

CHAPTER - I

INTRODUCTION

1.1 Introduction of Insurance:

The business of Insurance is related to the protection of the economic values of assets. Every asset has a value. The asset would have been evocated through the efforts of the owner. The assets are valuable to the owner, because he expects to get some benefits from it. It is a benefit because it meets some of his needs. The benefit may be an income or in some other form. In the case of a factory or a cow, the product generated by it is sold and income is generated. In the case of a motor car, it provides comfort and convenience in transportation. There is no direct income. Both are assets and provide benefits.

Every asset is expected to last for a certain period of time during which it will provide the benefits. After that, the benefit may not be available. There is a life-time for a machine in a factory or a cow or a motor car. None of them will last for ever. The owner is aware of this and he can so manage his affairs that by the end of that period or life time, a substitute is made available. Thus, he makes sure that the benefit is not lost. However the assets may get lost earlier. An accident or some other unfortunate event may destroy it or make it incapable of giving the benefits. An epidemic may kill the cow suddenly in that case, the owner and those enjoying the benefits. Therefore, would be deprived of the benefits. The planned substitute would not have been ready. There is an adverse or pleasant situation. Insurance is a mechanism that helps to reduce the effects

of such adverse situations. It promises to pay to the owner or beneficiary of the asset a certain sum if the loss occurs.

Properly formulated functional budget and its well control system help to attain the targeted objectives. It is the process of critically examining the detail accounting information given in the financial statement so that business firm make efforts to obtain the pre determine goal.

1.1.1 Development of Insurance in Nepal

The concept of insurance developed in ancient period in Nepal. The system of maintaining 'Guthi' can be taken as the beginning point for the development of insurance in Nepal. The income from such Guthi was used to build building and repairing temple and so on. So the concept of insurance was emerged with the religious view but these days it converted into commercial phenomenon.

The modern insurance business is relatively new in Nepal. Indian insurance companies initiated insurance business by late 1930 in Nepal. They were enjoying monopoly over the insurance business and had a well developed business network in Nepal till 1947 A.D. Later in 1948 (2004 B.S.) the first Nepalese insurance Nepal Mal Chalani Ra Beema Company Limited with the initiation and financial support of Nepal Bank Limited, the first commercial bank in Nepal had established. This pioneering insurance company has changed its name in to Nepal insurance and transport company Limited in 2016 B.S. At that time, the company also conducted the transportation services along with insurance. The company was renamed as 'Nepal Insurance Company Limited' since 2048 B.S. till now. From its establishment the company is rendering non-

life Insurance service. There was no insurance company to carry out life Insurance business till 2024B.S. The Government realized the necessary for the life insurance business. as a result His Majesty's private Limited in 2024 B.S. under the company act. Later the Government enacted 'Rastriya Beema Sansthan' act 2025 and changed it in Rastriya Beema Sansthan as government enterprise. in this way this is the first life insurance company. Which is providing life and general insurance services throughout the country.

As the Government adopted liberal economic policy in late nineties many insurance companies were established from private sector.

There are altogether twenty two insurance companies in Nepal in Nepal at present. They operate as per the norms and values of insurance act 1992, and insurance rules 1993. the name lists of those companies are as follows.

1.1.2 Insurance Companies in Nepal

There are 26 insurance companies in Nepal

1. Nepal Insurance Company Ltd. (General Insurance)
2. The Oriental Insurance Co. Ltd. (Branch of Indian Corporation Transacting General Insurance)
3. Rastriya Beema Sansthan (Government owned Corporation transacting life General Insurance)
4. National Insurance Company Ltd. (Branch of Indian Corporation transacting General Insurance)
5. National life Insurance Co. Ltd. (Life Insurance)

6. National General Insurance Co. Ltd. (General Insurance)
7. Deposit Insurance & Credit Guarantee Corporation Pvt. Ltd. (General Cattle Insurance)
8. Himalayan General Insurance Co. Ltd. (General Insurance)
9. United Insurance Co. Ltd. (General Insurance)
10. Everest Insurance Co. Ltd. (General Insurance)
11. Neco Insurance Ltd. (General Insurance)
12. Sagarmatha Insurance Co. Ltd. (General Insurance)
13. Alliance Insurance Co. Ltd. (General Insurance)
14. N.B. Insurance Co. Ltd. (General Insurance)
15. Nepal Life Insurance Co. Ltd. (General Insurance)
16. American Life Insurance Co. Ltd. (Branch of American Co. Transacting Life Insurance)
17. Life Insurance Corporation (Nepal) Ltd. (Life Insurance)
18. Surya Life Insurance Co. Ltd. (Life Insurance)
19. Prime Life Insurance Co. Ltd. (Life Insurance)
20. Asian Life Insurance Co. Ltd. (Life Insurance)
21. Gurans Life Insurance Co. Ltd. (Life Insurance)
22. Premire Insurance Co. Ltd. (Life Insurance)
23. Prudential Insurance Company (non life)
24. Shikar Insurance Company (non life)
25. Lumbini General Insurance Company (non life)
26. Siddhartha Insurance Company (non life)

The Government has also organized Beema samittee in 2025 under the insurance Act. This board is organized to enforce rules and regulation regarding insurance business in the nation as an authorized body of the government.

1.1.3 Background of Life Insurance Corporation (Nepal) Limited

It is the Branch Company of Life Insurance Corporation of India. In the Nepalese context it is first life insurance company and generally it was worked promanately 26 Dec. 2000. then after it was start 1st September 2001. it had fully supported India life insurance company. The company was basically established with and objective of under taking life insurance business.

It has been promoted by life insurance Corporation of India 55% Bishal group 25% and public member 20%. It is the first foreign joint venture company of Nepal in life insurance. The head office of this company is located in Kathmandu plaza, Kamaladi. It has 12 branch offices which are located Butwal, Birgunj, Janakpur, Dhangadhi, Mahendranaer, Birtamod, Narayanghat and Lahan it provides and life insurance Business as endowment policy money back policy, Bal Mamata Balsreh policy, Grehalaxmi Policy and Jeevan anand etc.

1.1.4 Objectives of Life Insurance Corporation (Nepal) Ltd.

1. To provide life insurance service.
2. To provide re-insurance service as well as accept re-insurance policy from other company with in the country and in abroad too.
3. To provide general insurance service like wise ADB, DB, PEB. It is supportably by life insurance.
4. To analysts the views of customers and exevetives of respective insurance companies.

1.1.5 Purposes of Profit Planning

Simply stated the process of preparing and using budgets to achieve management objective is called budgeting more specifically, a comprehensive profit planning and controlling or budgeting is a systematic and formalized approach for stating and communicating the firm's expectations and accomplishing of management in such a way as to maximize the use of given resources. It is a management technique. In fact it is a way of managing. It is the only comprehensive approach to managing so far developed that, if utilized with sophistication and good judgment, fully recognizes the dominant role of the manager and provides a framework for implementing such fundamental aspects of scientific management as management by objectives effective communication, participative management dynamic control, continuous feedback responsibility accounting, management by exception and managerial flexibility.

The major purposes of ppc or budgeting are:

1. to state the firm's expectations (goals) in clear, formal terms to avoid confusion and to facilitate their alterability.
2. To communicate expectations to all concerned with the management of the firm so that they are understood, supported and implemented.
3. To provide a detailed plan of action for reducing certainty and for the proper direction of individual and group efforts to achieve goals.
4. To co-ordinate the activities and efforts in such a way that the use of resources is maximized.

5. To provide a means of measuring and controlling the performance of individuals and units and to supply information on the basis of which the necessary corrective action can be taken.¹

Neil W. Chamberlin describes in his research report that profit planning refers to the organizations techniques and procedures where by long and short range plans are formulated considered and approved responsibility for execution is delegated. Flexibility to meet changing condition is provided progress in working the plan is reported deviations in operation are analyzed and correction action required to reach the desired objective is take. A profit plan is an advance decision of expected achievement based on the most efficient operating standards in effect or in prospect at the time it is established, against which actual accomplishment is regularly compared. The primary aim of the profit plan is to assist in assuring the procurement of the profits planned and to provide a guide for assisting in establishing the financial control policies including fixed assets additions, inventories and the cash position. The adoption of a correctly constructed profit plan provision provide opportunity for a regular and systematic analysis of incurred or anticipated expense organized future planning fixing of responsibilities and stimulation of effort. In short it provides a tool for more effective supervision of individual operation and practical administration of the business as a whole.²

In short profit planning can be viewed as one of the major important approaches that have been developed to facilitate effective performance of the management process. It is directed towards the final objective of the organization and

¹ I.M. pandey financial management 1001 1 p. 288.

² Chamberlin neil W. 'The firm's micro economic policy and Action' (National association of cost Accounts Resource Repost)

generally includes all its important elements. It has the ultimate objective of attaining the optimum profit.

Profit planning is the vital tool which diverts the organization towards achieving profit. Profit is the very basic primary short term and long term objective of every business organization. Ever increasing ratio of profit is a good symbol of organization. In nature profit is the yard stick judging of managerial efficiency in terms of a means of measurement for the success. We can define the term profit by various ways i.e. it is the difference between outflow and inflow, surplus after paying cost of producing and selling expenses over income. And it can also obtain by subtracting the total costs from the total revenues. In simple it is excess of income over costs. In the opinion of Toldean. Profits are the primary measure of success of the business enterprises performance.³

The most often cited prime objective of the business form is an enterprise economy profit in fact a firm always seek or should seek to maximize their profits above anything else. Profit maximization is the formal purpose for which companies are established the competitive pursuit of maximum profits create the greatest economic welfare. It provides management with a relatively unambiguous criterion for business decision making. To seek maximum profit is not only the right but also it is the moral duty of every business manager the profit criterion remains a standard for business action and a purposeful analysis. Instrument it is therefore preplanning is necessary to achieve the targeted profit.

³ Dean Jole Managerial Economic p. 4.

According to P.V. Kulkarni profit is the primary objective of business in view of the heavy investment which is necessary for the success of most enterprise. Profit in the accounting sense tends to become long-term objectives. Which measure not only the success of product but also of the development market of it.⁴ In the opinion of Mayers John N profit is the dominant goal in business and profit making should be the main objectives in term of which the general effectiveness of organization is measured. In other words profit is obtain by subtracting the cost from revenue according to the economist profit is the reward for bearing risk of enterprise the risk of venturing in business the risk of owing something on hopes of selling in later.⁵

Profit is the fundamental factor for success of every enterprises and profit planning of such entity. 'Profit planning involves stream living activities in order to get employees profit minded and to secure maximum benefits from minimum effort and expenditure. Best result seems to be obtained from the product. The planner is given to right to probe the continue the organization the model of operations, the pricing the product that is in judgment affects profit efforts upon one product and the right of the enterprise to translate neck from one group to another and to obtain concerned profit budgeting efforts are the fundamental. Factors that contribute the success of profit planning.⁶ 'Profit is influenced by the various factors to profit planning such as, the means. Which is managed all the influencing factor and guide to management provide appropriate information for operating efficiently and effectively of an organization ultimately achieving desired objectives and goals by providing appropriate profit.

⁴ P.V. Kulkarni 'Financial Management' Himalayan P. House 3rd edition 1985 p. 245.

⁵ Mayers John N. 'financial Accounting Theory Issue and Controversy'.

⁶ George R. Jeny 'Principle of Management' 1968 5th edition p. 62.

A profit plan is an estimate and predetermination of revenues and expenses that estimate how much income will be generated in order to meet the financial requirement. It presents a plan for spending income in a manner that does not result in a loss. And it represents an overall plan of operations covers a definite period of time and formulated the planning decision of the management.

1.1.6 Budget as a Tool of Profit Planning

Budget as a tool of planning and control is closely related to the broader system of planning and control in an organization. Planning involves the specification of the basic objective that will guide it in operational terms. It involves the steps of setting objectives, specifying goals, formulating strategies and expressing budget. A budget is a comprehensive and co-ordinate plan expressed in financial terms for the operation and resources of an enterprise for some specified period in future.⁷

Functional budgets are the tools for the planning and controlling of the profit in any enterprise. In budgeting, we plan the desired profit and its timely execution. The performance is verified and controlled by the budget.

Budget is a realistic statement of income and cost objective for a year. It is a plan against which the ensuing actual performance is compared so to achieve control by detecting and correcting of standard performance. Budget is an instrument of profit planning and physical and financial control. It has been recognized as the accepted procedure for profit planning. A budget imposes

⁷ I.M. Pandey 'Financial Management' page 556.

operational standard with accountability for performance and it must be set with those objectives in view.

Therefore, the aim of every company should be to prepare its budgets meticulously systematically and factually and so on as an instrument of management control. But one thing should be noted. 'The budget is and ought to be management not substitute for management.'⁸

1.1.7 Fundamental of Profit Planning and Control

Comprehensively profit planning and control is one of the more important approaches that have been developed to facilitate effective performance of the management process. The concepts and techniques of profit planning and control have wide application in individual business enterprises, government units, charitable organizations and virtually all group endeavors. The fundamental concept of profit planning and control includes the underlying activities or tasks that must be carried out to attain maximum use of resources. The fundamentals have never been fully codified.⁹

The mechanism of profit planning and control includes the matters related to design of budget schedules, clerical computation of such schedules and routine computation and check of such schedules. The techniques of profit planning and control approaches like forecasting sales volume, a frequent application of operation research (approach in resolving the sales, investor problems, break even analysis, resource determination) which can be developed and used for

⁸ R.M. Lynch and R.W. Williamson. 'Accounting Management' Third Edition 1989 page 143.

⁹ Glenn A Welsch. 'Budgeting profit planning and control' prentice Hall of India 1992 page – 3.

managerial decision making process are known as the techniques. The fundamental of PPC concern with effective application of the theory at management process. It is applied for desirable management orientation the fundamentals need to be established as a sound foundation of managerial commitment.

1.2 General Concept of Profit Planning

Usually, profits do not just happen, profits are managed. Before we can make an intelligent approach to the managerial process of profit planning. It is important that we understand the management concept of profit. There are after all, several different interpretations of the term 'profit'. An economist will say that profit is the regard for entrepreneurship for risk taking. A labour leader might say that it is a measure of how efficiently labour has produced and that it provides a base for negotiating a wage increase. An investor will view it as a gauge of the return on his or her money. An internal revenue agent might regard it as the base for determining income taxes. The accountant will define it simply as the excess of a firm's revenue over the expenses of producing revenue in a given fiscal period.¹⁰

Profit planning of budgeting is forward planning and involves the preparation in advance of the quantitative as well as financial statement to indicate the intention of the management in respect of the various aspects of the business. Profit planning, in fact, is a managerial technique and a business budget is such a written plan, in which all aspects of business operations with respect to a

¹⁰ Richard M. Lynch and Robert W. Williamson 'Accounting for management' Tata Mc Graw-Hill publishing Company Ltd, New Delhi. Thirteenth Reprint 1995 pp 95100.

definite future period are included. It is a formal statement of policy, plan, objective and goal established by the top management in respect of some future period. It acts as a business barometer as it is complete programmed of activities of the business for the period covered. Profit planning is a predetermined detailed plan of action developed and distributed as a guide to current operations and as a partial basis for the subsequent evaluation of performance. Thus we can say that profit planning is a tool which may be used by the management in planning the future course of actions and controlling the actual performance.¹¹

The term comprehensive profit planning and control is defined as a systematic and formalized approach for performing significant phases of the management planning and control functions. Specifically, it involves.

1. The development and application of broad and long range objectives for the enterprise.
2. The specification of enterprise goals.
3. A long range profit plan develops in broad terms.
4. A short range profit plan detailed by assigned responsibilities (divisions, products projects).
5. A system of periodic performance reports detailed by assigned responsibilities and.
6. Follow up procedures.¹²

¹¹ Gupta S.P. 'Management Accounting' 1992 p. No. 521.

¹² Glenn A. welsch, Ronald W. Hilton and paul N. Gordon 'BUDGETING PP' fifth Edition P.I.

Profit plan is one of the most important managerial device that plays key role for the effective formulation and implementation of strategic as well as tactical plans of and organization profit planning system requires the effective co-ordination between various functional budget of an organization like as sales plan production plan, purchase plan, material requirement budget, labour cost budget cash budget and capital expenditure budget.

A profit planning and control program can be one of the more effective communication networks in an enterprise. Communication for effective planning and control requires that both the executive and the subordinate have the same understanding of responsibilities and goals. Profit plans, if developed through full participation and in harmony with assigned responsibilities, ensure a degree of understanding not other wise possible. Full and open reporting in performance reports that focus on assigned responsibilities likewise enhances the degree of communication essential to sound management.¹³

Profit is the most important measure of the firm's performance. In the free market economy. Profit is a guide for allocating resources efficiently. An analysis of the effects of various factors on profit is an essential step in the financial planning and decision making.¹⁴

One systematic approach for attaining effective management performance is profit planning or budgeting. Profit planning or budgeting is an integral part of

¹³ I bid – p-58.

