

# NECO INSURANCE LTD.

## 1 BACKGROUND AND CORPORATE OVERVIEW

### 1.1 Company Information

Neco Insurance Ltd. is a limited liability company registered under the Companies Act, 2021 BS. It was established on 1<sup>st</sup> Poush, 2051 (16<sup>th</sup> December, 1994). It has been operating general insurance business in Nepal since 17<sup>th</sup> Jestha, 2053 (30<sup>th</sup> May, 1996) as per the license granted by Insurance Board of Nepal. The registered office of the company is at Anamnagar, Kathmandu and it is operating its business through 27 service outlets nationwide. Neco Insurance enjoys a reputation of expertise, stability and strength. Our competitive edge, extensive range of products, wide network, claim servicing capabilities and the ability to provide all possible general insurance solutions under one roof, makes us the most preferred partner for our valued customers. Neco Insurance has been known in the market as being innovative and having a well-established relationship with the various reinsurance markets of the world.

### 1.2 Strategic Objectives

The main objectives of the company are:

- To “**Make A Visible DIFFERENCE**” in insurance market by providing best general insurance services nation-wide.
- To be the first and final choice of customers of every business segment of the country.
- To ensure that all stakeholders achieve a long-term, competitive and stable return.

### 1.3 Capital Structure

The authorized capital of the company is NPR 1000 million and the issued capital is NPR 648 million. The current paid up capital of the company is NRs. 324 million. The 20<sup>th</sup> AGM of the company has announced right share @1:1 ratio, which increases paid up capital of up to NPR 648 million soon. In terms of capital, Neco Insurance Ltd will be leading insurance companies of general insurance sector. The shareholding patterns of the company is as under:

Promoters Holding	60%
Public Holding	40%

*The company is promoted by mainly renowned institutions of the country. Thus, the credibility of the company is not comparable with others in insurance market. The major promoters of the company are as under:*

#### 1. **Rastriya Banijya Bank Ltd. (RBB) - Holds 20% of total share**



*Rastriya Banijya Bank is 100% government owned and one of the pioneer commercial bank in Nepal having paid up capital of Rs 8,588.97 million. The bank has highest public confidence with highest deposit base in the country. The bank has largest network with 160 branches across the country.*

## 2. Mahto Group: Holds 20.24% of total share



Mahto group is one of the renowned and biggest groups in Nepal, which has large investment in various sectors. Its major investments are in financial institutions, manufacturing, hospital, medicine, media, education sector etc. The group is very popular among people because of their interest in social work also.

## 3. Vinayak Group: Holds 12.94% of total share



Vinayak group is jointly formed by well-known investors of capital market of the country. The investment of the group is mainly in shares of financial institutions, hydropower and other sectors.

## 4. Fund Management Company Ltd: Holds 4.51% of total share

This is a subsidiary company of Agriculture Development Bank Ltd., fully owned by Nepal's government. The fund of the bank's own staff is managed by this company.

### 1.4 Board of Directors

With distinctive combination of the promoters, an energetic young team of reputed individuals having vast experience and excellent leadership has been representing to the Board. The current Board of Directors of the company consists of 7 directors. Mr. Ramesh Kumar Niraula, a well experience leader of financial sector is the Chairman of the Company representing from Vinayak Group. The list of directors is as under:

Name of Directors	Representation
<b>A. Promoter Group</b>	
Mr. Ramesh Kumar Niraula, Chairman	SVR Public Pvt Ltd
Mr. Kabiraj Adhikari, Member	RastriyaBanijya Bank Ltd.
Mrs. Kriti KumariMahto, Member	B K BinayakPvt Ltd
Mr. Indra Bahadur Thapa, Member	S S BinayakPvt Ltd
<b>B. Public Elected</b>	
Mr, Budhi Bahadur Thapa, Member	Public Elected
Mr. Rajan Thapa, Member	Public Elected
<b>Independent Director</b>	
Mr. Ratna Raj Pandeya	

## 1.5 Management Team:

The management team of Neco Insurance Company Ltd. has been prudently comprised with vast experienced managers of insurance and banking sectors. The fusion of experienced brain and young talent has drastically upgraded the graph of the company. The stakeholders of the company have firm belief that company will achieve success under their leadership. Presently, the leaders in management team of the company are as follows:



**Mr. Bishwo Ram Timila – Chief Executive Officer**

Email: [bishwo@necoinsurance.com.np](mailto:bishwo@necoinsurance.com.np)

Mr. Bishwo Ram Timila, CEO of Neco Insurance Ltd has more than three decades experience in general insurance field. He has served this institution from the inception of the company. The career of Mr. Timila has been started with Oriental Insurance Company. He has ample exposure of insurance business which helped the company for sustainable growth.



