Impact of premium collection on investment pattern of Nepalese life insurance companies

Jitendra Prasad Upadhyay, Ph.D.
Associate Professor, Nepal Commerce Campus, Tribhuvan University
Email: jupadhaya@yahoo.com

Rumita Dhaugoda
Nepal Commerce Campus,
Tribhuvan University

Cite this paper

Upadhyay, J.P., & Dhaugoda, R. (2021). Impact of premium collection on investment pattern of Nepalese life insurance companies. *NCC Journal, 6*(1), 11-22.

https://doi.org/10.3126/nccj.v6i1.57793

Abstract

The premium collection is one of the main sources for investment and measuring profitability of insurance companies.This research aims to analyze the effect of premium collection on the investment strategy and profitability of the life insurance company. Only four insurance companies have been selected out of the nineteen life insurance companies in Nepal using simple random sampling technique. The purpose of this descriptive and causal-comparative study is to examine the impact of premium collection on investment and profitability in life insurance companies. Both primary and secondary data have been incorporated. Descriptive statistical tools consist of mean, standard deviation, coefficient of variation as well as the inferential statistic consists of correlation and regression analysis as secondary data variables. The findings indicate a positive and significant relationship between total investment and premium collection in the life insurance industry. Additionally, premium collection shows significantly positive relationships with earnings per share and net profit. However, the research also suggests an insignificant relationship between premium collection and return on assets (ROA) and return on equity (ROE). Furthermore, the study highlights the influence of various other factors on premium collection and investment patterns, including firm size, government regulations, investment duration, investment period, and investment objectives. Understanding these factors can aid in formulating an effective structure for premium collection and investment strategies to achieve higher profitability. The research findings shed light on the significance of premium collection in guiding investment decisions in the life insurance sector. The findings of this study can contribute to the formulation of effective premium collection and investment strategies to maximize profits in this industry.

Keywords: Impact, Premium collection, Investment Pattern, Life insurance companies

Introduction

Insurance is one of the major risk handling methods. It is the mechanism of spreading risks among the various concerned people. Insurance companies collect funds through various clients as premiums and invest in different sectors for more return for their shareholders. In the realm of life insurance, individuals enter into contracts with insurance companies, paying regular premiums in exchange for the assurance of a lump-sum death benefit to their beneficiaries upon their demise. The selection of life insurance policies is driven by the unique needs and objectives of policyholders, aiming to mitigate potential uncertainties and financial losses that might arise in the future. The essence of insurance lies in the transfer of risks from policyholders to insurers (Gurung, 2011). As part of the contract, insurers commit to providing financial support to cover specific losses, while policyholders contribute through the payment of premiums. This symbiotic arrangement enables individuals to navigate the unpredictable future with a certain level of confidence, knowing that their risks are partially mitigated by insurance coverage. Furthermore, insurers manage their own exposure to risk through the

process of diversification. By spreading their resources across various assets and liabilities, insurers aim to achieve a balanced risk profile that enhances their ability to fulfill policyholder claims and maintain overall financial stability.

Insurance companies collect funds through various clients as premiums and invest in different sectors for more return for their shareholders (Ghimire, 2013). This study concentrates on the insurance industry's premium collection and investing trend and aimed at evaluating and analyzing the premium collection trend, investment pattern and profitability too. The insurance industry in Nepal was seriously threatened by a lack of suitable industries, limited market prospects, low per capita income, lack of insurance knowledge, and a lack of lucrative investment options. The insurance company being non-depository financial intermediaries between the surplus unit and deficit unit collects fund as premium and invest it. So, premium and investment is a major part of their functioning.

Life insurance companies in Nepal play a vital role in supporting the growth and stability of small business enterprises. These businesses are recognized as significant drivers of economic development, contributing to job creation, poverty alleviation, and increased productivity in the nation (Karki, 2021). As the number of small businesses continues to grow exponentially, the role of the financial sector including life insurance companies becomes crucial in facilitating their success. While, the pattern of investments and profitability of the insurance business are significantly influenced by premium collecting, the insurance company should be able to maintain sufficient premium income and invest it appropriately for the success and profitability of the insurance company. As a result, these insurance businesses' key challenge is to raise the premium and utilize in a suitable sector. The objectives of this study are twofold:

- To thoroughly examine the premium collection and investment decisions made by life insurance companies in Nepal. By analyzing these aspects, we aim to gain insights into the strategies and approaches these companies adopt in managing their financial resources.
- To assess and analyze the impact of premium collection on the profitability of these life insurance companies. By understanding this relationship, we can determine the extent to which premium collection influences their overall financial performance and success.