¹⁴ I.M. Pandy 'financial management' 1991 1 p. 288.

management. The controller would be particularly interested in profit planning since it helps to regulate flows of fund which is his primary concern.¹⁵

Profit planning or budgeting is an important short tool of management planning and control. A profit plan or budget is a comprehensive statement of intentions, expressed in financial terms, for the operations of the firm for a short period. It is a plan of the firm's expectations and is used as a basis for measuring and controlling the actual performance of managers and their units.¹⁶

A budgeting system will be successful if goals to be achieved are clearly. Stated with proper assignment of authority and responsibility and if it has top management support full participation of managers should be sought while developing budgets people at lower levels should be educated for the importance of budgeting. Depending on its unique circumstance each company develops and appropriate administration for carrying out the tasks of budgeting.

A profit plan of budget could be divided into three parts. Operating budget, financial budget and capital budget operating budget provides details about the firm's operation i.e. production, sales or purchase, financial budgets include performs profit and loss statement balance sheet statement balance sheet statement of changes in financial position and cash budget capital budget provides details of investment projects with the amount of capital expenditures planned by the firm.

¹⁵ I bid p. 286.

¹⁶ I bid p. 309.

A profit plan is of immense value of management. It helps in planning co-ordinating and controlling if used appropriately. It should be realized that it is not a replacement for management.

By the nature, profit planning is a comprehensive and co-ordinated plan, which deals with overall planning picture of an enterprise and co-ordinate the various substantive plans short-term financial plans and strategic long range plans. It expressed in financial term for the firm's operations and resources for a specified period of future plan.

1.3 Statement of Problem

Life insurance Corporation (Nepal) limited is a leading and pioneer company is the insurance sector. It is first joint life insurance company and it is also making satisfactory profit from life insurance business for last five years. But after the democratic movement of 1990 the country has adopted liberal and open economic policy. As a result, many more life insurance companies have been established. The market of life insurance business is little beat narrow in Nepal where nine life insurance companies are in operation. So there is a big competition among them. In conformity with Darwin's school of thought 'the survival of the fittest'. Every company is trying to become success. Even though LIC that is the oldest company. It has to face tough competition with other junior companies. In order to become the fittest one the profit is the oxygen for every company. The profit does not just happen, it has to be managed. Properly planned well managed firm can make enough profit. This company is also develops few functional budgets and other financial statement to get the targeted profit. But eh company's efforts towards obtaining the

projected objective are relatively weak. So it is a casual thing that has affected the financial performance of LIC. The all functional budgets and financial statement generally are not appropriate to the service organization, but they have to apply those functional budgets, which is viable and suitable to the organization.

The study is concentrated to find the financial problems faced ty LIC due to lack of proper planning of profit and control system. The study seeks to cover the following aspects.

1. In spite of being a pioneer and the oldest insurance company. The total premium earned by the company is very low. It covered nearly of life insurance market based on premium collection till fiscal year 2063/064.
2. Generally, life insurance companies make surplus of net premium by increasing net premium collection and decreasing the claim. But in fact LIC has failed to make sufficient surplus. It is seemed that is also lack of proper planning and control system.
3. The increment in re-insurance premium indicates that LIC is unable to increase its risk bearing capacity.
4. The lack of planning is also seemed at investment portfolio where about 210.60 korol is made on the government securities and fixed deposit.
5. The growth of outstanding claim indicates the inefficiency in timely payment of compensation to the loss of insured.
6. There is also lack of proper plan and implementation in collection of premium. Growth in average outstanding premium indicates the inefficiency on timely collection of premium from its customer.

1.4 Objective of the Study

There is no doubt that LIC is the first joint stock life insurance pioneer and reputed life insurance company doing its business for six years. But the present scenario has quite different. Clients do not come towards the company. They are to be attracted for that Purpose Company has applied the profit planning technique or not, we want to study it. So, the major objective of the study is to access the profit planning and control systems applied in the company, and see how it has helped the company to obtain the target profit so that the company can make sustainable development in the competitive market. The other objectives of the study are presented as follows.

- To study the trend of premium collection.
- To analyze the effectiveness of different functional budgets through the use of appropriate tools.
- To provide a package of suggestions and possible guidelines to improve profitability based on the finding of the study.

1.5 Research questions

The study is basically devoted to find out how far profit planning and controlling system have been adopted in this company for its growth and prosperity. The study will try to answer the following questions.

1. How the profit has been planned with in the specified time period.
2. What sort of functional budgets the company is preparing ?
3. How far budgets or profit plan have assisted to the growth and prosperity of company.
4. Has the company paid sufficient attention for implementation of the plan ?

1.6 Need of the Study

Even though being the oldest and reputed life insurance company. LIC Nepal has to operate in a highly competitive market as such the need of the study as an attempt to analyze the application and contribution of profit planning and to provide suggestions for promotional measures of LIC is immense.

1.7 Limitation of the study

The factors that could make the study limited are presented as below.

1. The study covers only five years period from fiscal year 2059/060 to 2063/064 B.S. and the conclusion drawn from the study confines only to the study period.
2. As the study is basically based on the secondary data collected from life insurance corporation (Nepal) limited and insurance board. So the reliability of the data depends up on their sources.

1.8 Chapter Scheme

The study has been organized in five chapters. The first chapter introduces the basic concept and features of the thesis. It contains the background of study objective of the study need and limitation of the study.

Available various related literatures are reviewed in the second chapter.

The third chapter deals with methodology used along with and tools used for procedures of analyzing the data.

The fourth chapter is the crucial chapter of the study. Which in the presentation and analysis of data.

The fifth chapter represents the summary. Conclusion and recommendation or suggestions are made accordingly.

CHAPTER – II

Review of Literature

2.1 Meaning of Insurance

Being a rational animal human being always wants to be safe and secured his present as well as future life. But the modern mechanical complexities developed in the course of growth of human civilization have caused the possibility of good deal of physical loss. Some sort of loss are out of their control, the concept of insurance was developed to reduce those loss, which happens accidentally and as an effective device of safe guard against such losses and risks which occurs unfortunately, insurance is out of the major risk handling methods insurance is a mechanism of spreading of risks among the various concerned people. Insurance has been grown rapidly and constitutes a major economic force. Basically, the objective of insurance is to spread to loss exposure or to co-operate the risk holders in covering losses in case of occurrence. The terminology used for taking risk. Risk shifting or assuming to cover loss is known as insurance. Thus insurance plays a vital role to minimize the risk and the future uncertainly.

‘Insurance is a co-operative device to spread the loss caused by a particular risk over a number of persons, who are exposed to it and who agree to insure themselves against the risk.’¹⁷

¹⁷ M.N. Mishra, ‘Insurance principles and practices’ Schand and company Ltd. Ramnagar, New Delhi.

Insurance is a co-operative form of distributing a certain risk over a group of persons who are exposed to it.¹⁸

Insurance is a means of spreading over the many losses which would otherwise be borne by the individual it provides, in effect a pool to which the many contribute out of which the few who suffer losses are compensated.¹⁹

Insurance is a way to reducing uncertainty of occurrence of an event.²⁰

In other words insurance is a device for the transfer of risks of individual entities to an insurer, who agrees for a consideration (called the premium) to assume to a specified extent losses suffered by the insured.

According to the nature characteristics and objectives of insurance company they are also referred to as financial intermediaries. They provide different finance through their own investment policies and positions based upon their own corporate objectives and nature of the life of insurance business. In the context of Nepalese insurance companies they provide various insurance policies and charge premium under insured risk and nature. Insurance companies collect their fund through various clients (people or organizations) as a premium so, all the insurance companies are responsible for their clients interest. This study looks and analysis different insurance companies premium collection and investment situations and sectors. There are 25 insurance companies being operated in Nepal among them there is it general insurance

¹⁸ M.K. Ghos and A.N. Agrawla 'insurance principles and legislation' the India Pvt. Ltd.

¹⁹ W.D. dinsaic 'elements of Insurance' Sir lassa pitman and sons Ltd London, 1958.

²⁰ G.S. Panda, 'principles and practice of insurance' Kalyani publishers.

companies out 1713 are being operated in joint venture. There are life insurance and under unites both life and general insurance business.

For this thesis work life insurance companies has been selected for the study of profit planning and control of life insurance corporation (Nepal) limited.

Definition of insurance can be made from two points of views.

- Co-operative concept or functional definition.
- Legal concept or contractual definition.

2.2 Types of Insurance Policies

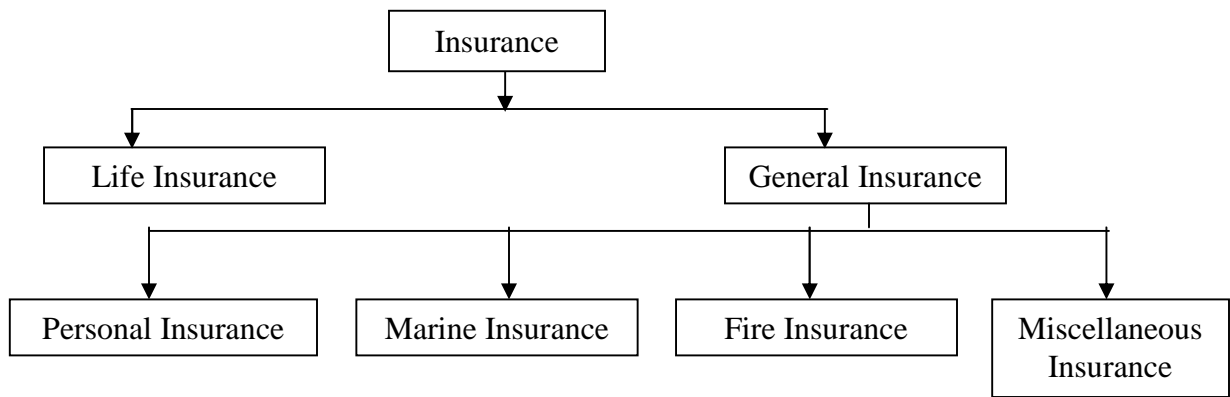
There are different types of policies that are significant in the economic development activities of the country and in the course of business. To protect the modern changing environment and global complexities. Two types of insurance policies are available i.e., life insurance and no life insurance policies. But these two types of policies are sub divided to different types on the basis of different point of views. They are:

- Business point of view and
- Risk point of view

Insurance policies can be further classified into the following categories on the basis of business point of view.

Figure

Types of insurance policies from the business point of view



Source: Nepal Insurance Act – 2049.

2.3 Life Insurance

Life insurance provides protection for two major contingencies. A man insures his life either to make a provision for old age when his earning capacity deteriorates or for leaving a certain sum for his dependents when he dies, which may happen before he is able to save and accumulate sufficient amount. Life insurance has several business and financial advantage. In life insurance policy, it is provided that that insurance amount is to become payable on the happening of death or in some cases on the attainment of certain age, which ever is earlier. Only the men having an insurance interest in the proposed life can obtain a policy on it. The concept of life insurance is based on pooling the risks of many in to a group accumulating a fund by contribution from the members of the group and paying from this fund the losses of the few who suffer loss.

2.4 General Insurance (Non life insurance)

Under this category, marine, fire and miscellaneous types of insurance are included. They are shortly briefed as follows.

2.5 Marine insurance

Ships sailing on sea are exposed to many risks. They might collide against each other, sink, catch fire, be captured by enemies and seized by pirates. The ship and a tremendous loss may be caused to their owners. Such risk if not covered will greatly discourage the international trade which is mostly sea borne. That's why the marine insurance is considered to be the land maid of modern international trade which is indispensable auxiliary.

2.6 Fire Insurance

Fire is responsible for causing considerable losses. Which are relevant statistics of the various countries of the world fire insurance policy may be taken on residential houses or on factories and business premises. The standard fire policy is the starting point in all fire insurance coverage under this policy. If fire insurance is lost by fire the insured amount would pay as indemnity. The property should be in its full market value. The claim under the fire insurance policy is determined on the basis of present value of the property.

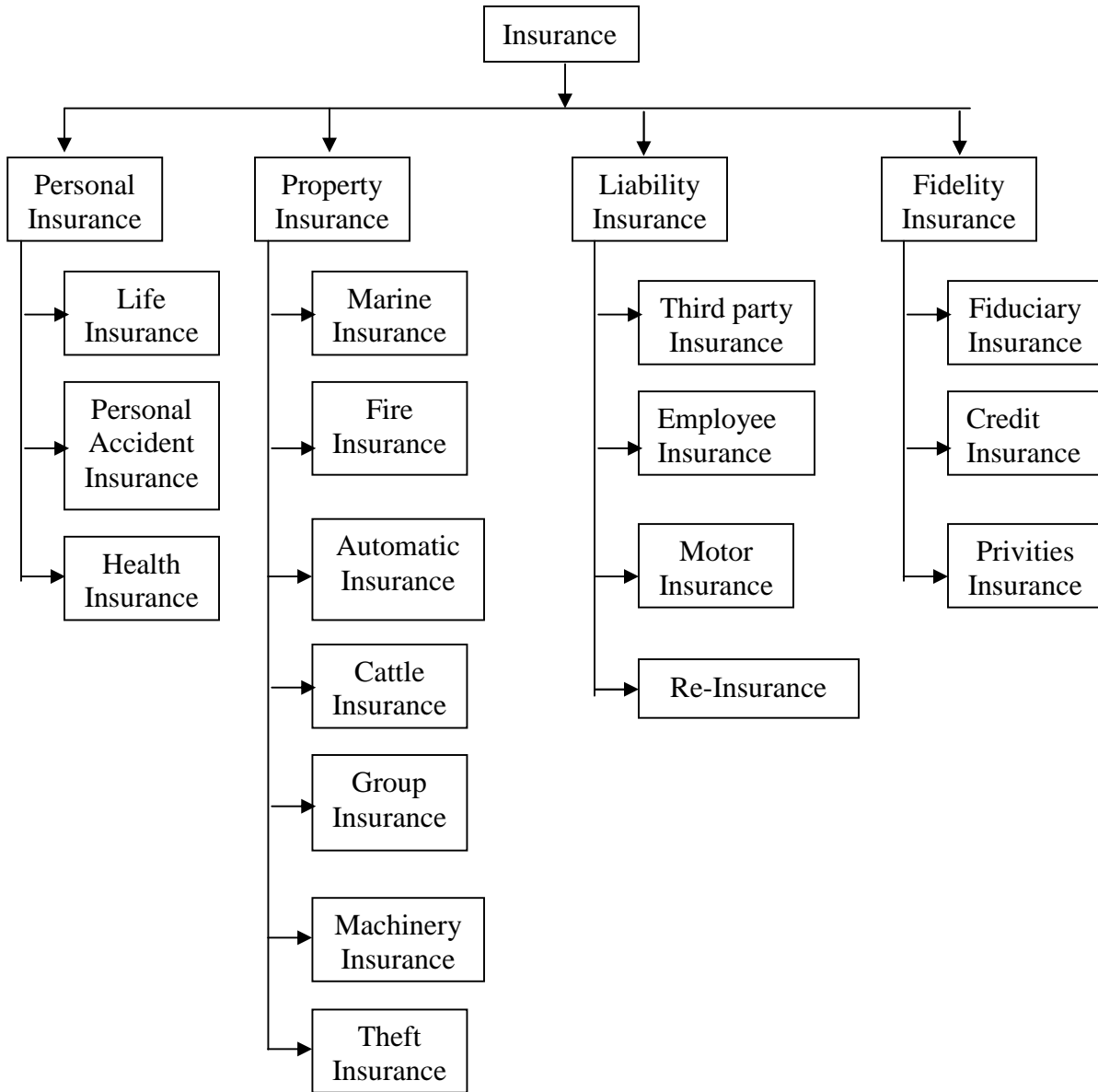
2.7 Miscellaneous Insurance

Under the miscellaneous insurance various stultifies such as aviation insurance motor insurance cash in transit insurance workmen's compensation burglary and house breaking insurance public liability insurance cattle insurance medical aid scheme and so on are included.

Life Insurance Corporation (Nepal) Ltd. is generally conducting only life insurance Company.

Figure

Types of insurance polices from risk point of view



Source: Insurance Principal and paratactic M.N. Mishra.

2.8 Historical Background of Insurance

It is very difficult to say that when insurance concept was began due to lack of reliable records. It has been established as co-operative device amongst the insured group of people to share the possible loss in the early days of urban civilization. The concept of insurance was used for the safe guarding of risk of transport by sea or land. The concept of modern insurance was appeared in the late eighteenth century.

According to James & Afth earn the development of Insurance is shown in three different stages as follows.

a. Ancient Practices:

The underscored form of insurance can be found in the history of insurance used by merchant in Baby lonia sexteral thousand years ago. They engaged sales man to sell goods in far way pales. In order to assure the salesmen's return with the merchant's share of the profit the salesmen were required to pledge their own property as a guarantee. But a salesman who was robbed while a way from home sacrificed the pledged property just as he would in the case of dishonesty. The unfairness of this arrangement led to a new system in which the pledge was not forfeited if a loss was caused by robbery in a foreign land and was not the fault of salesman. This was thus shifted from the salesmen to the merchant. A similar shifting of risk had its origin in ancient Greece and Rome. The lender insured the ship, which was pledged as collateral for the loan.

b. Middle Age Practice:

During the middle age, the guilds contributed to the development of the insurance by establishing insurance schemes financed by regular payments from their members. Benefits were paid for a wide varieties of losses, such as these caused by fire, shipwreck, theft and flood. Benefits similar to those currently offered by health insurance companies were also made available through the guild systems loss of freight, serious illness and old age dependence were compensable by insurance.

