

**A CASE STUDY ON WORKING CAPITAL MANAGEMENT OF NEPAL  
LIFE INSURANCE COMPANY LIMITED**

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## **RECOMMENDATION**

This is to certify that the thesis

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## **DECLARATION**

I hereby declare that the work reported in this thesis entitled "**A CASE STUDY ON WORKING CAPITAL MANAGEMENT OF NEPAL LIFE INSURANCE COMPANY LIMITED**" submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the degree of Master of Business Studies (MBS) under the supervision of Rabindra Bhattarai of Shanker Dev Campus, T.U.

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## **ABBREVIATION**

|           |                               |
|-----------|-------------------------------|
| %:        | Percentage                    |
| &:        | And                           |
| F/Y:      | Financial Year / Fiscal Year  |
| i.e.:     | That is                       |
| Co. Ltd.: | Company Limited               |
| MBS:      | Master in Business Studies    |
| NLIC:     | Nepal Life Insurance Company  |
| ALICL:    | Asian Life Insurance Co. Ltd. |
| NRB:      | Nepal Rastra Bank             |
| CA:       | Current Assets                |
| CL:       | Current Liabilities           |
| WC:       | Working Capital               |
| OI:       | Operating Income              |
| NWC:      | Net Working Capital           |
| TA:       | Total Assets                  |
| R:        | Receivables                   |
| FA:       | Fixed Assets                  |
| ROCE:     | Return on Capital Employed    |
| B.S.:     | Bikram Sambat                 |
| C.V.:     | Coefficient of Variation      |
| S.D.:     | Standard Deviation            |
| Ltd.:     | Limited                       |
| NEPSE:    | Nepal Stock Exchange          |
| No.:      | Number                        |
| T.U.:     | Tribhuvan University          |

# CHAPTER-I

## INTRODUCTION

### 1.1 Background of the Study

The global financial crisis has pressurized business firms to give significant importance to liquidity such that they are turning to their working capital in search of liquidity. The Royal Bank of Scotland (RBS) (2012) has rightly mentioned, “Although some companies began the process of improving their working capital management five or even ten years ago, many others were driven to focus on the issues by funding disruptions and cash shortages brought by the global crisis.” Further, RBS puts forward, “The effects of the many challenges faced by large companies during that period are evident today in both operational practices and strategic priorities. In particular, companies have adopted a conservative stance, focusing working capital management efforts on managing counterparty risk and maintaining liquidity.” A liquid company has more cash in hand to pay its debtors in time and reduce its net financial costs. In addition, a more liquid company is able to quickly invest in profitable opportunities.

Working capital is typically defined as net working capital, which is the difference between current assets and current liabilities. It is the portion of total capital that is used to carry out routine or consistent business operations. In summary, it is utilized to fund day-to-day activities. Working capital is the most crucial part of every firm. The efficiency with which an organization manages its working capital is critical to its overall performance.

Working capital management involves managing a firm's short-term assets and its short-term liabilities. The goal of working capital management is to ensure that a firm is able to continue its operations and that it has sufficient ability to satisfy both maturing short-term debt and upcoming operational expenses. The management of working capital involves managing inventories, accounts receivable and payable, and cash. By shortening the time of collecting accounts receivables, deferring accounts payable and keeping minimum inventory, a company can reduce its working capital.

Sound working capital management is essential to every industry, be it a manufacturing industry or a service industry.

The role of working capital management in financial industry like insurance company should not be underestimate J.P. Morgan Chase Bank (2012) has rightly stated in one of its recent report, “Like the corporate sector, many insurance treasuries are realizing the potential of effective working capital management and are increasingly seeking to standardize, automate and streamline the payables and receivables processes by leveraging best practices. This can result in significant cost savings, working capital release, maximized liquidity and improved customer and supplier relationships.” This statement emphasizes the role of working capital management in insurance companies.

Insurers, regulators and analysts today use various techniques for managing the working capital and judging its efficiency. J.P. Morgan Chase Bank (2012) puts forward, “From a strategic viewpoint, working capital metrics (for the insurance sector: days premiums outstanding and days claims outstanding) are increasingly being used by analysts to assess a company’s efficiency.”

J.P. Morgan Chase Bank (2012) identifies receivable management and payables management as two key components of working capital management in insurance companies. It adds, best practices in receivables management include higher levels of automation, improved reporting and reconciliation practices, leveraging electronic payments, and exploring direct channels for collections. Integrated receivables solutions can provide improved information flows, enhancing visibility and providing tangible benefits including reduced costs and accelerated cash inflows.

