided on an average Rs. 16 billion fund to banking sector annually. The contribution of LICs in time deposit of banking system has been found 6 percent during 2008-2012. Life insurance fund has longer maturity period as compared to the deposit of other organisation so that it may be said that LICs are permanent and institutional suppliers of long term fund to banks and financial institutions. Thus, the banks are channelizing these funds in the infrastructure development projects.

It has been observed that eight LICs have invested Rs. 830 million fund in securities of listed companies and mutual fund in 2008 which has increased to Rs. 1,982 million in 2012. According to Investment Policy of Insurance Board, life insurance companies are permitted to invest maximum 20 percent of their investable fund in capital market. It has been found that LICs have invested only 5 percent of investable fund in capital market during 2008-2012. The contribution of LICs in capital market has been noticed 1.8 percent of total paid up capital of listed companies over the period under the study. The investment pattern of LICs shows that life insurers have given more preference in maintaining the liquidity and solvency rather than increasing the profitability of the firm. It may be concluded that LICs prefer to invest their fund in more secured sectors (government securities and time deposit of bank) rather than riskier sector (capital market).

Investment in mutual fund and banking sector has shown an increasing trend during the period under consideration. It has been found that companies have invested highest amount of fund (81%) in Preference Share, Debenture and Ordinary Share of banks and financial institutions and in Mutual Fund during the five years period. The investment was Rs. 645 million in 2008 which has increased to Rs. 1,673 million in 2012 showing a growth of 159 percent.

Investment in housing finance company made by life insurance companies has shown a fluctuating increasing trend during the period under the study. Nepal Life has invested Rs. 123 million fund in equity share of housing finance company in 2008 which has increased to 234 million in mid-July 2012 with 91 percent growth. Out of total capital market investment 13 percent fund has been invested in housing finance during five years period.

Life insurance companies have invested in hydropower companies in the form of bonds and ordinary shares. The investment in 2008 was Rs. 56 million that has increased to Rs. 61 million in 2012. The growth of investment in hydropower sector has been found insignificant (10%) and the proportion of investment in hydropower sector also has been found only 5 percent of total investment in capital market. National Life has invested Rs. 50 million on five years power bond issued by Nepal Electricity Authority (NEA) and Rs.

1.67 million on common stock of Chilime Hydropower Company in 2012. Likewise, Nepal has invested in National Hydropower Company (Rs. 1.07 million). Similarly, LIC has invested total amount of Rs. 3.9 million in equity securities in three hydropower companies viz.: Chilime, Butwal and National Hydro Power Company, and Prime has invested Rs. 4.3 million in equity capital of Chilime Hydro Power Company in 2012.

Life insurance companies have invested their fund in ordinary share of other industries such as: hotel, telecommunication, Rubber Industries, Spinning Mills etc. National has invested in equity share of two five star hotels (Tara Goan Regency Hotel and Soaltee Hotel), Gorakhkali Rubber Udyog, Jyoti Spinning Mills, Nepal Film Udyog. Similarly, Nepal has purchased equity share of Nepal Telecom (largest telecommunication company) and Prime has invested in Bottlers Nepal Ltd. The total equity investment of LICs in industrial sector reported Rs. 6.7 million in 2008 which has increased to Rs. 14.7 million in mid July 2012 showing 120 percent growth rate.

The number of employees working under eight LICs and life insurance Agents registered under Insurance Board during the five years period, their trend along with growth over 2008. It has been found that the permanent employment opportunity for staffs has increased from 499 to 1,368 registering 174 percent growth over 2008. It may be suggested that LICs should create more employment opportunity by expanding their activities. The number of Agents has increased from 46,576 to 66,859 with 44 percent growth during the five years period. In terms of number, it may be said that life insurance industry has offered more employment opportunity to Agents.

Corporate income tax has shown fluctuating increasing trend while tax on commission income has shown increasing trend over the study period. The contribution of LICs in government exchequer has been found 0.16 percent out of total tax revenue of government.