There is no general agreement concerning just when marine insurance contracts as they are known today come into existence. It appears however that contractual marine insurance might have been, written as early as the middle of the fourteenth century. But the middle of the fifteenth century. But the middle of the fifteenth century rules governing the conduct of the business had been adopted by several Mediterranean port cities.

c. Modern Development of Insurance

The development of marine insurance was stimulated by law of England in 1574 A.D. Creating 'Chamber of insurance' to sell such insurance later instead of roaming the streets looking for business underwriter adopted practice of meeting in coffee house to transact business. One coffeehouse proprietor. Edward attracted towards insurance and started to gather shipping news information, which he published as Lloyd news. The popularity of his coffee house among underwriters ultimately led to the establishment of Lloyd of London in 1769. During this period, a marine insurance company was set up in Paris to compete with individual underwriters. Later British law enabled King

George to grant charter to two marine insurance companies. Subsequently, they were empowered to write fire and life insurance as well as marine. The great fire of London in 1666 caused such huge loss of property and life that attention was called to the problem of adequate fire insurance facilities. Dr. Nicholas Barbon responded to this situation by building houses to replace those, which had been destroyed and offering insurance to purchase in 1667, he established the world's first fire insurance company, known as fire office.

One of the first life insurance policies to be offered by professional insurance policies to be offered by professional insurance was a term policy written by a group of marine underwriters in London on the life of William Gibbons, early in the sixteenth century. The first life insurance organization as measure by modern standards was the society of assurance for widows and orphas. It was established in London in 1669 for the purpose of stipulated amount at the death of a member.²¹

Dr. Raghab, D. Panta has stated about the development as the history of insurance business in Nepal, which was started from the last 1930s when the mobile agents of life insurance Corporation of India used to visit and insurance the life of Nepalese residing particularly in neighboring border towns. In view of promising nature of business, branch of Indian insurance compares were opened gradually over time in the capital and in the boarder towns of Nepal. These companies were enjoying monopoly over the insurance business for a long time with think business network. Skilled and trained manpower were with them. As the first domestic insurance company. Nepal insurance and transport

²¹ J.L. A them: Risk and insurance west publishing company usa.1981.

corporate Nepal Bank limited with a view of insuring the Collateral with the bank against the loans and advances extended by it.²²

2.9 Nature and importance of Insurance

Insurance contributes to society by favorably affecting the apportionment of the factors of production, engaging in loss prevention activities, indemnifying losses, serving as a basis of the credit structure, eliminating worry and providing a channel for invisible funds. Robert I. Mer and Insurance policy is written by business organizations called insurer. In order to function properly, these insurers must have large number policyholders, who are obtained either by direct representative's agents.²³

He again stated 'Insurance' is a technical business involving the skill statisticians, financial analysts, engineers, physicians, economists, lawyers and others. Contracts must be drafted underwriting restriction must be decrement rates must equitably established and funds must be prudently invested. Insurance is affected with the public interest, it is closely regulated.

The essence of the insurance scheme is that it is a social device that indolent the accumulation of funds, that if involves a group of risks and that earners of firm who become a member of the group transfers his risk to the who group.

The purpose of insurance is to reduce the uncertainty and worry, caused when becomes aware of the impossibility of loss. It this by spreading the economic

²²

²³ Dr. Raghav D Panta : The flow of funds in Nepal. A study jointly sponsored by the institute of economic development and social studies, Kathmandu Nepal & the international Research center of Ottawa, Canada- 1995

burden of losses among members of the group. Insurance prevent loss but it relieves the financial burden. Robert Izmir out lines about the insurance in his book as, insurance is self device for solving complex social problems. Compensating vetting of infuser accidents are handled by compulsory workers compensation. Insurance and indemnifying innocent automobile accident victims are handled to some extent by financial responsibility laws with most people comply by furnishing evidence of ownership of automobile liability insurance. Social Insurance is used to help solve the financial problems of unemployment, old age disability death and medical care for the aged insurance is affected with the public interests and is consequently subject to government regulation, mostly by the states.

Insurance in its pure insurance function (ignoring for the moment its effects at prevention) may be linked to the springs of vehicle. It insured in the same class. It permits a freer functioning of credits and industry generally but does not eliminate loss. The regarding effect of risk removed, but the cost and regarding effect of loss are still present. The burden of loss is still on society.²⁴

2.10 Review of Related Thesis

The researcher is able to find some studies in the field of general insurance business in Nepalese context. Among them few studies have been reviewed below.

²⁴ Alberd. Ho. Mow bray and Ralph H. Blanchard insurance Mc Graw Hill book company insurance New York-1955.

Mr. Brihaspati Raj Panta (1978) had concluded the development of commerce and industry and also has great significance in developing the country. It has a very good prospect. He recommended that most of the people are ignorant about fire insurance and its importance and benefits.

He had addressed basically the requirement of more publicity. Advertisement through newspapers, radio, televisions should be made to acquainting the people about fire insurance. Booklets containing rates of fire-insurance and other facts about fire insurance should be published and distributed freely and should be extended its branches in different cities.²⁵

Puspa Singh Suwah (1991) in her study found that the issues of investment portfolio tendency of re-insurance and market research then also recommended to invest. Some percentage of their profit for research and development for the over all planning and to increase its retention capacity.²⁶

A study conducted by Shree Prasad Gelal, (1996) A comparative financial analysis of life insurance corporation company has recommended that the insurance premium fund should be invested in different sector other than HMG bonds in order to enhance the life standard of people there by increase the insurance premium and to expand insurance activities in rural area by the establishment of branches or by appointment of agents according to its potentiality. He had advised to life insurance corporation (Nepal) to minimize

²⁵ Brihaspati Raj Panta A study on fire insurance Business in Nepal unpublished Degree thesis, T.U. Kathmandu – 1978.

²⁶ Puspi sing Suwal Study of life insurance in Nepal Unpublished Degree thesis, T.U. Kathmandu 1991.

the risk level by reducing debt participation and increasing equity proportion even though it is risk oriented instrument.²⁷

There have not been found any thesis that is prepared on the topic of profit planning and control of any of the insurance company. But little bit related to the insurance sector have made available in below.

Mr. Bal Krishna G.C.(1988) in his study, a study on capital and assets structure of Rastriya Beema Sansthan, found that the trend of total investment on total assets needs to be improved by reviewing investment policies and programs. The investment should be made in proper and profitable sector.²⁸

A study conducted by Ms. Ganga Sharma (2005) 'Financial performance Analysis of Nepalese Insurance Companies' has found that the insurance companies were not following the generally accepted principle of financial management such as assets management, liquidity management, capital structure management and investment management etc.

Insurance company invested most of their funds on risk less areas and only nominal fund invested in shares of other companies without understanding and market situation.²⁹

²⁷ Shree Prasad Gelal A comparative financial analysis of Nepal insurance company limited and National and general insurance company limited. Unpublished degree thesis –T.U. (S.D.C) Kathmandu- 1996.

²⁸ Bal Krishna G.C. A study on capital and assets structure of Rastriya Beema Sansthan unpublished Degree Thesis T.U. (S.D.C.) Kathmandu 1988.

²⁹ Ms. Ganga Sharma 'Financial performance Analysis of Nepalese Insurance Companies' unpublished Degree Thesis T.U. 2005.

Mr. Nabaraj Timilsina (2005) had concluded the 'financial performance analysis of Nepal insurance company limited'. He recommended that proper utilization of fixed assets, regular training to the staff, need to extend the business area like many branches in different parts of the country and mobilize agents to these areas with advertisement in good media.³⁰

A study conducted by Mr. Hom Prasad Luitel (2006) 'Contribution of income tax from insurance companies to government revenue in Nepal' has recommended that the increase contribution of income tax from insurance companies, the growth and development of insurance business is necessary. The government, insurance board and insurance companies should pay attention to produce experts of the insurance business.³¹

Mr. Raju Bhat (2008) in his study 'Premium collection and investment position of national life and general insurance company limited (NLG) and Nepal insurance company limited (NIC) found that the ratios were varied, actual first life premium collection line had fluctuated trend. It is clear that there is a fluctuation in investment on government saving bonds. As soon as insurance company is running under least risk and there is consistency on it.³²

³⁰ Mr. Nabaraj Timilsina had concluded the 'financial performance analysis of Nepal insurance company limited' unpublished degree thesis T.U., 2005.

³¹ Mr. Hom Prasad Luitel 'Contribution of income tax from insurance companies to government revenue in Nepal' unpublished degree thesis T.U. 2006.

³² Mr. Raju Bhat in his study 'Premium collection and investment position of national life and general insurance company limited (NLG) and Nepal insurance company limited (NIC) unpublished degree thesis T.U. 2008.

2.11 Review of Some Related Articles and Journals

The essence of the insurance scheme is that, it is a social device that it involves the accumulation of funds, that it involves a group of risks, and that each person or firm who becomes a member of the group transfers his risk to the whole group.³³

Ramesh Raj Bhandari explained that insurance is a key factor in the economic development of a country. Insurance companies do not only shift the risks but also collect small scatters. Capital and inject these in the development activities of long term nature. It has direct role to play in a developing country because of the fact the government is utilizing its entire means and resources for access sound development of the country. A slight mistake on the regulation of insurance activities will create an adverse effect in the overall economy of the country. Hence the supervision of insurance through regulation is a must in order to accelerate the pace of economic growth.

Insurance plays the important role in the trade and commerce. It is absolutely true that export risks are unpredictable. These risks are to be insured to protect exporters various forms of insurance have been existence for hundreds of years, just as many of the terms used today are the same as they were many years ago.³⁴

‘The life insurance companies have proved to be a highly efficient means for channeling capital funds in to those areas of the national economy and into

³³ James I. Atjearm ‘fundamental of insurance’ (Irwin Home wood, Illions is 1986)

³⁴ S.K. Shrestha ‘Role of insurance in export marketing ‘ Beema Volume 31991 (P-1-4)

those uses in which market demands have been strongest. They have responded quickly and imaginatively to the changing capital requirements of the American economy John Homage outlined about the life insurance as the insurance seeks to the financial uncertainties arising from the natural contingencies old age and death and to bring about a comparable certainty in the case of possible misfortunes impure and sink ness. The fundamental function of the life insurance business then is to furnish protection against the financial demands occasioned by disability, old age and death it has some times been termed ‘income replacement insurance’ because it provides such necessities as food shelter and clothing if illness, injure or death cuts off the income of the breadwinner. It is all of his and as will presently be noticed much more.’³⁵

Dr. Ranhab D. Pant on the flow of funds in Nepal has analyzed the flow of funds at Rastriya Beema Sansthan since 1975 to 1991. He found that the small volume of credit transaction of Rastriya Beema Sansthan in areas other than government bonds means that it influences the structure of demand in the economy. The savings that it has managed to mobilize especially through life insurance is considerable it has however been used to finance on the government budget deficit of to further increase fixed deposit liability of the commercial banks, which is many occasions has excess liquidity at the disposal. R.B.S. however no alternative either.³⁶

³⁵ John H. Mages ‘Life Insurance’ (Richard D Irwin Inc. Homewood illionois 1958.

³⁶ Dr R.D. Pant. The flow of funds in Nepal a study jointly sponsored by the institute for economic and studies Kathmandu Nepal and the international Resource center Ottawa, Canda- 1995.

2.12 Research Gap

There is the gap between the present research and the previous researchers previous researchers conducted on accounting on profit planning and control and management covered only the budgeting practices in the life insurance companies especially in public enterprises. The previous researcher did not disclose which of the profit planning and controls tools are in practices which are not and why. Thus, to present the prates and analysis of Profit Planning and control analysis gap, the current research is conducted. Mainly the research is accounting and financial data analysis types of research. It examines the current practice of Profit Planning and control PE(r), C.V. test analysis in the LIC Nepal Ltd. Probably this might be the first research study carried of one private sector Company on this topic in Nepal.

CHAPTER - III

Research Methodology

Introduction

In order to make effective study a sound research methodology is necessary. The research methodology presents the plan and framework of this study to attain the stated objectives in chapter one. Research is the process of systematic and in depth study or search for any particular topic, subject area of investigation, backed by collection; compilation, presentation and interpretation of redetect details of data. It is careful search of inquiry into any subject or subject matter, which is a endeavor to discover of find out valuable facts which would be useful for further application or utilization.³⁷ Therefore research methodology is a systematic way to solve the research problem. The research methodology followed in this study can be outlined as.

3.1 Research Design

The major objective of this study is to analyze the profit planning and control of LIC, Research design is the main organ of any research work. The study consists analytical and descriptive research design. The study is not only designed to provide a clear picture of LIC with PPC but also provides the knowledge of relevant matters of insurance in Nepal on the basis of financial

³⁷ Dr.V.P. Michalel 'Research methodology in management' Himalaya publishing House, Mumbai, 1985

statement and other available data. Attempt has been made to investigate how for the profit planning system is adopted in LIC with the help of analytical tools and followed by some suggestions and recommendations.

3.2 Methods of Data Collections

The study is basically based on secondary sources of data collected from annual reports of life insurance corporation (Nepal) limited from fiscal 2059/060 to F.Y. 2063/064 magazines and bulletins of LIC and Rastriya Beema Sansthan, relevant information and data from Beema Samitee, financial statements of listed companies published by Nepal Stock Exchange Limited newspapers previous studies thesis and dissertation related to this field, Publications of various concerns libraries etc. In some cases primary raw data are also used. Interviews, enquires discussion consultations and meetings with top level managements employees have also been taken into consideration to conduct the study.

3.3 Analysis of Data

The data collected from primary and secondary sources are presented in proper forms grouped in various tables and charts according to their nature. Interpretations and explanations are made wherever necessary with the help of ratio analysis cash flow statement. Comparative financial statements and trend analysis.

3.4 Tools of Analysis

The Profit Planning of LIC is basically analyzed with the use of important tools. The first important tool is a financial tool. Which includes ratio analysis, cash flow statement and different functional budgets? The other significant tools are statistical tool. Which includes standard deviation co-efficient of determination, probable error analysis etc.

3.5 Ratio Analysis

The term ratio refers an arithmetic relationship between two figures. In order to make rational decisions about financial viability of the business organizations the ratio analysis is adopted. The significance of financial ratio analysis may be viewed in different ways by every concerned party such as creditor's investors, government clients and the company itself. Financial strengths and weaknesses of a firm as well as historical and present financial position of the company can be examined by the systematic use of ratio. The following ratios are going to be tested under the P.P.C. of LTC.

3.5.1 Liquidity Ratio

The liquidity ratio is used to measure the ability of a firm to meet its short term obligations and reflects the short term financial strength of a firm or it is employed as a measurement of a company's liquidity position. Even through liquidity ratio is dividend in to two subdivisions only the current ratio is calculated here, which is found dividing the current assets by current liabilities.

$$\text{Current Ratio} = \frac{\text{Total Current Assets}}{\text{Total Current Liabilities}}$$

Current assets mean cash and those liquid assets which can easily be converted into cash within a fiscal year. In this study, cash and bank balance, outstanding premium dues from insurer, prepaid expenses, sundry debtors, stock and supplies, investment in HMG debtors, retires and bonds, except the share of life insurance corporation (Nepal) limited, current liabilities include such obligations maturing within a fiscal year like sundry creditor, outstanding claims, deal to reinsure, provision for doubtful debt, provision for taxation and dividend, other provision and miscellaneous current liabilities of LIC. Current ratio thus measures the short-term solvency of the company.

3.5.2 Turnover Ratios

The turnover ratios are concerned with measuring the efficiency in its assets management. These ratios are very important to judge how well facilities at the disposal of the concern are being used. Higher the turnover ratios, better the profitability, reflecting effectiveness in using its resources at its disposal. The following turnover ratios are used to analyse the profit planning LIC.

3.5.2.1 Total Assets Turnover Ratio

Total assets turnover ratio shows the proportion of net premium to total assets of LIC. It is calculated as follows.

$$\text{Total Assets Turnover Ratio} = \frac{\text{Net Premium}}{\text{Total Assets}}$$

3.5.2.2 Fixed Assets Turnover Ratio

It indicates the preparation of net premium to fixed assets. It is analyzed to measure how efficiently the capital employed in fixed assets has been utilized to generate net premium fixed assets turnover ratio is calculated as follows.

$$\text{Fixed Assets Turnover Ratio} = \frac{\text{Net Premium}}{\text{Fixed Assets}}$$

All fixed assets except shares of other companies are taken in to consideration under this ratio.

3.5.2.3 Current Assets Turnover Ratio

Current assets turnover ratio is applied to measure how efficiently the capital employed in current assets has been utilized to generate net premium. It indicates the proportion of net premium to current assets. The C.A. turnover ratio is calculated as follows.

$$\text{Current Assets Turnover Ratio} = \frac{\text{Net Premium}}{\text{Current Assets}}$$

All Current Assets except the investment in H.M.G. securities and fixed deposit are taken into consideration in this ratio.