Companies may also benefit from enhancing payables management. For example, primary and reinsurance companies can enhance claims disbursement processes by choosing an optimal payment method and centralizing the process. Best practices include minimizing check payments, using prepaid cards, increasing reliance on low value processing, selective use of wires for high value, urgent payments, and the standardization and automation of payments using a single payments provider.

In addition to reduced costs, benefits of these strategies include increased control and enhanced visibility.

Thus, we can say insurance companies strive to streamline their receivable management (basically insurance premiums) and payable management (basically claims) in an attempt to manage their working capital in an efficient manner.

Being a growing business in Nepal, the insurance companies are facing multiple challenges. Lack of sufficient number of insurers, primitive financial markets, and limited market opportunities pose serious threats to the insurance business in Nepal. Implementation of sound working management practices is an additional challenge. In this sense, it is critical to investigate how well Nepalese insurance companies manage their operating capital. This study focuses on the working capital management of Nepal's major insurance firm, Nepal Life Insurance firm.

### **1.1.1 Introduction of Insurance Company in Nepal**

“Maal Chalani ra Bima Company” is the first insurance company in Nepal which later was renamed as “Nepal insurance and Transport Company” in 1959 and further as “Nepal Insurance Company Ltd”. In 1968, the government of Nepal established “Rastriya Bima Sasthan” under the Company act.

This case study will focus on three insurance businesses in Nepal. Nepal Life Insurance Co. Ltd. (established on May 4, 2001 under the firm Act 2053 and the Insurance Act 2049) is a well-known and pioneering private life insurance firm. Triveni Group, the Co.'s sponsors, are well-known business houses and enlightened citizens of the country, therefore the Co.'s financial status is consistently stable. It is the first and only Insurance Company that has been granted a license to conduct life insurance business entirely and is solely owned by Nepalese residents.

The second one is MetLife (ALICO). MetLife, Inc. (NYSE: MET) and its subsidiaries and affiliates ("MetLife") are among the world's top financial services firms, offering insurance, annuities, employee benefits, and asset management to help individual and institutional customers navigate a changing world. MetLife, founded in 1868, operates in over 40 markets worldwide, with leadership

positions in the United States, Japan, Latin America, Asia, Europe, and the Middle East.

MetLife is a branch of MetLife, Inc. that has been in Nepal since December 5, 2001. MetLife, the first foreign business to have an insurance license in Nepal, is one of the country's major Life Insurance, Accident & Health Insurance, and Employee Benefits insurers, offering attractive insurance protection and benefits at a low price.

MetLife focuses on local communities, recognizing their needs and providing protection solutions through our network of expert agents and institutional partners. It has over 8,000 agents in Nepal who work hard to guarantee that each and every one of our customers finds a plan that is ideal for them.

The last one is Asian Life Insurance Company, Asian Life Insurance Company Limited (ALICL), which was founded under the Company Act 2053 on February 27, 2008 (Falgun 15, 2064) and began operations on April 3, 2008 (Chaitra 21, 2064). The Company's authorized capital is Rs 5 billion, with Rs 3399.8 million paid up capital.(Promoter to Public Shareholding Ratio: 51:49). ALICL has a life fund of Rs. 41 billion (Chaitra end 2080-81). Members of the board of directors and other individual investors are leaders in various professions and businesses, including banks, insurance firms, financial institutions, private corporations, and so on. Some investors are former government employees with reputable positions. ALICL serves the nation with 132 branch locations around the country.

## **1.2 Statement of the Problem**

The industry of insurance is a multifaceted field. The world of business has changed, so has the notion of insurance. Insurance can be viewed as a double-edged sword. Firstly, it secures against possible future losses and secondly, it provides liquidity to commercial enterprises. Many insurers have come forward in Nepal to address this fact. This deficiency explains why there are few insurers in the country, unsophisticated financial markets and restricted market opportunities that threaten the existence of insurance business here in Nepal. Moreover, managing their working capital is becoming more tasking for them.

Enterprises need working capital to meet their working requirements. In order for an organization to operate efficiently, it needs it at all times. Therefore, as the life of the organization, it is referred to. During normal course of business, working capital moves from one person to another. Because there are no measures in place for evaluating costs that arise due poor planning about use of working capital which makes such decisions highly immeasurable and thus have a great influence on various things such as wealth maximization and present value of money (Mian and Smith 55-56), current working capital decision is very crucial in determining value maximization goal which relies on without considering cost industry-wide. The financial position would remain stable provided that these enterprises maintain the optimal levels of the working capital because high liquidity triggers lower returns while increased financing in working capital will make the company struggle financially.

It is usually said that service businesses need small amount of working capital. Therefore, it is noticed that those companies do not care about working capital management which is important to them as well. Consequently, there is a great need for reviewing the working capital requirement and its correct equilibrium in normal business transactions.