**Mr. Ashok Kumar Khadka – Management Advisor**

Email: [ashok@necoinsurance.com.np](mailto:ashok@necoinsurance.com.np)

Mr. Khadka is a well-known personality of financial sector having more than two decades experience of several commercial banks. He has joined the company for last one and half years with a responsibility to support and advised in managerial activities. Under his skilled advisory role, the company expects to be on the top of the row in insurance market.



**Mr. Shrawan Kumar Rawal– Assistant General Manager**

Email: [skrawal@necoinsurance.com.np](mailto:skrawal@necoinsurance.com.np)

Mr. Rawal, well versed personnel of insurance business has more than three decades experience in general insurance field. He has served this institution from the inception of the company. Since being exposed to insurance sector for so long period he has in depth knowledge regarding the General Practice of Insurance.

The other senior level staff of the key departments of the company are :

<i>Name of Staffs</i>	<i>Designation</i>	<i>Department</i>	<i>Email</i>
Mr. Bishnu Dhital	Sr. Manager	Underwriting	<a href="mailto:bishnu@necoinsurance.com.np">bishnu@necoinsurance.com.np</a>
Mr. Ganesh Kumar Kapar	Sr. Manager	Account & Finance	<a href="mailto:ganesh.kapar@necoinsurance.com.np">ganesh.kapar@necoinsurance.com.np</a>
Ms. Sapana Rawal	Manager	Reinsurance	<a href="mailto:sapana@necoinsurance.com.np">sapana@necoinsurance.com.np</a>

## 1.6 Support Team:

To support for operational activities, prudence in claim and technical risk analysis, we have outsourced the support team comprises with qualified Chartered Accountants, Doctors and Engineers to support to the management.

**Chartered Accountant:** For internal Audit and External Audit.

**Doctors:** To find out the reality of claim, we have appointed a team of higher level doctors for the assessment of medical bills which comes under claim of Health insurance, Tour and Trekking Insurance, Travel Medical Insurance etc. The doctor also visits with rescue team to different trekking spots where the member of expedition needs treatment and rescue.

**Engineers:** We have appointed a team of engineers who have expertise in Civil, Mechanical, Electrical, Hydro, Aviation etc. In case of big hydropower projects, shopping Malls and other big projects, we deploy to the respective engineer to assess the technical risk before insured to such projects. Similarly, we use the expert engineer in case of big claims to find out the facts.

## 1.7 Recent Market and Regulatory Development Impact on Company

There are altogether 17 non-life and 8 life insurance companies running in the country. The overall, life as well as general, insurance business in Nepal is at growing phase. Around more than 25% average annual growth rate has been accounted over the past 5 years in insurance sector.

The regulatory body of insurance business in Nepal is Insurance Board (Beema Samitee). It has issued directive on the "Corporate Governance" for the insurance companies which focused to protect interest of stakeholders mainly insured, staffs and investors. As per the regulator directive, the minimum paid up capital of non-life insurance should be NRs. 250 million, which is supposed to be increased very soon. The Board has introduced Agriculture and Cattle Insurance policies to assist in commercial agriculture, a plan being implemented by Government of Nepal through budget of recent fiscal years.

## 2 OPERATING AND UNDERWRITING REVIEW

### 2.1 Line of Business

The company underwrites all types of general insurance risk through different kind of policies prevailing in the market under seven major categories:

- i) Fire, ii) Motor, iii) Aviation, iv) Marine, v) Engineering, vi) Agriculture and vii) Miscellaneous

### 2.2 Underwriting Approach

There is a separate Underwriting Department in the company. The department accepts the proposals submitted by marketing agents and staffs after deliberate evaluation of underlying risk in the proposal. The decision in major cases is taken by the combined team of higher lever management. Sometimes, the opinions of experts are also sought on technical matters to know the depth of risk in the policies.

In case of proposals with higher amount of sum insured than the retention limit of company, the policy is issued after the proper reinsurance arrangement of the risk as ascertained by the reinsurance department. Similarly, some policies with high value sum insured are issued in combination of other insurance companies under the principle of coinsurance. In conclusion, the company has established adequate controls and guidelines over the risk evaluation on proposals before issuing the final policy.

