

Relation of Premium Collection and Investment Pattern of Non-Life Insurance Company

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Abstract

Insurance is a contract where the policyholder receives financial compensation for specific risks or events. The main objective of this study was to evaluate the relationship between Shikhar Insurance Company and Neco Insurance Company by analyzing their premium collection and investment patterns. Data from the past five years was gathered, and relevant information was selected for the study. The data was organized systematically before applying financial and statistical tools for analysis. The analysis focused on trends and correlation, revealing that both companies saw an increase in premium collection and investments from FY 2017/2018 to FY 2021/2022. A strong positive correlation was found between premium collection and investment patterns.

Keyword: Premium Collection, Investment, Relation, Shikhar Insurance, Neco Insurance

Background

Insurance is a collective system designed to share the financial burden of a specific risk among individuals who are exposed to it and seek protection from it. Risk refers to the uncertainty about a potential financial loss. It is important to distinguish between risk and the probability of loss, which refers to the expected number of losses within a certain number of exposures. This distinction also applies to peril, which is the cause of a loss, and hazard, which is a condition that increases the likelihood of a loss. Additionally, risk should not be confused with the actual loss, which involves the unintended reduction or disappearance of value due to an unexpected event. Whenever there is uncertainty about a potential loss, a risk is present (Mishra & Mishra, 2016).

Every potential risk involves the possibility of some type of loss. Insurance serves to spread this potential loss among a large group of individuals who agree to support one another when losses occur. Although the risk itself cannot be completely eliminated, the loss associated with a particular risk can be shared among those participating in the arrangement (Schwarcz & Schwarcz 2014).

A premium constitutes the regular payment rendered by the insured party to the insurer, offered in return for the shifting of risk as delineated within the terms of the insurance

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policy (Rejda & McNamara, 2017)

Investment pertains to the utilization of funds in diverse financial tools or assets, intending to yield earnings, increase in capital value, or attain particular financial objectives. This process entails assigning resources to potentially secure returns that counterbalance the associated risk. Choices regarding investments are influenced by variables including one's willingness to accept risk, the timeframe for investment, and prevailing market circumstances (Bodie, Kane, & Marcus, 2020)

In countries like Nepal, micro insurance is a relatively new concept aimed at reducing poverty by helping low-income families manage risks. Nepal's insurance industry, however, primarily focuses on middle- and high-income individuals and businesses, not on micro insurance. Some non-life insurance companies have started offering micro insurance products, but it's important to establish regulations that require insurance companies to participate in micro insurance. They should be mandated to allocate a portion of their funds toward micro lending. Recently, the Nepali government has also begun subsidizing micro insurance efforts (Sharma, 2013).

Insurance policies for both life and non-life insurance are progressively increasing over the study period in Nepal. Similarly, the premium collection and its contribution in GDP are also increasing year after year. Likewise, the investment of life and non-life insurance companies is also increasing positively as the relationship between life and non-life insurance is significant during the study period. The growth trend of total premium collection and total investment are increasing and they have significant relationship with each other. These all facts reveal that the performance of Nepalese insurance companies is satisfactory. More specifically, the performance of both life and non-life insurance companies in terms of premium collection and investment is satisfactory in Nepal (Gururg, 2010).

Limited education and awareness about insurance, coupled with middle-class demographics and political instability, pose challenges for the insurance sector in Nepal. Nevertheless, recent reports show an increasing number of policyholders each year. This review outlines Nepal's insurance landscape, including types, products, and its role in the economy. Despite growth in premium and policyholders, the sector faces hurdles in product innovation, customer service, and policy retention. With refined market research, the potential for insurance companies and the concept of insurance in Nepal is promising (Khanal, 2020).

Health insurance as a separate category has the potential to greatly improve access to healthcare. This shift could lessen the personal financial burden of medical costs and encourage a wider range of people to get health insurance. With more competition,

there's a chance for cheaper health insurance choices to become available. The decision to allow more foreign investment also makes investing in this changing field more appealing. Together, these changes could lead to a better and more available health insurance system in India, ensuring a better and safer healthcare future for its people (Chakraborty, 2022).

Corporate governance affects the firm performance in Nepalese insurance sector. The study's findings emphasize the positive impact of increased board meeting frequency on timely issue resolution and the overall efficiency of the Nepalese insurance industry. A well-structured and effective system contributes to maintaining proper functioning. Further research could delve into additional corporate governance variables, such as independent directorship, board composition, audit meeting frequency, leverage, and ownership structure. Notably, the study did not consider aspects like board and CEO qualifications, experience, and audit meeting frequency. Additionally, the prospect of conducting a comparative analysis of corporate governance between life and non-life insurance companies holds promise for deeper insights (Subedi, 2018).