This study primarily focuses on examining the working capital management problem of Nepal Life Insurance Company, MetLife (ALICO), and Asian Life Insurance Company. The following research questions will be analyzed in this regard.

- What constitutes working capital in insurance company?
- What are the status of operating income and expenditure?
- Is working capital financed effectively?
- How far are they able to utilize its current assets properly?

### **1.3 Objectives of the Study**

The main objective of this study is to analyze working capital management of the three insurance company. But some specific objectives are as follows,

- To analyze the size, composition and sources of working capital.
- To analyze the relationship between operating income and expenditure.

- To evaluate the efficiency of working capital finance.
- To examine the variables of working capital and their composition with others.

#### **1.4 Focus of the Study**

Two differing types of capital, being permanent and working capital are used in any given organization and both are of equal importance. The study will center on working capital that is concerned with day-to-day operations. Working capital structure management should always be a concern for the company. It helps in ensuring that fixed assets are put to good use. If a company does not keep inventory, it cannot raise sales revenue and must maintain idle fixed assets. In other words, the total fixed assets belonging to the company cannot be utilized due to lack of working capital. Thus, financial managers should always strive to achieve an optimal level of working capital which contributes towards wealth maximization in any business entity.

An essential part of management is the working capital. Working capital in today's world of business encompasses different grounds, and it is often said that working capital management takes up almost more than half of financial management. Size and structure of working capital, turnover position, liquidity and profitability position among others are some of its broader areas.

#### **1.5 Significance of the Study**

The success or failure of any business hinges on the strategies it adopts, which are all dependent on working capital. There may be adequate and inadequate working capital, and these two conditions can be harmful to a company because they affect directly the liquidity and profitability of the firm. They ought to harmonize and correlate different functional areas of concern in a business organization. Thus, working capital management is an uphill task for financial managers. This research will help identify the liquidity and profitability position. It will guide day-to-day operations by enhancing balance between coordination as well as maintaining the desired level of working capital in future period. Furthermore, this study would be

useful for those researchers who are interested in studying about management of working capital like me.

Managers find working capital management difficult since it is such a broad field of study. Manufacturing companies have been the focus of most working capital studies while none has sought to investigate the matter in life insurance firms. The researchers therefore wish to carry out such a study to examine how life insurance companies are managing their working capital and if needed, give recommendations.

### **1.6 Limitations of the Study**

The main data of the study are based on the secondary sources that include web-site, books and financial statement and annual report of the company. The information available for only five years on its web-sites and annual report is also covered in this research. However, due to limitation of time and resources, this study was restricted within some boundaries as stated below.

- The information on which this study is based has got its roots in literature. Consequently, what the three insurance companies and other corporate bodies are offering as data have not been counterchecked with their official records.
- This survey entirely relies on the student's financial capability as well as must be finished within a short span of time.
- Inadequate advanced computer software to perform extensive testing of all the techniques.
- This thesis contains financial data from fiscal year 2069/70 to 2078/79.

### **1.7 Organization of the Study**

The study is organized on the following standardized pattern of the typical sequence of topics.

#### **Chapter I- Introduction**

This chapter entails an introduction. It has a general background, study focus, statement of the problem, and objective of the study, significance of the study, limitations and organization.

## **Chapter II- Review of Literature**

A brief summary of earlier research projects and studies can be found in this chapter. The theoretical foundations of market price behavior are described, along with its importance and limitations.

## **Chapter III- Research Methodology**

This chapter describes how the data were collected, how the sample size was determined, and how the data were analyzed.

## **Chapter IV- Data Presentation and Analysis**

This chapter includes the main conclusions of this thesis and displays the data that was gathered in tabular form along with many charts, graphs, and illustrations for simple analysis.

## **Chapter V- Summary, Conclusions and Recommendations**

In few paragraphs, this chapter will eventually summarize the study as a whole ending with that as the research result. In conclusion, recommendations will be made based on the summary and conclusions.

## **CHAPTER–II**

### **REVIEW OF LITERATURE**

The literature review is a way of understanding better the problem area being investigated. It is based on limited knowledge and experience. To be able to find base for building the field's research comprehensive theoretical framework in order to explore true facts in reporting purposes. In this chapter, some basic academic courses, books, journals, articles, web search and annual reports as well as some research paper have been reviewed. Furthermore, some of master's degree dissertations on the topic have also been looked at so as to gather information. Additionally, this chapter includes various independent studies carried out by prominent experts and others. However this chapter can further be grouped into:

- Conceptual framework
- Review of related Studies

#### **2.1 Conceptual Framework**

##### **2.1.1 Meaning of Working Capital**

The meaning of the word "working" is working at present. Thus, working capital means any capital that is functioning in the here and now. Hence, working capital refers to all short-term assets used for daily transactions by a company. Technically, working capital management is an essential component of financial management as a whole. It signifies that portion of fund which moves from one form of current assets to another form in ordinary course of business. For instance, cash buys raw materials producing finished stocks marketed for cash.