To cope with these objective following two hypotheses were formulated

H_1: There is significant relationship between premium collection and investment pattern of life insurance companies.

H_2: There is significant relationship between premium collection and profitability (ROA, ROE, EPS, Net Profit) of life insurance companies.

Literature review

The study conducted by different researchers like Gurung (2011), Akotey et al. (2013), Kaya (2015) and Kramaric et al. (2017) found on their studies that the premium growth rates of life insurance companies have a positive effect on profitability (ROA and ROE) of the organization and also they found the positive interrelationship between premium collection and investment. Similarly, the study conducted by Siddhique et.al. (2017), Nwani et.al. (2019) and Senol et.al. (2020) revealed that insurance becomes an essential part of every economic growth i.e. the premium has positively significant to economic growth of the company.

In the study conducted by Karki (2020) pertaining to Nepalese insurance companies and investor perspectives on stock prices, intriguing findings emerged. The research highlighted that factors like company size, gross domestic product, and money supply positively influenced the price-earnings ratio and overall stock market performance. Additionally, Bhandari et al. (2021) emphasized the role of customer preferences in contributing to the success of companies. Furthermore, the increasing importance of digital adoption across all sectors, including insurance, is a crucial factor impacting the performance and efficiency. Industry 4.0, the industrial revolution encompassing technological advancements, presents both opportunities and challenges. Rajbhandari et al. (2020) identified that Nepal faces challenges in adopting the concept of Industry 4.0.

These valuable insights carry significant implications for insurance companies in Nepal, particularly in the domains of premium collection, investment decision-making and pricing strategies. By understanding the

interplay between key variables, insurance firms can make informed choices and strategize effectively, maximizing their performance in the dynamic market environment.

Research methods

The descriptive and causal-comparative research design were employed in this study to address questions concerning the impact of premium collection, investment decisions and profitability of life insurance companies. Only four life insurance companies, National Life Insurance Company Limited, Nepal Life Insurance Company Limited, Prime Life Insurance Company Limited, and Surya Life Insurance Limited, were chosen as a sample for this study out of the total population of nineteen life insurance companies. The sample was chosen using the simple random sampling technique.

Results and findings

This study made use of both primary and secondary data. SPSS was used for the analysis of the data. The analysis has used both descriptive statistics, such as mean, standard deviation, and coefficient of variation, as well as inferential statistics, such as correlation and regression analysis.

Analysis of Secondary Data

Table 1
Premium Collection of Different Life Insurance Companies

Life Insurance Cos. Fiscal Year	NLICL (Rs.)	NLIC (Rs.)	PLIC (Rs.)	SLIC (Rs.)
2071/2072	2887151136	8093293221	1278100000	725802535
2072/2073	3600524008	10260000000	1725262782	1078653026
2073/2074	5060040745	12682959227	2049279096	1338231160
2074/2075	6447635019	16569739178	2246135066	1749457288
2075/2076	8050523540	22819582713	2866953498	2485980107
Mean	5209174890	14085114868	2033146088	1475624823
STDEV	1876637344	5195454886	530235061	605722562
CV	36.03	36.89	26.08	41.05

All life insurance companies collect premiums in a variable and inconsistent manner. The highest and lowest premiums were collected throughout a five-year fiscal period by NLIC and PLIC, respectively.

Table 2
Investment Pattern of Different Life Insurance Companies

Life Insurance Cos. Fiscal Year	NLICL (Rs.)	NLIC (Rs.)	PLIC (Rs.)	SLIC (Rs.)
2071/2072	11552327794	21970636201	3496412513	1613435679
2072/2073	25468681000	29452859698	4544098648	2319457579
2073/2074	19640007943	41013916322	5819187195	3243603565
2074/2075	15990988886	49801501129	8672754985	4662118464
2075/2076	13252469830	54257761645	10896345872	5231945798
Mean	17180895091	39299334999	6685759843	3414112217
STDEV	4965154638	12117975806	2727151687	1366149076
CV	28.90	30.84	40.79	40.01

It was discovered that over a period of five fiscal years, NLIC and SLIC made the largest and lowest overall investments, respectively. The overall investment of all life insurance firms varies and is inconsistent.