LICs have donated Rs. 3.3 million to Government of Nepal which has been used in the support of sufferers from natural disasters and catastrophe events. National Life provided Rs. 1 million life insurance coverage and Rs. 0.5 million accidental health insurance coverage to 11 players of national cricket team. Scholarship has been given to student studying at Pokhara, and food and logistic support provided to the old age orphan residing inside the Pashupati Temple premises. The company has also conducted eye camp in Sindhupalchowk District. Nepal Life has donated cash for the renovation for Ganesh temple situated at Kamaladi, Kathmandu and provided assistance to poets for their literary works. Life Insurance Corporation (Nepal) provided Rs. 100,000 cash support to blind students studying in Machhindra Higher Secondary School, Lagankhel, Lalitpur and Adarsha Higher Secondary School, Thimi, Bhaktapur. Surya Life provided scholarship to students studying in Sindhuli District. Prime Life provided financial support to the education and health related programs carried out in Kaski, Taplejung, Mustang, Solukhumbu, Dang, and Mugu Districts.

9.1.4 Appraisal of Life Insurance Companies: Policyholders' and Experts' Perspectives

Among the 170 policyholder respondents 68 percent are male and 32 percent are female. Number of respondents having the age between 28-37 years has been found highest (41%) while the respondents having the age between 48 to 57 years (7%) has been found lowest. The profile of education of the respondents shows highest number of respondents are Undergraduate (63%) followed by SLC passed and Post Graduate. Among the respondents, 67 percent belongs to urban (Municipality) and 33 percent belongs to rural area. The survey shows that highest numbers of respondents (72%) are Jobholder followed by Businessman (16%) and Farmer (12%). Among the respondents, 79 percent have received maturity benefits while 21 percent have received death benefits. It has been found that 51 percent respondents have the annual income up to Rs. 160,000 while 49 percent have the income more than Rs. 160,000 at the time of policy purchase.

It has been found that 43 percent respondents purchased life insurance for regular savings, followed by protection from uncertain future (23%), security of their dependents (21%), Education to their children (7%), and tax exemption benefits are minor consideration for purchase of life insurance (5%). The notable feature is that only 1 percent respondents have purchased the life insurance policy for better return on investment. The analysis reveals that saving and security are major considerations for purchase of insurance.

It has been found that among the six attributes, there is a significant association between the level of education of respondent and objective of buying life insurance. Remaining five attributes have no significant association with the objective of buying life insurance. The null hypothesis has been accepted in case of sex, age, locality, occupation and level of income of policyholders since the *p* value of Chi Square test is more than 5 percent. The null hypothesis has been rejected in case of level of education of policyholders as the *p* value of Chi Square test is less than 5 percent.

The statement “Life insurance products are suitable for all” is disagreed (including strongly disagree) by 64 percent respondents. At the time of field survey, endowment, term and whole life plans were available in the market. It may be suggested that LICs should also introduce investment linked plan. The statement “Life insurance companies need to design affordable product to poor” is agreed by 84 percent respondents. It can be concluded that companies have not offered affordable products to poor and vulnerable class so that it is the right time to enforce affordable products like micro insurance to low income and vulnerable group.

The statement “Life insurance agents are personal financial consultant” is agreed by 73 percent respondents. It can be said that respondents have the positive impression towards the agents. Agents should acquire proper knowledge about the personal financial planning and need to provide the suggestion to their customers accordingly. The statement “Life insurance agents provide the right information about the products” is agreed by 76 percent respondents. If policies are sold without proper information and counseling, there are high chances of discontinuation of policies. Agents require to provide full information about the products available in the market so that on the basis information customers could select the best one as per his need and affordability.

The proposition "Life insurance motivates for long term savings" is agreed by 97 percent respondents. Similarly, the statement "Life insurance is a better area of investment" is agreed by 91 percent respondents. Likewise, the statement "Buying life insurance policy is more beneficial than saving in bank" is agreed by 84 percent respondents. The statement "Bonus rate of life insurance is satisfactory" is agreed by 62 percent respondents. On the basis of responses on above four different statements, it may be concluded that respondents believe on life insurance companies as a better sector of investments and life insurance encourages for long term savings. The opinion concludes that most of the policyholders are satisfied by purchasing the life insurance products. Thus, it may be suggested that life insurance companies should introduced attractive new products to increase the insurance inclusion.

It has been found that 166 respondents have only one policy each and remaining four respondents have two, three and five policies. There are only 2 respondents who have purchased whole life policies and remaining 168 policyholders have purchased endowment plan which shows that the endowment plans are more popular among the respondents. Highest number of respondents (59%) have sum assured up to Rs. 100,000 and lowest number of respondents have sum assured (4%) more than Rs.500,000. Similarly, 79 percent maturity claims are settled by the life insurance companies which shows the efficiency of the companies in underwriting the policies. Similarly, 86 percent claims are settled within 30 days and remaining after 30 days. This shows that the policyholders (98%) are well satisfied with claims settlement procedure.