### 2.3 Historical Growth and Distribution

The company prepares Budget every year to set the business target as well as to monitor the operating expenses throughout the fiscal year. The budget is prepared and duly approved by the board of directors of the company. It works as a plan of action for the running year. Every possible effort is made to achieve the target set in the budget and control the expenses within the allocated limit. The growth in business is set considering industry growth rate, business potential in the overall market, own expansion plan and so on. The growth in business is set in all portfolios but in varying degree of increase so as to maintain an optimum business ratios for all portfolios. Efforts are made to increase the most profitable line of business like Fire portfolio to generate sound underwriting profit.

#### 2.3.1 Business: Portfolio-wise

The business mix for the different portfolios for the last three years is tabulated as under:

Portfolio	F.Y. 2013/14 Audited			F.Y. 2014/15 Audited			F.Y. 2015/16 Provisional			F.Y. 2016/17 Projected		
	No.o f Polic ies	Amount in NPR "000"	Mix	No.o f Polic ies	Amount in NPR "000"	Mix	No.o f Polic ies	Amount in NPR "000"	Mix	No.o f Polic ies	Amount in NPR "000"	Mix
Fire	21,726	149,567	33%	25,036	188,123	35%	32,217	262,008	29%	46,070	375,000	30%
Motor	16,705	167,778	37%	19,026	162,568	31%	81,948	326,029	36%	102,435	500,000	40%
Aviation	8	4,233	1%	82	37,433	7%	33	28,882	3%	43	37,500	3%
Marine	997	10,369	2%	1,133	8,077	2%	2,775	13,626	2%	5,078	25,000	2%
Engineering	912	53,220	12%	960	47,666	9%	1,933	156,791	17%	1,546	125,000	10%
Miscellaneous	3,765	66,230	15%	4,449	82,872	16%	6,460	110,512	12%	7,300	125,000	10%
Agriculture	63	117	0%	496	4,462	1%	888	9,919	1%	1,225	62,500	5%
<b>Total</b>		<b>451,514</b>	<b>100</b>		<b>531,200</b>	<b>100</b>			<b>100</b>		<b>1,250,00</b>	<b>100</b>

	44,176		%	51,182		%	126,254	907,767	%	163,698	0	%
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Motor portfolio has been increased since we are approaching big corporate sector for large volume motor business. If the business is materialized it will certainly increase our motor portfolio. Further, engineering portfolio is also increased since due to earthquake last year, government is going to allocate huge sum for infrastructure development in the country. Due to large scale infrastructure development in the country, there is more scope for engineering business.

### 2.3.2 Business: Growth Rate

The comparative growth rate is presented below:

Portfolio	F.Y. 2013/14 Audited		F.Y. 2014/15 Audited		F.Y. 2015/16 Provisional		F.Y. 2016/17 Projected	
	Policy	Prem	Policy	Prem	Policy	Prem	Policy	Prem
Fire	4%	11%	15%	26%	29%	39%	43%	43%
Motor	36%	9%	14%	-3%	331%	101%	25%	53%
Aviation	100%	100%	925%	784%	-60%	-23%	30%	30%
Marine	7%	33%	14%	-22%	145%	69%	83%	83%
Engineering	-5%	-1%	5%	-10%	101%	229%	-20%	-20%
Miscellaneous	-10%	6%	1086%	25%	45%	33%	13%	13%
Agriculture	100%	100%	687%	3721%	79%	122%	38%	530%
<b>Total</b>	<b>12%</b>	<b>9%</b>	<b>16%</b>	<b>18%</b>	<b>147%</b>	<b>71%</b>	<b>30%</b>	<b>38%</b>

Hence, business growth is in increasing trend each year. In current year optimum growth of 57% has been achieved.

### 2.4 Claim and Management Expense

Claim settlement is the discharge of financial liabilities that insurance companies assume on issuing policies. The company has a good reputation in the local market for quick settlement of genuine claims. The company assimilates the fact that it is not possible to control claims after issuing policies or falling of the incidents. It can only be best managed applying adequate underwriting prudence. Moreover, proper reinsurance treaty is undertaken to safeguard the huge financial losses from peculiar claims.