3.5.2.4 Debtor's Turnover Ratio

Debtor's turnover ratio measures the efficiency on collecting the debts. In other words debtor's turnover ratio indicates the velocity of outstanding premium collection of LIC. It is calculated by dividing the total premium by total outstanding premium.

$$\text{Debtors Turnover Ratio} = \frac{\text{Net Premium}}{\text{Outstanding Premium}}$$

The average number of days for which premium remain outstanding is called average collection period (ACP) and it can be calculated by dividing average outstanding premium by net premium and multiplied by number of days in a year i.e. 360

$$\text{Average Collection Period (ACP)} = \frac{360 \times \text{Average Outstanding Premium}}{\text{Net Premium}}$$

3.5.2.5 Re-insurance Turnover Ratio

Re-insurance turnover ratio is calculated on the basis of re-insurance premium it is quite different type of turnover ratio than other. It is the proportion with average outstanding re-insurance premium. It assists to measure the rapidity of account settlement with re-insurance it can be calculated.

$$\text{Re-insurance Turnover Ratio} = \frac{\text{Re-insurance Premium}}{\text{Average Outstanding re-insurance Premium}}$$

The average outstanding re-insurance premium at the beginning and ending of a year is called the average outstanding re-insurance premium.

3.5.3 Profitability Ratios

The profitability ratios are calculated to enlighten the ultimate results of business activities of LIC. The future of any business concern depends up on the profit the expansion, growth; contribution toward the social overheads for the social welfare (of the society) and return to share holders is possible, only when the business concern can earn adequate return. The profitability of LIC can be tested by its profitability ratio. The profitability ratio indicates the sound profitable position of the company. In this study net premium is assumed as sales the following are some profitability ratio that have been calculated.

3.5.3.2 Gross Operating Profit Margin

$$\text{Gross Operating Profit Margin} = \frac{\text{Gross Operating Profit}}{\text{Gross Total Income}}$$

3.5.3.2 Net Profit Margin

$$\text{Net Profit Margin} = \frac{\text{Net Profit}}{\text{Gross Total Income}}$$

3.5.4 Return of Assets (ROA)

$$\text{Return of Assets (ROA)} = \frac{\text{Net Profit}}{\text{Total Assets}}$$

3.5.5 Return on Net Worth or Equity (ROE)

$$\text{Return on Net Worth or Equity (ROE)} = \frac{\text{Net Profit}}{\text{Net Worth}}$$

3.5.6 Earning Per Share (EPS)

$$\text{Earning Per Share (EPS)} = \frac{\text{Net Profit}}{\text{No. of Existing Equity Share}}$$

3.5.7 Dividend Per share (DPS)

$$\text{Dividend Per share (DPS)} = \frac{\text{Amount Provide to Equity Share Holders}}{\text{No. of Existing Equity Shares}}$$

3.5.8 Dividend Payment Ratio (D/P Ratio)

$$\text{Dividend Payment Ratio (D/P Ratio)} = \frac{\text{DPS}}{\text{EPS}}$$

3.5.9 Other Financial Ratios

Life insurance business is neither manufacturing nor trading rather it is special service type of business. The study will complete only when analysis of the special types of ratio related with insurance business that is also made. The specific ratios have not been included in above. So such uncovered indicators are analyzed with the help of following ratios to make the study fruitful. They are as follows.

3.5.9.1 Management Expenses to Gross Premium (MEGP) Ratio

$$\text{MEGP Ratio} = \frac{\text{Management Expenses}}{\text{Gross Premium}}$$

3.5.9.2 Agency Commission to Gross Premium Ratio

$$\text{ACGPR} = \frac{\text{Agency Commission}}{\text{Gross Premium}}$$

3.5.9.3 Net Premium Ratio

$$\text{Net Premium Ratio} = \frac{\text{Net Premium}}{\text{Gross Premium}}$$

3.5.9.4 Investment in HMG Securities Ratios

$$\text{Investment in HMG Securities Ratios} = \frac{\text{Investment in HMG Securities}}{\text{Total Investment}}$$

3.5.9.5 Investment in Fixed Deposit Ratio

$$\text{Investment in Fixed Deposit Ratio} = \frac{\text{Investment in in Fixed Deposit}}{\text{Total Investment}}$$

3.6 Different Functional Budgets

3.6.1 Sales Plan

The sales planning is the foundation budget for planning in a business organization. All other planning is based on it. Each and every activity of a business depends upon the cash. And sales are the main source of cash. So the sales planning is the beginning point in preparing the other different planning. The sales planning can be prepared for a definite future time period by showing volume and units of sales.

3.6.2 Cash Plan

The cash budget is a forecast of expected cash receipts and payments for a future period. Which gives planned beginning and ending cash positions for the budget period ? It indicates financing needs for probable cash deficit and appropriate investment planning for profitable use when the firm will have excess cash.

3.6.3 Capital Expenditure Plan

Capital expenditure plan expresses the detailed plan for management concerning assets addition improvements, replacement and contraction. It

represents assets purchased and the total costs of which are application to number of accounting periods. So this plan is a process of planning and controlling of long term and short term expenditure for expansion replacement and contraction of fixed assets.

3.7 Other Aspects of Profit Planning and Control

Definitely projected in come statement is also a kind of plan. In this plan budgeted income and expenditure are included for forecasting future profit and loss. It is developed after the preparation of all kind of relating budgets.

3.7.1 Projected Balance Sheet

A projected balance sheet as at the end o the next period is prepaid considering changes in all items of balance sheet like fixed assets plant and machinery furniture and fixtures, debtor, share capital debentures and creditors etc. (except cash).

The two side of balance sheet are balanced and the balancing figure represents closing balance of cash. It may be balance with bank or an overdraft according to the nature of balance being debit or credit.

3.7.2 Cash Flow Analysis

The cash flow statement is a statement that shows the mobilization of cash. It is a report of financial operations of LIC in other words the cash flow statement shows how the activities of the firm have been financed and how the financial

resources have been financed and used during a year. The cash flow statement analysis conducted in this study has shown the report of financial operation of LIC from fiscal year 2059/060 to F.Y. 2063/064.

3.7.3 Variance Analyses and Performance Report

A comparison of actual results with budgeted results is stated as variance analysis, which is an important factor of control. It is vital for the management to know the underlying causes of significant variation because causes rather than the result provide the basis for appropriate corrective action.

Performance report is an internal part of budgetary control. It is a document that periodically communicates the achieved exceeded or not. It will give the management and sight into the operational efficiencies it is defined by management control function as the necessary to assure the objective, plans policies and standards are being attended. Separated performance reports should be prepared periodically for each responsibility center.

3.8 Statistical Tools

The following statistical tools are being used to assess the profit planning and control of life insurance corporation (Nepal) limited.

3.8.1 Standard Deviation (S.D.)

The standard deviation is used to measure the risk. It shows the deviation between actual mean and average mean. The standard deviation measures the

absolute dispersion, greater the standard deviation for the greater will be the magnitude of the deviation of the value from their mean. The small dispersion variability smaller the S.D for the high degree of uniformity of the observation as well homogeneity of series. Hence standard deviation is extremely useful in judging the representative ness of the mean.

The standard deviation is calculated with the following formula.

$$\text{Standard Deviation } (\dagger) = \sqrt{\frac{\sum x^2}{N} - \left(\frac{\sum x}{N}\right)^2}$$

Where, † = Standard deviation

 X = Variables

 N = No. of years

The standard deviation has been applied to calculate and analyze the net premium on fire, insurance business in this study.

3.8.2 Co-efficient of Variation

The corresponding relative measure of dispersion is known as the co-efficient of variation. It is used in such problem where the study needs to compare the variability of two or more items of the series. The higher co-efficient of variation of series refers more variable or less consistency or less uniformity. And the series in which co-efficient of variation is les is said to be less variable or more consistent and more uniformity variable. The coefficient of variation is found from the following formula.

$$\text{Co-efficient of variation (C.V.)} = \frac{\dagger}{x} \times 100$$

$$\text{Where, } \bar{X} = \frac{\sum x}{N} \text{ (Mean of series)}$$

C.V. = Co-efficient of variation

R = Standard deviation

To analyze the P.P.C. of Life Insurance Company Limited the co-efficient of variation is calculated to measure the variability on net premium of various types of insurance.

Co-efficient of correlation is used for measuring the magnitude of linear relationship between two variables.

The value of co-efficient of correlations between +1 and -1, when co-efficient of correlation (r) = +1, it shows there is perfect positive correlation between the variables, where $r = -1$, it means there is perfect negative correlation between the variables and $r = 0$ refers there is no relationship between the variables.

The coefficient of correlation finds not only the magnitude of correlation but also its direction.

The co-efficient of correlation is found as

$$R = \frac{N \sum xy - \sum x \sum y}{\sqrt{N \sum x^2 - (\sum x)^2} \sqrt{N \sum y^2 - (\sum y)^2}}$$

Where, r = correlation of co-efficient

N = Number of years

Σx = Sum of x Series

Σy = Sum of y Series

Σxy = Sum of x & y Series

Σx^2 = Sum of Square of Series x

Σy^2 = Sum of Square of Series y

X & y = Financial variables of LIC

3.8.3 Probable Error (PER)

The Probable error of the co-efficient of correlation helps in interpreting its value with the help of (PER) it is possible to determine the reliability of the value of co-efficient. It can be obtained as follows.

$$P(\text{Er}) = 0.6745 \times \frac{1 - r^2}{N}$$

Where, r^2 = Square of co-efficient of correlation

N = No of pair of observations

If the value of r is less than PER there is no evidence of correlation i.e. value of r is not significant. Then if the value of r is more than six times of the probable error, the co-efficient of correlation is practically certain i.e. the value of r is significant.

3.8.4 Co-efficient of Determination (r^2)

Co-efficient of determination is the square of co-efficient of correlation, which is very convenient and useful way of interpreting the value of co-efficient of correlation between two variables.

Co-efficient of determination (r^2) is a measure of the degree of lineal association or correlation between two variable, one of which happen to be independent and other being dependent variable. It can simply define as the ratio of the explained variable to the total variation.

3.8.5 Time Series Analysis

A time Series is a sequence of observations of a variable made at regular points or intervals of time and arranged in chronological order. Time series analysis helps to forecast the numerical value of any variable for future based on past data. There are many methods of time series. Among them only least square methods of time series analysis is used to the study purpose. Least square method is used to fit a straight line trend to forecast the trend value of future. The straight line trend is represented by the equation.

$$Y_c = a + bx$$

Where, Y_c = Trend Value of Y Variables

Y = Financial Variable of LIC

b = Slope of Trend Line

X = Time i.e. Independent Variable

a = Y intercept or computed trend figure of Y variable,

When $X = 0$

The following two simultaneous equations have to be solved to find out the value of a and b then to estimate equation.

$$\text{If } \sum x = 0$$

$$\text{Then, } a = \frac{\sum y}{N}, b = \frac{\sum xy}{\sum x^2}$$

3.8.6 Regression Analysis

Regression analysis is used to measure the average relationship between two or more variable. In this study it is used to know the relationship of profit with income from investment net premium liquidity ratio and efficiently turnover ratio (total assets turnover ratio).

The regression equation, $y = a + b_1x_1 + b_2x_2 + \dots + b_nx_n$

Where, y = Independent Variable

a = Constant Variable

x = Independent Variable

b = Marginal relation between independent and dependent variable.

3.8.7 Graphic Presentation

Presenting the information through the graphs makes very easy to understand. The various variable used in this study are presented in the different types of graphs and diagrams.

CHAPTER - IV

PRESENTATION AND INTERPRETATION OF DATA

4.1 Introduction

The methodology used in analysis of profit planning and control is mentioned in former chapter. Now this chapter focuses the most important component of the study relating to profit planning of life insurance corporation (Nepal) limited (LIC) by taking significant financial variables and different functional budgets into consideration. Important variables that are very sensitive and pertinent are taken in to consideration.

For the study purpose this chapter is dividend into four sections. In the first section the financial variables are analyzed with the help of financial rations. Some functional budgets are also presented in the same section.

The cash flow analysis is applied in second section. The statistical tools that have applied in the study are shown in the third section. In the lat section of this part data are presented with the help of diagram and charts.

4.2 Analysis of Financial Ratios

The study tries to analyze profit planning of LIC through the liquidity ratio, turnover ratio, profitability ratios and other ratios relating to the special variable of LIC according to nature of its business.

4.2.1 Liquidity Ratio

Liquidity is one of the significant tools of measuring the financial performance of the company. Which is used to judge a company's ability to meet short-term obligations in this section, the study is going to analyze and interpret the liquidity position of LIC by considering five years relevant data since 2059/060 to 2063/2064.

The study has applied only current ratio measure its liquidity position. This single ratio itself does not indicate favorable or unfavorable condition of company. It should be compared with other standard. As a conventional rule a current ratio 2:1 or more is considered to be satisfactory. This principle may be more suitable to manufacturing concern but this principle may not be used or applied to the service oriented companies because there is no need to maintain the inventory. In the insurance sector, industry average ratio does not exist in Nepal for the comparison purpose. So the average ratio of this company is taken in consideration in order to compare with the calculated ratio. The average is only approximate that is used in the absence of predetermine standard. The current ratio of LIC for the year under study has been shown below.

Table No. 4.1
Current Ratio (in times)

(Rs. in Million)

Fiscal year	Current Assets (Rs. in million)	Current Liabilities	Ratio Times	With Average
2059/060	185.87	121.78	1.52	-0.12
2060/061	415.99	230.98	1.80	0.16
2061/062	657.50	243.53	2.70	1.06
2062/063	702.24	429.53	1.63	-0.01
2063/064	1640.70	3118.29	0.53	-1.11

Average Ratio 1.64 times.

Source: Annual Report of LIC (Annex IV)

The above table shows that the company's current assets are in Rs. 185.87 million in f.y. 2059/060 which has reached to Rs. 1640.70 in 2063/064.

It is continuously increasing the current liabilities of base year of study were 121.79 which reached to 3118.29 million in f.y. 2063/064.

Its trend is of fluctuating nature the data shows the current ratio of LIC is not satisfactory in f.y. except 2061/062.

The company is not capable to meet its short term obligation with current assets.

The average current ratio is 1.64 times during five years study period. The liquidity position of LIC is not satisfactory level at that period. The huge amount of investment is not made on government national saving certificate and fixed deposit. That's why there is some problem for investment and more fear of the block age of current assets as unproductively.

Although there is no hard and fast rule regarding current ratio, conventionally a current ratio 2:1 is considered satisfactory.

4.2.2 Turnover Ratios or Activity Ratios or Efficiency Ratios

Turnover ratio is one of the tools measuring the financial performance of the company which is used to test the efficiency in the utilization of assets. It includes the following ratios.

4.2.2.1 Total Assets Turnover

Assets are used to generate profit can be generated by the collection of insurance premium especially in insurance companies. LIC should not manage its assets efficiently to maximize the net premium of insurance.

The total assets turnover ratio is used to measure the efficiency in use of total assets. The relationship between total assets and net premium is known as total assets turnover ratio.

The Profit planning of LIC is analyzed with the help of this ratio by considering the data of fiscal year 2059/60 to 63/64 B.S. The assets turnover ratio of LIC for the study period is given below.

Table No 4.2
Total Assets Turnover Ratio (In times)

(Rs. in millions)

Fiscal Year	J.A. Rs.	Net Premium	Assets Turnover Ratio (Times)	Changes from Average
059/60	3876.23	981.63	0.2532	-0.06
060/61	6115.17	2144.65	0.35	+0.04
061/62	9474.38	3369.04	0.36	0.05
062/63	14297.91	4628.87	0.32	0.01
063/64	23016.96	6442.89	0.28	0.03

Average Ratio: 0.31 times.

Source: Annual Report of LIC annex No. I & VI.

The assets turnover ratio of various years is clearly shown on table No 4.2 which is 0.25 times in the base year i.e. fiscal year 2059/060 B.S. it shows the every 1 rupee invests in assets is required to generate Rs. 0.25 premium. Accordingly, we can interpret the implication of other ratios of various fiscal years.

The assets turnover ratio has been increasing from the base level of 0.25 times in fiscal year 2059/2060 to 0.28 times in F.Y. 063/64. The general trend of the ratio shows the satisfactory position. The average Rs. 0.31 times from the above analysis, it rereads that the company's total assets turnover ratio. It is not satisfactory in the first & Last years but in the later three years, it is steadily

increasing. It happened because of the sound incensement in net premium of insurance. Until the first & Last years, the company was unable to utilize its assets property but after the second year of study period company has adopted precaution to increase net premium by the best utilization of assets. There are many factors, responsible for decreasing its assets turnover ratio.

The major factor are that the less premium earned by the company high level of re-insurance premium paid to its re- insurances the improper method of valuation of assets and so on . LIC should strive to generate high volume of net premium in coming fiscal years through the proper utilization of its total assets,

4.2.2.2 Fixed Assets Turnover

Fixed Assets Turnover ratio is analyzed to measure how efficiently the capital employed in fixed assets has been utilized to generate net premium. The relationship between fixed assets and net premium earned is called fixed Assets turnover ratio. The Profitability position of the company can be measured with the help of this ratio. The higher ratio shows favorable and well plans of profit and vice versa by analyzing this ratio. We can say that properly planned company can earn the higher profit by increasing its net premium of insurance. It may increase by reducing unnecessary re- insurance premium.