The assumptions "Life insurance is one of the best ways to manage the long term problem" is agreed by 91 percent respondents. Similarly, the statement “Life insurance policy helps to lessen the difficulties” is agreed by 67 percent respondents. Likewise, the statement "Life insurance is a gift during the old age and for dependents" is agreed by 96 percent respondents. The statement "Death benefit is the main benefit of life insurance" is agreed by 84 percent respondents. Based on the opinion on above four statements it may be concluded that policyholders have acknowledged various benefits offered by life insurance. They agree that life insurance is a useful financial instrument to manage the long term problems and reduce the difficulties.

The statement “Government may reduce the poverty through life insurance activities” is agreed by 85 percent respondents. The opinion infers that life insurance companies are capable to reduce the poverty but still government has not started such program through life insurance companies. It may be suggested that Government should deliver the poverty reduction program through LICs. The statement "Life insurance companies are contributing to society" is agreed by 79 percent respondents. It can be said that policyholders have realized the social contribution of life insurance. The statement "Life insurance companies deliver their services to rural and remote sector" is disagreed by 56 percent respondents. Majority of respondents are not ready to accept that LICs have rendered their services to rural and remote sector. The opinion is coincided with the reality because there are still some districts where insurance companies have not established there offices. More than 90 percent population is still far from the service of life insurance. The activities of life insurance are concentrated in cities and nearby the highway only. Therefore, it has been suggested that life insurance companies should also provide their services in rural and remote sector.

It is exhibited that almost half of the total respondents (48%) agree on regular savings is the most important contribution of life insurance followed by death benefits (38%). Further, it has been observed that 12 percent respondents believed that resources mobilization is the role of life insurance companies while 2 percent respondents believe that loan to policyholders is an important role of life insurance. It may be concluded that majority of policyholders have purchased the life insurance for regular savings.

Among the 370 expert respondents, 78 percent are male and 22 percent are female. Highest number of respondents (62%) are between the age group of 31 to 45 years followed by 46 to 60 years (33%). The education profile of respondents shows that 49 percent have Master degree followed by Bachelor's degree (48%) and 3 percent have the qualification above Master degree. It has been found that 42 percent respondents have work experience between 5 to 10 years followed by between 11 to 20 years (41%), and the least number of respondents (5%) have experience above 30 years. On basis of their profession, highest number of respondent (34%) represents the regulatory authorities of insurance, banking, capital market, and accounting along with Bankers, Chartered Accountants, Academicians and freelancer consultants followed by life insurance agent (31%), executives and staffs of life insurance companies (19%) and least number of respondents (16%) are the executives and staffs of general insurance companies. Among the 370 respondents, 185 (50%) are working inside the LICs and 50 percent are outside the LICs.

The statement "Life insurance companies have offered products as per the requirement of the customers" is agreed by 71 percent respondents. The assumption "Life insurance companies have designed affordable products to poor and vulnerable class" is disagreed by 52 percent respondents. The view of respondent and existing situation of life insurance industry has been coincided since more than 25 percent population of Nepal still live below the absolute poverty line whose earnings is less than $2 per day. They cannot afford the insurance products currently available in Nepal. The statement "Agents provide sufficient information about the products" is agreed by 65 percent respondents. Still there is one fifth portion of total respondents do not believe that agents provide sufficient information to their customers about the products. It may be suggested that Agents should disseminate the sufficient information about the different kinds of products offered by the companies more effectively and new affordable products should be designed to cater the needs of poor people by the insurance companies.

The statement “Nepalese life insurance companies have given priority to the policyholders' satisfaction” is agreed by 76 percent respondents. In order to improve the services to their policyholders it is suggested to LICs to establish the customer redressal unit in their office so that they can get the feedback from the customers. The statement "Claim settlement is easy in life insurance companies" is agreed by 58 percent respondents. However, one fourth of the respondents are still disagree on above statements specially in case of the settlement of death claims. Companies have been suggested to settle the intimated death claims within time as mentioned in Insurance Regulations. The statement “Life insurance companies have disseminated sufficient information to their customers” is agreed by 48 percent respondents and disagreed by 32 percent respondents while 20 percent respondents were neutral on this statement. It may be suggested that LICs should disclose the detailed information in their Annual Reports. Similarly, the official websites of companies also should be updated from time to time.