Table 3

Return on Assets Different Life Insurance Companies

Life Insurance Cos. Fiscal Year	NLICL (%)	NLIC (%)	PLIC (%)	SLIC (%)
2071/2072	0.02	0.02	0.02	-0.01
2072/2073	0.02	0.02	0.02	0.03
2073/2074	0.02	0.04	0.04	0.01
2074/2075	0.03	0.03	0.03	0.03
2075/2076	0.02	0.03	0.03	0.02
Mean	0.02	0.02	0.03	0.02
STDEV	0.00	0.00	0.01	0.02
CV	15.37	12.99	27.46	80.82

Over five-year fiscal years, the highest and lowest returns on assets are identical with the exception of PLIC. PLIC seems to have effectively utilized the available assets to gain more return as the mean return on total assets is 3% as compared to others.

Table 4

Return on Equity Different Life Insurance Companies

Life Insurance Cos. Fiscal Year	NLICL (%)	NLIC (%)	PLIC (%)	SLIC (%)
2071/2072	0.02	0.03	0.04	0.01
2072/2073	0.18	0.24	0.16	0.16
2073/2074	0.19	0.11	0.16	0.08
2074/2075	0.18	0.15	0.07	0.14
2075/2076	0.09	0.14	0.07	0.15
Mean	0.13	0.13	0.10	0.11
STDEV	0.07	0.08	0.063	0.06
CV	55.43	57.67	57.26	57.54

Over five fiscal years the return on equity for two insurance companies, PLIC and SLIC are identical. The NLICL and NLIC shareholders seem to be more satisfactory as compared to PLIC and SLIC shareholders as the average return on equity is higher.

Table 5

Earnings per Share of Different Life Insurance Companies

Life Insurance Cos. Fiscal Year	NLICL (Rs.)	NLIC (Rs.)	PLIC (Rs.)	SLIC (Rs.)
2071/2072	25.88	21.51	13.59	4.39
2072/2073	26.4	25.31	29.88	26.49
2073/2074	24.71	32.44	38.94	20.76
2074/2075	28.64	41.83	14.51	16.48
2075/2076	11.67	30.42	16.7	22.85
Mean	23	30	23	18
STDEV	6.03	6.92	10.01	7.62
CV	25.71	22.85	44.07	41.90

Over five year fiscal years the lowest and highest earnings per share are Rs.18 and Rs.30 of SLIC and NLIC respectively. There is fluctuation and inconsistency over earnings per share in all life insurance companies.

Table 6
Net Profit of Different Life Insurance Companies

Life Insurance Cos. Fiscal Year	NLICL (Rs.)	NLIC (Rs.)	PLIC (Rs.)	SLIC (Rs.)
2071/2072	263707686	527555789	66342592	21941548
2072/2073	349719304	906634254	145883742	133466752
2073/2074	409153790	1004634123	237617913	136252540
2074/2075	474239008	1112831917	214024115	205364154
2075/2076	351091095	1336303963	203828806	283788621
Mean	369582177	977592009	173539434	156162723
STDEV	69949734.11	266556927.1	61511799.12	86759434.02
CV	18.93	27.27	35.45	55.56

Over five year fiscal years the highest and lowest net profit is Rs.977,592,009 and Rs.156,162,723 of NLIC and PLIC respectively. There is fluctuation and inconsistency over net profit in all life insurance companies.

Table 7
Descriptive Statistics of Investment Pattern (in "000")

	N	Range	Min.	Max.	Mean	Std. Dev.
Govt. bonds	20	2014373	0	2014373	322816.736	477834.758
Commercial bank FD	20	44777500	737000	45514500	13535855.877	13899962.577
Development bank FD	20	4533800	0	4533800	539240	978602.370
Debentures & bonds	20	2723306	107425	2830731	726492.007	642811.988
Finance cos. FD	20	3135032103	0	3135032103	516768902	912083938

It shows that life insurance companies prioritize the investment in commercial bank's fixed deposits and debentures and bonds than in government bonds, development bank's fixed deposits, or investment in finance companies fixed deposits.