Fixed assets turnover ratio is analyzed considering relevant data of free years of study periods from 059/060 to F.V. 2063/64

$$\text{F.A.. Turnover Ratio} = \frac{\text{Net Pr emium}}{\text{Fixed Assets}}$$

Table No 4.3
Fixed Assets Turnover Ratio

(Rs. in Million)

Fiscal Year	Total fixed Assets	Net Premium	F.A. Turnover Ratio (Times)	Change with Average
059/060	71.41	981.63	13.75	-42.52
060/061	64.58	2144.65	33.21	-23.12
061/062	66.46	3369.04	50.69	-5.64
062/063	57.55	4628.87	80.43	24.10
063/064	62.20	6442.89	103.58	47.25
			56.33	

Average F.A. Ratio = 11.27 times.

Source : Annual Report of LIC (Annex No I & VI)

The above table No 4.3 shows that the fixed assets in F.V. 2059/060 were Rs. 71.41 million and Rs. 62.20 million in F.Y. 063/064. The net premium in base year was Rs. 981.63 millions and Rs. 6442.89 million in F.Y. 063/64. The trend of net premium is continuously growing till F.Y. 059/60. This is a very good scenario of net premium collection. The average fixed assets turn over ratio during the study period is 11.27 times. It indicates that the every one rupee invested in fixed assets is able to earn Rs. 11.27 as net premium, but the fixed assets are gradually decreasing, that is because of much more depreciation than of every fiscal year's purchase.

From the above analysis, it is clear that the profit planning system is not so satisfactorily applied. The value of fixed assets is deteriorating every year which leads the turnover ratio little bit higher. Even though fixed asset turnover ratio

is growing each year, it is due to deterioration of fixed assets. It is not good symptoms for a company so the management must pay attention toward the incensement of fixed assets along with net premium.

4.2.2.3 Current Assets Turnover Ratio

The relationship between current Assets and net premium is known as current assets turnover ratio. It is analyzed to measure how efficiently the capital employed in current assets has been utilized to generate net premium. Generally, the higher ratio indicates the favorable and lower ratio indicates unfavorable condition. Net premium is directly associate with the company's probability, so that PPC is examined with the help of current assets turnover ratio by taking relevant data of five years during the study period.

$$\text{Current Assets Turnover Ratio} = \frac{\text{Net Premium}}{\text{C.A.}}$$

Table No. 4.4
Current Assets Turnover Ratio

(Rs in million)

Fiscal Year	Current Assets	Net premium	C.A. Turnover Ratio	Change with Average
059/60	116.83	981.63	8.40	2.09
060/61	369.54	2144.65	5.20	-0.51
061/62	506.27	3369.04	6.65	+0.34
062/63	692.71	4628.87	6.	+0.37
063/64	1610.51	6442.89	4.00	-2.31

Average Ratio: - 6.31

Source: - Annual Report of LIC (Annex IV & VI)

The above table reveals that the current assets of LIC from F.Y.059/60 to 063/64 are continuously increasing every year. The net premium has also increased very soundly.

The current assets are taken for the computation of current assets turnover ratio. The investment in HMG securities , investment in fixed deposit and short term investment, other investment do not help to generate the net premium to the company, so the current assets used in this ratio is all the current assets less investment in HMG securities , fixed deposit and other investment.

The average current assets turnover ratio of five years during the study period is 6.31 times. It indicates every one-rupee capital invested in current assets generates 6.31 or 6.651 Rupeya as premium. It one reached at 8.40 times in f.y. 059/60 them decreased. In the absence of common standard or industry average, we assume the average ratio as a standard to analyze the p.p.c. of the company. The management should try to maintain the ratio as the average ratio.

4.2.2.4 Debtors Turnover Ratio

Planning system can be examined with debtor's turnover ratio. According to the nature of insurance business debtors turnover ratio can be said as premium turnover ratio.

$$\text{Debtors turnover Ratio} = \frac{\text{Net Premium}}{\text{Average outstanding premium}}$$

4.2.2.5 Re-insurance Turnover Ratio

Re insurance turnover ratio is used to test the rapidity of amount selflement with period of company to re insurers with the help of re insurance turnover ratio the financial performance of the company can be examined. There is no standard measurement for period of payment but the lower payment period indicates the efficient credit policy and longer payment period indicates the loose credit policy of the company from its re-insurance point of view. The longer payment period is favorable for the company because the company can fulfill its current assets requirement partially by it. Company can use it in any other productive sectors. Re-insurance premiums the cost free source of short financing.

$$\text{Re-insurance T.R.} = \frac{\text{Total Insurance Pr emium}}{\text{Average Outs tan ding Re- insurance Pr emium}}$$

4.2.3 Profitability Ratio

There is no doubt that profit is the ultimate goal of a company. The future of a business organization depends upon it. Adequate profit must be earned to sustain the business operation expansion and growth and to contribute for social welfare. It is the operating result of efficiency a firm and reflects its ability to ensure adequate return to its shareholders. It is the major source of internal finance. The profitability of a firm is tested with profitability ratios. The first ratio is measured to show the profitability in relation with sales and another show the relationship of profit with investment. By assuming the premium as sales profitability ratios are analyzed as below.

4.2.3.1 Gross Operating Profit Margin

Gross operating profit margin reflects the efficiency of management. Gross operating profit margin comes after deduction of operating expenses from gross sales (total income) the gross profit margin is a percentage of operating profit on total income.

Table No. 4.5
Gross operating profit margin

(Rs. In millions)

Fiscal year	Gross total income (Rs.)	Operating expenses (Rs.)	Gross operating profit (Rs.)	Operating profit %	Change over margin
059/60	1806.73	203.11	11.59	0.64	-2.29
060/61	4214.87	231.30	306.45	7.27	4.34
061/62	7833.53	313.58	142.75	1.82	-1.11
062/63	11368.37	443.56	227.62	2.00	-0.93
063/64	17455.29	577.13	509.62	2.92	-0.01

Average Gross Operating Margin = 2.93

Source: Annual Reports (Annex III & X)

The above table shows the overall trend of gross profit margin is increasing but is fluctuated and decreased in later three years. It shows the financial performance specially profit of the company with relation to sales. Gross operating profit margin is not good satisfactory. Average gross operating profit margin of LIC is 2.93% for five years study period. It is only an approximate that is used in the absence of other common standard. Among them three years

it is unfavorable which shows the inefficiency of management to maintain the operating expenses at the level of income.

The decreasing trend of operating profit in the recent years is influenced by the various cause. The main cause might be the increasing competition in the insurance business in the recent years. LIC is offering more operating expenses to promote the insurance business to occupy the higher portion of share in insurance market in the competitive scenario.

LIC should control its operating expenses to increase the gross operating profit margin.

4.2.3.2 Net profit margin Ratio

The relationship between net profit and gross total income is shown by net profit margin ratio. It is tabulated as below:

Table No. 4.6
Net profit margin Ratio

(Rs. In million)

Fiscal year	Gross total	Net profit	Net profit	Change in Net profit %
059/60	1806.75	7.87	0.44	-1.11
060/61	4214.87	53.22	1.26	-0.29
061/62	7833.53	97.79	1.25	-0.30
062/63	11368.37	178.65	1057	0.02
063/64	17455.29	566.24	3.24	1.69

Average Net Profit margin 1.55

Source: Annual Reports of Various Years (Annex III & X)

The data presented on the above table shows that the net profit of the company follows a trend of ups and down during the study period. But its margin is up down. The average net profit margin of 5 years study period is 1.55%. Average net profit margin 1.55% is an approximate that is used for comparative study in absence of standard. During the later period of study net profits slowly increasing which is definitely the symptom of good performance of company.

The major cause may be keen competitive environment in insurance business in the recent years. The company has faced loss in miscellaneous insurance in f.y. 059/60 and 063/64.

4.2.3.3 Return on Assets (ROA)

The return on assets is measured the profitability of the total funds invested in fixed assets as well as current assets of the company the higher ratio indicates the satisfactory utilization of assets and vice versa. ROA is measured as be low of 5 years study period.

$$\text{ROA} = \frac{\text{Net Profit}}{\text{Total Assets}} \times 100\%$$

Table No. 4.7
Return on Assets (ROA)

(Rs in million)

Fiscal year	Total assets (Rs)	Net Profit (Rs)	ROA %	Deviation from Average ROA (%)
059/60	3876.23	7.87	0.20	-1.12
060/61	61115.17	53.22	0.87	-0.45
061/62	9474.38	97.79	0.03	-0.29
062/63	14297.91	178.65	1.25	-0.07
063/64	17455.29	566.24	3.24	1.92

Average ROA = 1.32

Source: Annual Reports (Annex I & III)

The table shows that the total assets of the company are regularly increasing each year. But the return on assets (ROA) has increased during this period also. The average return on assets under the study period is 1.32%. The ROA for the first 2 years of the study period is decreasing order, which is less than the average return. The management must be responsible for it. It might be either inefficiency of management or due to the increasing competition in insurance business in the country. Therefore, the management of LIC must be conscious the improve the condition otherwise the company will suffer from critical condition.

4.2.3.4 Return on Net Worth (RONW)

Return on net worth is tested to measure how well the company has used the resources of owners. Five years study period's return on network has been tabulated as below.

Table No. 4.8
Return on net worth (RONW)

Fiscal year	Net worth	Net profit	Return on net	Deviation from average
2059/060	3754.41	7.87	0.21	-1.04
2060/061	5884.18	53.22	0.90	-0.35
2061/062	9230.84	97.79	1.060	-0.19
2062/063	13868.36	178.65	1.29	0
2063/064	19898.66	566.24	2.85	1.6

Average (RONW) = 1.25

Source: Annual (Annex I & III)

Net worth = Total Assets – Current Liabilities

The above table shows the total net worth is continuously increasing every year. But return on net worth is fluctuated during this period. The average return on net worth is 1.25% the first 4 years RONW is less than average. It indicates the dissatisfactory condition of the company it might be due to inefficient management. Management must take corrective measure to improve the condition to attract the prospective share holders otherwise the market value of share may fall- down.

4.2.3.5 Earning Per Share (EPS)

Earning per Share (EPS) is one of the vital measurements of company's profit planning function. EPS is found by dividing net profit after tax dividing by number of existing equity share in the absence of preference shares in the Capital Structure. The single EPS falls nothing. In the absence of industry indicators of EPS comparison with the help of average EPS of five years study period is made. That is presented as below.

$$\text{EPS} = \frac{\text{Net Profit After Tax}}{\text{No. of Equity Shares}}$$

Table No. 4.9
Earning Per Share

(Rs. in million)

Fiscal Year	Earning Per Share	Deviation to Average EPS
2059/060	0.31	-6.92
2060/061	2.13	-5.1
2061/062	3.91	-3.32
2062/063	7.13	-0.1
2063/064	22.65	15.42

Average EPS = Rs. 7.23

Source : Annual Deports (Annex Lx)

The above table of EPS shown the EPS for the base year is the highest and in F.Y. 059/60. It is the lowest. The average EPS under the study period is Rs.

7.23. There is increase in EPS under the whole study period except the base year i.e. 056/60 so management should pay more attention to restore position of the EPS.

4.2.3.6 Dividend Per Share (DPS)

Dividend per share (DPS) is the amount provided to the existing shareholder out of the net profit earned by company. It is directly related to net profit. The higher DPS shows sound financial position of company .But there should not be manipulation. Five year's DPS are presented below.

$$\text{DPS} = \frac{\text{Dividend Available to Shareholder}}{\text{No. of Equity Shares}}$$

Table No. 4.10
Dividend Per Share (DPS) in Rs.

Fiscal Year	Dividend Per Share	Percentage
059/60	0.29	0.29
060/61	–	–
061/62	0.29	0.29
062/63	0.27	0.27
063/64	20.38	20.38

Average – 4.25

Source : Annual Reports of LIC (Annex – X)

Above – mentioned table no 4.12 reveals that the average dividend per share 4.25, But F.Y. 060/61 is not separate for Dividend from F.Y. 2059/060 and

2061/062 same DPS and 2062/63 DPS is decrease But 2063/064 DPS is increase unaccepted . It may be possible by creating dividend equalization fund in that period DPS is not good and systematic.

4.2.3.7 Dividend Payout Ratio (D/P ratio)

Dividend Payout ratio is the relationship between EPS and Deposit shows , how much amount is paid of earning per share as dividend payout ratio is presented as below.

Table No. 4.11
Dividend Payment Ratio

(Rs. In million)

Fiscal Year	EPS (Rs)	DPS(Rs)	D/P(Ratio) (%)	Divagation with average
059/60	0.31	0.29	93.55	54.6
2060/061	2.13	–	0	-38.95
2061/062	3.91	0.29	7.42	-31.53
2062/063	7.13	0.27	3.79	-35.16
2063/064	22.65	20.38	89.98	51.03

Average D/P Ratio = 38.95

Source :- Annual Reports (Annex-X)

The table shows that the dividend payout ratio of three year during the study period is lower where as the first and last year's D/P ratio is greater than EPS.

That has happened .But the proper logic cannot be found how higher dividend has been paid than that of EPS.

According to above data company has not adopted certain dividend policy Exports say: dividend should be equal more or less. There should of be very much fluctuation in dividend. Generally, for that purpose dividend equalization fund is created. But LIC has not been created such fund.

4.2.4 Other Financial Ratio

Insurance business is neither manufacturing concern nor trading concern not trading concern. It is a special type of business, which provides services with business view. The profit planning system is analyzed including specific financial ratio which are relevant financial indicator of insurance business. They are:

4.2.4.1 Management Expenses to Gross Premium Ratio

The relationship of management expenses with gross premium is management expenses to gross premium ratio. It measures how much of gross premium has been paid for management expenses.

Table no 4.12
Management Expenses to Gross premium Ratio

(Rs. in million)

Fiscal year	Gross	Management	M E to G P	Deviation
Gross	Premium (Rs.)	Expenses	Ratio%	from
				Average
059/60	1267.42	203.11	16.03	6.26
060/61	2643.70	231.30	8.75	-1.02
061/62	3973.53	313.57	7.89	-1.88
062/63	5415.44	443.56	8.20	-1.57
063/64	7229.46	577.13	7.98	-1.79

Average Ratio = 9.77

Source Annual Report (Annex-xi & x)

The gross premium of company is increasing in a very satisfactory way, when the company has been able to control the management expansion management expenses to gross profit during the study period are 9.77 on an average. As per the provision mentioned on insurance regulation 2049, management expenses can be incurred up to 307,2057 of gross premium on life insurance. The aggregate ratio of management Expenses is lower than the standard. So it is at satisfactory level but the company should strive to control the expenses that will lead the company to run profitably.

4.2.4.2 Agency commission to Gross premium Ratio

An Agency commission to gross premium ratio indicates how much agency commission to gross premium ratio indicates how much agency commission is paid out of gross premium or how much agency commission is paid against one rupee of gross premium. The data of fire year's agency commission to gross premium is tabulated as below.

Table No. 4.13
Agency Commission to Grass Premium Ratio

Fiscal Years	Gross Premium	Agency Commission	Ratio	Deviation to Average Ratio
059/60	1267.42	285.78	22.55	5.64
060/61	2643.70	499.05	18.88	1.97
061/62	3973.53	604.49	15.22	-1.69
062/63	5415.44	786.57	14.52	-2.39
063/64	7229.46	968.90	13.402	-3.51

Average Ratio = 16.91

Source: Annual Reports (Annex No VI & X)

The above table shows the agency commission on to grass premium ratio, which is gradually increasing till 059/60. But then after Agency Commission ratio is decreased other f.y. year. The average ratio is 16.91.

From the above analysis it is clear that the company is not, So able to control the agency commission expenses. Regarding the agency commission the

financial performance of company is not so favorable .There are various factors by which this expense has increased. The main factor should be the increasing competition in insurance business in recent years. The management of the company has not paid proper attention towards manage the expenses regard agency commission. Generally, agents are seemed as backbone in insurance business. They play a vital role in the progress of company. So, agency commission neither should be reduced to very small amount nor can be very high. Because the decrease in agency commission may breed frustration among agent in another hand excessive expenses' can doctorate the probability of LIC. So the optimal Ute of commission expenses should be managed so as to attain the level of desire profit.

4.2.4.3 Total Claim to Net Premium Ratio

Total claim to net premium ratio measures how much net premium represents against claim. More claim means less surplus and low claim means high surplus from the under writing of insurance policy. It is analyzed as below.

Table No. 4.14
Total claim to net premium ratio

(Rs in million)

Fiscal year	Net premium	Total claim	Ratio	Deviation to Average	Yearly change
2059/060	981.63	18.95	1.93	0.42	
2060/061	2144.65	16.08	0.75	-0.76	
2061/062	3369.04	63.40	1.88	0.37	
2062/063	4628.87	70.91	1.53	0.02	
2063/064	6442.89	95.45	1.48	-0.03	

Average Ratio=1.51

Sources: Annual Reports

The above table shows the amount collected from the under writing of insurance and total claim paid for compensation. The total claim is highly increasing year by year during the study period. While the net premium is increased at a very slow pace. The ratio was 01.93% in the beginning year of the study and it reached to 1.48% in f. y. 063/64. The average ratio of total claim to net premium for five years study period is 1.51%.