Therefore working capital management focuses on difficulties surrounding efforts to manage current liabilities, current assets and their interrelation. Current assets are basically the kind of asset which can be easily converted into cash within a year's time.

Designing appropriate investment policy for current assets is not easy task for financial managers.” (Pandey, 1999)

Planning, employing, and controlling current assets in relation to business requirements is a key component of working capital management finance decisions. These decisions primarily center on the profitability and liquidity position of the business. Working capital management should require a certain kind of ability in order to maximize profits by minimizing loss risk and making effective use of available assets.

#### **2.1.1.1 Concept of Gross Working Capital**

“Gross means total and working capital is short term assets. So, gross working capital means total current assets. In the other words, the term working capital regarded as the firms total current assets. It focuses only on the optimum investment in current assets and financing of current assets.” (Khan & Jain; 1999). It consists of cash, marketable securities, receivables and inventories. “From the management viewpoint, gross working capital deals with the problem of managing industrial assets in the day to day operation.”(Kuchal; 1988). The gross concept emphasizes that excessive investment in current assets which effects profitability as idle investment that yields nothing. Similarly, inadequate investment in current asses makes difficult to carry out the day to day operation of the business smoothly. Gross working capital concept is also known as quantitative concept because it concerns about the current liabilities and different between current assets and current liabilities. This concept summarizes as;

Gross Working Capital = Total current Assets.

#### **2.1.1.2 Concept of Net Working Capital**

Net working capital is the difference between current assets and current liabilities, which addresses a firm’s liquidity position over time; this is more appropriate than gross working capital concept since it takes into account the aspect of current liabilities. Net working capital can either be positive or negative: where current assets surpass current liabilities, it results into positive net working capital and where in opposite situation occurs, that's negative working capital. The net working capital concept aids the management to search for its long term sources of financing because under this approach financing with short term loans do not increase science permanent source are needed. “Net working capital is the different between current assets and

current liabilities and this amount is financed by long term fund. This concept is determining optimum mixture of short term capital and long term capital of business enterprises.” (Kuchal; 1998). The same notion is equally vital in every organization but most applicable to current business running, that is, the organization which is currently under operation. It tells a company how much money it can use immediately as its operational cost without selling any of its assets. Net working capital is not very useful for comparing the performance of different firms as a form of liquidity, but it is useful for internal control. This is also referred to as qualitative concept of working capital. This concept says,

Net Working Capital = Current Assets – Current Liabilities

### **2.1.1.3 Classification of Working Capital**

Working capital can be defined into permanent working capital and temporary working capital. They are also called fixed working capital and variable working capital respectively.

#### **2.1.1.3.1 Permanent Working Capital**

“Permanent working capital is the minimum amount of current assets required through the year to conduct a business on a continuous and uninterrupted basis, even during the dullest season of the year. It will remain permanently in the business and will not be returned until the business is wound up.” (Khan & Jain; .1999). It shows the unchanging nature of capital and is always contained in a company, but it can be converted into cash within a year. That is why; it falls under working capital. Long term fund is the source of finance for this capital. Non-permanent working capital means that business firm could not serve itself in the competitive market. For example, each business organization must have minimum inventories of raw materials, work-in-progress (WIP) stock, finished goods stock, stores and spare parts etc. It has to have money available all time for payment of wages to workers throughout the year. Permanent working capital refers to these current assets which are required on an uninterrupted basis throughout the year. It helps in carrying various activities at any time. Permanent Working Capital also comes as two forms.

- **Regular Working Capital**

These are working capital that a business needs to continue operating on daily basis. This is what makes regular working capital, minimum liquid assets that allow for conversion of cash into inventory, inventory to account receivable and account receivable to cash of business enterprises.

- **Reserve Margin Working Capital**

Reserve margin working capital defines the case when an organization keeps more than regular working capital. The occurrence of unimagined crisis and problem in a company or financial market calls for reserve margin working capital or the situations such as inflation, deflation, strike, natural disaster etc. These types of working capital can be referred as the nature oriented current assets.