Table 8
Overall Descriptive Statistics

	N	Range	Minimum	Maximum	Mean	Std. Dev.
ROA	20	0.05	-0.01	0.04	0.022	0.011
ROE	20	0.23	0.01	0.24	0.12	0.65
EPS	20	37.44	4.39	41.83	23.6700	9.14236
NP	20	1314362415	21941548	1336303963	419219086	373834240
Total investment	20	52644325966	1613435679	54257761645	16645025537	15965017280

Table 9
Correlations Analysis of Dependent and Independent Variables

	Total investment	ROA	ROE	EPS	Net Profit	Total Premium
Total Investment	1	0.089	0.295	.549*	.967**	.950**
ROA		1	.453*	0.434	0.16	0.101
ROE			1	.567**	0.361	0.241
EPS				1	.567**	.469*
Net income					1	.969**
Total premium						1

*Significant at 5 percent level (two-tailed).

**Significant at 1 percent level (two-tailed).

It displayed the correlation among the variables such as total investment, return on equity, return on assets, net profit, earning per share and total premium. The total premium has a significantly positive relationship with total investment which indicates that they move in the same direction. An increment over total premium would lead to an increment over total investment. The total premium has a significantly positive relationship with earning per share and net profit which implies that they move in the same direction. An increment over both EPS and NP would lead to an increment over the total premium. Similarly, the total premium has an insignificant but positive relationship with return on equity and return on assets which implies meaning that they lead each other in the same direction. An increment over ROA and ROE would lead to an increment over total premium.

Table 10
Regression Analysis of Premium Collected on Total Investment

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	2037150531	1617181323		1.260	
Total premium	2.562	0.199	0.950	12.848	0.00

a. Dependent Variable: Total investment

R = .950[a]; R^2 = 0.902; Adj. R^2= 0.896; F = 165.077; p = .000

The R-square value of 0.902 indicates that the total investment is explained 90.2 per cent by premium collected. The model formed with a premium collected and the total investment is significant since the p-value is less than 0.05 with an F-statistic of 165.08. The positive coefficient of the premium collected indicates that there is a positive relationship between the premium collected and the total investment. The regression coefficient of the premium collected in the regression coefficient analysis is 2.562 which indicates that if the premium collected is increased by one unit, the average influence on the premium collected will increase by 2.562 units. The corresponding p-value is 0.00 which is less than 0.05. Hence, there is significant relationship between premium collected and total investment.

Table 11
Regression Analysis of Premium Collection on ROA

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	0.022	0.003		6.638	
Total premium	1.78	0.000	0.101	0.430	0.672

a. Dependent Variable: ROA

R = .101[a]; R^2 = 0.010; Adj. R^2= -0.045; F = 0.185; p = .672

The R-square value of 0.010 implies that the ROA has explained 10 per cent by premium collected. The model formed with a premium collected and ROA is insignificant since the p-value is more than 0.05 with an F-statistic of 0.158. The regression analysis reveals a positive coefficient (1.78) for the premium collected, indicating a favorable relationship between premium collection and return on assets (ROA). This suggests that an increase in premium collection leads to a corresponding increase in the average influence on ROA by 1.78 units. However, it's essential to note that the p-value associated with the premium collected (0.672) is greater than the significance level of 0.05. Consequently, based on the p-value, we conclude that there is no statistically significant relationship between the premium collected and ROA.

Table 12
Regression Analysis of Premium Collection and ROE

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	0.104	0.020		5.155	
Total premium	2.62	0.000	0.241	1.056	0.305

a. Dependent Variable: ROE

$R = .241^a$; $R^2 = 0.058$; Adj. $R^2 = -0.006$; $F = 1.115$; $p = .305$

The regression analysis results show that the premium collected has a positive coefficient, indicating a potential positive relationship with return on equity (ROE). The R-square value of 0.058 suggests that approximately 5.8% of the variation in ROE can be attributed to the premium collected. However, it's important to note that the model formed with premium collected and ROE is considered statistically insignificant, as the p-value exceeds the threshold of 0.05 and the F-statistic is 1.115. Although the positive coefficient indicates a positive association, the lack of statistical significance suggests that the relationship between premium collected and ROE may not be reliable or strong enough to draw definitive conclusions. The regression coefficient of 2.62 further implies that if the premium collected increases by one unit, it could lead to an average increase of 2.6 units in ROE. Yet, the corresponding p-value of 0.305, exceeding 0.05, indicates that this finding might not be statistically meaningful.