From the above analysis of data it B clear that the increase in rate of total claim of is very faster then the increase in net premium. It indicates the higher total claim year by year. The excess claim deteriorates the probability of company. The proper evaluation of risk exposition should be needed before issue the insurance policy to its customers.

4.3 Analysis of some other Aspects

4.3.1 Analysis of premium:

Premium is the life blood for insurance business without the premium insurance business can be imagined. Premium plays a vital role. So amount of premium is essential for analyzing the financial performance of LIC. The analysis of premium collection and premium paid for reinsurance is measure. Gross premium shows the total premium or premium before payment of reinsurance premium. Net premium is the net amount incurred as premium or excess amount of premium received over re insurance premium. It is painted below.

Table No. 4.15
Analysis of Premium

(Rs. in million)

Fiscal Year	Gross Premium		Reinsurance Premium		Net Premium	
	Rs	%	Rs	%	Rs	%
059/60	1267.42	100	15.19	1.2	981.63	77
060/61	2643.70	100	15.04	0.57	2144.65	81
061/62	3973.53	100	16.89	0.43	3369.04	85
062/63	5415.44	100	13.48	0.25	4628.87	85
063/64	7229.46	100	13.09	0.18	6442.89	89

Average Re insurance = 0.53

Source: Annual Reports (Annual Report VI)

The above mentioned table No. 4.17 reveals that the large portion total premium collected is paid for re-insurance premium. Average re-insurance premium of five years study period is 0.53% of gross premium. It indicates that the less amount of gross premium is paid for re-insurance by LIC. It is so because company is retention power is deteriorating is most of years. But in the later two years. It seems quite satisfactory because of its decreasing trend.

4.3.2 Analysis of Investment

Investment generally reflects the surplus from premium collection injected in profitable sectors. The company can generate higher return from the prudent investment portfolio management. LIC has invested its ingestible fund mainly in HMG securities and fixed deposit. The company has also started to invest in the equity share of other limited companies. The share of Nepal credit and commerce bank has been acquired from the f.y. 059/060.

Table No. 4.16
Analysis of Investment

(Rs. in million)

Fiscal year	Investment		Fixed Deposit		Other		Total	
	Rs	%	Rs	%	Rs	%	Rs	%
059/60	989.15	27	2550.30	70	79.50	2.0	3618.95	100
060/61	1398.65	25	3865.30	69	364.50	6	5628.45	100
061/62	1820.63	21	6050.30	69	848.50	10	8719.43	100
062/63	2885.63	21	8640.00	64	1927.50	14	13453.13	100
063/64	5725.65	27	12855.00	61	2480.05	12	21060.70	100

Source: Annual Report (Annex No 1)

Data of above table shows that the investment of LIC indifferent sector is increasing continuously every year. The huge amount of investment is in HMG securities. The investment in HMG securities and fixed deposit are gradually increasing.

But as other investment in the share of other companies has not so increased. The company has purchased only the shares of commercial banks.

4.3.4 Analysis of Income

Analysis of income sources also helps to check the profit plan system. Even through, it is a general insurance business concern; it has other several income sources except the insurance income. They are especially as:

- Income from insurance activities
- Income from HMG securities
- Income from fixed deposit
- Income from clearing & transportation
- Rental income & other income

The analysis of income under study period is resented below.

Table No. 4.17
Analysis of Income

(Rs. In Million)

Fiscal year	Insurance Income		Investment Income		Other Income		Total
	Rs	%	Rs	%	Rs	%	
059/60	1268.95	86	209.68	14	5.02	0.34	1483.65
060/61	2651.95	90	306.66	10	1.84	0.06	2960.45
061/62	3993.01	90	454.20	10	2.13	0.05	4449.34
062/63	5456.44	89	674.37	11	3.61	0.06	6134.42
063/64	7289.40	88	1006.05	12	6.68	0.08	8302.13

Source : Annual Report (Annex – II)

4.4. Revenue or Sales Budget Of LIC

The sales planning is the foundation for planning in a business organization. All other planning is based on it. Each and every activities of business house depends upon cash and sales are the main source of cash. So the sales planning is the beginning point in preparing the other different budgets. It is an important part of profit planning and control. On the basis of sales planning, the different decision can be taken easily. A comprehensive sales plan comprises the sales activities sales are the basic source of revenue. So here, it is known as revenue budgets. It is also referred as a market penetration plan. In manufacturing concern, the volume of final products to be produced is determined by the sales units, which is budgeted. Generally two types of sales budget are prepared on the basis of time period covered by budget. First is long term sales budget, which covers the time period one accounting year. It is clearly tabulated as below.

Table No .18
Target sales (Revenue) & Achievement

(Rs in million)

Fiscal year	Target sales	Actual sales	Percentage
2059/060	1466.72	1267.42	86.42
2060/061	3146.21	2643.70	84.03
2061/062	4102.03	3973.53	96.88
2062/063	5349.09	5415.44	101.25
2063/064	7248.59	7229.46	99.74

Source: Annual Reports (Annex – VI)

Average = 93.67%

The above table shows the sales target and achievement of LIC from fiscal year 059/060 to 063/64. The table shows sales achievements are sometimes higher. Sales target and sales achievement have increased yearly but average achievement percentage is about 94. Sales achievement in f.y. 060/61 is 3146.21, it is 84.03% of sales target, which is the lowest among all. In f.y. 062/63 the sales achievement is greater than budgeted sales which indicates the strengthens of the management or tools and statistical of variation can be applied to find the variance between budgeted and actual sales.

Let us consider sales target as (x) and actual achievement (y).

Statistical measures	Sales target (x) Rs.	Sales achievement (y) Rs.
Mean	4262.53	4105.91
S.D.	3546011.229	2168404.144
C.V.	83190.489	52881.779

Source: Annex – VI

The above analysis shows that the mean of sales target is greater than of sales achievement and standard deviation is also in same direction. Similarly the C.V. of target sales is higher than budgeted sales. We have also found out the coefficient of correction between budgeted sales and actual sales, calculated correlation coefficient (r) of 0.97 shows that there is higher positive correlation between budget sales and actual sales. LIC prepares sales budget based on future programs and prospect of the company. Sales budget is not prepared on the base of sales of forecasting so; we can see the variation in its sales achievement in respect with sales target.

From the analysis of sales plan we can mention the following points.

- Sales target are generally determined without adequate forecasting.
- The mean S.D. and coefficient of variance all of target sales are higher than that of actual sales.
- The actual sales are in increasing trend.
- There is high positive correction between target and actual sales.

4.5 Human Resources or Manpower Planning of LIC

Human resource planning is the process by which the organization's management determines how an organization moves from its current manpower position to desired manpower position. It refers to the broad are of determining the level of personal needs, recruitment, training, job description & evaluation, performance appraisal, union negotiation, salary and wages administration.

In manufacturing concern, direct labour cost occupies a significant portion of total production cost so it needs systematic and scientific planning and control. But it is generally not happened in service-oriented organization. There are no

wages based labours in LIC. Most of the employees are salary based permanent. The company recruits the new employees in accordance to its requirement. Which is generally happened at the time of expansion of new branch or caisson offices. So we can say LIC has no any proper planning regarding human resources.

In the later contest 63 human resources are worked in the different sector and they are operating and controlling by high level administration. It seemed very appreciable initiation in limited company. This short of scenario can be seen very vividly.

4.6 Administrative/Management Expenses Plan

Expenses other than manufacturing and distribution are known administrative or managerial expenses as a whole. Large portion of managerial expenses are fixed rather than variable and the notion persists that they cannot be controlled. The overall managerial expenses budget includes several departmental budgets. It is briefly presented as below.

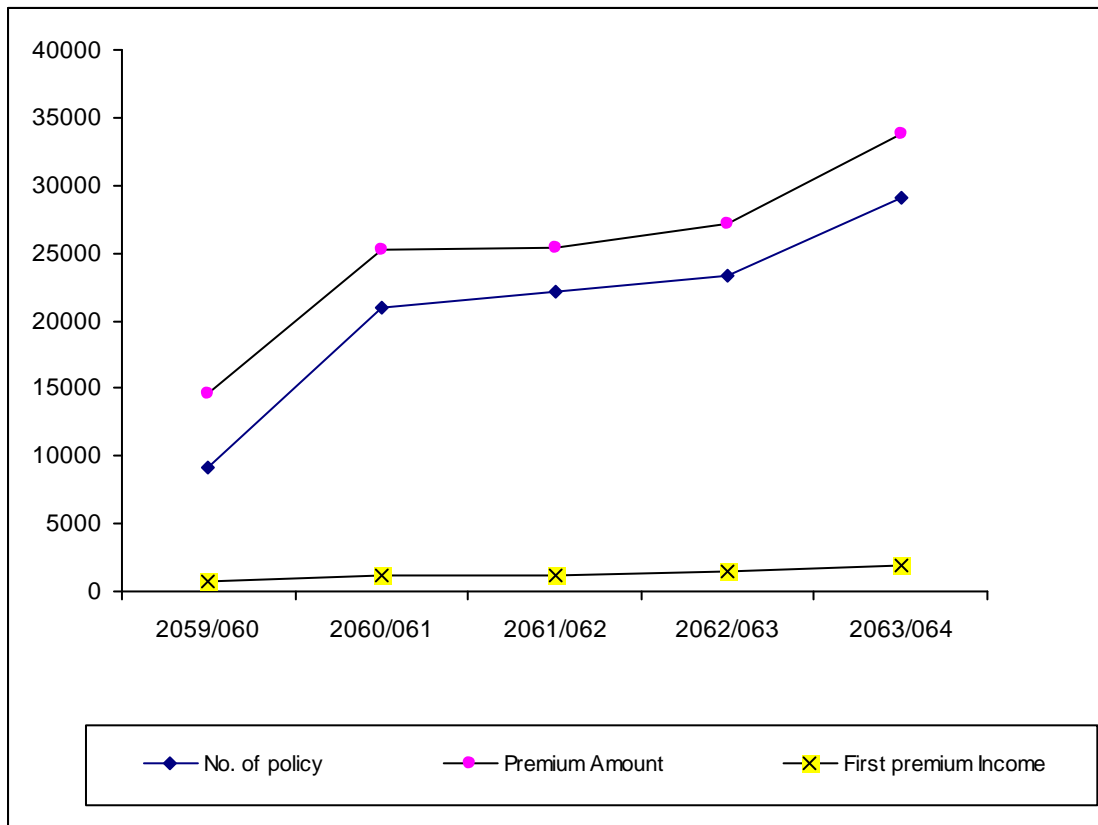
Table No. 4.19
Total office and managerial expenses of LIC
(Rs in million)

Fiscal year	Amount
2059/060	226.55
2060/061	297.19
2061/062	412.74
2062/063	573.03
2063/064	766.40

Source: Annual Reports (Annex –X)

Past Sales trend Analysis for every year

Particular	2059/060	2060/061	2061/062	2062/063	2063/064
No. of policy	9177	20992	22180	23389	29139
Premium Amount	14587	25232	25315	27177	33804
First premium Income	700	1155	1237	1454	1931



The above mentioned figure shows that the office and managerial expenses is almost fixed. There is a little variation in expenses for different years. There is no provision of preparing office and managerial expenses budget separately. The total office and managerial expenses has been divided into sub headings. The details of such expenses during the five years study period is tabulated as below.

Table No. 4.20**Detailed employee and Administrative overhead Expenses**

(Rs. in million)

Particulars	059/60	060/61	061/62	062/63	063/64
Salary, Allowances	51.80	74.72	83.30	120.67	112.10
House Rent	26.63	27.76	30.91	31.79	35.10
Repairing & Maintainers	11.85	1.37	2.35	2.46	5.56
Printing & MISC	51.50	10.17	14.94	12.02	16.84
Telephone	5.33	8.76	8.11	6.55	11.83
Entertainmain	0.76	0.34	0.58	0.64	1.09
Tour	11.74	8.82	13.68	12.29	16.67
Other	2.32	1.56	6.91	7.75	9.53
Policy stamp	1.31	2.70	3.00	3.87	5.58
Fee	0.50	0.50	0.50	0.50	0.50
Bank charge	1.90	1.61	1.57	2.08	1.54
Postage	0.55	1.30	2.15	2.16	2.10
Auditor fee	0.42	0.42	0.65	0.90	1.15
Electric & water	3.64	3.84	3.84	4.46	5.61
Share issue	27.93	-	-	-	-
Compaction prize agent	18.24	36.98	74.06	84.67	112.90
General meeting	8.65	6.43	7.86	6.63	3.71
Share register fee	7.87	3.11	0.50	3.13	0.50
Depreciation	21.56	18.21	18.71	17.80	16.46
Advertisement	5.60	11.39	10.37	12.63	27.77
Agent club	-	2.32	5.50	19.79	18.06
Office clearing	-	0.79	1.18	1.30	1.36
Membership meeting	-	3.45	3.11	3.68	2.15
Marketing incentives	-	6.72	19.79	16.08	4.02

Insurance premium (Assets other)	-	-	-	1.56	1.81
Staff Training	-	-	-	0.03	0.25
Illegal Advisor fee	-	-	-	0.29	0.71
Municipalities Tax	-	-	-	0.15	-
Four close policy	-	-	-	0.17	-
Technical service charge	-	-	-	9.41	37.65
Pension	-	-	-	2.65	2.40
Low price material	-	-	-	0.72	0.51
Commission (Agency Manager)	-	-	-	34.61	69.03
Office (Agency Manger)	-	-	-	24.12	30.54
Share purchase Agent Commission	-	-	-	-	1.02
Investment premium	-	-	-	-	8.82
Membership fee	-	-	-	-	0.22
Staff Refreshment	-	-	-	-	2.26
Grand total	260.1	233.27	313.57	447.56	567.35

Source: Annual Reports of study period

4.7 Cash flow planning of LIC

Cash budgeting is an effective way to plan and control the cash flows assess cash need and make effective use of excess cash. A primary objective is to plan the liquidity position of the company as a basis for determining future borrowing and future investment. The planning and control of the cash inflows, the cash outflow and the related financing is more important to all enterprises. A cash budget shows the planned cash inflows, outflows and for a specific time span.

There are basically two parts of cash Budget, the planned cash receipts (inflow) and the planned cash disbursements (outflow). It co-ordinates cash with.

- a. Total working capital
- b. Sales revenue
- c. Expenses
- d. Investments and
- e. Liabilities

Planning cash inflows and outflows gives the planned beginning and ending cash position for the budget period, while developing cash budget, the enterprises should consider other functional budgets. The enterprises should keep sufficient cash neither less nor more. Cash shortage will disturb the enterprises in its smooth operation while excess cash will simply remain idle, without contribution anything towards company's profitability. Thus, the major function of financial manager is to maintain a sound cash position. To analyze the major cash application and sources cash flow statement can be prepared with the help of balance sheet of financial year.

Table No. 4.21
Cash flow statement of LIC

(Rs. in Million)

S.N.	Details	059/60	060/61	061/62	062/63	063/64
A	Cash Flows	218.73				
	From					
	Operation					
	Profit Before Tax	21.00				
	Depreciation	3.94				
	Income Tax Provision	0.35				
	Special Tax	931.36				
	Life Insurance Fund	500.00				
	Share Capital	9.09				
B	Fixed Assets	4.92				
C	Investment	1639.45				
	Cash stock	40.09				
A	Insurance From		2660.43	3990.41	5429.92	7242.56
	Cash receipt					
	Premium interest		8.24	19.49	40.99	59.94
	Reinsurance Cash Pay		(14.17)	(15.43)	(16.18)	(13.48)
	Agent Cash Paid		(526.29)	(743.10)	(907.11)	(1113.87)
	Supply and Other Paid		(32.84)	(26.52)	76.72	6.26

	Staff Cash Paid		(74.72)	(83.29)	(120.67)	(112.09)
	Others Managerial Exp.		(92.34)	(112.21)	(120.67)	(195.24)
	Medical Expenses		(15.32)	(14.29)	(125.81)	(23.60)
	Paid For Death		(16.59)	(65.71)	(19.55)	(467.85)
	Service Charge for insurance comities fee		(12.83)	(26.61)	(93.16)	(54.29)
	Agency managerial paid				(58.74)	(99.58)
	Dues Adjustment Insurance Premium					213.11
	Staff Bonus Paid					(56.62)
	Operating Activities From Cash		(1949.25)	2922.75	4165.50	5385.23
	Special Payment		(0.59)	(1.16)	(2.14)	-
	Operating Activities From Cash		1948.65	2921.58	4163.36	5385.22
B	Investment Activities					
	Fixed Assets Purchase		(10.82)	(20.00)	(8.02)	(21.32)

	Other Expenses		-	(1.53)	-	-
	Government Bond Investment		(294.49)	(122.98)	-	(26.48)
	Commercial Bank Fixed A/C		(1090)	(2000)	(1889.70)	(2835)
	Financial Co. Fixed A/C		(115)	(299)	(1065)	(215)
	Development Bank Fixed A/C		(225)	(185)	(700)	(1380)
	Public Investment Found		(160)	-	-	-
	Commercial Bank Debenture		(125)	(484)	(1079)	(552.55)
	Short term Investment		(46.46)	(151)	(9.54)	(30.19)
	Policy Loan		(6.14)	(24.84)	(54.00)	(168.36)
	Advance		(51.49)	(65.64)	(204.21)	(288.26)
	Interest Receive		221.80	445.63	671.18	1005.13
	Dividend		-	7.16	6.79	7.59
	Short term Investment From Cash		69.04	46.46	151.23	9.54
	Investment Premium					(390.41)
	Investment Activities From		(1833.55)	(2854.9 9)	(4180.27)	(7506.58)

	Cash					
C	Financial Activities From Cash		-	-	-	-
	Short term Loan From Cash					2390.29
	Interest Paid					(20.93)
	Financial Activities Form Cash					2369.35
	Cash Increase A+B+C		115.09	66.59	(16.91)	247.99
	Opening Cash & Bank		40.09	155.19	221.79	204.88
	Closing Cash & Bank		155.19	221.79	204.88	452.88

Source: Annual Report of Study Period.