#### **2.1.1.3.2 Temporary Working Capital**

This working capital which changes with the change in production unit and sales is referred as temporary variable working capital. Production and sales varies time to time depending upon marker demand. If the working capital need increase and decrease with the change in business activities, that is known as variable working capital. It is required in seasonal change in the business and certain abnormal condition like strikes, lockouts, dull market conditions, cut-throat competition etc. Seasonal working capital is the additional amount of current assets particularly cash, receivables and inventory which is require during the more active business season of the year.

- **Seasonal Working Capital**

The temporary variable working capital refers to the working capital that changes with production unit and sales. Production and sales vary from time to time due to market demand. Variable working capital is needed if the working capital requirement rises and falls with business activities. It is required in seasonal change in the business and certain abnormal conditions such as strikes, lockouts, dull market conditions, cut-throat competition etc. A seasonal increase in cash, receivables and stock is termed additional current assets for; it is called seasonal working capital.

- **Special Working Capital**

Several enterprises are seasonal where their sales are high at some times whereas low at other times. Extra working capital should be managed during the high selling seasons. For instance sugar mills, tobacco mills jute mills fruit mills fruit preparation industry These industries have to manage extra working capital. In addition to this special promotion of product by examining demand for new product may also require additional amount of working capital. Such type of working capital is called special working capital.

#### **2.1.1.4 Need of Working Capital**

Working capital is hence indispensable to run day-to-day business activities. It helps in achieving the entire goal of the business and maximizes the wealth of the shareholders. Generally, working capital is required to spend on raw material, salary, wages, rent, electricity, advertisement, and other sales-related expenses, etc. Apart from this, the business enterprises has to spend on advertisement and promotion of the product, which helps in sales of product. All these expenses made should be made the time of the production but cash is received after sales of the product. So, working capital is needed. Generally working capital is needed for following motives.

##### **2.1.1.4.1 The Transaction Motive**

“A business firm holds cash for smooth running of the business. To conduct its ordinary business and making purchases and sales, working capital is needed. In the business, where billings are predictable cash, inflows can be scheduled and synchronized with the need for the cash outflow.” (Weston & Copeland; 1990). A more significant amount of cash will be required in a seasonal business, and if the firm wants to operate any transaction smoothly, it will have to keep the inventory of raw materials and finished goods. Generally, investment in the marketable securities that can be converted into cash in a very short period of time is done by a business firm. It is a temporary investment. Therefore, to run business smoothly on an uninterrupted basis, a business firm has to manage working capital for the transaction motive.

#### **2.1.1.4.2 The Precautionary Motive**

The precautionary motive refers to the holding of cash to meet the random and unforeseen fluctuations in cash flow. For example, unpredictable changes in demand and supply, strikes, failure of some key customers, sudden slowdown in the collection of account receivables, cancellation of some order for goods, and others are the unexpected emergencies. Accordingly, the firm needs the working capital to meet any contingencies in the future.

#### **2.1.1.4.3 The Speculative Motive**

An organization may meet following opportunities at any time of its life.

- Opportunities to purchase raw material at a reduced price payment of immediate cash.
- To purchase at favorable price.
- To speculate on interest rate.
- Opportunities of profit making investment etc.

To take advantage from above opportunities, working capital is needed which is referred as working capital for speculative motive. “Working capital also represents ‘war chest’ or pool of funds from which a firm may draw quickly to meet a short term opportunities, including acquisition.” (Weston & Brigham; 1982). Therefore cash and marketable securities are needed for speculative motives.

#### **2.1.1.5 Importance of Working Capital**

Most of the firms aim at maximizing the wealth of shareholders. The firm should earn sufficient return from its operation. The extent to which profit can be earned naturally depends upon the magnitude of sale among the other things. For constant operation of business, every firm needs to hold the working capital components cash receivable, inventory etc. The objective of financial decision making is to maximize the shareholder's wealth. For this, sufficient profits must be generated. The magnitude of profits which can be earned will naturally depend upon the magnitude of the sales among other things. In other words, a successful sales programme is a precondition for earning profit by any business enterprise. However, a sale does not convert into cash instantaneously; there is always a time lag between the sales of good and receipt of cash. There is therefore, a need for working capital in the form of current assets to

deal with the problem arising out of the lack of immediate realization of cash against goods sold. Thus, sufficient working capital is required to sustain sale activity. Technically, this is referred to as the operating or cash cycle. The length of time it takes to convert sales into cash, after first converting resources into inventories, is called the operating cycle. Some of the more significant reasons why working capital management is important are as follows:

- However, due to its size and volatility, working capital is a significant managerial concern. Working capital management occupies much of the manager's time in day-to-day activities.
- There is a very close and direct link between working capital and sales growth. With an increase in sales, a firm has to increase inventory and accounts payable. Increased sales generate a higher amount of account receivable. Therefore, working capital shall have to be managed properly when firms increase or decrease their scale of operation and sales. At the same time, some current liabilities, especially account payables, tend to increase or decrease spontaneously. This spontaneously short term financing (due to use of trade credit) must be kept in mind as we consider both the CA and then financing (by both current and long term sources).
- WC has direct relationship with the inflows and outflows of cash. WCM ensures the right time and right amount of cash inflows and outflows. This makes the firm able to meet the obligation in the right time, and there will not be idle cash in hand. This is done by calculating inventory conversion period, receivables collection period, and payable deferred period.