Relying solely on risk-based deposit insurance premiums is not enough to address moral hazard in deposit insurance systems. The examples provided demonstrate that more complex procedures, including sophisticated pricing structures and examination methods, are more effective than purely risk-based premiums. The key factor in this analysis is the role of private information. Similar lessons can be learned from markets without government insurance. Just as insurance contracts use deductibles and copayments to manage moral hazard, audits can serve the same purpose. Banks also take steps to mitigate the effects of private information from borrowers, such as imposing restrictions on borrowers' actions and setting conditions for loan repayment. Much like the cost of a bank loan includes more than just the interest rate, the pricing of deposit insurance involves more than just the premium levels (Prescott, 2002).

The premium income has a partially significant impact on profit, as it involves funds paid by participants to insurance companies over a defined period. Investment results play a crucial role in influencing net profit positively, potentially contributing to the company's future growth. Notably, claim expenses do not negatively affect the company's profit, as they are covered by the tabarru' fund derived from participants' contributions. Similarly, operating expenses also do not diminish company profit, given that profits stem from company earnings. The combined findings suggest that Premium Income, Investment Returns, Claim Expenses, and Operating Expenses collectively exert a significant influence on net profit within the realm of Sharia life insurance (Hissiyah & Meylianingrum, 2023).

The main problem in insurance sector of Nepal is cut throat competition because of the

liberalization and privatization. Under rating, price-cutting and unhealthy competition are the problems of insurance business in Nepal (Neupane, 2010).

Premium collection and investment pattern is in increasing order. Although the premium collection increased, the increase in percent is not so satisfactory. The return from investment is also not satisfactory and concluded that insurance companies have strived good till now but with little improvisation based on market research can lead insurance companies & the concept to a level of excellence in Nepal (Shakya, 2021).

The profitability of non-life insurance has a substantial favorable impact on the company sizes. It how's that larger non-life insurance companies have better financial results and has offered proof for the principle of economies of scale. According to the study, Nepalese non-life insurance businesses will have better financial results with a large number of total assets. The profitability of non-life insurance has a substantial favorable impact on the company sizes. It shows that larger non-life insurance companies have better financial results and has offered proof for the principle of economies of scale. According to the study, Nepalese non-life insurance businesses will have better financial results with a large number of total assets (Nischal & Campus, 2020).

History of Insurance in context of Nepal

The inception of Nepal's domestic general insurance industry took root with the establishment of Nepal Mal Chalani tatha Beema Adda (currently recognized as Nepal Insurance Company) in 1947. This pioneering initiative was a collaborative effort between Nepal Bank Limited and private investors. Indian insurance firms operated by offering general insurance policies in Nepal without formal registration within the nation from the 1930s until 1967, and extended their reach to life insurance policies until 1974. Regulatory measures for the insurance landscape were introduced following the enactment of the Insurance Act in 1968. A significant milestone came in the form of Rastriya Beema Sansthan, the nation's inaugural life cum nonlife insurer, established in 1968 as a pivotal state-owned enterprise governed by a dedicated act. The policy shift towards financial liberalization opened the gates for private entities, both domestic and foreign, to enter Nepal's insurance sector.(Ghimire,2014)

Presently, there are 31 insurance companies, comprising 15 life insurance and 14 non-life insurance entities, alongside 2 reinsurance companies

Types of Insurance

The more common classification divides insurance into two parts: life insurance and nonlife insurance. Life insurance refers to a contract in which the insurer agrees, upon payment of a premium, to pay a specified sum of money either upon the death of the

insured or at the end of a predetermined period. Life insurance primarily focuses on covering risks related to physical and mental accidents. On the other hand, non-life insurance encompasses all forms of insurance except life insurance.

Non-life Insurance

Non-life insurance, also referred to as general insurance, encompasses all types of insurance coverage other than life and social insurance. Primarily deals with the protection of property and provides indemnity to the insured based on the actual value of the subject matter.

The insurers providing various kinds of non-life insurance policies which are as follows;

- | | |
|------------------------------|----------------------------|
| 1) Fire Insurance | 2) Motor Insurance |
| 3) Marine Insurance | 4) Engineering Insurance |
| 5) Micro Insurance | 6) Aviation Insurance |
| 7) Cattle and Crop Insurance | 8) Miscellaneous Insurance |

Statement of the problem

As the industry expands, international insurance companies are entering the Nepalese market. However, an analysis of their balance sheets and profit and loss statements shows that, despite making annual profits, these amounts are not significant or satisfactory given the transaction volumes. Nepal's insurance sector faces several challenges that hinder its growth. Limited market opportunities, low per capita income, and a lack of public awareness about insurance are major obstacles. Additionally, increased competition, along with rising incidents of violence and terrorism, further complicate operations for insurers. As a result, insurance companies must proceed with caution and careful management.