The statement "Life insurance companies have provided better return to policyholders" is agreed by 76 percent respondents. Most of the respondents have purchased the policy from the old companies. The bonus rate of old companies is better than new companies. Similarly, the statement “Life insurance companies have provided better return to their shareholders" is agreed by 73 percent respondents. It may be concluded that policyholders and shareholders both are satisfied with the return.

The proposition "Life insurance companies have played significant role to reduce the poverty" is disagreed by 47 percent respondents. The analysis concludes that LICs have not played significant role to reduce the poverty. Similarly, the statement "Life insurance companies have provided service to rural and remote places" is disagreed by 47 percent and agreed by only 39 percent respondents. It may be suggested that LICs should put more efforts for insurance inclusion in such areas. Such activity will help to reduce the poverty to some extent.

Life insurance companies have indirectly contributed in the industrialisation, infrastructure development and capital market development since these companies are not allowed to invest their investable resources directly in the economic development of the country. Further, these companies are also not allowed to invest more than 20 percent their investable resources in capital market. Thus, the funds invested by life insurance companies are being used by the government of Nepal in developmental activities.

The statement "Life insurance companies have provided necessary fund to banking industries" is agreed by 67 percent respondents. The secondary data reveals that the amount of fixed deposit by LICs to banking sector is 6 percent of total fixed deposit in banking system during the five years period under the study. The statement "Life insurance companies maintain financial stability in the country" is agreed by 59 percent respondents. In the history of Nepalese financial system, very few number of banks faced financial instability during last decade. Overall financial system has not been suffered from the severe financial crises like the event occurred in US. It may be concluded that respondents are more positive on contribution of LICs in financial sector.

The assumption "Life insurance industry provides better employment opportunity" is agreed by 80 percent respondents. Similarly, the statement "Group life insurance increases the productivity of employees" is agreed by 64 percent respondents. It has been found that respondents are more positive towards the role of life insurance industries in creating employment opportunity.

9.2 Conclusions

On the basis of the discussion and findings, following conclusions have been drawn.

- Eight life insurance companies offered all together 50 plans under Endowment, Whole Life, and Term products in 2008 which has increased to 74 plans in 2012. But there is the lack of investment type product and micro insurance product.
- There were 0.45 million policies enforced in 2008 which has increased to 2.3 million in 2012 showing the 405 percent growth over 2008. The Endowment policies have been enforced in highest number while Anticipated Money Back policies have been enforced in lowest number. There is huge variation on product wise structure among the companies which shows that companies have given more preference to one type of product rather than balancing among the different types of products while they are selling the different plans.
- The efficiency of employees in terms of policy enforced per employee ratio has been found better for joint venture company and cent percent foreign equity company as compared to the employees working under the domestic companies.
- The increasing trend of industry average death claims to gross premium ratio shows that LICs have accepted significant number of sub-standard lives in order to achieve the higher sales volume. Similarly, companies are suffering from high amount of surrender which indicates that Agents have lack of proper training on insurance and communication skill. There is also absence of effective post sales services and good customer relationship.
- There is positive relationship between number of plans offered and number of policies enforced and number of plans offered and gross premium. Similarly, there is positive relationship between number of policies enforced and number of employees, number of policies enforced and number of agent, number of policies enforced and number of branch but there is negative relationship between number of policies enforced and geographical coverage.
- The contribution of LICs in economic development in terms of resources mobilization, investment, tax to government's treasury, employment generation has been found significant. But the contribution of life insurance companies in infrastructure development and capital market development has been found quite poor

as compared to the upper limit of the voluntary provision investment in capital market sector.

- Policyholders have expressed positive opinion regarding the LICs since it encourages for long term savings and provides the support at the time of difficulties. However, respondents are not satisfied with LICs as they have not issued suitable products to poor and they are not rendering the services to rural and remote places.
- According to the opinion of experts, life insurance industry is a potential sector for employment opportunity. However, majority of the experts opined that LICs have not played significant role to reduce the poverty, they have not provided services to the rural and remote places, and they have not offered suitable products for poor.
- The declining trend of share of surrender indicates that policyholders are becoming aware of life insurance and the companies are taking full care in underwriting of policies. However, ratio of surrender out of total claims still excessively higher as compared to the international practices.