Table 13
Regression Analysis of Premium Collection and EPS

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	19.542	2.609		7.490	
Total premium	7.24	0.000	0.469	2.250	0.037

a. Dependent Variable: Earnings per Share

$R = .469^a$; $R^2 = 0.220$; Adj. $R^2 = 0.176$; $F = 5.064$; $p = .037$

The regression analysis results reveal that the premium collected has a positive coefficient, indicating a significant and positive relationship with earnings per share (EPS). The R-square value of 0.220 suggests that approximately 22% of the variability in EPS can be attributed to the premium collected. Importantly, the model formed with premium collected and EPS is statistically significant, as indicated by a p-value less than 0.05 and an F-statistic of 5.064. The positive coefficient of 7.24 indicates that for every unit increase in the premium collected, there is an average increase of 7.24 units in EPS. The significant p-value of 0.037, being less than 0.05, reinforces the robustness of this finding, indicating a meaningful and reliable relationship between premium collected and EPS.

Table 14
Regression Analysis of Premium Collection and Net Profit

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	70157245	29828124		2.352	
Total premium	0.061	0.004	0.969	16.645	0.00

a. Dependent Variable: Net profit

$R = .969^a$; $R^2 = 0.939$; Adj. $R^2 = 0.936$; $F = 277.065$; $p = .000$

The regression analysis results reveal a highly significant and strong relationship between premium collected and net profit. The R-square value of 0.939 indicates that an impressive 93.9% of the variability in net profit can be attributed to the premium collected, highlighting its crucial role in influencing the company's profitability. The model formed with premium collected and net profit is statistically significant, as evident from the p-value being less than 0.05 and the F-statistic of 277.06. This indicates that the premium collected is a significant predictor of net profit and has a substantial impact on the company's financial performance. The positive coefficient of the premium collected 0.061 indicates that an increase in premium collected leads to a positive impact on net profit. For every unit increase in the premium collected, there is an average increase of 0.061 units in net profit. The low p-value of 0.00 further confirms the significance of this relationship, reinforcing the validity of the findings.

Analysis of Primary Data

Table 15
Respondents View Regarding Premium Collection

Particulars	Frequency	%
Age Group-Buying Policies	**Frequency**	**%**
1-20 years	1	4.0
21-40 years	17	68.0
41-60 years	7	28.0
Above 60 years	0	00.0
Total	25	100.0
Satisfied with the Various Rate of Premium	**Frequency**	**%**
In Between	3	12.0
Yes	21	84.0
No	1	4.0
Total	25	100.0
Size and Age of the Company	**Frequency**	**%**
In Between	2	8.0
Yes	17	68.0
No	6	24.0
Total	25	100.0
Government Regulation	**Frequency**	**%**
In Between	1	4.0
Yes	18	72.0
No	6	24.0
Total	25	100.0

Table 16
Respondents View Regarding Investment Pattern

Particulars	Frequency	%
Investment Factor	**Frequency**	**%**
Safety of Principal	12	48.0
Low risk	8	32.0
High returns	2	8.0
Maturity period	3	12.0
Total	25	100.0
Monitoring Investment	**Frequency**	**%**
Daily	4	16.0
Monthly	14	56.0
Occasionally	7	28.0
Total	25	100.0
Investment Period	**Frequency**	**%**
Short term (0-1 years)	15	60.0
Medium term (1- 5 years)	8	32.0
Long term (more than 5 years)	2	8.0
Total	25	100.0
Insured Rate the Premium Amount of Different Policy	**Frequency**	**%**
High	7	28.0
Medium	17	68.0
Low	1	4.0
Total	25	100.0
Reason behind Choosing Investment Companies	**Frequency**	**%**
Safety	9	36.0
Brand Name	4	16.0
Good track record	6	24.0
Good return	6	24.0
Total	25	100.0
Return on Investment	**Frequency**	**%**
Very Good	16	64.0
Good	0	00.0
Average	9	36.0
Total	25	100.0
Factors Affecting the Investment	**Frequency**	**%**
Retirement	14	56.0
Tax benefit	11	44.0
Total	25	100.0