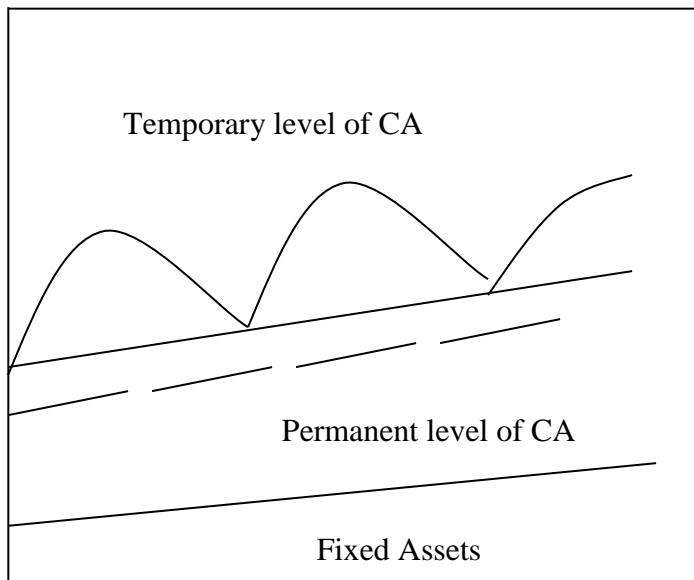
#### **2.1.2.6 Working Capital Financing & Investment Policy**

##### **2.1.2.6.1 Current Assets Financing Policies**

- **Aggressive Policy**

An aggressive policy is carried out with low current assets—marketable securities, cash, inventories, and receivables—in relation to sales. In addition, it uses more short-term and less long-term debt for financing current assets. Thus, in an aggressive policy, the risk is higher and so is the profitability.

**Figure No. 2.1**



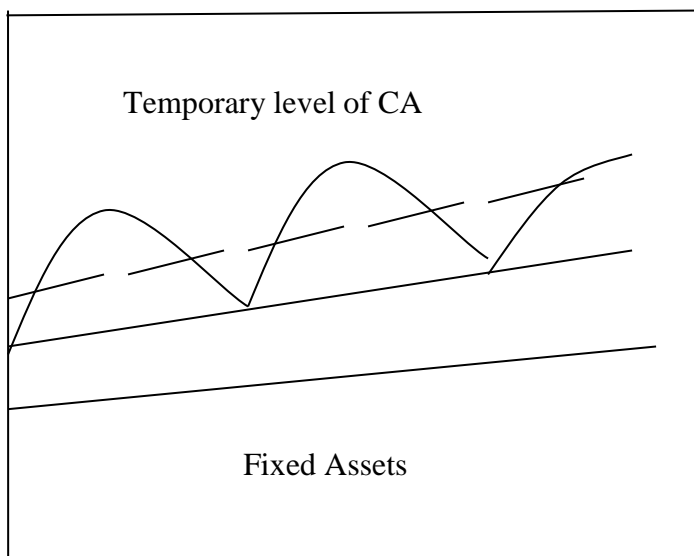
Short Term Spontaneous  
Debt Financing

Long Term Debt,  
Equity plus  
Spontaneous Debt  
Financing

- **Conservative Policy**

The more conservative the policy, the higher the level of current assets it carries in relation to its sales. A more conservative policy uses more long-term debt and less short-term debt for financing current assets. Therefore, the lower the risk, the lower the return; hence, a conservative policy carries out lower risk and return.

