



An Assessment of Reinsurance Practice and its Impact on Nepalese Insurance Industry

**Beema Samiti (Insurance Regulatory Authority of Nepal)
Kupondole, Lalitpur-10
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DISCLAIMER

This is a research based report prepared by the research department of Beema Samiti on “An Assessment of Reinsurance Practice and Its Impact on Nepalese Insurance Industry”. The study used five year’s data from 2070/71 to 2074/75 that has been retrieved from the insurance industry. The prescribed format consisting of reinsurance premium, claim and expenses like commission, tax and service charges has been used. All the findings, interpretations and conclusions expressed in this report do not necessarily reflect the views of Beema Samiti or its Board of Directors. The symbol, signs and format followed in this report do not imply any metamorphic judgments.

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Table of Contents

List of Figures	5
List of Tables	5
List of Abbreviations	7
Foreword	8
Executive Summary	9
CHAPTER I : INTRODUCTION	1
Background of the Study	1
1.2 Problem of the Statements	3
1.3 Objective of the Study	4
1.4 Research Gap	4
1.5 Methodology	5
1.6 Definition of Variables	6
CHAPTER II : PRESENTATION AND ANALYSIS OF DATA	9
2.1 Survey Analysis of Life Insurance Company	9
2.1.1 Analysis of Primary Data of Life Insurance Companies	9
2.1.2 Analysis of Secondary Data of Life Insurance Companies	13
2.2 Non-life Insurance	21
2.2.1 Analysis of Primary Data of Non- life Insurance Companies	21
2.2.2 Analysis of Secondary Data of Non- life Insurance Companies	25
2.3 Nepal Reinsurance Company Limited	39
2.3.1 Analysis of Primary Data of Nepal Re Insurance Company Limited	39
2.3.2 Analysis of Secondary Data of Nepal Re Insurance Company Limited	41
CHAPTER III : SUMMARY AND CONCLUSION	50
References	56
Annex- 1 :Sample List	57
Annex-2: Survey Questionnaire	58

List of Figures

Figure 1: Conceptual Framework	6
Figure 2: Trend of Inflow - Outflow (Life Insurance)	15
Figure 3: Trend of inflow and outflow (Riders)	16
Figure 4: Trend of Inflow - Outflow (Group Policy)	18
Figure 5: Trend of Inflow - Outflow (Foreign Expatriate)	19
Figure 6: Trend of Inflow - Outflow (Total)	21
Figure 7: Trend of Inflow - Outflow (Fire-Foreign)	27
Figure 8: Trend of Inflow - Outflow (Motor-Foreign)	29
Figure 9: Trend of Inflow - Outflow (Marine-Foreign)	30
Figure 10: Trend of Inflow - Outflow (Engineering-Foreign)	32
Figure 11: Trend of Inflow - Outflow (Aviation-Foreign)	33
Figure 12: Trend of Inflow - Outflow (Miscellaneous-Foreign)	35
Figure 13: Trend of Inflow - Outflow (Agriculture-Foreign)	36
Figure 14: Trend of Inflow - Outflow (Total- Foreign)	38
Figure 15: Local Reinsurance received	41
Figure 16: Inward Reinsurance received	42
Figure 17: : RSMDST Reinsurance Portfolio	43
Figure 18: Life Insurance Portfolio	44
Figure 19: Nepal Re Overall Portfolio	45
Figure 20: Overall Insurance Industry	46

List of Tables

Table 1: Types of Treaty	10
Table 2: Reinsurers used by Life Insurance Company	11
Table 3: Reinsurers and their rating	11
Table 4: Lead Reinsurers	12
Table 5: Brokers used by Life Insurance Company	12
Table 6: Proportion of local and foreign to net reinsurance ceded	13
Table 7: Ceding Trend to Nepal Re	14
Table 8: Trend of Inflow - Outflow (Life Insurance)	14
Table 9: Ceding Trend to Nepal Re	15
Table 10: Trend of Inflow - Outflow (Riders)	16
Table 11: Ceding Trend to Nepal Re in Riders Portfolio	17
Table 12: Trend of Inflow - Outflow (Group Policy)	17
Table 13: Ceding Trend to Nepal Re in Group Policy Portfolio	18
Table 14: Trend of Inflow - Outflow (Foreign Expatriate)	19
Table 15: Ceding Trend to Nepal Re in Foreign Expat Portfolio	20
Table 16: Trend of Foreign Inflow - Outflow (Total)	20

Table 17: Ceding Trend to Nepal Re in Total portfolio of Life	21
Table 18: Types of Treaty	22
Table 19: Reinsurers placed before and after the Establishment of Nepal Re	23
Table 20: Lead Reinsurer	24
Table 21: Brokers used by Non-life insurance company	24
Table 22: Composition of local and foreign reinsurance	25
Table 23: Ratio of net outflow local-foreign (Comparison)	26
Table 24: Trend of Inflow - Outflow (Fire-Foreign)	26
Table 25: Ceding Trend to Nepal Re in Fire Portfolio	27
Table 27: Ceding Trend to Nepal re in Motor Portfolio	28
Table 26: Trend of Inflow - Outflow (Motor Portfolio)	28
Table 28: Trend of Inflow - Outflow (Marine Portfolio)	30
Table 29: Ceding Trend to Nepal Re in Marine Portfolio	31
Table 30: Trend of Inflow - Outflow (Engineering-Foreign)	31
Table 31: Ceding Trend to Nepal Re in Engineering Portfolio	32
Table 32: Trend of Inflow - Outflow (Aviation-Foreign)	33
Table 33: Ceding Trend to Nepal Re in Aviation Portfolio	34
Table 34: Trend of Inflow - Outflow (Miscellaneous-Foreign)	34
Table 35: Ceding trend to Nepal Re in Miscellaneous Portfolio	35
Table 36: Trend of Inflow - Outflow (Agriculture-Foreign)	36
Table 37: Ceding Trend to Nepal Re in Agriculture Portfolio	37
Table 38: Trend of Reinsurance currency flow in Total Portfolio	37
Table 39: Ceding Trend to Nepal Re in Total Portfolio of Non-Life	38
Table 40: Types of Treaty Before and After 2071/72 (i.e. Establishment of Nepal Re)	39
Table 41: Reinsurers	39
Table 42: Brokers used by Nonlife Insurance Company	40
Table 43: Country to which retrocessions place and inward reinsurance business received	40
Table 44 : Status of Local Nonlife Reinsurance accepted, retrocession and	41
Table 45: Status of Inward Reinsurance Received	42
Table 46: RSMDST Reinsurance Portfolio	43
Table 47: Life Insurance Portfolio	44
Table 48: Aggregate analysis of Nepal Re	45
Table 49: Overall Insurance Industry	46
Table 50 : Descriptive Statistics	47
Table 51: Correlation Matrix	48
Table 52: Summary of Overall Model Test	48
Table 53: t-Test Two-Sample for Variances	49

List of Abbreviations

ALICO	American Life Insurance Company
CAT XOL	Catastrophic Excess of Loss
DEDUCT	Deductibles
EXPAT	Expatriate
GIC Re	General Insurance Corporation Reinsurance
GNWPI	Gross Net Written Premium Income
GNWRP	Gross Net Written Reinsurance Premium
GRPC	Gross Reinsurance Premium Ceded
IAIS	International Association of Insurance Supervisors
IBNR	Incurred but Not Reported
NFC	Net Flow of Currency
NICC	Net Inflow of Currency to the Country
NOCC	Net Outflow of Currency from the Country
NRPC	Net Reinsurance Premium Ceded
RCR	Reinsurance Claim Recovery
RSMDST	Riot, Strike, Malicious, Damage, Sabotage and Terrorism
UK	United Kingdom
UNCTAD	United Nations Conference on Trade and Development

Foreword

Beema Samiti (Insurance Board) is the Insurance Regulatory Authority of Nepal, the line ministry of the Ministry of Finance, Government of Nepal. Insurance Board is constituted to systematize, regularize, develop and regulate the insurance business in Nepal under the Insurance Act, 1992. As a regulatory body, the Board's main concern is to create a professional, healthy and developed insurance market in Nepal. In order to ensure this, Beema Samiti has been focusing on implementing international standard of prudential regulations and supervision as per International Association of Insurance Supervisors (IAIS) provisions

Moreover, Beema Samiti would undertake insurance related research for reviewing existing directives as well as issuing new directives and regulations. Although Samiti had conducted such researches through outsourcing, this research is the first which has been conducted by the inhouse resource of Samiti. Once again, on behalf of Samiti I would like to commit to conduct such researches in future.

The current issue of this report focuses on the trends of reinsurance practices and its impact on the Nepalese insurance industry. Further, this report contains the analytical review of reinsurance practices and its impact on Nepalese insurance industry. This study intends to fulfill the gap through analyzing the impact of cross border insurance in the insurance industry and also the role of local reinsurance company in the minimizing the outflow of reinsurance premium.

I hope this research will prove to be the milestone in Nepalese reinsurance industry and will be useful to all the stakeholders for facilitating them in obtaining important insights of insurance practices of Nepalese insurance industry. Further, I am confident that this report would serve as a useful reference for the concerned individuals and institutions having interest on the reinsurance practices of the Nepalese insurance industry. Finally, I would like to thank the members of designated team of this research Deputy Director Mr. Susil Dev Subedi, Assistant Directors Mr. Rajendra Maharjan and Preeti Deo for their valueable contribution to bring this report in this shape.

Mr. Chiranjibi Chapagain
Chairman

Executive Summary

Reinsurance is regarded as one of the pillars of insurance industry and is widely practiced in both developed and developing countries around the globe. Reinsurance provides underwriting capacity, indirect capital injection, and professional technical service to the insurance companies. Each year huge amount of local currency flows out from the country in the form of reinsurance premium also inflow of foreign currency in the country in the form of reinsurance claims. This will significantly affect the insurance industry of a country. Realizing this, local reinsurance company i.e., Nepal Re was established in the year 2014 for the minimization of the outflow of reinsurance premium outside the country.

Despite having a great importance of reinsurance in the Nepalese insurance industry, there has not been any research carried out in this sector. So, this study is directed towards the assessment of reinsurance practices and its impact on Nepalese insurance industry. Furthermore, the study also aims to examine to what extent the local Reinsurance Company was able to minimize the outflow of the local currency from the country. The study employed descriptive cum inferential statistics as a research design. The study used purposive sampling technique to draw a sample of 24 sample comprising of 8 life insurers, 15 non-life insurers and 1 reinsurance company of Nepal over the five years period i.e. 2070/71 BS to 2074/75 B.S. The data were collected using both primary as well as secondary from the sample company. The study analyzed the flow of reinsurance premium as outflow and reinsurance claim and net flow of currency from the country using trend analysis. Furthermore, descriptive statistics, correlational analysis and paired t-test has been employed to test the hypothesis about the impact of reinsurance on the Nepalese insurance industry and effect of Nepal Re in minimizing the outflow of reinsurance premium.

From the analysis of data the finding of the study can be summarized as follows.

- SCOR Global life, Hannover Ruck Se, Delaware American Life are the commonly used reinsurer by the life insurance companies, while in case of non-life insurance, companies tend to use multiple reinsurers. There has been a gradual shift in reinsurance ceding from Asia to Africa over the period by Nepalese nonlife insurance companies.
- Since Nepalese life insurance company used to place with single reinsurer so the reinsurer they tend to use is a lead reinsurer with 100 percent retention while in case of non-life Zep Re, Tokyo Mariane, GIC Re, Hannover Re with on an average 40 percent retention having high rating A.
- In the part of the broker life insurance companies mostly tend to place reinsurance arrangement directly while Nonlife insurance companies tend to use mostly Indian broker, such as J.B. Boda Reinsurance Brokers Pvt. Ltd., India, K.M. Dastur

Reinsurance Brokers Pvt. Ltd, First policy Insurance Broker, XL Catlin, Pioneer Insurance and Reinsurance Broker Pvt. Ltd. and Protection Re Reinsurance Brokers.

- There has been a gradual increment in placement of reinsurance in the different portfolio of life over the past five-year period. In case of life portfolio, average outflow is of Rs. 62.61 million in riders portfolio average outflow was 17.15 million, in group policy average outflows of Rs.3.91 million and in foreign expatriate average of 94.62 million per year.
- The gross reinsurance premium outflow over the five years period has a slightly increasing trend. The average outflow of the gross reinsurance premium over the period was Rs. 691.43 million. The average net reinsurance premium ceded was Rs. 178.25 million.
- Considering all the portfolios of life, 42.74 percent of the retention was retained by the local reinsurer, while 57.26 percent by foreign reinsurers.
- In each portfolio of nonlife such as fire, marine, motor, engineering, aviation, miscellaneous and agriculture, the five year ceding trend by Nepalese insurance company to the foreign reinsurance outflow in increasing trend.
- Out of seven portfolios only in two portfolios, namely in fire and miscellaneous, there occur inflow to the country which is Rs. 666.55 million and Rs. 924.73 million and in motor, marine, engineering, aviation and agriculture portfolio average net outflow of premium from the country is Rs. 80.38 million, Rs. 76.73 million, Rs. 141.01 million, Rs. 617.35 million and Rs. 3.13 million over the five-year period respectively.
- Considering all the portfolios of non-life, average outflow of the premium over the five-year period was Rs. 5,189.96 million, while average gross reinsurance premium ceded was increasing for the first three years, decreased in 2073/74 and again in increasing trend in 2074/75. The average reinsurance claim recovery was Rs. 4,603.20 million. The average net inflow inside the country is Rs. 672.67 million over the period indicating that reinsurance claim is more than reinsurance ceded resulting inflow of currency in non-life.
- Nepal Re outward treaty mostly in Asian like GIC Re of India, GIC Re Bhutan, in Middle East Trust Re, African Tunis Re, Zep Rem Kenya Re. The lead reinsures frequently used were GIC Re followed by Hannover Re in later year with 40 percent retention on an average.
- Over the three-year period. the average reinsurance premium received in retrocession follows a increased trend. The average gross premium received from non-life insurance companies over the three periods from FY 2072/73 to 2074/75 was Rs. 1,228.81 million, in foreign inward in nonlife over the three year period from 2072/73 to 2074/75 was Rs. 129.87 million, in RSMDDT is Rs. 1,559.76 million while in life the average premium received was Rs. 259.66 million over the period.

- Considering the entire portfolio of the Nepal Re, the average reinsurance premium received was Rs. 3,178.11 million over the three-year period. Out of which 54.16 percent in net was placed as retrocession, while remaining 45.84 percent was retained by the company itself. The average net reinsurance recovery was Rs. 87.13 million. The trend of net outflow of the currency overseas is in an increasing trend leading to an average of Rs. 1,633.98 million.
- The five-year trend of overall industry in net reinsurance premium ceded showed that there has been gradual increment in the outflow of premium. The outflow of net reinsurance ceded in fiscal year 2070/71 to 2074/75 was Rs. 3,135.21 million, Rs. 3,525.13 million, Rs. 5,987.24 million, Rs. 7,266.55 million and Rs. 7,490.28 million respectively. The average net outflow of reinsurance premium was Rs. 5,480 million.
- The reinsurance claim was increasing in the first three years, decreased in 2073/74 and also increased in 2074/75. The average reinsurance claim recovery was Rs. 4,994.91 million. The net reinsurance premium outflow of currency from the country occurred in 2070/71, 2073/74 and 2074/75, while the net inflow of currency in 2071/72 and 2072/73.
- The highest inflow was observed during the period 2072/73 which is 1,744.48 million. The average net outflow of currency was Rs. 485.98 million over the period.
- This indicates that net insurance premium ceded is greater than the claim over the five-year period. In other words, outflow of the currency in the form of premium is higher than that of reinsurance claim and has less positive impact in the Nepalese insurance industry.
- The study tests the two hypotheses firstly, whether or not cross border reinsurance has a significant positive impact on the Nepalese insurance industry or not. Secondly, whether or not the Nepal Re has a significant positive impact in the prevention of outflow of the premium of the Nepalese insurance industry or not. In both cases, the results failed to accept the null hypothesis indicating that cross border reinsurance has no significant impact on the Nepalese insurance industry. Similarly, Nepal Re has no significant impact on the minimization of outflow of the reinsurance premium.

CHAPTER I

INTRODUCTION

1.1 Background of the Study

The proper functioning of a financial system is crucial in facilitating economic activity of any country. Falling of financial system can severely affect the economy by causing a sustained period of low growth. As part of the financial sector, the insurance industry contributes to economic growth through the mobilization of saving fund in the form of premium through transfer of their risks. Furthermore, insurers and especially life insurance companies can also contribute to efficient allocation of funds through their investments. Moreover, insurance companies can reduce risks by applying their risk management expertise and through the reinsurance (Lelveld, et. al., 2011).

According to UNCTAD (2007), insurance plays a crucial role in fostering commercial and infrastructural businesses. From the latter perspective, it promotes financial and social stability; mobilizes and channels savings; supports trade, commerce and entrepreneurial activity and improves the quality of the lives of individuals and the overall wellbeing of a country.

Reinsurance is one of the major pillars of insurance industry, as it provides financial back up by taking the excess risk that a insurer couldn't bear. The term reinsurance has been defined differently by scholars and practitioners in the field of insurance/reinsurance. Outeville (2002) defined reinsurance as "The transfer of liability from the primary insurer, the company that issued the insurance contract, to another insurer, the reinsurance company. The business placed with a reinsurer is called a cession of an insurance company. An insurance company's policyholders have no right of action against the reinsurer, even though the policy holder is probably the main beneficiary of reinsurance arrangements."