9.3 Suggestions

On the basis of findings and conclusions, following suggestions may be offered for the improvement of life insurance companies.

- The life insurance penetration, density, and life insurance inclusion has been found lower in Nepal. In order to increase the life insurance activities, it has been suggested that Government of Nepal should give high priority to life insurance industry. It should create better environment for life insurance companies so that LICs could deliver their services in a better way to rural and remote places.
- In order to meet the requirement of insurance qualified human resource like: staffs, Agents, Brokers, Loss Adjustors in insurance industry in Nepal, it has been suggested that Government and Insurance Board should establish insurance training institute.
- In order to increase the efficiency of Agents, it has been suggested that Insurance Board should conduct written test and interview before granting the agency license. Similarly, LICs should recommend renewal of Agency license after analysing the past performance of Agent.

- It has been suggested that LICs should provide a comprehensive training from time to time to their Agents and employees on various aspects of insurance like marketing skills, features of new products, way of customer care, salesmanship, underwriting, claims settlement etc.
- Life insurance companies are suffering from high death claims and surrenders. In order to control the high death claims it has been suggested that Underwriting Department and Agents should take more care while accepting the new proposals. Similarly, to control the excessive surrenders, Agents should provide the effective counseling to customers in more professional way. Further, they have to provide the post sales services to their clients on a regular basis and develop the strong customer relationship.
- Life insurance companies have been suggested to introduce varieties of products as per the requirements of different types of customers. They should design affordable products for poor and investments link products for investor.
- The lack of public awareness is one of the most challenging issues for the growth of life insurance industry. It has been suggested that the Government, regulators and life insurance companies should organise the awareness raising campaign such as advertising from the various media, interaction and talk programs, oratory programs, conferences and symposiums etc. on a regular basis.
- LICs should disseminate the complete information about their activities while publishing their Annual Reports. Similarly, the official websites of companies should also be updated from time to time.
- National Life Insurance Company has shown poor performance in terms of employee, branch, and financial efficiency. It may be suggested that National should provide training to their employees and Agents in different aspects in order to increase their efficiency. Similarly, the company should control the death claims and operating expenses in order to increase the financial efficiency.

9.4 Scope for the Further Research

Due to the fund, resources, and time constraint, the present study unable to cover many issues related to life insurance. Therefore, further study may be carried out in following areas:

- Present study has appraised the performance of private sector life insurance companies only. Similar study can be carried out on Rastriya Beema Sansthan, a public sector undertaking.
- Similar studies may be conducted comparing the performance between the government and private sector companies, domestic and joint venture companies, and domestic and foreign companies.
- Further study may be carried out on financial performance of life insurance companies based on various aspects like: solvency, liquidity, profitability, management soundness, reinsurance, market performance etc.

Appendices

Letter to the Respondent

Date:... ... ...

Dear Sir / Madam
Namaskar

In course of perusing the doctoral research on **"Life Insurance Companies in Nepal: A Critical Appraisal"**, I have planned to use both primary and secondary data. The opinion of policyholders and experts in the sector of insurance is essential to appraise the performance of the life insurance companies. The opinion will be useful to understand the contribution of life insurance companies to policyholders, government and society. In this context, two different sets of structured questionnaire have been prepared to obtain the opinion of policyholders who have already got benefits from life insurance companies and experts in the insurance sector. You are requested to read the instructions carefully and provide your views and information by selecting the most suitable alternatives.

Your opinion will be taken as a valuable input for this study. On the basis of the collective opinion, suggestion will be offered to concerned authority for the betterment of the life insurance companies. It is a pure academic study so that your confidentiality and anonymity will be maintained with utmost faith. Report will be prepared and published without disclosing your identity.

I am highly indebted for your valuable time, opinion, and cooperation. I would like to express sincere gratitude for your constructive suggestions and comments.