**Figure No. 2.2**



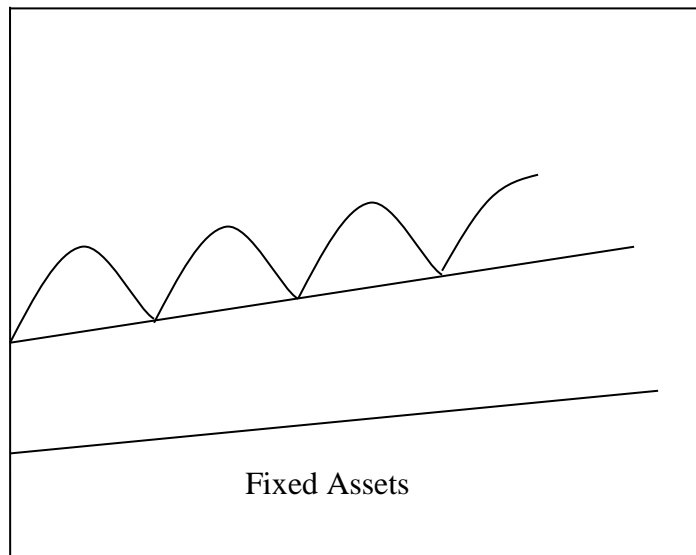
Short Term Spontaneous  
Debt Financing

Long Term Debt,  
Equity plus  
Spontaneous Debt  
Financing

- **Moderate Policy**

Moderate policy carries an average level of current assets to sales. Moderate policy uses mid-range of short term debt and long term debt of above two policies. Therefore, moderate current assets financing policy's results in mid-range risk and profitability.

**Figure No. 2.3**



Short Term Spontaneous  
Debt Financing,

Long Term Debt,  
Equity plus  
Spontaneous Debt  
Financing

### 2.1.2.6.2 Current Assets Investment Policies

Current asset investment policies determine the proper level of current assets, both in total as well as specific accounts. In general, there exist three types of investment policies which may be followed by a business enterprise.

- **Relaxed Working Capital**

“In this policy, firm holds relatively large amount of cash, marketable securities and receivables to support of given level of sales. In addition, a company is motivated to sales by applying liberal credit policy.” (Pandey, 1999). As a result, the term for collecting receivables is extended. It also results in lengthier cycles for cash conversion and inventory. With less risk, this policy offers the lowest predicted return on investment.

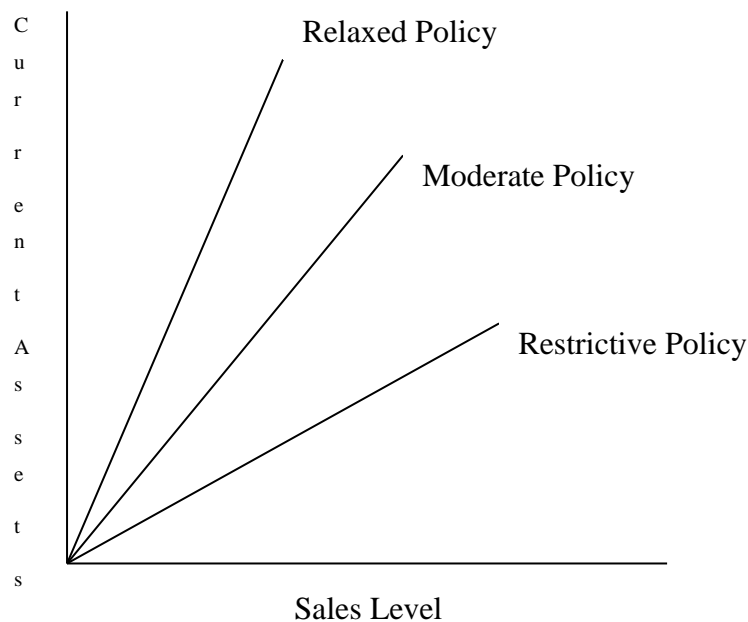
- **Restrictive Working Capital**

Under restrictive working capital assets policy, a company has high control in current assets. “The firm holds minimum level of inventory, marketable securities, receivables and cash to support given level of cash. This policy tends to reduce the inventory, receivables and cash conversion period.” (Pandey; 1999). The business accepts the risk of declining revenues and maintains a strict credit policy. This policy, however, carries a larger risk but offers the largest return on investment.

- **Moderate Working Capital**

Both the risk and the reward are reasonable under this policy. The company's present asset level is ordinary. With the use of the accompanying graphic, we can illustrate the policies that fall between relaxed and restricted.