According to Patrik (2001), the reinsurer reciprocally agrees to indemnify the reinsured for a specified share of specified types of insurance claims paid by the cedant for a single insurance policy or for a specified set of policies. A professional reinsurance company can be a multi-national organization operating through a subsidiary or branch offices in different countries, or licensing reinsurance brokers or on a direct basis with its ceding companies. Reinsurance in turn reduces its underwriting risk by purchasing reinsurance coverage from other reinsurers both domestic and international referred as a retrocession and the assuming reinsurer called retro-cessionaire.

Plantin (2006) explained that reinsurance business involves two main players, namely the primary (direct) insurers that use reinsurance mainly to cede risks and the professional reinsurers that indeed possess geographically and across insurance lines

of very heterogeneous portfolios. Insurance companies, regardless of size, type, and location use reinsurance as mechanism to share the potential risks assume with others to spread and minimize risks and catastrophe, and to leverage the business (Outeville, 2002).

According to Group of Thirty (2006) following are the advantages of reinsurance:

- Firstly, as insurance companies transfer risks to reinsurance companies, the level of risk diversification within the economy increases. This reduces the impact of adverse shocks on primary insurers and limits the volatility of earnings. As reinsurance companies in turn often transfer part of the risks to other re-insurers (retrocession), they can reduce the volatility of their own income as well.
- Secondly, the reinsurance market acts as an intermediary by balancing risk over time. This increases the efficient allocation of risks in the economy even further.
- Thirdly, reinsurance companies increase the overall underwriting capacity by freeing up capital of primary insurers tied up to cover risk. Indeed, as some of a primary insurer's liabilities are covered by the reinsurance company, the amount of capital effectively available for insurance activities rises.
- Fourthly, reinsurance sector collects a lot of information on insurance contracts; it can offer other services, such as consultancy, technical advice on underwriting and the financial analysis of risks and portfolios.
- Finally, reinsurers might provide effective monitoring of insurers. This enables insurers to raise capital more easily. At the same time, reinsurance also introduces several risks that could threaten financial stability.

Despite having some of the advantages reinsurance introduces several risks that could threaten financial stability.

- Firstly, reinsurance is not risk free as it introduces credit risk for a primary insurer. If the reinsurance cover fails, the primary insurer has to cover all losses itself and face any concomitant solvency and liquidity constraints.
- Secondly, risk in the reinsurance stems from retrocession: reinsurance companies transferring risks to other reinsurance companies. One (re)insurance company's failure could spread to other (re)insurance companies, possibly affecting the complete insurance industry and ultimately affecting the economy as a whole.
- Thirdly, risk factor is the underwriting cycle. Since, reinsurance is a worldwide practice. so the accounting year of the one country does not match with other causing some adjustment problems.

Sharma (2018) defines reinsurance is an insurance of insurance and is one of the important tool of risk management. There is no universally accepted and derived formula to determine the retention level of the primary insurer; however, paid up

capital, reserved fund, equity, risk profile in of the portfolio, reinsurance regulation, probability of occurring catastrophe, volume of business, pricing of the reinsurance premium are some of the major determinants. Thus, reinsurance is a key factor of insurance mechanism that facilitates the followings:

- Increase the underwriting capacity of primary insurer
- Flexibility in insurance business
- Stability of the business
- Determine the optimum retention level of the insurer

1.2 Problem of the Statements

The portion of the risk, after retained by the insurer as per the company's policy in line with the regulatory requirement, the remaining portion is placed to the reinsurers. Wang (2003) identifies that there is a significant contribution of cross border reinsurance business to the sustainability and growth of the domestic insurance industry and the economy. Outeville (2002) underscores that cross border reinsurance provides domestic insurers not only overseas professional management expertise, knowledge transfer, financial leverage and capacity but, also avails foreign exchange, in times of claims. On the other hand, literature emphasizes the disadvantage of cross border reinsurance on the developing countries insurance industry and economic growth.

UNCTAD (1980 and 1987) outlined that developing countries are concerned about cost in foreign currency and excessive recourse to reinsurance negatively impact on the growth and development of domestic insurance industry due to foreign reinsurance. Irukwu (1987) argued that reinsurance increase costs of insurance service products which ultimately harms the underwriting premium and contributes to the deterioration in foreign currency holdings and the balance of trade causing challenges to developing countries. Thus, the above discussion brings contrasting views in regard to the placement of cross border reinsurance. On this contrasting view, the study aims to explore, how cross border reinsurance can impacts on the Nepalese insurance industry is one of the major issues of the study?

Each year, billions of local currency tends to outflow in the form of reinsurance premium from the country. The trend of outflow of the local currency is ever increasing due to the increase in business. The Nepalese reinsurance company i.e. Nepal Re was established in the year 2013/14 with the objective to reduce the outflow of the reinsurance premium and retained within a country. As per the reinsurance directive 2013/14, section 2 subsection 3(3) reinsurance company can accept maximum 30 percent as a direct cession from the local insurance company. Since the establishment of Nepal Re, Nepalese insurance companies have been placing their reinsurance business to the Nepal Re and there has been a gradual increment in placement. However, there has not been any related study carried out in the related issues. In this regard, this study is also directed to find the extent to what extent Nepal Re could be able to minimize the outflow of reinsurance premium

from the country is the next issue of the study? The above discussion can be summarized as follows.

1. What is the impact of cross broader reinsurance arrangement in the Nepalese insurance industry?
2. Is the Nepalese Re-insurance company able to minimize the outflow of reinsurance premium from the country?

1.3 Objective of the Study

The main objective of this study is to assess the impact of reinsurance placement on the Nepalese insurance industry. Other specific objectives related to the study are:

1. To analyze the role of local reinsurance company in the minimization of outflow of the reinsurance premium.
2. To provide appropriate suggestions and recommendations based on the study.

1.4 Research Gap

The study by UNCTAD (2007), states that insurance industry in developing countries depends extensively financially and technically on cross border reinsurance. According to Outeville (2002), cross border reinsurance is beneficial to the insurance industry especially to the developing countries as it provides insurers with professional management expertise, financial leverage and foreign exchange. However, other studies claimed that full cross border reinsurance increase costs of insurance service products due to exchange rate depreciation (ultimately harm the underwriting premium) and contributes to balance-of-payments deterioration faced by developing countries (UNCTAD, 1980, Irukwu, 1987).

Insurance companies, operating in both the developed and developing countries, tend to rely on reinsurance for the transferring their risk. In this context Nepalese insurance companies are not exceptional and are therefore, relying on the foreign reinsurer for reinsurance their placement. Each year huge amount of local currency outflows in the form of reinsurance premium. Similarly, large amount of foreign currency tend to inflow in a country in the form of reinsurance claim. This will have impact on Nepalese insurance and economy as a whole. Similarly, local reinsurance company i.e. Nepal Re was established in the year 2013/14 with the objective to minimize the outflow of the reinsurance premium and retained within a country. However, this issue also hasn't been found to be studied yet in Nepalese context. This indicates that there is clearly a research gap in the study. So, this study intended to fulfill the gap through analyzing the impact of cross border insurance in the insurance industry and also the presence of local reinsurance company in the minimization of outflow of reinsurance premium. Thus, finding of the study aims to contribute in the field of insurance literature. Furthermore, the study is might also benefit the policy makers, researchers, insurance professionals, academician and students to undertake in-depth and rigorous studies on the insurance industry in general and in the reinsurance business in particular.

1.5 Methodology

Research Design

The study employs descriptive and causal comparative research design. Descriptive research is used to describe the facts and figure of the data. Comparative research design is used to observe the cause and effect of local reinsurance company in the reduction of outflow of reinsurance premium. The study employs five year's secondary data from 2070/71 (2013/14 AD) to 2074/75 (2017/18 AD) to see the effect.

Population and Sampling

The population of the study comprises all insurance companies operating in Nepal that includes 19 life insurance companies, 20 non-life insurance companies and one reinsurance company. The study deploys convenient purposive sampling technique to draw the sample. The study includes a sample of 24 companies which includes 8 from life, 15 from non-life and one reinsurance company. Out of 19 life insurance companies, 8 life insurance companies are selected as 9 of them are newly established and one company, Rastriya Beema Sansthan, is not selected due to unavailability of data. Similarly, in case of non-life out of 15 out of 20 companies are selected as 3 of them are newly established companies and 2 companies National Insurance Company Limited and The Oriental Insurance Company Limited are not included due to their reinsurance backup from the head office resulting the actual flow of currency in the form of premium and claim does not take place. Finally, Nepal Re ,the only local reinsurance company, is also considered under the study.

Tools and Techniques used

The study use simple percentage analysis, charts, and tables for the analysis of data. Besides, descriptive statistics, inferential statistics such as correlational analysis and F-test has been used to see the significant difference and test the hypothesis.

The model used in the study is,

$$\text{NRPC it} = \text{GRPCit} - \text{DEDUCTit}$$

$$\text{NFC it} = \text{NRPC it} - \text{RCCit}$$

Where,

GRPC it = Gross reinsurance premium ceded

NRPC it = Net reinsurance premium ceded

DEDUCT it = Deductibles

RRC it = Reinsurance claim recovery

NFC it = Net flow of currency

+ NFC it = Net outflow of currency from the country

- NFC it = Net inflow of currency to the country

Conceptual Framework

Based on the literature review the study formulates the following conceptual framework.

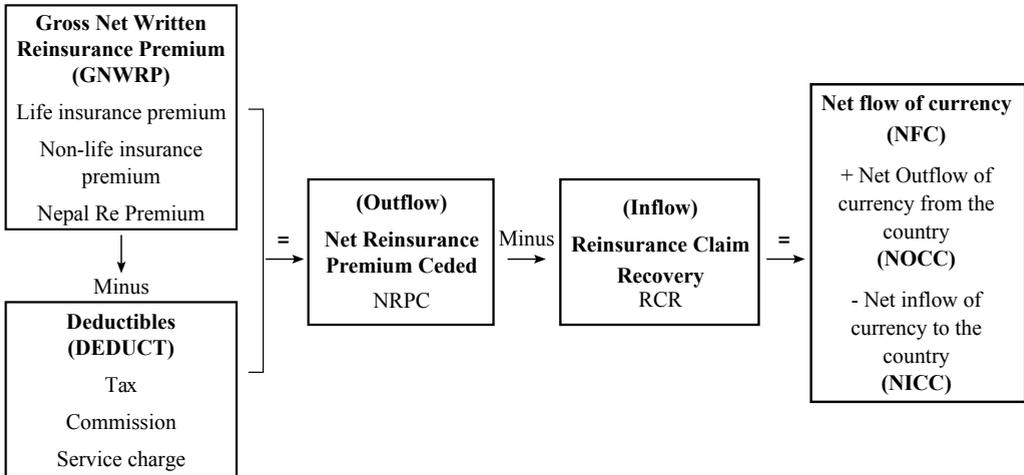


Figure 1: Conceptual Framework

Hypothesis

The study aims to test the following hypothesis

H1: Cross border reinsurance has significant impact on the Nepalese insurance industry

H2: Local Reinsurance Company has a significant impact in minimizing the outflow of reinsurance premium.

1.6 Definition of Variables

Gross Net Written Premium Income (GNWPI)

Gross net written premium income is the amount that the insurance company's has earned from the insurance business. It is the portion of premiums owed to a reinsurer.

Net Reinsurance Premium Ceded (NRPC)

Net reinsurance premium ceded is the difference between gross net written premium ceded and the deductibles.

Deductibles (DEDUCT)

Deductibles are the expenses like service charges, taxes, and commissions that are deductibles from the gross premium. The reinsurance company receives the net premium after the deducting the deductibles expenses in gross premium.

Tax

Tax is the amount payable to the government under Income Tax Act 2002, which provides for the imposition and collection of tax on the income of the companies. As per the income tax act, Nepalese insurance companies are entitled to pay 1.5 percent tax on the gross premium.

Commission

The insurer bears the major contribution in the acquisition of the business and various administration costs while taking business. Therefore, the reinsurance company pays the commission to the insurance company for providing the business. Usually, the insurer receives a fixed commission from the reinsurer. Both business commissions and profit commissions are considered for the study.

Service Charge

Service charge is paid to the regulatory board by the insurance companies. As per the Insurance Act, 2049 sub section 40, every insurer shall pay an amount equal to 1 percent of the gross premium earned from the insurance business inside Nepal during each fiscal year to the Board as specified by the Board pursuant to sub-section (1).

Net Flow of Currency (NFC)

Net outflow of currency is the difference between net reinsurance premium ceded and the claim recovery. It is divided into two parts which are net out flow of currency and net inflow of currency.

Net Outflow of Currency from the Country (Outflow)

Net outflow of currency from the country (Outflow) is the difference between net reinsurance premium ceded and the claim recovery. It occurs only when the net reinsurance premium paid by Nepalese insurance companies is higher than the reinsurance claim recovery.

Net Inflow of Currency to the Country (Inflow)

Net inflow of currency (Inflow) to the country occurs when reinsurance premium paid by Nepalese insurer received is less than the reinsurance claim.

Reinsurance Claim Recovery (RCR)

Reinsurance claims recoverable is the portion of an insurance company's losses from claims that can be recovered from reinsurance companies. Reinsurance recoverable includes the amount owed to the insurer by the reinsurer for claims and claim related expenses, the amount owed for the estimated losses that have occurred and been reported.

1.7 Limitation of the Study

This study analyzes the impact of cross border reinsurance on the Nepalese insurance industry companies. The study considers financial transactions as well as legal and regulatory requirements of the reinsurance placement. Considering the above fact the study assumes the following limitations.

- The study covers only five year's data starting from 2070/71 BS to 2074/75 BS.
- The study considers only the old eight life insurance companies (operating for more than five years), seventeen non-life insurance companies and reinsurance companies.
- The study doesn't consider the foreign exchange risk while analyzing the outflow of reinsurance premium, inflow of the reinsurance premium payment and claim recovery.
- This study doesn't consider the claim incurred but not reported (IBNR) and outstanding claims of reinsurance recovery, but only considers the actual claim settled.

CHAPTER II

PRESENTATION AND ANALYSIS OF DATA

Background

This chapter describes the presentation and analysis of the both primary and secondary data. The first section of the study contains analysis of the primary data that has been collected through the questionnaire. Separate set of questionnaire has been sent to the life, nonlife and reinsurance company.

The second part of the study describes and analyzes the secondary data collected from the insurance companies. For the comprehensive analysis four portfolios in life and seven portfolios in non-life and four portfolios in reinsurance are considered. Four portfolios in life insurance include individual life, Riders, foreign experts and group reinsurance related reinsurance placement and claim recovery. In case of nonlife fire, marine, motor, engineering, aviation, miscellaneous and agriculture portfolios are considered, while in case of reinsurance outward reinsurance placement (life & non-life), RSMDST and inward reinsurance are considered.

2.1 Survey Analysis of Life Insurance Company

This section of the study covers the analysis of the primary data. Primary data are collected using structured questionnaire containing the general profile of the company that includes years of establishment, paid of capital and retention, types of reinsurance treaty, reinsurers and it's ratings, lead reinsurer, brokers three years prior to Nepal Re and three year after are considered. The last question of the questionnaire includes one open ended question offering suggestion.

2.1.1 Analysis of Primary Data of Life Insurance Companies

- **Respondent's Profile:**

Out of 19 life insurance company, only 8 life insurance companies have been sampled. Among them, National Life Insurance Company was established before 2050 B.S. Three companies namely Life Insurance Corporation (Nepal) limited, MetLife (ALICO) and Nepal life insurance company limited were established in 2058 B.S., while the remaining four companies; Asian life insurance company limited, Surya life insurance company limited, Guans life insurance company limited and Prime life insurance company were established after 2060's.

As per the regulation of Beema Samiti, life insurance companies are required to increase their paid up capital up to Rs. 2 billion by the end of FY 2074/75. So far, Nepal Life Insurance Company limited and National Life Insurance Company limited have met the requirement. The remaining life insurance companies are in the process of fulfilling the

target.

The retention capacity of the life insurance company mainly depends upon risk bearing capacity, availability of capital and retention policy. Death risk and rider related risks are placed for the reinsurance arrangement. The study shows that retention level ranges from minimum Rs. 0.20 million to Rs. 1.8 million per policy. The average retention level of the life insurance industry is Rs. 0.5 million per policy.

Reinsurance ceding placement in Local Reinsurance Company

The study aims to find out the reinsurance placement of Nepalese life insurance companies before and after the establishment of local reinsurance company i.e. Nepal Re. For this purpose, different indicators like type of treaty, reinsurer associated to companies, lead reinsurer and its share, rating of re-insurer, brokers and the countries where reinsurance has been placed.

- **Treaty arrangement under life insurance companies**

In the context of treaty arrangement, there is no drastic change in treaty arrangement of Nepalese life insurance company before and after the establishment of Nepal Re. In general, almost all life insurance companies used to place quota share and surplus treaty before and after the establishment of Nepal Re. Due to compulsion provision to manage the catastrophic risks, Nepalese life insurance companies are also taking catastrophic risks (CAT XOL) treaty management through reinsurance; Nepalese insurance companies are arranging the catastrophic risk reinsurance treaty too. In some cases facultative treaties are placed.