One of the major hurdles faced by insurance companies in Nepal is the collection of premiums and the mobilization of funds in suitable sectors. The underdeveloped nature of the country, coupled with its challenging geographical landscape, presents obstacles to expanding insurance activities. Lacks of trust in insurance and limited financial resources among the Nepalese population contribute to the low adoption of insurance services. Additionally, the prevalence of poverty exacerbates these challenges, affecting the overall growth of the insurance business.

The primary focus of this study is to delve into the strategies surrounding premium collection and investment execution within Nepal's insurance industry. This research endeavor aims to yield insights that hold intrinsic value for the advancement of the

insurance landscape in Nepal. (Khanal, 2020)

This study aims to analyze and address these challenges using various analytical methods and techniques. Specifically, the study seeks to answer the following key questions:

- Is there any relationship between premium collection and investment within the company?

Objectives of the study

The main objective of this study is to assess the current status of Shikhar Insurance Company Ltd and Neco Insurance Company by examining its premium collection and investment position. The specific objective of the study is as follows:

- To evaluate the relationship between premium collection and investment of funds of sampled insurance companies.

Research framework

The variable for this study is premium and investment which is shown below.

Independent variable



Dependent variable



Research framework of the study

Premium - Premium refers to the amount of money an individual or organization pays to an insurance company in exchange for insurance coverage. It is the price or cost of the insurance policy. Premium can be ascertained either by numerical rating system, evaluates each and every item and marks are assigned to them according to their merits and degrees influencing risk (Borch, 1985).

Investment - Investment necessitates the allocation of funds over an extended time horizon, with the aim of augmenting one's income beyond regular earnings and cultivating growth in the invested capital. The act of investing requires a willingness to await future rewards, which manifest as income derived from interest, dividends,

premiums, or the appreciation in the value of the principal capital. In essence, investment entails a patient outlook, where individuals anticipate a future payoff through various forms of income and capital appreciation (Singh, 2018).

Research methodology

Research Design - The research design used for this study is descriptive, analytical and non-experimental in nature. The study involves the collection of data and information, followed by the selection of pertinent data.

Population and Sample - There are altogether 14 nonlife insurance business and 2 of them related to reinsurance business. For the purpose of the study two of Non-life insurance companies are taken as sample from the population and they are Shikhar Insurance Company and Neco Insurance Ltd. on convenience sampling basis.

Nature and Source of Data - The research is based on Secondary data. The data are collected from concerned websites of insurance company as well as website of the Insurance Board of Nepal, different books from library, periodicals, newspapers, company's magazines, related published journal and books etc... The various unpublished thesis, research work and guidelines that are related insurance for the purpose of this study.

Methods of analysis - Collected data need to be presented, edited, tabulated and analyzed. The data should not only be presented in systematic form but also calculated in systematic way to get the desired output relating to the subject matter to achieve the basic objective.

- i. Descriptive Analysis
- ii. Correlation

Findings

The most precise conclusions regarding this factor can be drawn using trend analysis, which shows the fundamental characteristics of investment and premium throughout the past years gives us a better grasp of current trends as well as the investment and premium pattern.

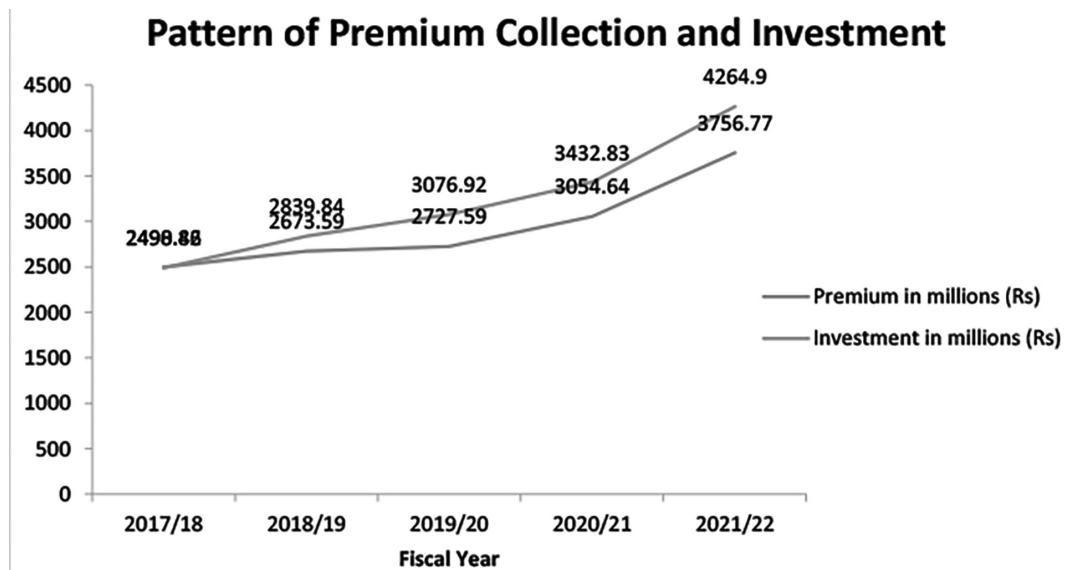
Here, for trend analysis, average of premium collection and total investment, in million, of different insurance are taken.