From the past data, it has been identified that motor is the most claim vulnerable line of business, where as fire is the most profitable sector. The portfolio wise gross claim settlement data for 3 years has been provided as under:

Portfolio	F.Y. 2013/14		F.Y. 2014/15 Audited						F.Y. 2015/16						Amount in NPR "000"
	Nos	Amount	Nos	Eearthquake	Nos	Normal	Nos	Total	Nos	Eearthquake	Nos	Normal	Nos	Total	
	Fire	49	15,288	391	56,581	44	91,459	435	148,040	1,122	433,590	32	33,243	1,154	466,833
Motor	553	91,116		-	553	97,299	553	97,299			959	95,052	959	95,052	
Aviation	0	0		-	0	-	0	0			1	1,500	1	1,500	
Marine	6	1,355		-	5	291	5	291			9	1,471	9	1,471	
Engineering	33	23,971		-	27	17,522	27	17,522	7	12,342	43	32,908	50	45,250	
Miscellaneous	615	21,335		-	406	57,581	406	57,581			757	71,589	757	71,589	
Agriculture	0	288		-	0	2,381	0	2,381			67	2,697	67	2,697	
<b>Total</b>	<b>1256</b>	<b>153,353</b>	<b>391</b>	<b>56,581</b>	<b>1,035</b>	<b>266,533</b>	<b>1,426</b>	<b>323,114</b>	<b>1,129</b>	<b>445,932</b>	<b>1,868</b>	<b>238,460</b>	<b>2,997</b>	<b>684,392</b>	

Total claim settled is high compared to previous year due to earth quake that occurred in last fiscal year. However, we have settled around 90% claim related to earthquake.

### 3 FINANCIAL REVIEW

The key indicators of the company for last 3 years are presented below:

Particulars	Indicator	FY 2014/15	FY 2013/14	FY 2012/13
Net worth	Rs	496,923,110	344,848,620	239,962,993
Per Share book value	Rs	176	255.02	177.46
Net Profit	Rs	92,183,701	36,698,305	36,978,857
Net Profit ratio	Percentage	17	8.11	8.95
Earning per share	Rs	33	27.14	24.99
Dividend per share	Rs	16	24.74	-
Management expense ratio	Percentage	15	14	15

Net profit ratio has been significantly increased last year. This year also we expect same profitability ratio.

### 4 INVESTMENT AND LIQUIDITY REVIEW

There is a separate directive from the regulator, BeemaSamitee, which defines the overall framework of investment by the insurance companies. In compliance with the directive, the company has formulated its own investment policy and procedure. The investment policy is being strictly followed to safeguard the amount of investment, at the same time seeking a sound return from the investment.

The investment and return on investment for last 3 year is presented below:

Particulars	F.Y. 2015/16 Provisional	F.Y. 2014/15 Audited	F.Y. 2013/14 Audited
Investment	765,713,673	626,945,669	531,371,792
Interest and other income	42,477,184	110,058,491	36,025,887
Return on investment	6	18	7

## 5 RESERVE REVIEW

The company maintains reserves and provisions according to the guidelines of BeemaSamitee. In particular, the company maintains

- 115% of intimated but not settled claims as a provision for outstanding claims
- 50% of net premium as provision for unexpired risk reserve
- 50% of net profit as reserve for insurance fund.

The summary of reserves and provisions for the last two are as under:

<i>Head</i>	<i>F.Y. 2014/15 Audited</i>	<i>F.Y. 2013/14 Audited</i>	<i>F.Y. 2012/13 Audited</i>
Provision for OS Claims	151,735,592	105,080,972	82,402,960
Provision for Unexpired Risk	116,425,251	102,031,863	92,088,080
Insurance Fund	119,308,170	73,216,320	54,757,199
General Reserves	87,748,834	62,835,468	49,984,169
Catastrophe reserve	8,089,024	3,715,406	-

## 6 REINSURANCE AND LARGE LOSS REVIEW

The company undertakes reinsurance arrangements to mitigate the financial losses in case of large incidence of losses. It has got reinsurance treaties with the reputed reinsurers throughout the globe. The details of our reinsurer at present are as below:

### **Reinsurer name**

- *Zep-Re (PTA Reinsurance company) Nairobi Kenya*
- *Kenya Reinsurance corporation, Nairobi Kenya*
- *General Insurance corporation of India, Mumbai India*
- *Asian Reinsurance corporation, Bangkok Thailand*
- *East Africa Reinsurance company limited, Nairobi Kenya*
- *The Oriental Insurance Company Limited, New Delhi India*
- *Societe Tunisienne D Assurances, Tunisia*

## 7 Human Resource Management

On human resource management front, Neco gives high consideration to human resource and accordingly, it cares highly for its staff. Regular training and grooming to our staff to improve their professional skills have been given due importance in current period, which will be continued in the days ahead as well. We are in a very competitive industry and economic conditions are also challenging. Hence, we have given high priority to human resource management. We have ensured positioning of the right people in the right places so that their distinct competencies, knowledge and personality attribute are utilized to their maximum potential resulting in desirable results.