Table 1: Types of Treaty

Types of Treaty	Before	After
	Quota share	Quota share
	Surplus	Surplus
	CAT XOL	CAT XOL
	Facultative	Facultative

- **Reinsurers used by Life Insurance Company**

In regards to the reinsurer, there has been slight variation in the use of the reinsurers before and after the establishment of Nepal Re. Before, Nepalese life insurance companies used to place their reinsurance placement with Scor Global Life of Singapore and Malaysia, Hannover Re and Delaware American Life insurance. After the establishment of Nepal Re, Nepalese life insurance companies are placing their reinsurance placement with the Nepal Re along with the Trust Re in some cases.

Table 2: Reinsurers used by Life Insurance Company

Type of Reinsurer/s	Before	After
	Scor Global Life	Scor Global Life
	Hannover Ruck Se	Hannover Ruck Se
	Delware American Life Insurance	Delware American Life Insurance
		Trust Re
		Nepal Re

- **Reinsurers and their rating**

Nepalese life insurance companies have been using the world renowned reinsurer with high rating. The rating of the reinsurer is carried out by A.M. Best and S&P. All the reinsurance companies that were in used by Nepalese life insurance company were either A or AA-rated from France, Singapore and Bahrain. The details are presented below.

Table 3: Reinsurers and their rating

Before			After		
Reinsurer	Rating	Country	Reinsurer	Rating	Country
SCOR Global Life	AA-	France	SCOR Global Life	AA-	France
SCOR Reinsurance Pte Ltd	A+	Singapore	SCOR Reinsurance Pte Ltd	A+	Singapore
Hannover Ruck Se	AA	Malaysia	Hannover Ruck Se	AA	Malaysia
Delware American Life insurance	A	USA	Delware American Life insurance	A	USA
			Trust Re	B++	Bahrain
			Nepal Re	No Rating	Nepal

- **Lead Reinsurers**

Due to the less complexity in the portfolio of life insurance companies, they tend to use single reinsurer. Thus, the reinsurer that the companies were using in their reinsurance placement was the lead reinsurer. Before the establishment of Nepal Re, majority of the life insurance companies used to place their reinsurance placement with SCOR Global Life of Malaysia. In the later stages, Hannover Ruck Se is the reinsurer. The detail is presented in table below.

Table 4: Lead Reinsurers

Lead Reinsurer	Rating	Ranges (%)	No. of companies	
			Before	After
SCOR Global Life	AA-	100	4	3
Hannover Ruck Se	AA	100	3	4
Delaware American Life Insurance	A	100	1	1

• **Brokers used by the Life Insurance Company**

In regards to the broker, Nepalese life insurance company tends to place their reinsurances ceding mostly directly and some company through broker. Out of eight Sample Companies, five of the life insurance companies tend to pace directly, while three of them only use brokers in both cases. The broker used by the life insurance company is J. B. Boda Reinsurance Brokers Pvt. Ltd., Mumbai.

Table 5: Brokers used by Life Insurance Company

Brokers	No. of Companies	
	Before	After
J.B. Boda Reinsurance Brokers Pvt. Ltd., Mumbai.	3	3
Direct	5	5
Total	8	8

• **Response of open ended questions**

The respondents were provided one open ended question to put their opinion and suggestions regarding the improvement of the reinsurance placement. The suggestions are summarized below:

- There should not be rigid mandatory cession rules for every company; it shall be as per the capacity of the company.
- Company's capacity, strength and capital base should be set adequate enough so as to bear risk with its volume of business.
- 20% direct cession to Nepal Re should be reconsidered by making it 20% treaty cession to Nepal Re on excess of company's retention.
- Underwriting manual shall be developed from Beema Samiti for high sum assured and substandard life rating.
- Regular training of underwriting in reinsurance
- Online upload of Reinsurance data and real time decision support system and management information system.

2.1.2 Analysis of Secondary Data of Life Insurance Companies

Proportion of local and foreign to net reinsurance ceded

The composition of local and foreign reinsurance ceding indicates that there has been a gradual increment in local reinsurance ceding each year. The life insurance company used to place their foreign expat portfolio to Nepal Re from the very beginning of its establishment while other portfolios like life insurance and rider's portfolio have been only placed locally from the fiscal year 2074/75. Considering all the portfolios for the past five years, the average local retention was only 29 percent. The results are presented in table below.

Table 6: Proportion of local and foreign to net reinsurance ceded

Year	Particulars	Life Insurance	Riders	Group Policy	Foreign Expatriate	Total
2070/71	Local	0.00	0.00	0.00	0.00	0.00
	Foreign	100.00	100.00	100.00	100.00	100.00
2071/72	Local	0.00	0.00	0.00	0.00	0.00
	Foreign	100	100	100	100	100
2072/73	Local	0.00	0.00	0.00	33.20	22.89
	Foreign	100.00	100.00	100.00	66.8	77.11
2073/74	Local	0.00	0.00	0.00	80.92	59.49
	Foreign	100.00	100.00	100.00	19.08	40.51
2074/75	Local	6.23	16.03	0.00	77.78	36.84
	Foreign	93.77	83.97	100	22.22	63.16
Total	Local	1.79	7.25	0.14	42.53	28.91
	Foreign	98.21	92.75	99.86	57.47	71.09

Ceding Trend to Nepal Re

Before the establishment of Nepal Re, Nepalese insurance companies tend to place all reinsurance ceding to the foreign reinsurers. After the establishment of Nepal Re the local reinsurance company share has been gradually growing in each year. Among the portfolios, foreign expat placement to Nepal Re is growing in a alarming rate. The average local reinsurance company retention was 63 percent over the period. This result reveals that Nepal Re was able to minimize a significant portion of reinsurance business locally in foreign expat portfolio. Considering all the portfolios, 40 percent of the retention was retained by the local reinsurer, while 60 percent by the foreign reinsurer.

Table 7: Ceding Trend to Nepal Re

Year	Particulars	Life Insurance	Riders	Group Policy	Foreign Expatriate	Total
Before	Local	0.00	0.00	0.00	0.00	0.00
	Foreign	100.00	100.00	100.00	100.00	100.00
2071/72						
After	Local	2.08	5.34	-0.22	63.97	39.74
	Foreign	97.92	94.66	99.78	36.03	60.26

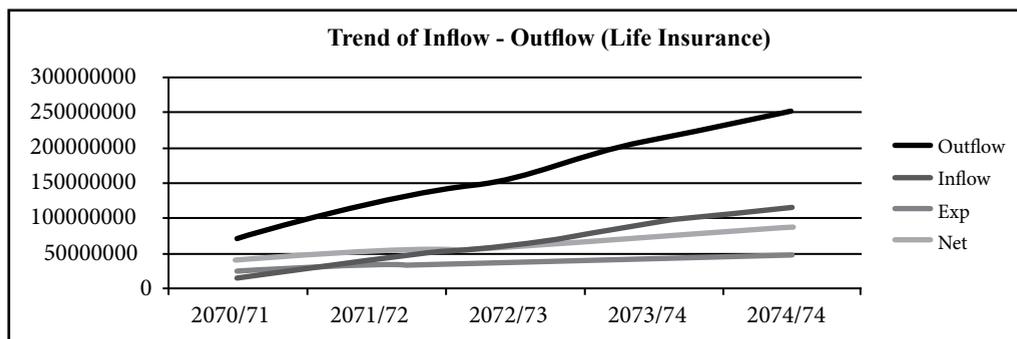
Portfolio 1: Trend Analysis of Reinsurance Placement of Life Insurance portfolio

The five year trend of foreign reinsurance ceding by Nepalese Life Insurance Company indicates that there has been a gradual increment in outflow of reinsurance premium. The outflow of reinsurance premium was observed to be Rs. 74.58 million in the year 2070/71 while it was Rs. 252.78 million in 2074/75. The average outflow of the premium over the five year period was Rs. 165.02 million. Similarly, increasing trend is observed in the reinsurance recovery as a claim. The claim recovery was Rs. 13.80 million in the year 2070/71, while it was increased to Rs. 116.68 million in the year 2074/75 leading an average of Rs. 65.34 million. The net reinsurance premium ceded was Rs. 39.07 million in the year 2070/71, while it was Rs. 85.81 million in the year 2074/75 with an average of Rs. 62.61 million. The trend has been presented in the table and figure below.

Table 8: Trend of Inflow - Outflow (Life Insurance)

Year	Gross Reinsurance Premium Ceded Outflow	Reinsurance Claim Recovery Inflow	Deductibles	Net Outflow from the Country
2070/71	74,583,859	13,800,599	21,711,288	39,071,972
2071/72	127,655,795	41,595,549	32,086,886	53,973,360
2072/73	155,928,710	58,578,906	37,888,977	59,460,827
2073/74	214,127,287	96,070,280	43,354,384	74,702,623
2074/75	252,788,183	116,687,182	50,283,043	85,817,958
Total	825,083,834	326,732,516	185,324,578	313,026,740
Average	165,016,767	65,346,503	37,064,916	62,605,348

Figure 2: Trend of Inflow - Outflow (Life Insurance)



Ceding Trend to Nepal Re

Before establishment of Nepal Re foreign reinsurers held 100 percent of the shares in reinsurance ceding by the company. The average gross outflow of reinsurance premium before the establishment of Nepal Re stood at Rs.74.58 million, while it was increased to Rs. 207.61 million after its establishment. Similarly, the average inflow in the form of claim before was Rs.13.80 million, while it was Rs. 90.44 million afterwards. Nepal Re was able to retain only 2.53 percent only in life portfolio indicating that majority of reinsurance ceding is placed to the foreign reinsurer by the Nepalese insurance companies. The result shows that there is very low ceding trend to Nepal Re in the life portfolio.

Table 9: Ceding Trend to Nepal Re

Year	Gross Reinsurance Premium Ceded Outflow	Reinsurance Claim Recovery Inflow	Deductibles	Net Outflow from the Country
Before (Average)	74,583,859	13,800,599	21,711,288	39,071,972
Ratios (share of foreign)			100 %	
2071/72				
After (Average)	207,614,726.45	90,445,456.07	43,842,134.60	73,327,135.78
Ratios (share of foreign)			97.47%	

Portfolio 2: Trend Analysis of Reinsurance Placement of Rider’s Portfolio

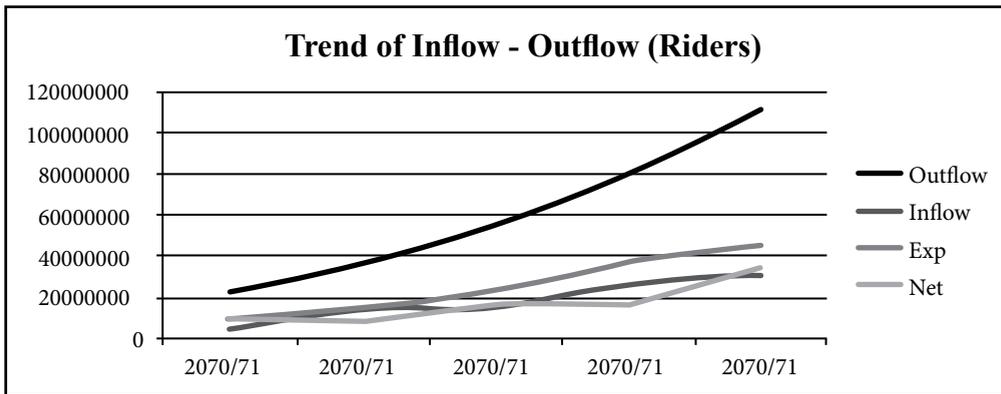
In case of the Riders portfolio, the five year trend indicates that there is a gradual increment in the outflow of the reinsurance premium over the period. The outflow of reinsurance premium was Rs. 22.61 million in the year 2070/71, while it was Rs. 111.50 million in 2074/75. The average outflow of the premium over the five year period was Rs. 60.84 million. The claim recovery was Rs. 4.34 million in the year 2070/71 while it was increased to Rs. 30.77 million in the year 2074/75 leading to average Rs. 18.15

million. The net reinsurance premium outflow of premium was increasing every year. The average net outflow of reinsurance premium to overseas was Rs. 17.15 million. The trend has been presented in the figure below.

Table 10: Trend of Inflow - Outflow (Riders)

Year	Gross Reinsurance Premium Ceded Outflow	Reinsurance Claim Recovery Inflow	Underwriting expenses	Net Outflow from the Country
2070/71	22,615,997	4,346,053	8,947,182	9,322,762
2071/72	35,964,116	14,167,045	13,654,453	8,142,618
2072/73	53,742,101	14,936,418	22,447,511	16,358,172
2073/74	80,417,188	26,574,051	37,143,894	16,699,244
2074/75	111,509,137	30,776,077	45,679,628	35,053,432
Total	304,248,540	90,799,643	127,872,669	85,576,228
Average	60,849,708	18,159,929	25,574,534	17,115,246

Figure 3: Trend of inflow and outflow (Riders)



Ceding Trend to Nepal Re

The average outflow of premium in the rider’s portfolio before the establishment of Nepal Re was Rs. 22.61 million, while it was Rs. 81.88 million afterwards. The average inflow of currency in the form of reinsurance claim was Rs. 4.34 million and Rs. 24.09 respectively. Nepal Re was able to retain 8.94 percent and the remaining portion of 91.06 percent is ceded outside. This result indicates that majority of reinsurance ceding in rider’s portfolio is with the foreign reinsures.

Table 11: Ceding Trend to Nepal Re in Riders Portfolio

Year	Gross Reinsurance Premium Ceded Outflow	Reinsurance Claim Recovery Inflow	Deductibles	Net Outflow from the Country
Before (Average)	22,615,997	4,346,053	8,947,182	9,322,762
Ratios (share of foreign)		100 %		
2071/72				
After (Average)	81,889,475	24,095,515	35,090,344	22,703,616
Ratios (share of foreign)		91.06 %		

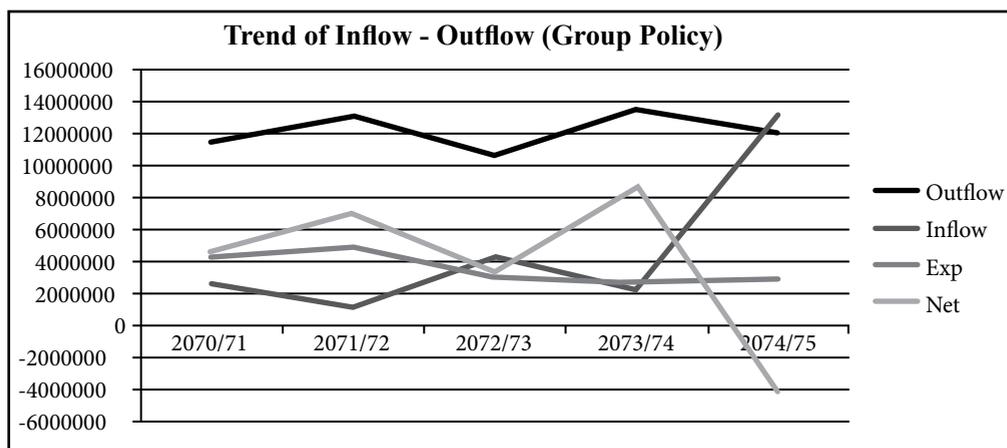
Portfolio 3: Trend Analysis of Reinsurance placement of Group Policy portfolio

In regard to group policy, the trend of gross reinsurance premium ceded and recovery was in increasing trend. The average outflow of currency in the form of reinsurance premium over the five year period was Rs. 12.23 million. The claim recovery was Rs. 2.59 million in the year 2070/71, while it was increased to Rs. 13.29 million in the year 2074/75 leading to an of average Rs. 4.74 million. The net reinsurance premium outflow from the was Rs. 4.68 million in the year 2070/71, while it was Rs. 4.24 million inflows in the year 2074/75 leading to an average outflow of Rs. 3.91 million. The trend has been presented in the figure below.

Table 12: Trend of Inflow - Outflow (Group Policy)

Year	Gross Reinsurance Premium Ceded Outflow	Reinsurance Claim Recovery Inflow	Deductibles	Net Outflow from the Country
2070/71	11,579,735	2,590,330	4,308,064	4,681,341
2071/72	13,164,111	1,258,059	4,903,354	7,002,698
2072/73	10,750,538	4,316,026	3,035,819	3,398,694
2073/74	13,630,986	2,283,538	2,613,159	8,734,289
2074/75	12,051,110	13,295,918	2,995,669	(4,240,477)
Total	61,176,480	23,743,871	17,856,065	19,576,544
Average	12,235,296	4,748,774	3,571,213	3,915,309

Figure 4: Trend of Inflow - Outflow (Group Policy)



Ceding Trend to Nepal Re

The average gross reinsurance premium ceded before the establishment of Nepal Re was Rs. 11.57 million, while it was Rs. 12.14 million afterwards. The average inflow of currency in the form of reinsurance claim before was Rs. 2.59 million, while it was increased to Rs. 6.63 million afterwards. The foreign share after the establishment of Nepal Re was Rs. 99.65 percent indicating that almost all the portion of share is placed to the foreign reinsurers indicating that Nepal Re has a very negligible portion holding i.e 0.05 percent in the group portfolio.