Cash flow statement highlights the sources and utilization of cash. On other word, it shows the cash management during study period. Cash flow statement is used here to check the liquidity of the company. Accurately the closing cash balance of final year of study period is the maximum amongst five years, which is 452.88 million.

4.8 Profit and Loss Account LIC

Profit and loss account is such tool in accounting system, which comprehensively presents the operating efficiently of the organization in the relevant period. After preparing all functional budgets, budgeted profit and loss account is prepared. P/L account is developed to report financial results of the various functional sub plans and commitments.

At the end of each financial year, LIC prepares profit and loss account in order to know the profit and loss situation of the company. The company does not prepare a projected profit and Loss account in advance.

Most of public enterprises are running in losses and are burden to the government. Therefore, most of the public enterprises are in the process of being privatized. But there are rare private companies that have to run in loss. The profit and loss trend of LIC during the five years study period are shown in the table given below.

Table No. 4.22
Profit and Loss trend of LIC

(Rs in million)

Fiscal year	Sales revenue	Profit or Loss
2059/060	1267.42	11.59
2060/061	2643.70	77.19
2061/062	3973.53	142.75
2062/063	5415.44	227.62
2063/064	7229.46	509.62

Average: 96.88

Source: Annual Reports of LIC

By the observation of above table, it can clearly be seen that the profit trend of the company is fluctuating in nature. The least profit is in f.y. 059/60 and the highest profits are in f.y. 063/64 Rs 11.59 and Rs 509.62 million respectively.

At last the profit of f.y. 059/60 has decreased as compared the less profit. Which indicates the company has not been able to control the expenses. The fluctuating trend of profit concludes that the company does not pay proper attention on profit planning. Serious steps must be taken to control the expenses and incensement of sales revenue as well as preparing all functional budgets in such a way that the company earns reasonable profit from its business. The average net profit of company during these five years in Rs. 96.88 million.

Actual profit and loss account of the company for the f.y. 059/60 to 063/64 are presented in following table.

Table No 4.23
Profit and Loss Account

(Rs in Million)

S.N.	Particular	059/60	060/61	061/62	062/63	063/64
1	Income From Insurance					
	Government Brand Interest	3.59	306.45	444.97	658.94	566.24
2	Bonus of Share	7.16	-	7.16	-	-
3	Fixed Deposit Interest	198.93	-	-	-	-

4	Loan at Interest	0.02	0.21	2.07	8.63	-
5	Share Issue at Interest	5.0	-	-	-	-
6	Other Income	-	1.84	2.13	0.02	-
7	Advance Interest	-	-	-	3.59	-
	Total Income	214.70	308.50	456.33	671.98	566.24
1	Management Expense	203.11	231.30	313.58	443.56	56.62
2	Profit & Loss	11.59	77.19	142.75	227.62	509.62
	Total Expenses	214.70	308.50	456.33	671.98	566.24

Source: Annual Reports of LIC

4.9 Balance Sheet of LIC

The development of an annual plan ends with the planned income statement, planned balance sheet and planned statement of cash flow summarizing different functional budgets. The projected balance sheet the effect of plan of operations on the assets, liabilities and capital of the company. It shows the overall financial condition of a firm.

Balance sheet is always prepared at certain or at a certain point of time. It is not prepared for a period like profit and loss account, which is prepared and

reported quarterly half yearly or yearly. The quality of assets, liabilities and owners equity is reflected in balance sheet.

LIC prepares its balance sheet at the end of each financial year to show the financial condition of the firm but does not prepare the projected balance sheet for coming years. The balance sheet of LIC is shown in the table given below.

Table No 4.24
Balance Sheet of LIC

(Rs in million)

Description	2059/060	2060/061	2061/062	2062/063	2063/064
Capital & Liabilities					
Authorized Capital	2500	2500	2500	2500	2500
Issued Capital	2500	2500	2500	2500	2500
Paid up Capital	2500	2500	2500	2500	2500
Life Insurance Fund	1254.44	3384.19	6730.84	11368.37	16889.05
Estimated Liabilities for Outstanding Claim	21.0	38.85	58.6	102.72	70.87
Account Payable for Re-insurance	12.16	14.72	16.18	13.48	13.09
Agent Commission	20.47	39.25	-	-	16.99
Other Liabilities	62.44	108.46	95.24	186.21	193.71
Income Tax	5.73	28.55	71.37	127.13	220.24
Special Tax	-	1.16	2.14	-	-
Short term Loan	-	-	-	-	2390.29

Due Adjustment Premium	-	-	-	-	213.11
Capita Reserve	-	-	-	-	509.62
Total Capital & Liabilities	3876.23	6115.18	9474.37	14297.91	23016.96
Fixed Assets (Net)	71.41	64.58	66.46	57.55	62.20
Investment & Loan	3618.95	5628.45	8719.43	13453.13	21060.70
Police Loan	-	6.14	30.98	84.99	253.35
Cash & Bank	40.09	155.19	221.79	204.89	452.88
Short term Investment	69.04	46.46	151.23	9.54	30.19
Reserveable Re-insurance	-	-	-	-	8.38
Other Advance	74.99	213.17	282.36	486.57	766.46
Other Receivable	1.74	1.18	2.13	1.26	382.80
Total Assets	3876.22	6115.17	9474.37	14297.91	23016.96

Source: Annual Report of LIC (Annex-1)

Accounting section of LIC prepares a Balance sheet to show the picture of various assets liabilities and capital up to date, which also shows the financial condition of the profit Analysis:

Cost volume profit is an analytical tool for studying the relationship between volume cost price and profit. There are three factors in CVP analysis which are interconnected and dependent on each other. CVP analysis, which are

interconnected and dependent on each other. CVP analysis shows, which volume or level of activity is necessary to stay at break- even or to gain a certain amount of profit. CVP analysis includes both contribution analysis and break even point. There is zero profit at break even point to find the break even point. Unit selling price, unit variable cost, unit contribution margin and total fixed cost are to be found.

Contribution analysis includes a series of analytical techniques to determine and to evaluate the effects on profit of change in sales volume, sales prices, fixed expenses and variable expenses.

Break even analysis emphasizes the level of output or productive activity at, which sales revenue exactly equals to total cost and that is there is no profit or loss. Break even analysis rests upon the foundation of cost variability. Separate identification and measurement of the fixed and variable components of cost. It is very important for sales plan. It is very difficult to determine sales level of profit.

Cost volume profit analysis of LIC is based in some assumptions which are given as below.

1. Cost volume profit analysis of LIC is based on the accounting data of fiscal year 063/064
2. Activity base is selected in terms of sales rupees. Because this is the service oriented company, which render service rather than produce physical products.
3. Unit variable cost, total fixed cost and selling price are assumed to be remaining constant.

(Rs in million)

Total sales Revenue:- 566.24

Total fixed cost:- 390.95

Total variable cost:- 176.12

BEP Calculation

1. Variable cost volume (v/v Ratio):

$$\begin{aligned} \text{V/V ratio} &= \frac{\text{Total Variable Cost}}{\text{Sales}} \\ &= \frac{176.12}{366.24} \end{aligned}$$

$$\text{V/V Ratio} = 0.31$$

2. Profit Volume Ratio (P/V Ratio)

$$\begin{aligned} \text{P/V Ratio} &= 1 - \text{V/V Ratio} \\ &= 1 - 0.31 \\ &= 0.69 \end{aligned}$$

3. BEP in Value (Rs.)

$$\begin{aligned} \text{BEP (Rs.)} &= \frac{\text{Total Fixed Cost}}{\text{P/V Ratio}} \\ &= \frac{390.95}{0.69} \\ &= 566.59 \end{aligned}$$

4. Margin of Safety for F.Y. 2063/064

$$\begin{aligned}\text{MOS} &= \text{Budgeted sales} - \text{BE sales} \\ &= \text{Rs. } 7248.59 - 566.59 \\ &= \text{Rs. } 6682\end{aligned}$$

5. Margin of Safety Ratio

$$\begin{aligned}\text{MOS Ratio} &= \frac{\text{MOS}}{\text{Budgeted Sales}} \times 100\% \\ &= \frac{6682}{7248.59} \times 100\% \\ &= 92.18\%\end{aligned}$$

6. Budgeted Profit & Loss for F.Y. 2063×064

$$\begin{aligned}&= \text{Margin of safety} \times \text{P.V Ratio} \\ &= 566.59 \times 0.69 \\ &= 390.95\end{aligned}$$

In order to reach break-even point, the sales revenue should be Rs. 566.59 million. The above figure shows that 31% of total sales revenue is occupied by variable cost and the remains 69% is available for meeting non-operating expenses structure remains constant and sales revenue corresponds to budget, then expected profit in f.y. 063/64 would be Rs. 390.95 millions.

Table No. 4.25
Expenses variability of LIC for f.y. 063/064

(Rs. in million)

Details	Fixed	Variable
Salaries/Allowance	112.09	
House Rent	35.09	
Repair		5.56
Advertisement		27.77
Printing & Stationary	16.84	
Telephone	11.83	
Entertainment		1.09
Refreshment & Welcome		2.26
Tour & Transport		16.67
Other Exp.	9.53	
Policy Stamp Exp.	5.38	
Lenience renewal Fee	0.50	
Membership Fee	0.22	
Investment Premium	8.82	
Bank Charge	1.53	
Postage	2.09	
Audit Fee	1.15	
Electric/Water		5.61
Depreciation	16.46	
Competition prize		112.89
Annual General Meeting	3.71	
Share Reg. Fee	0.50	

Agent Club	18.05	
Office cleaning	1.36	
Meeting Exp./membership Board	2.15	
Marketers Incentives		4.02
Beema Premium (Assets & Other)	1.80	
Staff Training Exp.		0.25
Liegal Advisor Fee	0.71	
Technology Service Charge (TIC)	37.65	
Pension	2.39	
Low price Material	0.51	
Commission (Agency Manager)	69.03	
Office Exp. (Agency Manager)	30.54	
Share Purchase Agent Commission	1.02	
Total	390.95	176.12

4.10 Major Findings

Above analysis of various functional budgets, their achievements, financial budget, ratio analysis, CVP analysis show that LIC is suffering from the various problems in formulation and implementation of profit plans. From the profit planning and control profit of view. LIC has not adopted the systematic and implementing the profit plans. The future profit performance of the company will be more clear and fruitful if it adopts profit planning and control system in

a system in a systematic manner. Major findings of the study are presented as below.

1. Special goals and financial targets are not defined clearly to achieve the basic objectives of LIC.
2. LIC has not practiced the short term and long term planning properly.
3. The sales targets, in most of the year are kept ambitiously by which there is big difference between target sales and actual sales.
4. Actual sales of the company are in increasing trend.
5. Straight-line trend sales show the positive figures for the future.
6. There is inadequate profit planning due to lack of planning experts.
7. The company has final cash balance of Rs. 452.88 million for the year 2063/064.
8. The company fails to maintain its periodic performance report and there is no proper reward and punishment system.
9. A break even sale of the company is Rs. 566.59 million in f.y. 2063/064 and the expected profit is Rs.
10. Correlation between sales target and achievement is statistically insignificant. The regression equation shows the positive relationship between target and actual sales. But the straight line trend shows the unfavorable sales figure for future. The overall trend is not satisfactory.
11. There is no systematic approach of manpower planning.
12. Ratio analysis is a technique of analysis and interpretation of financial management in LIC current ratio and quick ratio are not satisfied.
13. Objectives of this company are controversial. There is conflict between profit and social goals.
14. Budgets are prepared just to fulfill the formalities but they are not used effectively for profit planning process.

4.11 Summary of five years results

**Chart No. 1
Capital and funds**

(Rs. in Million)

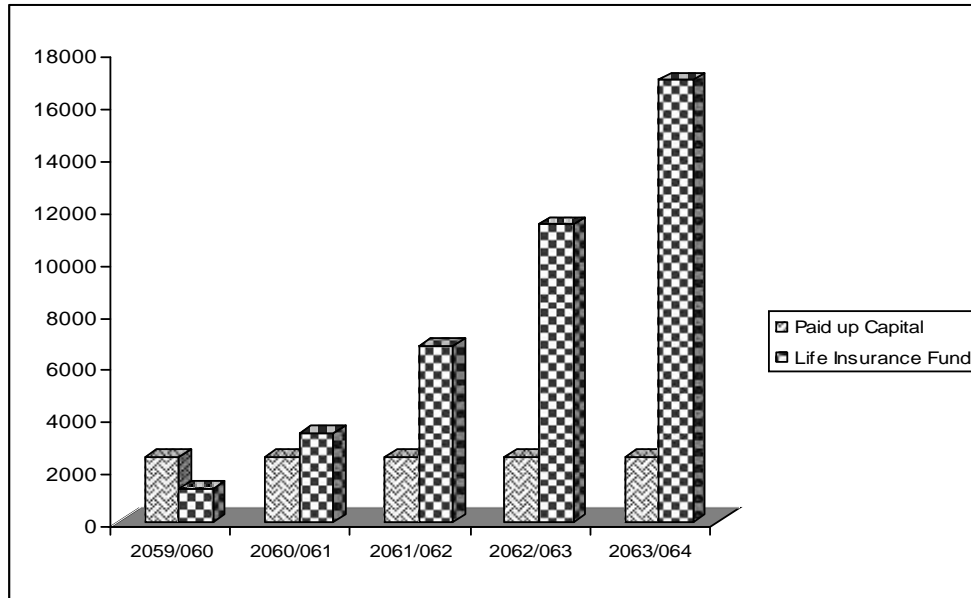


Chart No. 2

Gross Premium, Net Premium & Management Expense

(Rs. in Million)

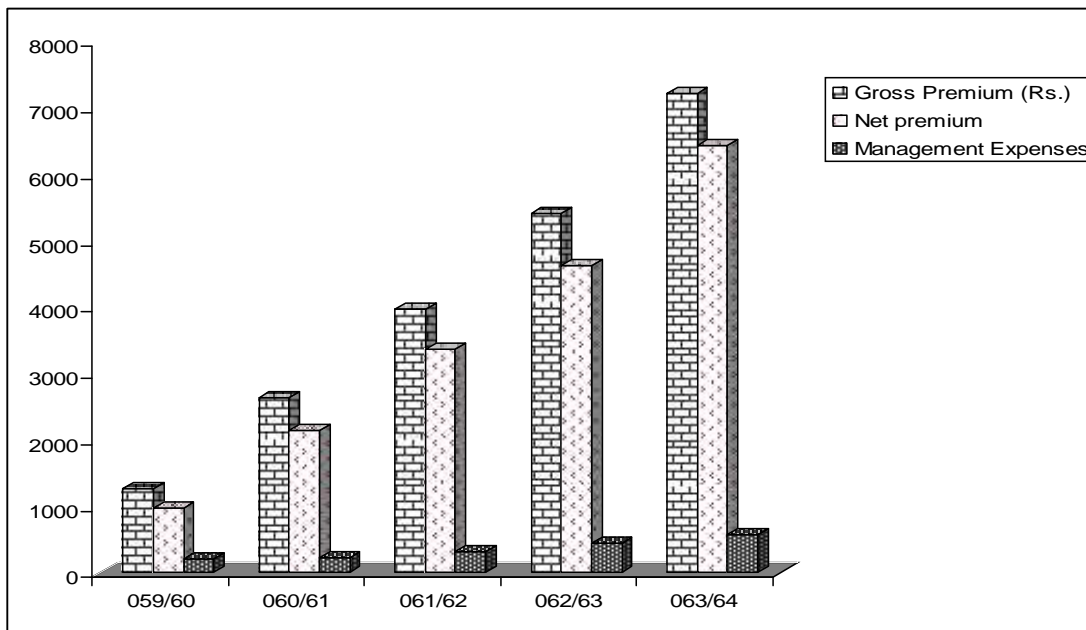
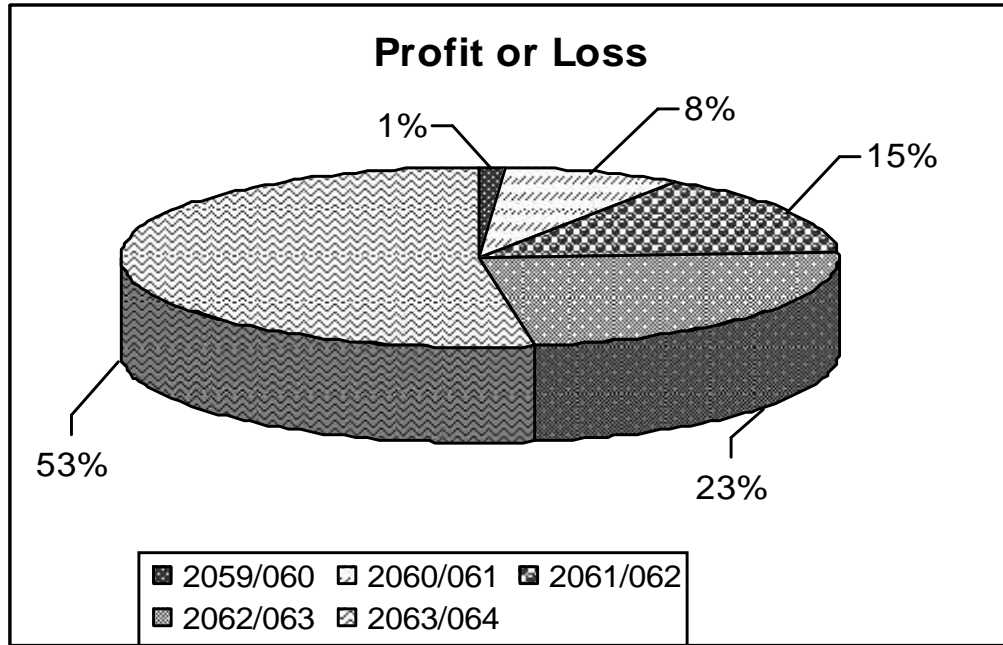


Chart No. 3
Profit Before Tax

(Rs. in Lakhs)



CHAPTER -V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

Nepalese economy is almost depended upon agriculture 40% of GDP is derived from agriculture and 82% of population is employed in this sector. Due to lack of modernization in agriculture. Nepalese has not been able to have adequate economic development. Economic development of the country depends upon industries. Development of industries is of immense importance for rapid economic progress of the country.