Thanking you

Rabindra Ghimire
Research Scholar
Faculty of Commerce
Banaras Hindu University
Varanasi, India

Enclosed: Questionnaire

Appendix-1: Questionnaire for Policyholder and Beneficiaries

Set-1/Q. No. **Date :**

Opinion Survey on

Life Insurance Companies in Nepal: A Critical Appraisal (Questionnaire Policyholders and Beneficiaries)

I. **General Information of Respondent** [Please mark this sign √ or give circle O in appropriate option]

1. Name of respondent (Optional): ....
2. Types of respondent: a) Policyholders, b) Beneficiaries
3. If respondent is not policyholder relationship with policyholder: ....
4. Sex of policyholder : a) Male, b) Female
5. Address: District: .... 6. a) Municipality b) VDC

7. Age of policyholder at the time of policy purchase: . .. ..

8. Occupation of policyholders at the time of policy purchase: ....

9. Current profession: ....

10. Educational qualification: a) Illiterate, b) Literate, c) Undergraduate, d) Post Graduate

II. Policies and Loan Related Information

11. Total number of life insurance policies currently you have: ....
12. Number of life insurance companies: ....
13. Total amount of Sum Assured: ....
14. Name of Policy and Number: a) Endowment/No: ...., b) Whole/ No...... c) Term / No:........, d) Other .....
15. Annual Income at the time of policy purchase: Rs. ....
16. Total annual premium: Rs.............
17. How you had paid premium? (can select more than one option) a) Own income, b) Taking loan, c) Selling fixed assets, d) Others (specify): ....
18. Did you face any problem while paying premium? a) Yes, b) No
19. If you had withdrawn loan: a) Average loan amount: Rs. ...., b) No. of times:
20. What was the purposes of taking loan (can select more than one option) : a) To purchase property, b) To purchase share, c) For education, d) For medical treatment , e) To invest in business, f) To pay off loan, f) To meet regular expenses, g) For social event, h) Others (Specify) ....

21. What is your experience while getting loan? a) Easy, b) Somewhat difficulty, c) Very difficult

22. If you had invested the loan to purchase in property, a) Amount of initial investment: Rs....... . . . . , b) Current value of the investments: Rs. ....

III. Information Related to Claim Settlement

23. Year of policy settlement: ....

24. How many days it took to settle your policy? .... days

25. Total premium paid: Rs. ....

26. Types of policy settlement: a) Maturity claim, b) Death claim, c) Physically impaired d) Other (specify): .. ..

27. Amount received from claim settlement: Rs..................

28. Do you satisfy with claim settlement? a) Fully Satisfied, b) Somehow satisfied, c) Not so satisfied.

29. Where did you spend the amount received from settlement?: a) Purchased property, c) Invested in education, d) Used for medical treatment, e) Invested in business , f) Spent for domestic purposes food, clothes etc. g) Loan paid, h) Managed catastrophe loss, g) Used for social event, h) Saved in bank deposit, i) Other than above (specify): . ...

IV. **There are 15 statements in following table. You are requested to circle the figure 1,2,3,4 and 5 given in right hand side as per your agreement on statement mentioned in left hand side. If you are strongly disagree (SD) with the statement please circle on 1, if disagree (DA) circle on 2, if you neither agree nor disagree (N) circle on 3, if you are agree (A) circle on 4 and if you are strongly agree (SA) circle on 5 in each statement.**

Statements	**Strongly Agree**	**Agree**	**Neutral**	**Disagree**	**Strongly Disagree**
A) Types of Products					
1. Life insurance products are suitable for all	5	4	3	2	1
2. Life insurance companies need to design affordable products for poor	5	4	3	2	1
B) Right Information about the Product					
1. Life insurance agents are personal financial consultant	5	4	3	2	1
2. Life insurance agents provide the right information about the products	5	4	3	2	1
C) Better Area of Investments					
1. Life insurance encourages for long term savings.	5	4	3	2	1

Statements	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
2. Life insurance is a better area of investment.	5	4	3	2	1
3. Buying life insurance policy is more beneficial than savings in bank.	5	4	3	2	1
4 Bonus rate of life insurance companies is satisfactory.	5	4	3	2	1
D) Benefits from the Life Insurance					
1. Life insurance is one of the best ways to manage the long term problem	5	4	3	2	1
2. Life insurance policy helps to lessen the difficulties	5	4	3	2	1
3. Life insurance is a gift during the old age and for dependents	5	4	3	2	1
4. Death benefit is the main benefit of life insurance	5	4	3	2	1
E) Poverty Reduction					
1. Government may reduce the poverty through life insurance activities.	5	4	3	2	1
2. Life insurance companies are contributing to society.	5	4	3	2	1
3. Life insurance companies deliver their services to rural and remote sector.	5	4	3	2	1