Table 13: Ceding Trend to Nepal Re in Group Policy Portfolio

Year	Gross Reinsurance Premium Ceded Outflow	Reinsurance Claim Recovery Inflow	Deductibles	Net Outflow from the Country
Before (Average)	11,579,735	2,590,330	4,308,064	4,681,341
Ratios (share of foreign)		100%		
2071/72				
After (Average)	12,144,211	6,631,827	2,881,549	2,630,835
Ratios (share of foreign)		99.65 %		

Portfolio 4: Trend Analysis of Reinsurance placement of Foreign Expatriate portfolio

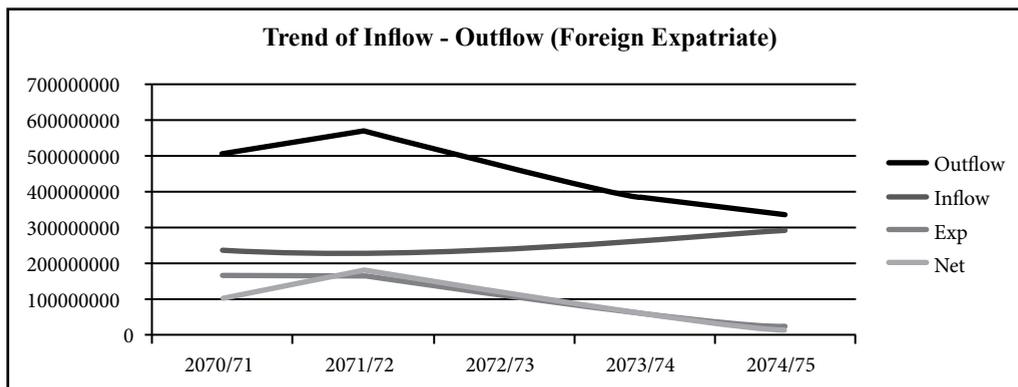
The trend of gross reinsurance ceding indicating that foreign expatriate indicates that there is a decreasing trend in the outflow of the reinsurance premium. The gross reinsurance premium ceded was Rs. 508.21 million in the year 2070/71, while it was decreased to Rs. 334.19 million in 2074/75. The average outflow of the gross premium

over the period was Rs.453.33 million. The claims recovery was Rs. 235.43 million in the year 2070/71, while it was increased to Rs. 293.19 million in the year 2074/75 with an average of Rs. 251.16 million. Similarly, the net reinsurance outflow was Rs. 103.07 million in the year 2070/71, while it was Rs. 19.05 million in the year 2074/75 with an average of Rs. 94.62 million per year. The trend has been presented in the figure below.

Table 14: Trend of Inflow - Outflow (Foreign Expatriate)

Year	Gross Reinsurance Premium Ceded Outflow	Reinsurance Claim Recovery Inflow	Deductibles	Net Outflow from the Country
2070/71	508,216,437	235,439,223	169,700,386	103,076,828
2071/72	573,366,305	225,036,872	167,899,880	180,429,553
2072/73	469,641,685	233,668,448	118,459,673	117,513,564
2073/74	381,256,114	268,511,795	59,707,028	53,037,290
2074/75	334,198,862	293,190,888	21,950,048	19,057,926
Total	2,266,679,403	1,255,847,226	537,717,016	473,115,161
Average	453,335,881	251,169,445	107,543,403	94,623,032

Figure 5: Trend of Inflow - Outflow (Foreign Expatriate)



Ceding Trend to Nepal Re

The average outflow of the gross reinsurance premium before the establishment of Nepal Re was Rs. 508.21 million, while it was decreased to Rs. 395.03 million afterwards. The average reinsurance inflow before was Rs. 235.43 million, while it was Rs.265.12 million. The average net outflow of premium before the establishment of Nepal Re was Rs. 103.07 million which was decreased to Rs. 63.20 million. The share of Nepal Re in the foreign expat portfolio was 35.13 percent. These results indicate that the Nepal Re has made a positive impact in minimizing the outflow of the reinsurance premium to overseas in this portfolio.

Table 15: Ceding Trend to Nepal Re in Foreign Expat Portfolio

Year	Gross Reinsurance Premium Ceded Outflow	Reinsurance Claim Recovery Inflow	Deductibles	Net Outflow from the Country
Before (Average)	508,216,437	235,439,223	169,700,386	103,076,828
Ratios (share of foreign)		100.00%		
2071/72				
After (Average)	395,032,220	265,123,710	66,705,583	63,202,926
Ratios (share of foreign)		35.13%		

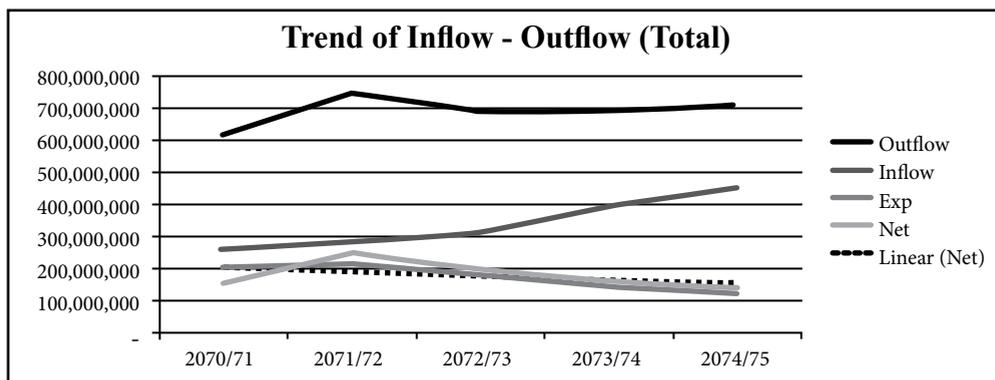
Trend analysis of Reinsurance placement of all Life Insurance portfolios

The gross reinsurance premium outflow over the five year period is in a slight increasing trend. The average outflow of the gross reinsurance premium over the period was Rs. 691.43 million. The claim recovery was Rs. 256.17 million in the year 2070/71, while it was increased to 453.95 million in the year 2074/75 with an average of Rs. 339.42 million. Similarly, the net reinsurance premium ceded is in the decreasing order. The average net reinsurance premium ceded was Rs. 178.25 million. The result is presented in the table and figure below.

Table 16: Trend of Foreign Inflow - Outflow (Total)

Year	Gross Reinsurance Premium Ceded Outflow	Reinsurance Claim Recovery Inflow	Deductibles	Net Outflow from the Country
2070/71	616,996,029	256,176,205	204,666,920	156,152,903
2071/72	750,150,328	282,057,525	218,544,573	249,548,229
2072/73	690,063,034	311,499,798	181,831,980	196,731,256
2073/74	689,431,575	393,439,664	142,818,465	153,173,446
2074/75	710,547,292	453,950,065	120,908,389	135,688,839
Total	3,457,188,258	1,697,123,257	868,770,327	891,294,673
Average	691,437,651	339,424,651	173,754,065	178,258,934

Figure 6: Trend of Inflow - Outflow (Total)



Ceding Trend to Nepal Re

Considering all portfolios, the average gross reinsurance premium ceded before the establishment of Nepal Re was Rs. 616.99 million, while it increased to Rs. 696.68 million later. The average reinsurance claim was Rs. 256.17 million, while it was Rs. 386.29 million afterwards. The net reinsurance premium outflow from the country was Rs. 156 million before and Rs. 161.86 million after the establishment of Nepal Re. The result shows that the share of foreign reinsurance placement decreased from 100 percent to 57.26 percent which indicates a positive presence of local reinsurance company in minimizing the outflow of premium to the foreign.

Table 17: Ceding Trend to Nepal Re in Total portfolio of Life

Year	Gross Reinsurance Premium Ceded Outflow	Reinsurance Claim Recovery Inflow	Deductibles	Net Outflow from the Country
Before (Average)	616,996,029	256,176,205	204,666,920	156,152,903
Ratios (share of foreign)		100 %		
2071/72				
After (Average)	696,680,633	386,296,508	148,519,611	161,864,513
Ratios (share of foreign)		57.26 %		

2.2 Non-life Insurance

2.2.1 Analysis of Primary Data of Non- life Insurance Companies

A. Respondent's Profile:

Among the 15 sampled non-life insurance companies, four were established before 2050 B.S., seven were established during 2051-2060 B.S. and rest of the four companies were established after 2061 B.S. Non-Life insurance companies are required to maintain the

paid up capital of Rs.1 billion by the end of FY 2074/75. So far only three of them (Himalayan general insurance company limited, NECO insurance company limited and Shikhar insurance company limited) have been able to meet the requirement. The average paid up capital is Rs. 0.83 billion.

The company makes the retention, based on the capital reserve and the risk profile for each portfolio. The minimum retention on the fire portfolio is Rs. 2.5 million and maximum retention is Rs. 30 million with an average of Rs.12.5 million. The minimum retention on the marine portfolio is Rs. 0.7 million and maximum retention is Rs. 32 million with an average of Rs. 3.8 million. Similarly, in the motor portfolio, the minimum retention is Rs. 1 million, maximum is Rs. 25 million with an average of Rs. 3 million. Likewise, the engineering portfolio shows a minimum retention of Rs. 1 million, a maximum of Rs. 25 million and an average of Rs. 5 million. In the aviation portfolio, the minimum retention is 0.01%, the maximum is 0.05% and the average is 0.03% of the sum insured. In case of the agriculture portfolio, the majority of the companies follow a quota share portfolio with the Nepal re with 20% retention.

The study aims to find out the reinsurance arrangement of Nepalese non-life insurance Companies before and after the establishment of a local reinsurance company (Nepal Re). For this purpose, different indicators like, type of treaty, reinsurer associated to companies, lead reinsurer and its share, rating of re-insurer, brokers and the countries in which reinsurance has been placed, are considered.

- **Treaty arrangement under non-life insurance companies**

There is no variation in the treaty arrangement of non-life insurance companies before and after the establishment of Nepal Re. In general, almost all companies used to follow proportional, non- proportional and facultative. Due to compulsion of CAT and Risk XOL all non-life insurance companies adopt this treaty and in some cases facultative treaty are also adopted.

Table 18: Types of Treaty

Types of treaty	Before	After
	Proportional	Proportional
	Non-Proportional	Non-Proportional
	Facultative	Facultative

- **Reinsurers used by non-life insurance companies**

The non-life insurance companies are mostly using world renowned rated reinsurers from around the globe. The reinsurers have been categorized as Asian, Middle East, African and others (European and UK). In regard to the Reinsurance, there has been slight variation in the use of the reinsurer before and after the establishment of Nepal Re. Majority of reinsurers belong to the Asian region followed by African, Middle East and others.

After the establishment of Nepal Re, there has not been drastic change in the placement to reinsurers. However, few new reinsurers like XL Re, Turkey Re, Nigeria, Waica Re, Fair Pool, Sava Re, Qbe Re, Tan Re, Pembroke Lloyd's syndicate along with Nepal Re are found associated for reinsurance. Majority of the non-life insurance companies have been placing their reinsurance arrangement with the Nepal Re usually for RSMDST, motor, marine, engineering and miscellaneous portfolio beside the continuation of the existing reinsurers. Majority of reinsurers belong to Asian region followed by African, Middle East and others. The details of which are presented in the table below.

Table 19: Reinsurers placed before and after the Establishment of Nepal Re

Before 2071/72	
Asian	Asian Re, GIC Re- India, New India Assurance, National Re, Allianza Re, Tokyo Marine, Oriental Insurance, GIC Bhutan Re, Malaysian Re, Oriental Re, Hannover Re Malaysia, RSMDST- Nepal Pool
Middle East	Trust Re-A, Oman Re, Kuwait Re, ARIG, Trust Int'l, Turkey Re, Baharain Re,
African	Zep Re, African Re, Kenya Re, Cica Re, Sen Re, East Africa Re, Tunis Re
Others	Bupa IHI, Sirius International, Cica Re, Tunis Re, Arig Re, Lloyd's syndicate
Lead Insurer	Zep Re, 40%, Tokyo Marine 45%, GIC- India, 40%, Hannover Re Malaysia
After 2071/72	
Asian	Asian Re, GIC Re, New India, National Re, Allianza Re, Tokyo Marine, Oriental Insurance, GIC Bhutan Re, Malaysian Re, Oriental Re, Hannover Re Malaysia, National Reinsurance, XL Re, Nepal Re
Middle East	Trust Re-A, Oman Re, Kuwait Re, ARIG, Trust Int'l, Turkey re, Baharain, Turkey Re
African	Zep Re, African Re, Kenya Re, Cica Re, Sen Re, East Africa Re, Tunis Re, Nigeria, Waica Re, Fair Pool, Sava Re
Others	Bupa IHI, Sirius International, Cica Re, Tunis Re, Arig Re, Qbe Re, Tan Re, Lloyd's syndicate
Lead Insurer	Zep Re-B+, 40%, Tokyo Marine, 45%, GIC- India- A, 40%, Hannover Re Malaysia, , XL Re

- **Lead Reinsurer**

In majority of the non-life insurance companies, GIC Re, India was the lead reinsurer followed by Zep Re, Kenya, Tokyo Marine, Japan, Hannover Re Malaysia, XL CATLIN Re and Trust Re. The rating of these reinsurers is done by A.M. Best, S&P, which is presented in the table above.

Table 20: Lead Reinsurer

Lead Reinsurer	Rating	Ranges (%)	No. of companies	
			Before	After
GIC Re, India	A	30-50	7	6
Zep Re, Kenya	B+	40-50	4	4
Tokyo Marine, Japan	A+	45-50	2	1
Hannover Re Malaysia	A+	30-40	1	1
XL CATLIN Re	A	30-40	-	1
Trust Re	A-	35-40	-	1

- **Brokers used by Non-life insurance company**

Nepalese Insurance market is dominated by the Indian brokers in general. Before FY 2071/72, majority of the non-life insurance companies were using J.B. Boda Reinsurance Brokers Pvt. Ltd., India as their primary broker, followed by J.B. Boda Reinsurance Brokers Pvt. Ltd. few new brokers like First policy Insurance Broker, Pioneer Insurance and Reinsurance Broker Pvt. Ltd., Protection Re Reinsurance Brokers entered the industry after FY 2071/72.

Table 21: Brokers used by Non-life insurance company

Brokers	No. of Companies	
	Before	After
J.B. Boda Reinsurance Brokers Pvt. Ltd. , India	11	6
J.B. Boda Reinsurance Brokers Pvt. Ltd., UK	3	3
Xperitus Insurance Broker Pvt. Ltd.	-	1
KM Dastur Reinsurance Brokers Pvt. Ltd.	2	2
Bharat Re Insurance Broker	1	1
Afro-Asian Reinsurance Brokers	2	2
First policy Insurance Broker	-	3
XL Catlin	1	-
UIB Asia Insurance Broker Pte. Ltd.	1	3
Pioneer Insurance and Reinsurance Broker Pvt. Ltd.	-	2
Protection Re Reinsurance Brokers	-	1

2.2.2 Analysis of Secondary Data of Non- life Insurance Companies

Composition of local and foreign share in net outflow of reinsurance premium form the country

Before the establishment of Nepal Re, there was an insurance pool taking the risk of RSMDST. The composition of local and foreign reinsurance placement in the nonlife indicates that there has been a gradual increment in lthe ocal reinsurance placement in case of . Among the seven portfolios, motor and agriculture holds the majority of reinsurance arrangement locally. This portfolio holds over 80 percent reinsurance ceding locally while the remaining portfolio holds around 15 percent only.

Table 22: Composition of local and foreign reinsurance premium out of total outflow/inflow

Year	Particulars	Fire	Motor	Marine	Engineering	Aviation	Miscellaneous	Agriculture
2074/75	Local	49.31	102.01	12.66	(38.69)	(25.04)	(3.53)	55.83
	Foreign	50.69	(2.01)	87.34	138.69	137.04	103.53	44.17
2073/74	Local	(139.80)	71.22	42.04	17.81	16.18	144.52	548.11
	Foreign	239.80	28.78	57.96	82.19	18.99	(44.52)	(448.11)
2072/73	Local	(18.67)	89.42	(21.18)	(15.75)	3.60	(1.89)	(44.54)
	Foreign	118.67	10.58	121.18	115.75	12.81	101.89	144.54
2071/72	Local	5.82	85.48	10.58	19.07	18.04	(9.77)	7.20
	Foreign	94.18	14.52	89.42	80.93	17.23	109.77	92.80
2070/71	Local	(233.40)	84.11	77.82	12.19	19.05	9.93	(6.40)
	Foreign	333.40	15.89	22.18	87.81	20.70	90.07	106.40
Total	Local	(37.99)	84.16	13.06	16.03	19.80	(9.73)	81.68
	Foreign	137.99	15.84	86.94	83.97	18.74	109.73	18.32

Ceding Trend in Nepal Re

Before establishment of Nepal Re, the marine portfolio carried out highest local reinsurance outflow with an average of 5.24 percent inflow which can be observed to increase to outflow of 40.17 percent whereas, in case of foreign reinsurance the net outflow has been observed to be decreased from 96.64 percent to 53.33 percent before and after establishment of Nepal Re.