Table 1*Analysis of premium collection and investment pattern*

Fiscal Year	Premium in millions (Rs)	Investment in millions (Rs)
2017/18	2498.86	2490.42
2018/19	2673.59	2839.84
2019/20	2727.59	3076.92
2020/21	3054.64	3432.83
2021/22	3756.77	4264.9

Source: Annual Reports

Table 1 showed that average premium collection of both companies rose from Rs 2,498.86 million in FY 2017/18 to Rs 2,673.59 million, Rs 2,727.59 million, Rs 3,054.64 million, and finally to Rs 3,756.77 million in FY 2021/22. Similarly, the average investment also saw steady growth, increasing to Rs 4,264.90 million in FY 2021/22 from 2490.42 million in FY 2017/18 over the same period.

Figure 1**Pattern of Premium Collection and Investment**

Source: Table 1

Figure 1 showed the pattern of premium collection and investment by Shikhar Insurance and Neco Insurance, along with their combined average premium collection and investment, has shown steady growth over the five-year period. Both premium collection and investment have increased consistently from FY 2017/18 to FY 2021/22, as depicted in the figure.

From above trend its analyzed that the awareness of insurance are increasing among people so that the premium collection will also increase in future and the most of investment are done in fixed deposit which is secure investment so the area of investment will increase in future.

Correlation

To ascertain whether and how closely two variables are related to one another, a statistical technique known as correlation can be utilized. This statistical technique assesses the degree of relationship between two variables. In other words, the purpose of this tool is to express the linear relationship between one variable and other variables. Two or more variables are said to be correlated if a change in the value of one variable appears to be related to a change in the other variables. How closely the variables are related to one another is discussed in the correlation analysis. It helps in determining any positive or negative correlations, as well as, if any, their possible causes and effects. The quality of any two or more relationships, including:

It is calculated as below:

$$\text{Coefficient of correlation (r)} = \frac{\sum XY}{\sqrt{\sum X^2 * \sum Y^2}}$$

Table 2

Coefficient of correlation between premium collection and investment

Coefficient of correlation	Relationship
0.98	Higher degree of positive relationship

Source: SPSS result calculated from table 1

Table 2 showed that there is a stronger correlation between insurance companies in overall premium collection and their investment. That has shown that a greater premium collection result to greater investment. The change in the independent variable (premium collection) explained 98.20 percent of the variance in the dependent variable

(investment) for nonlife insurance companies as a whole.

Discussion

This study utilized secondary data analysis to summarize the findings of an in-depth examination of premium collection and investment practices in Nepal's insurance sector. The research analyzed premium collection patterns, their composition, and the investment strategies employed, aligning with the study's objectives. Trend analysis and correlation models were used to explore the relationships and trends in premium collection and investment approaches among Nepal's non-life insurance companies, offering insights into how these factors interact.

The companies' overall investment is on an upward trend, indicating that more investments are likely in the future, though they have so far been concentrated in a limited number of sectors. Premium collection is also expected to rise, leading to further increases in investment by insurance companies. There is a strong positive relationship between the premium collections of non-life insurance companies and their investment strategies, with investment amounts increasing in line with higher premium collections. The result of the study has been compatible with the result of Hissiyah & Meylianingrum (2023), Shakya (2021), Neupane (2010).

Overall, the study shows a clear positive correlation between premium collection and investment in the non-life insurance sector.

Conclusion

The study concludes that both premium collection and investment are following an upward trend, likely due to increased awareness of insurance after the earthquake. However, despite the rise in premium collection, the percentage growth is not as favorable. There is a strong positive relationship between premium collection and investment, as both are increasing. However, much of the investment has been directed towards low-risk areas such as fixed deposits, resulting in unsatisfactory returns.

Overall, the study reaffirms a positive link between investment and premium collection.

Implications

To ensure long-term sustainability, insurance companies must create superior investment portfolios in order to improve earnings. Protecting the reserve is the investment's primary goal. Fund of insurance providers and guarantee a minimum income payment future obligation of policyholders without suffering from a lack of resources it might be decided that insurance firms have made some effort, but not much has changed. Market research-based improvisation can influence insurance businesses and the idea to an exceptional level in Nepal.

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