V. In your opinion what is the objective behind the buying life insurance policy? Please give this mark ✓on ONE most appropriate option among the following six options.

i. Security Against the uncertain future		ii. Regular saving	
iii. Better return on investments		iv. Financial protection for dependents	
v. To get tax exemption		vi. To provide education for children	

VI. In your opinion, how life insurance companies are contributing to individual, society and country. Please give mark to the most important contribution. Please give this mark ✓on ONE most appropriate option among the following four options.

i. Death Claim to dependents		ii. Regular savings	
iii. Policy Loan to policyholders		iv. Resources mobilisation	

Comments (if any) : … … … … … … … … … … … … … … … … … … …

Thank you for your valuable opinion and comments in spite of busy schedule.

Appendix-2: Questionnaire for Expert

Set-2/Q. No. **Date :.... ... ...**

Opinion Survey on

Life Insurance Companies in Nepal: A Critical Appraisal (Questionnaire for Experts)

I. There are 18 statements in following table. You are requested to circle the figure 1,2,3,4 and 5 given in right hand side as per your agreement on statement mentioned in left hand side. If you are strongly disagree (SDA) with the statement please circle on 1, if disagree (DA) circle on 2, if you neither agree nor disagree (N) circle on 3, if you are agree (A) circle on 4 and if you are strongly agree (SA) circle on 5 in each statement.

Statements	**Strongly Agree**	**Agree**	**Neutral**	**Disagree**	**Strongly Disagree**
A) Suitable Products and Right Information					
1.Life insurance companies have offered products as per the requirement of the customers.	5	4	3	2	1
2. Life insurance companies have designed affordable products to poor and vulnerable class.	5	4	3	2	1
3 Agents have provided sufficient information about the products.	5	4	3	2	1
B) Satisfaction to Policyholders					
1. Nepalese life insurance companies have given priority to the policyholders' satisfaction.	5	4	3	2	1
2. Claims settlement is easy in life insurance companies	5	4	3	2	1
3. Life insurance companies have disseminated sufficient information to their customers	5	4	3	2	1
C) Return to Policyholders and Shareholders					
1. Life insurance companies have provided better return to policyholders.	5	4	3	2	1
2. Life insurance companies have provided better return to their shareholders.	5	4	3	2	1
D) Poverty Reduction					
1. Life insurance companies have played significant role to reduce the poverty.	5	4	3	2	1
2. Life insurance companies have provided service in rural and remote places.	5	4	3	2	1
E) Support for Development Activities					
1. Life insurance fund has been used for industrialization.	5	4	3	2	1
2. Life insurance fund has been used in development activities.	5	4	3	2	1

Statements	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
3. Life insurance fund has been used in infrastructure development.	5	4	3	2	1
4. Life insurance fund has been used for the development of capital market.	5	4	3	2	1
F) Support to Financial Stability					
1.Life insurance companies have provided necessary fund to banking industries.	5	4	3	2	1
2. Life insurance companies maintain financial stability in the country.	5	4	3	2	1
G) Employment Creation and Increase in Productivity					
1. Life insurance industry provides better employment opportunity.	5	4	3	2	1
2. Group life insurance increases the productivity of employees.	5	4	3	2	1

II. General Information of Respondent:

1. Name of respondent: (Optional) ……………………………………….
2. Age Group: a) up to 30 years, b) 31 – 45 years, c) 46-60 years, d) Above 60 years
3. Education: a) Up to Graduate, b) Post Graduate c) Above Post Graduate
4. If any insurance related professional degree: ……………………
5. Work Experience (year): a) 5-10 years, b) 11-20 years, c) 21-30 years, d) Above 30 years.
6. Area : a) Insurance regulator, b) Other Regulators c) Policymakers, d) Consultants, , e) Academician, f) Life insurance, g) Nonlife insurance, h) Other (specify) …………………………
7. If associated with the insurance sector, position: a) Board of Director, b) CEO, c) Company Secretary, d) Head of Department , d) Agent,
e) Consultant.
8. If associated with the insurance sector, type of organisation: a) Government owned, b) Domestic, c) Joint venture / Foreign establishment.

Email / contact no. (Optional) …………………………

Thank you for your valuable opinion and comments.