Table 23: Ratio of net outflow local-foreign (Comparison)

Year	Particulars	Fire	Motor	Marine	Engineering	Aviation
Before	Local	(233.40)	84.11	77.82	12.19	19.05
	Foreign	333.40	15.89	22.18	87.81	20.70
2071/72						
After	Local	(36.39)	87.55	11.17	(12.21)	(1.75)
	Foreign	136.39	12.45	88.83	112.21	56.28

Miscellaneous	Agriculture	Average
9.93	(6.40)	(5.24)
90.07	106.40	96.64
2071/72		
46.37	186.47	40.17
53.63	(86.47)	53.33

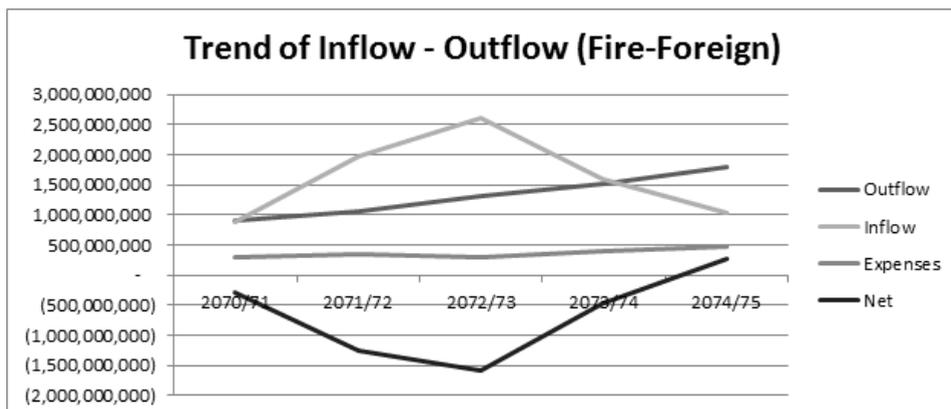
Outflow and inflow of premium and claim of fire portfolio

The five year trend of foreign reinsurance outflow indicates that there is a gradual increment in the outflow of gross reinsurance premium over the five year period from 2070/71 to 2074/75. The outflow of reinsurance premium was 906.18 million in the year 2070/71, while it was increased to Rs. 1,794.38 million in 2074/75. The average outflow of the premium over the five year period was Rs. 1,315.90 million per year. In the part of reinsurance recovery as claim, gradual increment is evident. The claim recovery was Rs. 886.31 million in the year 2070/71, while it was increased to Rs. 1,029.34 million in the year 2074/75 keeping an average of 1,620.86 million per year. Similarly, the net reinsurance outflow over the period except in 2074/75 was negative, indicating that the inflow of currency is higher in fire portfolio. The average inflow was Rs. 666.55 million over the period. The trend has been presented in the figure below.

Table 24: Trend of Inflow - Outflow (Fire-Foreign)

Year	Gross Reinsurance Premium Ceded Outflow	Reinsurance Claim Recovery Inflow	Deductibles	Net Outflow from the Countryw
2070/71	906,180,287	886,315,368	302,603,115	(282,738,195)
2071/72	1,062,259,089	1,980,946,044	349,636,904	(1,268,323,859)
2072/73	1,305,165,326	2,614,222,438	284,759,530	(1,593,816,642)
2073/74	1,511,533,641	1,593,512,038	387,418,533	(469,396,930)
2074/75	1,794,388,773	1,029,342,354	483,566,209	281,480,210
Total	6,579,527,116	8,104,338,241	1,807,984,291	(3,332,795,416)
Average	1,315,905,423	1,620,867,648	361,596,858	(666,559,083)

Figure 7: Trend of Inflow - Outflow (Fire-Foreign)



Ceding Trend to Nepal Re

The average net outflow of premium before the establishment of Nepal Re was in negative figure of Rs. 282.73 million indicating the inflow of currency in the form of claim. Similar, results were observed after the establishment of Nepal Re which showed an average inflow is Rs. 593.91 million. The ratios of net insurance inflow to gross premium were 10.01 percent before while it was 16.41 percent after the establishment of Nepal Re. This indicates that with the establishment of Nepal Re the inflow of reinsurance premium has increased.

Table 25: Ceding Trend to Nepal Re in Fire Portfolio

Year	Gross Reinsurance Premium Ceded Outflow	Reinsurance Claim Recovery Inflow	Deductibles	Net Outflow from the Country
Before (Average)	906,180,287	886,315,368	302,603,115	(282,738,195)
Net RI flow to Gross premium		(10.01)		
2071/72				
After (Average)	1,537,029,247	1,745,692,276	385,248,091	(593,911,121)
Net RI flow to Gross premium		(16.41)		

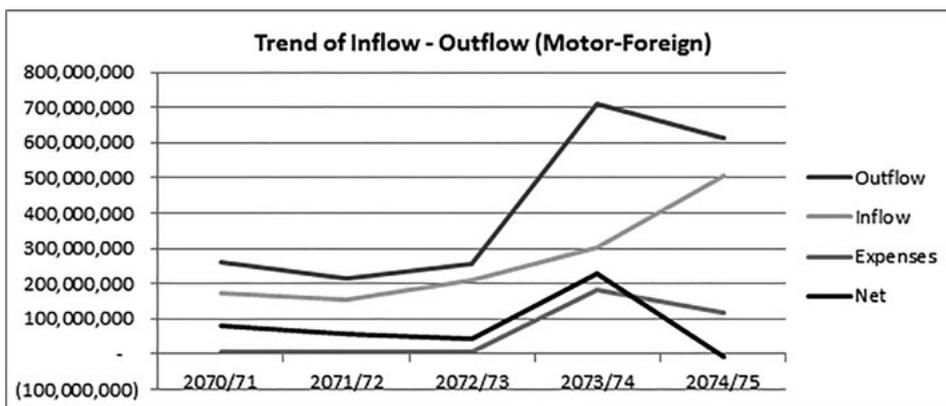
Outflow and Inflow of Premium and Claim of Motor portfolio

The five year trend of foreign reinsurance premium outflow indicates that there has been gradual increment in the outflow of gross reinsurance premium over the period. The outflow of Reinsurance premium was Rs. 261.49 million in the year 2070/71, while it was increased to Rs. 614.34 million in 2074/75. The average outflow of the premium over the five year period was Rs. 412.52 million. In the reinsurance recovery as claim, there has been gradual increment. The claim recovery was Rs. 175.12 million in the year 2070/71, while it was increased to Rs. 505.74 million in the year 2074/75 with the average of Rs. 268.68 million. The net reinsurance outflow over the four year five year period were Rs. 79.65 million, Rs.57.32 million, Rs. 43.21 millions. Rs. 230.45 million and Rs. 8.69 million respectively. The average outflow was Rs.80.38 million over the period. The trend has been presented in the figure below.

Table 26: Trend of Inflow - Outflow (Motor Portfolio)

Year	Gross Reinsurance Premium Ceded Outflow	Reinsurance Claim Recovery Inflow	Deductibles	Net Outflow from the Countryw
2070/71	261,494,763	175,127,532	6,714,614	79,652,617
2071/72	215,775,946	152,541,230	5,914,356	57,320,360
2072/73	258,438,493	208,053,808	7,174,448	43,210,238
2073/74	712,582,298	301,977,983	180,152,775	230,451,540
2074/75	614,340,029	505,742,520	117,294,332	(8,696,824)
Total	2,062,631,529	1,343,443,073	317,250,525	401,937,931
Average	412,526,306	268,688,615	63,450,105	80,387,586

Figure 8: Trend of Inflow - Outflow (Motor-Foreign)



Ceding Trend to Nepal Re

The average net inflow of premium before the establishment of Nepal Re was Rs. 8.69 million while it was Rs. 88.32 million afterwards. The ratios of net insurance inflow to gross premium were 0.24 percent before, while outflow it was 1.17 percent after the establishment of Nepal Re which indicates that with the establishment of Nepal Re the outflow of reinsurance premium is increased. This indicates the ceding trend in motor portfolio is very low.

Table 27: Ceding Trend to Nepal re in Motor Portfolio

Year	Gross Reinsurance Premium Ceded Outflow	Reinsurance Claim Recovery Inflow	Deductibles	Net Outflow from the Country
Before (Average)	614,340,029	505,742,520	117,294,332	(8,696,824)
Net RI flow to Gross premium		(0.24)		
2071/72				
After (Average)	528,453,607	338,591,437	101,540,518	88,321,651
Net RI flow to Gross premium		1.17		

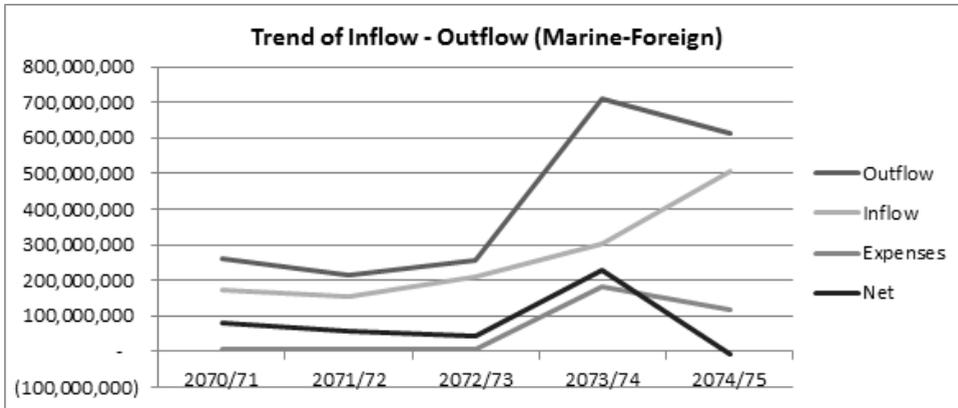
Outflow and inflow of premium and claim of Marine portfolio

In marine portfolio, the trend of outflow of gross reinsurance premium is increasing over the period. The average outflow of the gross reinsurance premium over the five year period was Rs. 498.51 million. The average inflow in the form of reinsurance recovery was Rs. 171.73 million. The average net outflow of the currency from the country is Rs. 76.73 million over the period which indicates currency outflow in marine insurance over the period. The trend has been presented in the figure below.

Table 28: Trend of Inflow - Outflow (Marine Portfolio)

Year	Gross Reinsurance Premium Ceded Outflow	Reinsurance Claim Recovery Inflow	Deductibles	Net Outflow from the Country
2070/71	411,730,360	81,944,592	336,081,047	(6,295,278)
2071/72	420,636,068	301,709,088	202,885,114	(83,958,134)
2072/73	522,611,148	123,667,030	242,281,248	156,662,871
2073/74	533,151,328	187,253,183	223,445,011	122,453,133
2074/75	604,428,313	164,089,218	245,536,816	194,802,280
Total	2,492,557,217	858,663,110	1,250,229,236	383,664,871
Average	498,511,443	171,732,622	250,045,847	76,732,974

Figure 9: Trend of Inflow - Outflow (Marine-Foreign)



Ceding Trend to Nepal Re

The average outflow of the gross reinsurance premium before the establishment of Nepal Re had a negative figure of Rs. 411.73 million indicating the inflow of currency in the country, while it was Rs. 553.39 million afterwards, indicating the outflow of currency. The ratios of net insurance inflow to gross premium before was 0.87 percent, and was 17.11 percent after the establishment of Nepal Re which indicates that there is no positive effect of Nepal Re in the inflow of reinsurance premium.

Table 29: Ceding Trend to Nepal Re in Marine Portfolio

Year	Gross Reinsurance Premium Ceded Outflow	Reinsurance Claim Recovery Inflow	Deductibles	Net Outflow from the Country
Before (Average)	411,730,360	81,944,592	336,081,047	(6,295,278)
Net RI flow to Gross premium		(0.87)		
2071/72				
After (Average)	553,396,930	158,336,477	237,087,692	157,972,761
Net RI flow to Gross premium		17.11		

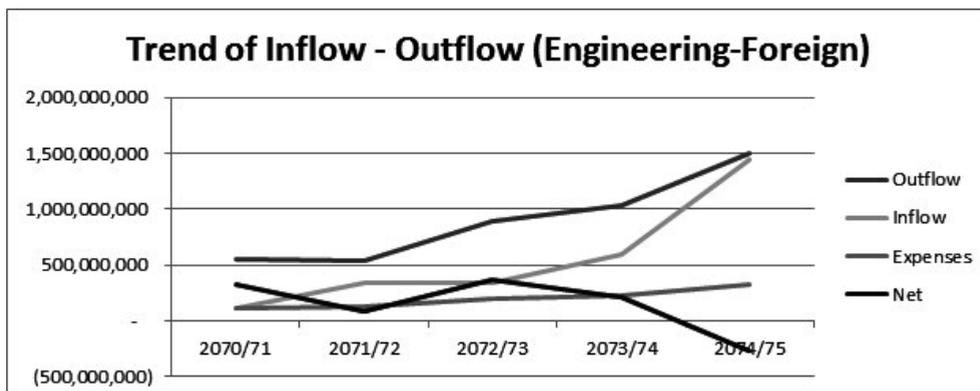
Outflow and Inflow of premium and claim of engineering portfolio

In the engineering portfolio, the trend of outflow of gross reinsurance premium is increasing over the period. The average outflow of the premium over the five year period was Rs. 899.23 million. The average inflow in the form of reinsurance recovery was Rs. 561.67 million. The average net outflow of the country was Rs. 141.01 million over the period indicating a currency outflow in the engineering portfolio of reinsurance. The trend has been presented in the figure below.

Table 30: Trend of Inflow - Outflow (Engineering-Foreign)

Year	Gross Reinsurance Premium Ceded Outflow	Reinsurance Claim Recovery Inflow	Deductibles	Net Outflow from the Country
2070/71	553,166,146	114,757,329	114,081,129	324,327,688
2071/72	533,691,774	335,857,486	121,588,742	76,245,545
2072/73	885,565,069	334,066,965	189,724,269	361,773,835
2073/74	1,027,266,297	586,833,256	228,859,294	211,573,747
2074/75	1,496,476,016	1,436,862,750	328,455,479	(268,842,213)
Total	4,496,165,302	2,808,377,787	982,708,912	705,078,603
Average	899,233,060	561,675,557	196,541,782	141,015,721

Figure 10: Trend of Inflow - Outflow (Engineering-Foreign)



Ceding Trend to Nepal Re

The average outflow of gross reinsurance premium before the establishment of Nepal Re was Rs. 553.16 million, while it was increased to Rs. 1136.45 million after the introduction of Nepal Re. The ratios of net insurance outflow to gross premium was 42.47 percent before, while it was 6.40 after the establishment of Nepal Re which indicates that there is a positive impact of Nepal Re in the outflow of reinsurance premium.

Table 31: Ceding Trend to Nepal Re in Engineering Portfolio

Year	Gross Reinsurance Premium Ceded Outflow	Reinsurance Claim Recovery Inflow	Deductibles	Net Outflow from the Country
Before (Average)	553,166,146	114,757,329	114,081,129	324,327,688
Net RI flow to Gross premium		42.47		
2071/72				
After (Average)	1,136,435,794	785,920,990	249,013,014	101,501,790
Net RI flow to Gross premium		6.40		

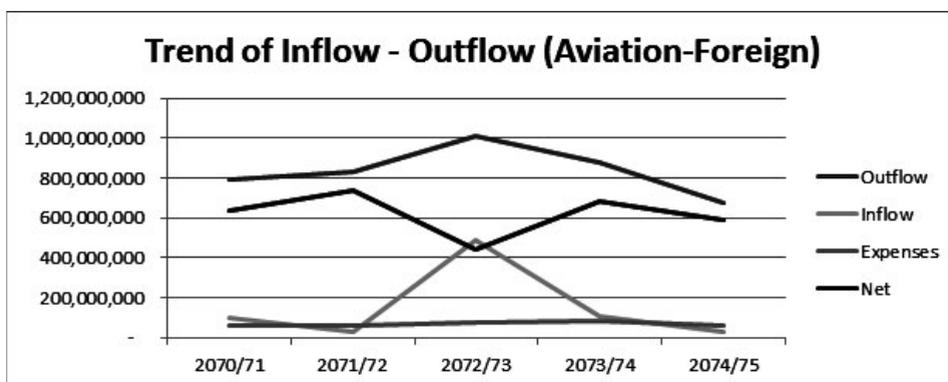
Outflow and inflow of premium and claim of Aviation portfolio

There is a wide variation in the outflow of gross reinsurance premium in the aviation portfolio over the period. The average outflow of the gross premium over the five year period was Rs. 836.95 million, while average inflow in the form of reinsurance claim recovery was Rs. 151.04 million. The average net outflow reinsurance premium from the country was Rs. 617.35 million over the period indicating currency outflow in the aviation insurance over the period. The trend has been presented in the figure below.

Table 32: Trend of Inflow - Outflow (Aviation-Foreign)

Year	Gross Reinsurance Premium Ceded Outflow	Reinsurance Claim Recovery Inflow	Deductibles	Net Outflow from the Country
2070/71	794,810,269	96,737,438	59,075,963	638,996,869
2071/72	828,210,019	33,338,556	59,306,534	735,564,930
2072/73	1,007,475,546	488,789,739	77,967,341	440,718,465
2073/74	877,150,671	109,167,173	84,608,179	683,375,320
2074/75	677,115,357	27,176,169	61,821,220	588,117,969
Total	4,184,761,863	755,209,074	342,779,236	3,086,773,553
Average	836,952,373	151,041,815	68,555,847	617,354,711

Figure 11: Trend of Inflow - Outflow (Aviation-Foreign)



Ceding Trend to Nepal Re

The average outflow of gross reinsurance premium before the establishment of Nepal Re was Rs. 794.81 million, while it reached a figure of Rs. 853.91 million after the establishment of Nepal Re. However, the net reinsurance outflow before the establishment of Nepal Re was Rs. 638.96 million and after was Rs. 570.73 million. The decrease in the net outflow after the establishment of Nepal Re indicates that Nepal Re was able to prevent the outflow of the currency in the aviation portfolio. The ratios of net insurance outflow to gross premium were 77.69 percent before while it was 63.63 percent after the fiscal year 2071/72. This indicates that there is a positive ceding trend to the Nepal Re.