For economic development, many industries have been established after the restoration of democracy. Industrialization is still in its infancy stage, established industries have important role to contribute to the economic development of nation.

Insurance business basically depends. Upon the industrialization of nation. But insurance business is also unable to expand as industrialization of nation. Most of the insurance companies have been come into operation after the decade of 90's. But Life Insurance Corporation (Nepal) limited is the oldest and reputation life insurance Co. in Nepal. Even though being a one of the pioneer co. in insurance industry. It occupies just 26% market share. There is a tough competition in the market. Different types of life insurance policies offered to attract their clients. The company is playing a vital role for social economic

development throughout the nation either by transferring risks or by collecting scattered resources. In this study, LIC's profit planning activities are analyzed from different angles. LIC has applied the concept of comprehensive profit planning is one of the most important management tools used to plan and control business operation. Profit plan plays a major role in the performance of all organizations manufacturing and non manufacturing whether they are small or large in size. The effective operation of a business concern resulting into the excess of income over expenditure fully depends upon as to what extent the management follows proper planning, effective co-ordination and dynamic control and how the budget are prepared with the consideration of the planned profit of business.

Without proper planning and their implementation, no organization can achieve its goals and objectives efficiently. So these days profit planning has become one of the most important management tools used to plan and control business organizations.

The main objectives of planning in business organization is to increase the chances of making profit. The management must continuously involve in planning, organizing and controlling the operation of business organization.

This study has tried to examine the application of profit planning in LIC. The practices and effectiveness of profit planning are viewed with the help of various functional and financial plans. Functional plans includes sales budget (plan) manpower plan, expense plan etc. Where as financial plans include cash flow, balance sheet. Data and information collected from both primary and secondary

sources are analyzed with the help of various statistical and financial tools. In this study, analytical and descriptive research design is followed.

The research has been organized into five main chapters, which are:

- i) Introduction
- ii) Review of Literature
- iii) Research Methodologies
- iv) Presentation and Analysis of Data
- v) Summary, Conclusions and Recommendations

From the analysis of the study, we can see that there is lack of clear objectives, specific targets, still there is lack of expertise. The company's risk averting behavior is not so favorable from business point of view. Being a pioneer co. in industry, 26% market share does not show so satisfactory position. So in order to improve such weakness, application of comprehensive profit planning will effectively be helpful.

5.2 Conclusions:

So far LIC is one of the successful and leading companies in life insurance market of Nepal. It also suffers from different type of problems and unfavorable situations. This is the general matter too. Therefore, after analyzing the various functional and financial budgets in respect to profit planning in LIC in this study the following conclusions are drawn.

LIC prepares some functional budgets like sales budget, manpower budget and administrative expense budget. But these are prepared only on annual basis without dividing total amounts into interim periods. Expenses budget has not been prepared systematically. The expenses head has not been so cleared. The sales plan is based on past experience without considering future potentials. The basic objectives of LIC are not clearly specified. The company generally prepares the sales budget in traditional way. This is due to lack of skilled and expert planners.

There is high positive correlation between actual sales and targeted sales. Which indicated that increase in budgeted sales will lead to an increase in actual sales.

But this sort of behavior may not be available for a long time. The company has not properly planned the capital expenditure budget. Decision of capital additions are made as per emergencies and necessities. Discounted cash flow method of evaluating proposal is not considered while making capital expenditure.

Personnel's are generally paid fixed remuneration, which may lead to discouragement to the efficient personnel toward the organization performance evaluation system is not well developed in LIC and as such there is not proper system of reward and punishment on the job performance. But in the recent year, company provided the cash reward to its employees, which is definitely appreciable effort.

Finally, the company has not adopted fundamental principles of P.P.C. efficiently. There is lack of systematic profit planning, absence of strategic

management and lack of managerial commitment in LIC. In addition to these points, the study has identified the following strengths and weakness of the company such as:

Strengths:

1. Being the oldest life insurance company in Nepal it is well renowned in life insurance sector throughout the country.
2. Profit is satisfactory.
3. Net life insurance premium is increasing smoothly every year.

Weaknesses:

1. It shows that the company is unable to enforce for premium collection and direct billing system is not applied. It seems the negligence of agents, brokers, agency manager and development officer for not helping to the company for premium collection despite receiving insurance commission in huge amount.
2. Stable dividend payment policy has not been clearly adopted.
3. In spite of increase in net insurance premium, profit a gained by company is not so satisfactorily increasing. Its one the major cause is incensement in operating expenses by which profit is declining.
4. Different types of life insurance service are rendered by LIC. However, it has not been able to balance all types of life insurance business. It collects, premium form endowment, money back, child policy whole life (Jeevan Aananda) female policy Kiran Jeevan Taranga etc. But most of the premiums collected from endowment policy.
5. Ratio of fixed assets to total assets is very low. LIC does not possess such huge amount of fixed assets.

Recommendations

After the detail analysis of practices of profit planning in LIC, some suggestions have been recommended on the basis of finding to improve the performance of company. To remove the weaknesses and capitalize more strength the co. should adopt the compressive profit planning and control system from very beginning to the end, which is the major part for the success of business enterprise. The following action should be taken respect of profit planning and control in LIC.

The company should define goals and objectives among various levels of management.

The company should define broad long range and tactical short range planning for accomplishing the planning, co-ordination and control responsibility.

Participative management, profit planning manuals and effective budget education should be introduced and communicated in the time of formulating plans and policies to the lower level management.

The company should have SWOT (Strengths Weaknesses, Opportunities and Threats) analysis to improve its capability and performance.

The company should classify the expenditure into fixed variable controllable and uncontrollable after introducing the proper system for expenses records and classification.

The company should practice intensive plan to improve motivation and morale of employees for better efficiency.

The company should improve the outstanding premium collection by activating local agents.

Settlement of claims should be made in time. Delay in settlement of claim may effects the attitude of policy holders and business potential.

The company should extend its business area that may enhance insured convenience and will expand business opportunities.

The business portfolio should be diversified. The high dependency on endowment insurance business cannot make the company able to meet the highly growing completion in life insurance business. It should seek other fertile sector along with improvement of Jeevan Ananda and other insurance business.

In order to being financially stronger, the company should expend its fixed assets. Only the financially strong company holds. Capability of attracting the potential customers and expending the business.

Company adopting comprehensive profit planning approach while formulating and implementing the profit plan.

An attempt should be made to improve the sales target by activating the management towards realistic sales target and achievement the company management should took carefully into the basic of setting target for sales and achieving those target meaningfully. Thus, the realistic long range, medium range and short range forecast should be made.

Capital expenditure should be planned in detail for evaluation purpose discounted cash flow techniques should be applied.

Balance sheet shows the overall financial condition of from so the financial position of the company should be properly maintained in systematic way.

Cost volume profit analysis should be considered while formulating profit plan.

The financial position of the company should be timely evaluated through ratio analysis and other relevant financial and mathematical tools. Models are recommended to evaluate its financial position.

Profit planning manuals should be communicated from top level to lower levels.

Finally, company should develop the systematic periodic performance reports detailed by assigned responsibilities for accomplishing the planning objectives.

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Annex No. 1

Balance sheet of LIC

For the fiscal year 2059/060 – 2063/064

(Rs in million)

Description	2059/060	2060/061	2061/062	2062/063	2063/064
Capital & Liabilities					
Authorized Capital	2500	2500	2500	2500	2500
Issued Capital	2500	2500	2500	2500	2500
Paid up Capital	2500	2500	2500	2500	2500
Life Insurance Fund	1254.44	3384.19	6730.84	11368.37	16889.05
Estimated Liabilities for Outstanding Claim	21.0	38.85	58.6	102.72	70.87
Account Payable for Re-insurance	12.16	14.72	16.18	13.48	13.09
Agent Commission	20.47	39.25	-	-	16.99
Other Liabilities	62.44	108.46	95.24	186.21	193.71
Income Tax	5.73	28.55	71.37	127.13	220.24
Special Tax	-	1.16	2.14	-	-
Short term Loan	-	-	-	-	2390.29
Due Adjustment Premium	-	-	-	-	213.11
Capita Reserve	-	-	-	-	509.62
Total Capital & Liabilities	3876.23	6115.18	9474.37	14297.91	23016.96
Fixed Assets (Net)	71.41	64.58	66.46	57.55	62.20
Investment & Loan	3618.95	5628.45	8719.43	13453.13	21060.70
Police Loan	-	6.14	30.98	84.99	253.35

Cash & Bank	40.09	155.19	221.79	204.89	452.88
Short term Investment	69.04	46.46	151.23	9.54	30.19
Reserveable Re-insurance	-	-	-	-	8.38
Other Advance	74.99	213.17	282.36	486.57	766.46
Other Receivable	1.74	1.18	2.13	1.26	382.80
Total Assets	3876.22	6115.17	9474.37	14297.91	23016.96

Source: Annual Report of LIC (Annex-1)

Annex No. II
Profit and Loss Account

(Rs in Million)

S.N.	Particular	059/60	060/61	061/62	062/63	063/64
1	Income From Insurance					
	Government Brand Interest	3.59	306.45	444.97	658.94	566.24
2	Bonus of Share	7.16	-	7.16	-	-
3	Fixed Deposit Interest	198.93	-	-	-	-
4	Loan at Interest	0.02	0.21	2.07	8.63	-
5	Share Issue at Interest	5.0	-	-	-	-
6	Other Income	-	1.84	2.13	0.02	-
7	Advance Interest	-	-	-	3.59	-
	Total Income	214.70	308.50	456.33	671.98	566.24
1	Management Expense	203.11	231.30	313.58	443.56	56.62

2	Profit & Loss	11.59	77.19	142.75	227.62	509.62
	Total Expenses	214.70	308.50	456.33	671.98	566.24

Source: Annual Reports of LIC

Annex No. III

Total Current Assets & current Liabilities of LIC

(Rs. In millions)

Particulars	2059/060	2060/061	2061/062	2062/063	2063/064
<u>Current Assets</u>					
Cash & Bank Balance	40.09	155.19	221.79	204.88	452.88
Short term Investment	69.05	46.46	151.23	9.54	30.19
Other Receivable	74.99	213.17	282.36	486.57	766.46
Other Investment	1.74	1.18	2.13	1.26	382.79
Debtors From Reinsurance					8.38
Total Current Assets	185.87	416.0	657.51	702.25	1640.7
<u>Current Liabilities</u>					
Estimated Liabilities for out standing claim	21.00	38.85	58.6	102.72	70.87
Payable for Reinsurances	12.16	14.72	16.18	13.48	13.09
Agent Commission	20.47	39.25	-	-	16.99
Other Liabilities	62.44	108.46	95.24	186.21	193.71
Special Tax	-	1.16	2.14	-	-
Provision for Taxation	5.74	28.55	71.37	127.14	220.24
Reserve for Reinsurance fund	-	-	-	-	-
Short term Loan					2390.29
Adjustment Premium					213.11

Total Current Liabilities	121.81	230.99	243.53	429.55	3118.3
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Annex No. IV
Statistical Calculation
X = Budgeted Sales
Y = Actual Sales

(Rs. In millions)

Fiscal years	X	Y	$X - \bar{X} = U$	$Y - \bar{Y} = V$	U^2	V^2	UV
059/060	1466.72	1267.42	-2795.8	-2838.49	7816497.64	8057025.48	62978
060/061	3146.21	2643.70	-1116.31	-1462.21	1246148.01	2138058.08	2664
061/062	4102.03	3973.53	-1276.8	-132.38	1630218.24	17524.46	28568694
062/063	5349.09	5415.44	1086.57	1309.53	1180634.36	1714868.82	2025
063/064	7248.59	7229.46	2986.07	3123.55	8916614.04	9756564.60	86996
Total	21312.64	20529.55	-1116.27	V=0	3560112.29	21684041.44	28723357

$$\bar{X} = 4262.52$$

$$\bar{Y} = 4105.91$$

Source: Annual Reports of study period

i) Calculation of arithmetic mean

$$\bar{X} = \frac{\sum x}{N} = \frac{21312.64}{5} = 4262.53$$

$$\bar{Y} = \frac{\sum y}{N} = \frac{20529.55}{5} = 4105.91$$

ii) Calculation of Standard Deviation

$$\begin{aligned}
t_x &= \sqrt{\frac{1}{N} \sum U^2} \\
&= \sqrt{\frac{1}{5} U 35460112.29} \\
&= \sqrt{7092022.458} \\
&= 3546011.229
\end{aligned}$$

$$\begin{aligned}
t_y &= \sqrt{\frac{1}{N} \sum v^2} \\
&= \sqrt{\frac{1}{5} V 21684041.44} \\
&= \sqrt{4336808.288} \\
&= 2168404.144
\end{aligned}$$

iii) Calculation of co-efficient of variance

$$\begin{aligned}
\text{C.V of } x &= \frac{t_x}{x} \times 100 \\
&= \frac{3546011.229}{4262.52} \times 100 \\
&= 83190.489
\end{aligned}$$

$$\begin{aligned}
\text{C.V. of } y &= \frac{t_y}{y} \times 100 \\
&= \frac{2168404.144}{4105.91} \times 100 \\
&= 52811.779
\end{aligned}$$

iv) Calculation of correlation co-efficient (r)

$$(r) = \frac{\sum UV}{\sqrt{\sum U^2 \sum V^2}}$$

$$\begin{aligned}
&= \frac{28723357}{\sqrt{3560112.29 \times 21684041.44}} \\
&= \frac{28723357}{38598811213706.6488} \\
&= 0.44
\end{aligned}$$

v) Probable Error (P.E.)

$$\begin{aligned}
P(\text{Er.}) &= 0.6745x \frac{1-x^2}{\sqrt{N}} \\
&= 0.6745 \times 21312.64 \frac{1-42625.28}{\sqrt{5}} \\
&= 14375.37 \frac{1-42625.28}{\sqrt{5}} \\
&= 14375.37 - 17071.49 \\
&= 2696.12
\end{aligned}$$

vi) Coefficient of determination (r^2)

$$\begin{aligned}
r^2 &= (0.44)^2 \\
\therefore r^2 &= 0.88
\end{aligned}$$

BUSINESS ACHIEVEMENT FOR EVERY YEAR

2059/060

(Rs in million)

Particular	2059/060	2058/059	increase %
No. of policy	9177	4495	104.2
Premium Amount	14587	8307	75.60
First premium Income	700	381	83.7

2061/062

(Rs in million)

Particular	2060/061	2061/062	increase %
No. of policy	20992	22180	5.63
Premium Amount	25232	25315	0.32
First premium Income	1155	1237	7.09

2062/063

(Rs in million)

Particular	2061/062	2062/063	increase %
No. of policy	22180	23389	5.45
Premium Amount	25315	27176	7.35
First premium Income	1237	1453.67	17.51

2063/064

(Rs in million)

Particular	2062/063	2063/064	increase %
No. of policy	233389	29139	24.58
Premium Amount	27176	33804	24.39
First premium Income	1453.67	1931.11	32.84