During the primary data collection, respondents' views towards total investment factors were diverse. The survey revealed that 48% of respondents considered the safety of the principal as their primary investment concern, while 32% emphasized low risk, 8% sought high returns, and 12% valued maturity period in their investment decisions. Regarding investment monitoring, a significant majority of respondents (56%) monitored their investments on a monthly basis, indicating a proactive approach to managing their financial portfolios. Moreover, 60% of the respondents preferred short-term investments, aligning with their focus on flexibility and liquidity. When considering life insurance policies, most respondents (60%) regarded the premium amount as medium, indicating a balanced perspective on cost versus benefits. For choosing different investment companies, 36% of respondents valued safety, 24% considered a good track record, and 24% sought favorable returns, while 16% emphasized brand name, reflecting the various factors influencing their investment choices.

Respondents' perception of return on investment varied, with 36% considering it average, 16% regarding it as very good, and none rating it as good. This indicates that a significant portion of respondents had positive expectations regarding their investments. The survey findings highlighted that 56% of respondents were driven by retirement purposes when investing, signifying the importance of long-term financial planning and securing future financial stability. Additionally, 44% of respondents were motivated by tax benefits when making investment decisions, showing a keen awareness of potential tax advantages. The survey results demonstrate the complexity of factors influencing investment decisions among respondents. The focus on safety and low risk indicates a conservative approach, while the consideration of high returns reflects a willingness to seek potential growth opportunities. The emphasis on short-term investments suggests a preference for flexibility and quick returns, while the attention to retirement and tax benefits underscores the need for comprehensive financial planning.

Table 17
Summary of Hypothesis Testing

Hypotheses	P- value	Result at 95% Confidential Level
H_1: There is a significant relationship between premium collection and total investment.	0.000	Accepted
H_2: There is a significant relationship between premium collection and ROA.	0.672	Rejected
H_3: There is a significant relationship between premium collection and ROE.	0.305	Rejected
H_4: There is a significant relationship between premium collection and EPS.	0.037	Accepted
H_5: There is a significant relationship between premium collection and net profit.	0.000	Accepted

The total premium has a significantly positive relationship with total investment which indicates that they move in the same direction. An increment over total premium would lead to an increment over total investment. The total premium has a significantly positive relationship with earning per share and net profit which implies that they move in the same direction. An increment over both EPS and NP would lead to an increment over the total premium. Return on assets and return on equity have a positive but statistically insignificant association with the total premium.

Conclusion

Total investment has a positive and significant relationship effect on a premium collection in the life insurance sector. It is found that premium collection has greater effect on total investment in life insurance companies. The premium collection shows a significantly positive association with earnings per share and net profit, which is

consistent with the findings of Gurung (2011), Akotey et al. (2013), Kaya (2015) and Kramaric et al. (2017). But there is an insignificant relationship between premium with ROA and ROE which is not similar to the findings of Gurung (2011), Akotey et al. (2013), Kaya (2015) and Kramaric et al. (2017). Similarly, it is concluded that premium collection and investment pattern are impacted by different other variables such as the size of the firm, government regulation, duration of investment, investment period, investment objective and so on.

The study used only three variables: premium collection, investment pattern and profitability. Therefore, findings cannot be generalized to the whole aspect of the life insurance companies of Nepal. The insurance companies in Nepal can play an effective role in boosting the Nepalese economy, so it is suggested to have a more extensive research in this area. As the study reveals that, there is a positive relationship between premium collection and profitability. The insured person can be benefited by investing in life insurance companies to gain profitability. Life insurance companies can boost up the profitability by investing in a suitable sector.

Further, this study findings and conclusion is beneficial in the perspective of formulation and designing an effective structure of premium collection and investment for attaining higher profit. Additionally, it is also helpful for future researchers conducting research relating to the impact of premium collection on investment and profitability in the insurance sector.

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