Table 33: Ceding Trend to Nepal Re in Aviation Portfolio

Year	Gross Reinsurance Premium Ceded Outflow	Reinsurance Claim Recovery Inflow	Deductibles	Net Outflow from the Country
Before (Average)	794,810,269	96,737,438	59,075,963	638,996,869
Net RI flow to Gross premium		77.69		
2071/72				
After (Average)	853,913,858	208,377,694	74,798,913	570,737,251
Net RI flow to Gross premium		63.63		

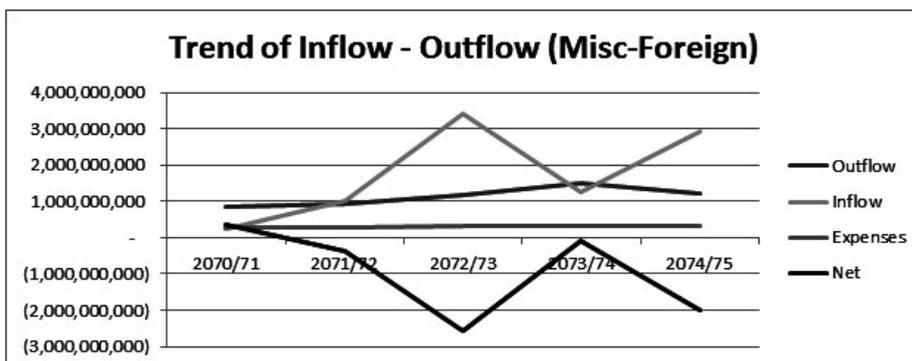
Outflow and inflow of premium and claim of miscellaneous portfolio

The trend of outflow of gross reinsurance premium in the miscellaneous portfolio has been increasing over the period. The average outflow of the premium over the five year period was Rs. 1139.81 million while the average inflow in the form of reinsurance claim recovery is Rs. 1768.20 million. The average net inflow of currency to the country is Rs. 924.73 million over the period in miscellaneous portfolio insurance over the period. The trend has been presented in the figure below.

Table 34: Trend of Inflow - Outflow (Miscellaneous-Foreign)

Year	Gross Reinsurance Premium Ceded Outflow	Reinsurance Claim Recovery Inflow	Deductibles	Net Outflow from the Country
2070/71	868,344,683	232,861,463	261,638,605	373,844,615
2071/72	915,461,730	1,026,479,371	279,481,850	(390,499,491)
2072/73	1,190,677,750	3,419,621,877	321,057,976	(2,550,002,104)
2073/74	1,505,539,367	1,254,843,911	318,161,628	(67,466,172)
2074/75	1,219,054,606	2,907,231,121	301,353,277	(1,989,529,791)
Total	5,699,078,135	8,841,037,743	1,481,693,336	(4,623,652,943)
Average	1,139,815,627	1,768,207,549	296,338,667	(924,730,589)

Figure 12: Trend of Inflow - Outflow (Miscellaneous-Foreign)



Ceding trend to Nepal Re

The average outflow of gross reinsurance premium before the establishment of Nepal Re was Rs. 868.34 million while it was Rs. 1,305.09 million after the introduction of Nepal Re. The net reinsurance outflow was Rs. 373.84 million before and net reinsurance inflow was Rs. 1535.66 million after the establishment of Nepal Re. The increase in the net reinsurance inflow after the establishment of Nepal Re indicates that Nepal Re was able to prevent outflow of the currency in the miscellaneous portfolio.

The ratios of net insurance outflow to gross premium was 28.43 percent before, while ratio of net reinsurance inflow to gross premium was 80.45 percent after the establishment of Nepal Re indicating inflow of reinsurance premium. So, there is a positive ceding trend to the Nepal Re.

Table 35: Ceding trend to Nepal Re in Miscellaneous Portfolio

Year	Gross Reinsurance Premium Ceded Outflow	Reinsurance Claim Recovery Inflow	Deductibles	Net Outflow from the Country
Before (Average)	868,344,683	232,861,463	261,638,605	373,844,615
Net RI Flow to Gross Premium		28.43		
2071/72				
After (Average)	1,305,090,574	2,527,232,303	313,524,294	(1,535,666,022)
Net RI Flow to Gross Premium		(80.45)		

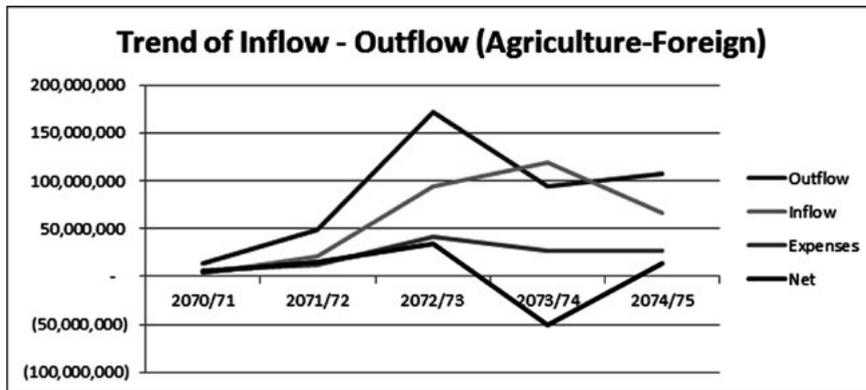
Outflow and inflow of premium and claim of Agriculture portfolio

There is a wide variation in the outflow of gross reinsurance premium in the agriculture portfolio over the period. The average outflow of the gross reinsurance premium over the five year period was Rs. 87.02 million, while average inflow in the form of reinsurance claim recovery is Rs. 60.98 million. The average net outflow from the country is Rs. 3.13 million over the period indicating a currency outflow in the agriculture insurance over the period. The trend has been presented in the figure below.

Table 36: Trend of Inflow - Outflow (Agriculture-Foreign)

Year	Gross Reinsurance Premium Ceded Outflow	Reinsurance Claim Recovery Inflow	Deductibles	Net Outflow from the Country
2070/71	13,910,896	2,899,455	6,559,972	4,451,469
2071/72	49,035,675	21,799,598	12,726,306	14,509,771
2072/73	171,121,195	94,783,361	41,723,666	34,614,169
2073/74	94,008,346	118,944,736	26,339,967	(51,276,357)
2074/75	107,044,773	66,504,088	27,183,808	13,356,877
Total	435,120,886	304,931,238	114,533,719	15,655,929
Average	87,024,177	60,986,248	22,906,744	3,131,186

Figure 13: Trend of Inflow - Outflow (Agriculture-Foreign)



Ceding Trend to Nepal Re

The net reinsurance outflow before the establishment of Nepal Re was Rs. 15.45 million in the agriculture portfolio, while net reinsurance inflow after the establishment of Nepal Re was Rs. 1.10 million. The decrease in net reinsurance outflow after the establishment of Nepal Re indicates that Nepal Re was able to prevent the outflow of the currency in agriculture portfolio.

The ratio of net insurance outflow to gross premium was 15.45 percent before, while ratio of net reinsurance inflow to gross premium was 0.27 percent after the establishment of Nepal Re. So, there is decrement in the outflow of reinsurance premium. This indicates that there is a positive impact of Nepal Re in the agriculture portfolio.

Table 37: Ceding Trend to Nepal Re in Agriculture Portfolio

Year	Gross Reinsurance Premium Ceded Outflow	Reinsurance Claim Recovery Inflow	Deductibles	Net Outflow from the Country
Before (Average)	13,910,896	2,899,455	6,559,972	4,451,469
Net RI flow to Gross premium		15.45		
2071/72				
After (Average)	124,058,105	93,410,728	31,749,147	(1,101,770)
Net RI flow to Gross premium		(0.27)		

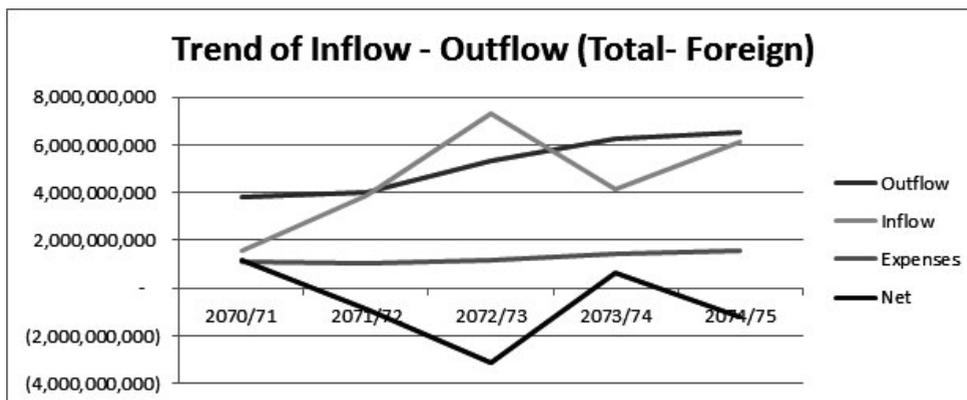
Outflow and Inflow of premium and claim of overall portfolios

The trend of outflow of reinsurance premium is increasing over the period. The average outflow of the premium over the five year period was Rs. 5,189.96 million, while the average inflow was increasing for the first three years, decreased in 2073/74 and again in increasing in 2074/75. The average reinsurance claim recovery was Rs. 4,603.20 million. The average net inflow of the country is Rs. 672.67 million over the period indicating that reinsurance claim is more than reinsurance ceded resulting in inflow of currency in the non-life. The result is presented in the figure below.

Table 38: Trend of Reinsurance currency flow in Total Portfolio

Year	Gross Reinsurance Premium Ceded Outflow	Reinsurance Claim Recovery Inflow	Deductibles	Net Outflow from the Country
2070/71	3,809,637,405	1,590,643,177	1,086,754,444	1,132,239,784
2071/72	4,025,070,301	3,852,671,373	1,031,539,806	(859,140,878)
2072/73	5,341,054,527	7,283,205,218	1,164,688,477	(3,106,839,169)
2073/74	6,261,231,948	4,152,532,279	1,448,985,387	659,714,282
2074/75	6,512,847,867	6,136,948,218	1,565,211,141	(1,189,311,493)
Total	25,949,842,048	23,016,000,265	6,297,179,256	(3,363,337,473)
Average	5,189,968,410	4,603,200,053	1,259,435,851	(672,667,495)

Figure 14: Trend of Inflow - Outflow (Total- Foreign)



Ceding Trend to Nepal Re

The average outflow of gross reinsurance premium before the establishment of Nepal Re was Rs. 3,809.63 million, while it was Rs. 6,038.37 million after the introduction of Nepal Re. Similarly, the net reinsurance outflow of premium before the establishment of Nepal Re was Rs. 1132.23 million, while net reinsurance inflow was Rs. 1,212.14 million after the introduction of Nepal Re. The increase in net reinsurance inflow after the establishment of Nepal Re indicates that Nepal Re was able to prevent the outflow of the currency from country.

The ratios of net insurance outflow to gross premium was 11.13 percent before, while ratio of net reinsurance inflow to gross premium was 7.16 percent after the establishment of Nepal Re which indicates that Nepal Re has facilitated the inflow of reinsurance premium evident through a gradually increasing trend.

Table 39: Ceding Trend to Nepal Re in Total Portfolio of Non-Life

Year	Gross Reinsurance Premium Ceded Outflow	Reinsurance Claim Recovery Inflow	Deductibles	Net Outflow from the Country
Before (Average)	3,809,637,405	1,590,643,177	1,086,754,444	1,132,239,784
Net RI flow to Gross premium		11.13		
2071/72				
After (Average)	6,038,378,114	5,857,561,905	1,392,961,669	(1,212,145,460)
Net RI flow to Gross premium		(7.16)		

2.3 Nepal Reinsurance Company Limited

2.3.1 Analysis of Primary Data of Nepal Re Insurance Company Limited

Nepal Re-Insurance Company Limited (Nepal Re) is the successor of insurance pool that was set up in 2003 to cover the risk caused by the terrorism on 7th August, 2014 in the PPP Model. The main objective is to prevent the outflow of premium and contribute in the economic growth of the country. The paid up capital of the company is Rs. 5 billion. The stakeholders of Nepal Re include Government of Nepal, insurance companies (both life and Non-life) as well as the public limited companies operating in Nepal.

Nepal Re writes all forms of reinsurance business in both life and non-life sector along with reinsurance business of the local and foreign country. Also, Nepal Re has been contributing in the national as well as international risk management.

- **Type of outward and inward treaty**

The study aims to find out the reinsurance arrangement of Nepal Re relevant to inward and outward treaty. For this purpose, different indicators like type of treaty, reinsurer associated to companies, lead reinsurer and its share, rating of re-insurer, brokers and the countries in which reinsurance has been placed, are considered.

There is no variation in the treaty arrangement of non-life insurance companies before and after the establishment of Nepal Re. There is no change in treaty arrangement in both inward and outward treaty. The common treaties followed are proportional, non-proportional and mixed. However, majority of later treaty arrangement is towards non-proportional risk XOL treaty.

**Table 40: Types of Treaty Before and After 2071/72
(i.e. Establishment of Nepal Re)**

Types of Treaty	Outward treaty	Inward treaty
	Proportional	Proportional
	Non-Proportional	Non-Proportional
	Mixed	Mixed

- **Brokers used by Nepal Re**

There is no drastic variation in the use of broking firm by Nepal Re in inward treaty and outward treaty. Majority of the brokers are from India. The details of brokers used in the inward and outward treaty are presented below.

Table 41: Reinsurers

Outward treaty	
Asian	GIC Re India, GIC RE Bhutan, Asian Re, Hannover Re Malaysia, New India, National Re, Allianz Re, Tokyo Marine, Oriental Insurance, GIC Bhutan Re, Malaysian Re, Oriental Re, National Reinsurance, RSMDST- Nepal Pool

Middle East	Trust Re-A, Emirates International
African	Tunis Re, Labuan Re, Zep Re, Kenya Re, Sky Re Peak, CICA RE, NEM Nigeria, Sen Re
Others	Sava Re, Tunis Re, Arig Re
Lead Insurer	GIC Re, 40%, Hannover Re 45%,

Table 42: Brokers used by Nonlife Insurance Company

Brokers			
Outward Treaty		Inward Treaty	
J.B. Boda India	Risk Care	Risk care	J.B. Boda
UIB Asian	Protection	Alliance	Risk Care
Xperitus	Indo Arab	First Policy	Xperitus
KMD	India Insure	India Insure	UIB Asia
Bharat Re	Alliance	Protection	KMD
First policy	AON Benfield	Salsar	Indo Arab

- **Country to which retrocessions place and inward reinsurance business received**

Table 43: Country to which retrocessions place and inward reinsurance business received

Country to which retrocession have been placed	
Asia	India, Malaysia, Bhutan, Singapore
Middle East	Kuwait,
Africa	Africa, Kenya
Others	Slovenia
Country from which inward reinsurance business have been received	
Asia	Afghanistan, Bangladesh, Bhutan, Malaysia, Maldives, Oman, Philippines, Russia, Thailand, Vietnam, Yemen, Cambodia
Middle East	Bahrain, Dubai, Kuwait, Mauritius, Palestine, Qatar, Saudi
Africa	Kenya, Nigeria, Sudan, Togo, Venezuela
Others	

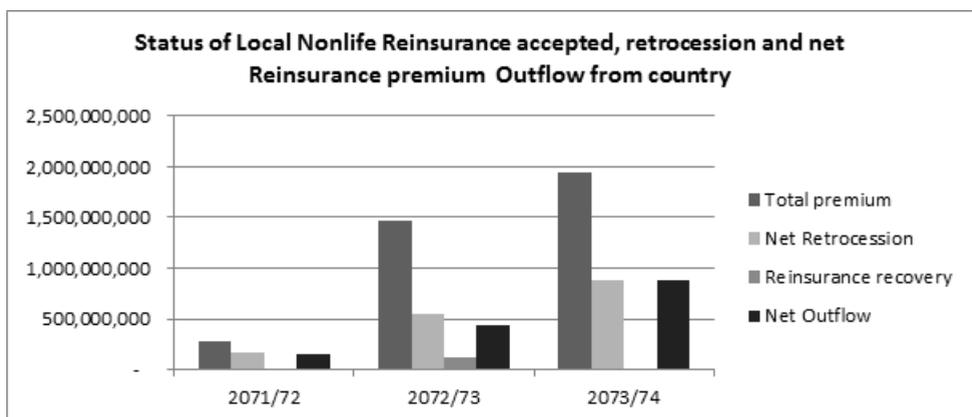
2.3.2 Analysis of Secondary Data of Nepal Re Insurance Company Limited

Nepal Re accept the reinsurance from local and from aboard. In turn the accepted risks are transferred to the foreign reinsurer through retrocession. In nonlife part, direct cession, treaty cession and facultative and RSMDST are mostly considered. The average reinsurance premium received over the three year period is in increased trend. The average premium received over the three periods from FY 2072/73 to 2074/75 was Rs. 1228.81 million. Out of which, 43.10 percent was placed as retrocession and the remaining portion 56.90 percent was retained by the company itself. The reinsurance claim is also in a increasing trend. The low ratio of reinsurance claim to premium i.e. 7.72 percent and the average net outflow of premium Rs. 488.69 million indicates that the inflow of currency is lower than outflow. The detail is presented in the table below.

Table 44 : Status of Local Nonlife Reinsurance accepted, retrocession and net Reinsurance premium Outflow

FY	Gross Reinsurance Premium	Net Retrocession	Reinsurance Claim Recovery	Net Outflow from the country
2072/73	283,832,139	163,051,891	5,087,056	157,964,835
2073/74	1,460,332,452	550,004,063	117,524,035	432,480,029
2074/75	1,942,276,891	875,635,656	-	875,635,656
Total	3,686,441,481	1,588,691,610	122,611,091	1,466,080,520
Average	1,228,813,827	529,563,870	40,870,364	488,693,507

Figure 15: Local Reinsurance received



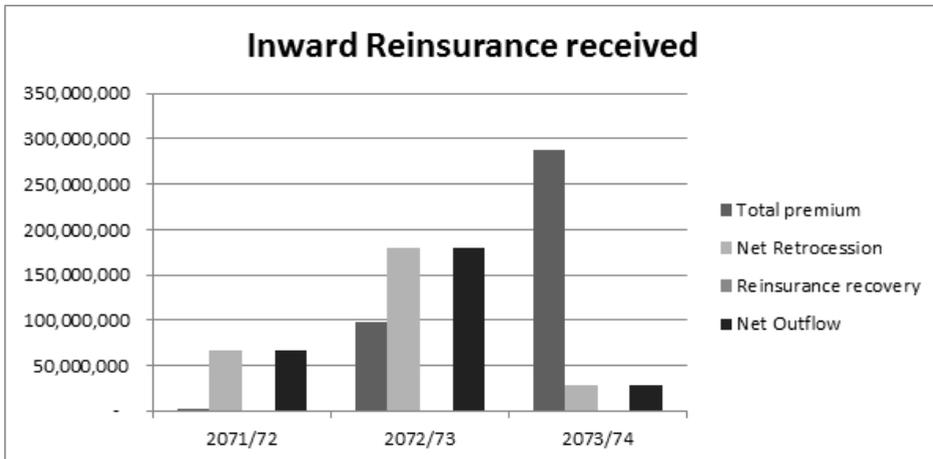
Status of Foreign (Inward) Nonlife Reinsurance accepted, Retrocession and net Reinsurance premium Outflow from the country

Besides the placement of locally received risk in the form of retrocession, Nepal Re also accepts the foreign reinsurance business called inward reinsurance. The accepted risk in turn it places retrocession. The average reinsurance premium received over the three year period from 2072/73 to 2074/75 was Rs. 129.87 million. Out of which 70.59 percent was placed as retrocession while the remaining 29.41 percent was retained by the company itself. The average net outflow of premium in the form of retrocession of the inward nonlife out of country from Nepal Re was Rs. 91.67 million. The detail is presented in the table below.

Table 45: Status of Inward Reinsurance Received

FY	Total premium	Net Retrocession	Reinsurance recovery	Net Outflow
2072/73	2,859,775	67,479,434	-	67,479,434
2073/74	98,398,951	179,108,996	-	179,108,996
2074/75	288,379,354	28,439,332	-	28,439,332
Total	389,638,081	275,027,762	-	275,027,762
Average	129,879,360	91,675,921	-	91,675,921
Ratio		70.59	0	

Figure 16: Inward Reinsurance received



Riot, Strike, Malicious Damage, Sabotage and Terrorism (RSMDST)

Due to the terrorist attack in 2001 at the twin tower and serve internal conflicts between Maoist and the government foreign reinsurers are not easily accepting the risk of RSMDST. So, with the initiation of Beema Samiti and investment from nonlife insurance companies, reinsurance pool

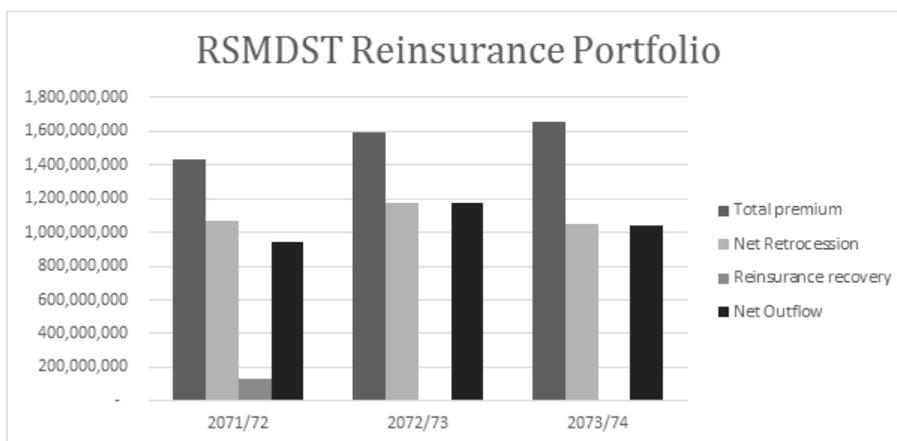
was created especially to place the risk of RSMDST. All the risk after retaining an average 10 percent of the risk by the company the rest are being place to Nepal Re.

The average reinsurance premium received over the three year period from 2072/73 to 2074/75 was Rs. 1559.76 million. Out of which, 70.52 percent was place as retrocession, while the remaining 29.48 percent was retained by the company itself. The average net outflow of premium from the country was Rs. 1053.61 million. The detail is presented in the table below.

Table 46: RSMDST Reinsurance Portfolio

FY	Total premium	Net Retrocession	Reinsurance recovery	Net Outflow
2072/73	1,429,490,035	1,072,117,526	131,935,838	940,181,688
2073/74	1,592,685,116	1,178,586,986	-	1,178,586,986
2074/75	1,657,110,152	1,048,937,958	6,870,481	1,042,067,478
Total	4,679,285,303	3,299,642,471	138,806,318	3,160,836,152
Average	1,559,761,768	1,099,880,824	46,268,773	1,053,612,051
Ratio		70.52	4.21	

Figure 17: : RSMDST Reinsurance Portfolio



Life insurance

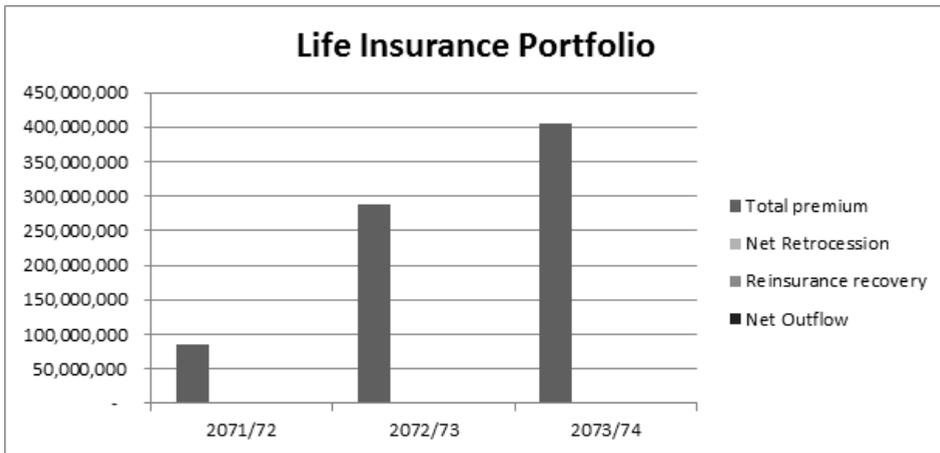
In the Life portfolio, Nepalese insurance company did not place the reinsurance arrangement of their portfolio in earlier days. Among the different portfolio like general life, foreign expat, group and riders' related only foreign expat portfolio is ceded to the Nepal Re. The trend of gross reinsurance premium received over the three year is in increasing trend over the three year period from 2072/73 to 2074/75. The average

premium received was Rs. 259.66 million over the period. The result shows that in case of life portfolio, Nepal Re has not placed any retrocession till date retaining all the risk by oneself. The detail is presented in the table below.

Table 47: Life Insurance Portfolio

FY	Total premium	Net Retrocession	Reinsurance recovery	Net Outflow
2072/73	84,918,552	-	-	-
2073/74	288,300,059	-	-	-
2074/75	405,762,833	-	-	-
Total	778,981,444	-	-	-
Average	259,660,481	-	-	-
Ratio		-	-	

Figure 18: Life Insurance Portfolio



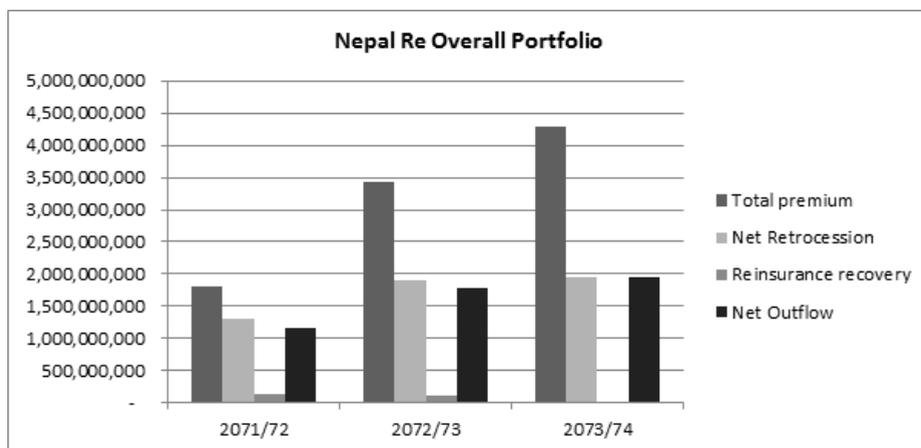
Inward, outward (Non-life), Life and RSMDST aggregate analysis

Considering the entire portfolio of Nepal Re, the average reinsurance premium received was Rs. 3178.11 million over the three year period. Out of which, 54.16 percent in net was placed as retrocession, while the remaining 45.84 percent was retained by the company itself. The average net reinsurance recovery was Rs. 87.13 million and the ratio to gross premium is 5.06 percent. The trend of net outflow of the currency from the country is in increasing trend leading to an average Rs. 1,633.98 million. The detail is presented in the table below.

Table 48: Aggregate analysis of Nepal Re

FY	Total premium	Net Retrocession	Reinsurance recovery	Net Outflow
2072/73	1,801,100,501	1,302,648,852	137,022,893	1,165,625,958
2073/74	3,439,716,579	1,907,700,045	117,524,035	1,790,176,010
2074/75	4,293,529,230	1,953,012,946	6,870,481	1,946,142,466
Total	9,534,346,310	5,163,361,843	261,417,409	4,901,944,434
Average	3,178,115,437	1,721,120,614	87,139,136	1,633,981,478
Ratio		54.16	5.06	

Figure 19: Nepal Re Overall Portfolio



2.4 Overall Aggregate Insurance Industry Analysis

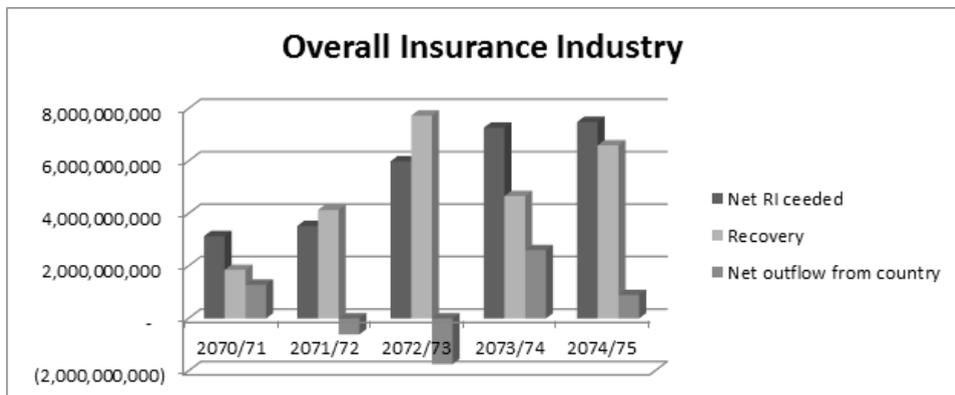
The five year trend of overall industry in net reinsurance premium ceded shows that there has been gradual increment in the outflow of premium. The outflow of net reinsurance ceded in fiscal year 2070/71 to 2074/75 was Rs. 3,315.21 million, Rs. 3525.13 million, Rs. 5987.24 million, Rs. 7266.55 million and Rs. 7490.28 million respectively. The average net outflow of reinsurance premium was Rs. 5,480 million. The reinsurance claim was increasing in the first three years, decreased in 2073/74 and then, increased in 2074/75. The average reinsurance claim recovery was Rs. 24,404.44 million. The net reinsurance premium outflow of the currency from the country occurred in 2070/71, 2073/74 and 2074/75, while net inflow of currency in 2071/72 and 2072/73. The highest inflow was observed during the period 2072/73 which is Rs. 1,744.48 million. The average net outflow of the currency was Rs. 485.98 million over the period. This indicates that net insurance premium ceded is greater than the claims over the five year period. In another words, outflow of the currency in the form of premium is higher

than that of reinsurance claim and has less positive impact in the Nepalese insurance industry. The details are presented in the table below.

Table 49: Overall Insurance Industry

Year	Net Reinsurance Premium ceded Outflow	Reinsurance claim Recovery Inflow	Net outflow from country
2070/71	3,135,212,070	1,846,819,382	1,288,392,688
2071/72	3,525,136,249	4,134,728,898	(609,592,649)
2072/73	5,987,245,955	7,731,727,909	(1,744,481,955)
2073/74	7,266,559,716	4,663,495,978	2,603,063,738
2074/75	7,490,288,575	6,597,768,764	892,519,811
Total	27,404,442,565	24,974,540,931	2,429,901,634
Average	5,480,888,513	4,994,908,186	485,980,327

Figure 20: Overall Insurance Industry



Descriptive Statistics

Descriptive statistics shows the mean, median and range. Net reinsurance ceded, reinsurance recovery and net outflow from the country is presented in the table. The average gross reinsurance premium ceded by the insurance industry was Rs. 2,108.03 million, reinsurance recovery was Rs. 1,921.11 million resulting an outflow of Rs. 186.91 million from the currency from the country. The details are presented in table below.

Table 50 : Descriptive Statistics

Details	Net Reinsurance premium ceded	Reinsurance claim recovery	Net outflow from the country
Mean	2,108,034,043.46	1,921,118,533.19	186,915,510.27
Median	1,907,700,044.90	393,439,664.06	196,731,256.13
Standard Deviation	1,688,009,919.31	2,549,193,003.36	1,341,210,814.04
Range	4,535,307,617.36	7,276,334,737.14	5,052,981,634.25
Minimum	412,329,108.35	6,870,480.88	(3,106,839,168.71)
Maximum	4,947,636,725.71	7,283,205,218.02	1,946,142,465.54
Sum	27,404,442,564.92	24,974,540,931.41	2,429,901,633.51
Count	13	13	13

Correlation Matrix

Correlation measures the degree of relationship between the variables. The correlation between net reinsurance ceded and reinsurance claim recovery is observed to be 0.51 i.e. moderate positive correlations. This result indicates that higher the net reinsurance premium ceded higher will be the reinsurance claim recovery or vice versa. The correlation of the net outflow of currency from the country with the net reinsurance premium ceded and the reinsurance claim recovery is negative indicating lower the net outflow of the currency from the country higher will be the reinsurance recovery and the net insurance premium ceded and vice versa. The detail is presented below.

Table 51: Correlation Matrix

	Net Reinsurance Premium Ceded	Reinsurance Claim Recovery	Net outflow of currency from country
Net reinsurance ceded	1		
Reinsurance recovery	0.51	1	
Net outflow of currency from country	(0.53)	(0.69)	1

Test of First Hypothesis

The study test the first hypothesis that whether or not crosses border reinsurance has a significant positive impact on the Nepalese insurance industry. For this purpose, paired sample t-test is applied. The result reveals that p-value of 0.07 indicates the null hypothesis is accepted i.e. there is no significant difference in the outflow of currency in the form of premium and the inflow of currency as claim at 5 percent degree of freedom. However, at 10 percent degree of freedom, the alternative hypothesis is accepted meaning there is a significant difference in the outflow and inflow of currency in the Nepalese insurance industry.

Table 52: Summary of Overall Model Test

	Net Reinsurance Ceded	RI Recovery
Mean	21.21	20.20
Variance	0.81	4.17
Observations	12	12
Pearson Correlation	0.51	
Hypothesized Mean Difference	0.00	
Df	11.00	
t Stat	1.98	
P(T<=t) one-tail	0.04	
t Critical one-tail	1.80	
P(T<=t) two-tail	0.07	
t Critical two-tail	2.20	

Impact of Nepal Re in local insurance Industry

The second hypothesis of the study; Nepal Re has a significant positive impact in the prevention of outflow of the premium of the Nepalese insurance industry, has been failed to be rejected. The test result indicated that t value is 2.20 with P value insignificant at 5 percent level, signifying that null hypothesis is accepted. This means there is no significant contribution of Nepalese local reinsurance company in the prevention of outflow of the premium from the Nepalese insurance industry. This result reveals that Nepal Re is unable to minimize the significant portion of outflow of the reinsurance premium from the country. The result is presented in table below.

Table 53: t-Test Two-Sample for Variances

t-Test: Paired Two Sample for Means		
	Variable 1	Variable 2
Mean	2.52	3.10
Variance	3.97	3.85
Observations	12	12
Pearson Correlation	0.67	
Hypothesized Mean Difference	0	
Df	11	
t Stat	-1.25	
P(T<=t) one-tail	0.11	
t Critical one-tail	1.79	
P(T<=t) two-tail	0.23	
t Critical two-tail	2.20	

CHAPTER III

SUMMARY AND CONCLUSION

Summary

This study analyzes the status of flow of currency of Nepalese insurance industry through reinsurance practices. Furthermore, the study also analyzes the impact of Nepal Re in the minimization of the outflow of currency. The study uses both descriptive and comparative research design for analysis of data. The study uses population survey sampling techniques which comprises of 8 life insurers, 15 non-life insurers and 1 reinsurer from the Nepalese Insurance industry. Both the primary data and secondary data of 5 years i.e. FY 2070/71 to 2074/75 have been employed to draw the interference. The statistical tools used were descriptive statistics, correlation and peer sample t-test.

The Major findings of the study are listed below.

Life insurance

The life insurance companies of Nepal usually place their reinsurance with the foreign reinsurers. As per the circular of the insurance board Nepalese life insurance company requires to meet capital of Rs. 2 billion has been fulfilled by only two of the life insurance companies till date. The types of treaty generally used are quota share, surplus, facultative and CAT XOL are the treaties placed by the Nepalese life insurance companies. The reinsurers commonly involved are Scor global life, Hannover ruck se, Delaware American life insurance having AA-, AA and A rating respectively. J.B. Boda, India is commonly used broker by Nepalese life insurance company in most cases they tend to place directly whereas, some place directly.

- **Proportion of local and foreign reinsurance out of total outflow/inflow :**

Majority of the reinsurance placement have been made in foreign but, after the establishment of Nepal Re it can be observed that the local placement of reinsurance has been gradually increasing. The result shows that average local placement of reinsurance is 39.74 percent whereas, foreign reinsurance placement has been declined to 60.26 percent after the establishment of Nepal Re.

- **Life insurance portfolio: Trend analysis**

The result shows that over the period the net outflow of premium has been increasing and the average net outflow of premium is Rs. 62.60 million for the life insurance portfolio. The foreign reinsurance placement of life insurance portfolio before and after the establishment of Nepal Re was 100 percent and 97.47 percent respectively.

- **Rider's Portfolio: Analysis of Inflow – Outflow;**

There is a wide variation in net outflow of reinsurance premium in the Riders portfolio. The average net outflow was Rs. 17.11 million. The foreign reinsurance placement of rider's portfolio before and after the establishment of Nepal Re was 100 percent and 91.06 percent respectively.

- **Group Policy: Analysis of Inflow - Outflow**

The result indicates that there was variation in net outflow of reinsurance premium in the Group Policy portfolio. The average net outflow was Rs. 3.91 million. The foreign reinsurance placement of group policy portfolio before and after the establishment of Nepal Re was 100 percent and 99.65 percent respectively.

- **Foreign Expatriate Portfolio : Analysis of Inflow - Outflow (According to the output obtained there was variation** in the net outflow of reinsurance premium of the foreign expatriate portfolio. The average net outflow was Rs.94.62 million. The foreign reinsurance placement before and after the establishment of Nepal Re was 100 percent and 35.13 percent respectively.

- **Trend of Inflow - Outflow (Total life):**

The results show that over the five-year period the average net outflow of the total life insurance was Rs.178.25 million and the foreign reinsurance placement before and after the establishment of Nepal Re was 100 percent and 57.26 percent respectively.

Non-Life insurance Company

The non-life insurance companies of Nepal usually tend to place their reinsurance arrangement with the foreign reinsurers. As per the directed circular by the insurance board Nepalese non-life insurance companies needs to maintain capital base of 1 billion. Only three of the non-life insurance companies were able to meet till date. The average paid up capital is Rs. 0.83 billion. The types of treaty generally used are proportional, non-proportional and facultative. The reinsurers involved in common are GIC Re, India,Zep Re, Kenya, Tokyo Marine, Japan, Hannover Re, Malaysia, XL Catlin Re and Trust Re having A, B+, A+, A+, A and A- rating respectively. Commonly used broker agencies are J.B. Boda, India, J.B. Boda UK, KMD, Bharat Re, etc. whereas some place directly.

- **Composition of local and foreign reinsurance premium out of total outflow/inflow:**

Majority of the reinsurance have been placed in the foreign but, after the establishment of Nepal Re it can be observed that the local placement of reinsurance has been gradually increased. The result shows that average local placement of reinsurance is 40.17 percent; whereas, the foreign reinsurance placement has been declined to 53.33 percent after the establishment of Nepal Re.

- The average net reinsurance inflow in the fire portfolio was Rs. 666.55 million. The ratios of net insurance inflow to gross premium was 10.01 percent before while, it was 16.41 percent after the establishment of Nepal Re. Therefore, it indicates that Nepal Re has resulted in increase in the inflow of reinsurance premium.

- In the motor portfolio, the average net reinsurance outflow was Rs.80.38 million. The ratios of net insurance inflow to gross premium was 0.24 percent before while, there was outflow of 1.17 percent after the establishment of Nepal Re. Therefore, it indicates that Nepal Re has resulted in increase in the outflow of reinsurance premium.

- The average net reinsurance outflow in the marine portfolio was Rs. 76.73 million. The ratios of net insurance inflow to gross premium was 0.87 percent before while, the outflow was 17.11 percent after the establishment of Nepal Re. Therefore, it indicates that Nepal Re has resulted in increase in the outflow of reinsurance premium.
- In regard to the engineering portfolio the average net reinsurance outflow was Rs.141.01 million in the engineering portfolio. The ratios of net insurance outflow to gross premium was 42.47 percent before while, there was an outflow of 6.40 percent after the establishment of Nepal Re. Therefore, it indicates that Nepal Re has resulted in decrease in the outflow of reinsurance premium.
- In aviation portfolio, the average net reinsurance outflow was Rs. 617.35 million in fire portfolio. The ratios of net insurance outflow to gross premium was 77.69 percent before while there was outflow of 63.63 percent after the establishment of Nepal Re, Therefore, it indicates that Nepal Re has resulted in increase in the outflow of reinsurance premium.
- The trend of outflow of premium in miscellaneous portfolio is increasing over the period. The average net inflow of the country was Rs.924.73 million over the period in miscellaneous portfolio. The ratio of net insurance outflow to gross premium was 28.43 percent before while there was inflow of 80.45 percent after the establishment of Nepal Re. Therefore, it indicates that Nepal Re has resulted in decrease in the outflow of reinsurance premium.
- There is a wide variation in outflow of premium in agriculture portfolio over the period. The average net outflow of the country was Rs.3.13 million over the period indicating currency outflow in agriculture insurance over the period. The ratio of net insurance outflow to gross premium was 15.45 percent before while there was inflow of 0.27 percent after the establishment of Nepal Re. Therefore, it indicates that Nepal Re has resulted in decrease in the outflow of reinsurance premium.
- The average net inflow of total portfolio of nonlife to the country is Rs. 672.67 million over the period indicating that reinsurance claim is more than reinsurance ceded resulting inflow of currency in non-life. The ratios of net insurance outflow to gross premium was 11.13 percent before while ratio of net Reinsurance inflow to gross premium was 7.16 percent after the establishment of Nepal Re which indicates that with the establishment of Nepal Re the inflow of reinsurance premium has been gradually increased.

Nepal Reinsurance Company (Nepal Re) Limited

The non-life insurance companies of Nepal usually place their reinsurance at the foreign reinsurers. The directed capital by the insurance board to maintain capital base of 5 billion has been fulfilled by Nepal Re. The types of treaty generally used are proportional

and non-proportional both inward and outwards. The reinsurers involved in common are GIC Re, India, Zep Re, Kenya, Hannover Re, Malaysia, Trust Re, Arig Re, etc. Commonly used broker agencies are J.B. Boda, India, KMD, UIB Asian, First policy, JO Australia, etc.

- Status of the local nonlife reinsurance accepted, retrocession and net reinsurance outflow:

The average gross premium received over the three year period from 2072/73 to 2074/75 was Rs.1228.81 million. Out of which, 43.10 percent was placed as retrocession while, 56.90 percent was retained by the company itself. The average net outflow of net premium in the form of retrocession of nonlife by Nepal Re was Rs.488.69 million.

- Status of the foreign (Inward) non-life reinsurance accepted, retrocession and net reinsurance outflow:

The average reinsurance premium received over the three year period from 2072/73 to 2074/75 was Rs.129.87 million. Out of which, 70.59 percent was place as retrocession while, the remaining 29.41 percent was retained by the company itself. The average net outflow of net premium in the form of retrocession of the inward nonlife out of country from Nepal Re was Rs. 91.67 million.

- The average total reinsurance premium in RSMDST Reinsurance received over the three year period from 2072/73 to 2074/75 was Rs.1559.76 million. Out of which, 70.52 percent was place as retrocession while, the remaining 29.48 percent was retained by the company itself. The average net outflow of net premium in the form of retrocession of the inward nonlife out of country from Nepal Re was Rs. 1053.61 million.

- In the foreign expat portfolio of life, the average reinsurance premium received over the three year period from 2072/73 to 2074/75 was Rs. 259.66 million. In case of life, Nepal Re has not place any retrocession till date so, there is no any outflow of foreign currency from Nepal.

- In overall portfolio of Nepal Re, total gross premium received is Rs. 3,178.11 million out of which 54.16 percent was placed as retrocession while the remaining 45.84 percent was retained by Nepal Re itself. The average net outflow of premium from the country is Rs. 1,633.98 million.

- The five-year trend of the overall industry in the net reinsurance premium ceded shows that there has been gradual increment in the outflow of premium. The average net outflow of the reinsurance premium was Rs. 5,480.88 million. The reinsurance claim was increasing in first three year, decreased in 2073/74 and then increased in 2074/75. The average reinsurance claim recovery was Rs. 4,994.90 million. The net reinsurance premium outflow of currency from the country occurred in 2070/71, 2073/74 and 2074/75 while, the net inflow of currency

in 2071/72 and 2072/73 leading to the average outflow of Rs. 485.98 milion. The outflow of the currency in the form of premium is higher than that of reinsurance claim and has less positive impact in the Nepalese insurance industry.

- The result of t-test indicates that there is the positive impact of reinsurance in Nepalese insurance industry. However, the result indicates that there is no such significant impact on Nepalese insurance industry. In case of Nepal Re there is also positive ceding trend by local insurance company to Nepal Re. However, there is no significant impact of Nepal Re in the minimization of outflow of reinsurance premium from the country.

Conclusion

The study concludes that there has been a gradual increment in the out flow of the currency in the form of reinsurance premium. Similarly, inflow of currency in the form of reinsurance claim recovery is also in an increasing trend. The net inflow was observed in two fiscal year 2071/72 and 2072/73; whereas, the outflows from the country in the remaining years. In aggregate, the average outflow of currency through the reinsurance business of the Nepalese insurance industry over the five year of period was found to be R s. 485.98 million.

The study fails to reject null hypothesis in regard to the impact of reinsurance on Nepalese insurance industry. This indicates that cross border reinsurance has no significant impact in the insurance industry. This means, there is no substantial difference in outflow of currency in the form of reinsurance premium and inflow of currency to the country in the form of reinsurance claim. Similarly, in regard to the second hypothesis the study also fail to reject the null hypothesis. This indicates that even though there is gradual increment in ceding to Nepal Re; however, Nepal Re is unable to minimize a significant portion of outflow of the reinsurance premium from the country. Thus, the study concludes that cross broader reinsurance and Nepal Re has significantly less impact on the Nepalese insurance industry.

Recommendations

1. The study reveals that reinsurance has impact no significant impact on Nepalese insurance industry. It does not mean Nepalese insurance company start to retain itself. It means to revel that there is no significant difference in outflow of reinsurance premium and reinsurance claim. However, at the time of catastrophe occurred in 2015, the claim recovery is more than the reinsurance premium ceded.
2. The ceding trend of the life insurance company is gradually increasing in Nepal Re. Among the portfolio, foreign expat portfolio is ceded more than 50 percent to the Nepal Re. Therefore the study recommends Nepalese life insurance company

need to cede the remaining portfolio such as life insurance, rider's and group portfolio in Nepal Re.

3. In case of the non-life portfolio among the seven portfolios only three portfolios namely fire, motor and agriculture portfolio has been placed more in Nepal Re. Thus the study recommends Nepalese nonlife insurance company need to place other remaining portfolio to Nepal Re. The study found that there has not been ceded aviation portfolio to Nepal Re, thus the study recommends to Nepalese nonlife insurance company start ceding aviation portfolio too in Nepal Re only after the proper workout in the upcoming days.
4. The acceptance of the foreign inward reinsurance business by the Nepal Re is in an increasing trend which is a positive sign. But due attention and strong underwriting is required while accepting the risk zone country. Accepting with an overwhelming enthusiasm may lead to an adverse selection which may lead to treaty exposure of Nepal Re that will have a negative impact on the economy as a whole.
5. It's been a few couple of years that Nepal Re was established. For strengthening the local reinsurance company, Nepal Re needs to initiate to get prepared and develop and meet all the requirements for getting rating. The rating would help to build the trust not only local insurers' trust but foreign insurers and reinsurers too that will help to get a more business from abroad.

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Annex- 1 :Sample List

S.N.	Life Insurance Companies
1	National Life Insurance Company Limited
2	Nepal Life Insurance Company Limited
3	Life Insurance Corporation (Nepal) Limited
4	American Life Insurance Company
5	Asian Life Insurance Company
6	Surya Life Insurance Company
7	Gurans Life Insurance Company
8	Prime Life Insurance Company
	Non-life Insurance Companies
9	Nepal Insurance Company Limited
10	Himalayan General Insurance Company Limited
11	United Insurance Company (Nepal) Limited
12	Premier Insurance Company (Nepal) Limited
13	Everest Insurance Company Limited
14	Neco Insurance Limited
15	Sagarmatha Insurance Company Limited
16	Prabhu Insurance Limited
17	N.B. Insurance Company Limited
18	Prudential Insurance Company Limited
19	Shikhar Insurance Company Limited
20	Lumbini General Insurance Company Limited
21	NLG Insurance Company Limited
22	Siddhartha Insurance Limited
23	Rastriya Beema Company Limited
	Reinsurance Company
24	Nepal Re-insurance Company Limited (Nepal Re)
Total	24

Annex-2: Survey Questionnaire

A Survey on Reinsurance Practices of Nepalese Life Insurance Companies and Non-life Companies

A. Respondent Profile

Name of the company :-

Year of establishment :-

Current capital/net worth :-

Current company retention (**Life**) :- Rs.....

Current company retention (**Non-life**) :- a. Fire Rs.....
 b. Marine Rs.....
 c. Motor Rs.....
 d. Engineering Rs.....
 e. Aviation Rs.....
 f. Miscellaneous Rs.....
 g. Agriculture Rs.....

B. Other details

(Please don't consider the year 2070/71, consider the 3 year prior and later to 2070/71 only while providing following information's)

SN	Particulars	Year	Life	Non-life
1	Type of treaty used (For life and non-life) 2068/69 2069/70	2067/68		
	Type of treaty used (For life and non-life) 2073/74 2074/75	2072/73		
2	Reinsurer/s used 2068/69 2069/70	2067/68		
	Reinsurer/s used (Nepal Re) 2073/74 2074/75	2072/73		

3	Lead reinsurer and it's share		2067/68		
	2068/69				
	2069/70				
	Lead reinsurer and it's share		2072/73		
	2073/74				
2074/75					
4	Rating of Reinsurer/s		2067/68		
	2068/69				
	2069/70				
	Rating of Reinsurer/s		2072/73		
	2073/74				
2074/75					
5	Broker/s		2067/68		
	2068/69				
	2069/70				
	Broker/s		2072/73		
	2073/74				
2074/75					
6		Country/s in which RI place	2067/68		
			2068/69		
			2069/70		
	Country/s in which RI place	2072/73			
		2073/74			
		2074/75			

7	Does your company have ceded to Nepal Re? (If yes please mention the portfolio/s) (For life and non-life)		
	2072/73 Yes No		
	2073/74 Yes No		
	2074/75 Yes No		

8. *Any suggestions to strengthen reinsurance arrangement of the company?*

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Thank you for participation!

A Survey on Reinsurance Practices of Nepal Reinsurance Company (Nepal Re) Ltd.,

C. Respondent Profile

Name of the company :-

Year of establishment :-

Current capital/net worth :-

Company retention :-

D. Other details

Provide the following information's

SN	Particulars	Year	
1	Type of outward treaty	2072/73	
		2073/74	
		2074/75	
	Type of inward treaty	2072/73	
		2073/74	
		2074/75	
2	Reinsurer/s in outward treaty	2072/73	
		2073/74	
		2074/75	
	Reinsurer/s in inward treaty	2072/73	
		2073/74	
		2074/75	
3	Ratings of reinsurer/s in outward treaty	2072/73	
		2073/74	
		2074/75	
	Ratings of reinsurer/s in inward treaty	2072/73	
		2073/74	
		2074/75	
4	Lead reinsurer's and it's share in outward treaty	2072/73	
		2073/74	
		2074/75	
	Lead reinsurer's and it's share in inward treaty	2072/73	
		2073/74	
		2074/75	

5	Broker's in outward treaty	2072/73	
		2073/74	
		2074/75	
	Brokers in inward treaty	2072/73	
		2073/74	
		2074/75	
6	Country/s in which outward treaty placed	2072/73	
		2073/74	
		2074/75	
	Country/s from which inward treaty received	2072/73	
		2073/74	
		2074/75	

7. *Any suggestions to strengthen reinsurance arrangement of the company?*

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Thank you for participation!



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