**Figure No. 2.4**



### **2.1.1.7 Working Capital Cash Flow Cycle**

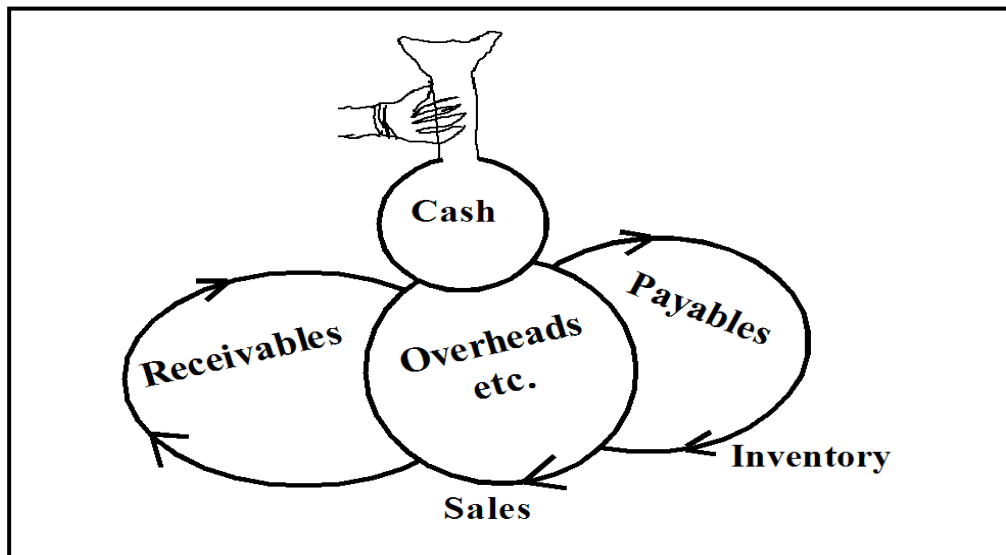
“The continuing flow from cash to supplier, to inventory, to account receivables and back into cash is known as working capital cash flow cycle. It continuously repeats. The cycle demonstrates the conversion of raw materials and labor to cash. Hence, this concept is also known as cash conversion cycle model.” (Pandey; 1999). This general idea is helpful for evaluating how well a company manages its working capital and has been applied to more complicated business situations.

### 2.1.1.8 Working Capital Cycle

Cash flow in a cycle into, around and out of a business. It is the lifeblood of the company, and the main responsibility of every management is to maintain it and make use of the cash flow to turn a profit. A business should theoretically produce cash surpluses if it is operating profitably. Should it fail to produce surpluses, the company will eventually run out of money and shut. A business will require more cash for investments and operating capital as it grows. The best and least expensive sources of cash are found in working capital, which is found in businesses. Effective working capital management will increase profit and lower risk by generating cash. Remember that owning stocks and giving credit to consumers can eat up a sizable chunk of a company's overall earnings.

Receivables (debtors owing you money) and Stock (stock and work-in-progress) are the two components of the business cycle that absorb cash inventories. The primary sources of cash are Receivables (your creditors), Equity, and Loans.

**Figure No. 2.5**  
**Working Capital Cycle**



*Source: Working Capital Policy, 1999: 612*

Each component of working capital (Namely inventory, receivables and payables) has two dimensions TIME and MONEY, when it comes to managing working capital-

TIME IS MONEY. The business will either earn more cash or require less borrowing to support working capital if it can get money to flow quicker around the cycle (e.g., collect money owed from debtors more quickly) or reduce the amount of money tied up (e.g., reduce inventory levels relative to sales). As a result, you might be able to lower the cost of bank interest or have more free money available to finance further investment or sales growth. Similarly, you can create free finance to assist fund future sales if you can enhance terms negatively with suppliers, such as extending credit or raising credit limit.

If cash is available for fixed assets like computers, machinery, cars, etc., it may be used temporarily. Keep in mind that cash payments are no longer accepted for working capital if you choose to make them. As a result, if money is scarce, think about financing capital investments through other sources like loans, equity, leasing, etc. Similar to water pouring down a plug hole, increasing drawings or paying dividends are cash outflows that take liquidity out of the company.

### **2.1.2 Understanding the Business of Insurance**

The nature of the life insurance industry differs from that of manufacturing and non-manufacturing industries. In addition, compared to other, it contains distinct account heads for expenses and revenues. Since the insurance industry is a long-term venture, the company shouldn't base its financial decisions on its current state or the conventional foundation of the industry. We have access to sophisticated accounting, financial, and statistical tools in the twenty-first century to assess the long-term impacts of any necessary financial action. Such a process ought to be followed by life insurance providers.

The definition of insurance, its evolution, its types, the meaning of gross and net working capital, the classification of working capital, the necessity and significance of working capital, the process of determining working capital, the financing of working capital, working capital financing & investment policy, and the working capital cash flow cycle are all included in the conceptual framework.

### **2.1.2.1 Meaning of Insurance**

One of the main characteristics of modern society's development is its unavoidably unsettled environment. The idea of insurance and its development were imposed because of the unpredictability, and because of the competitive business climate and numerous unfortunate events, they are much stronger now. As a result, insurance appears to be a necessity for both organized industry and modern society as a whole. Insurance is a type of contract wherein one party agrees to pay the other party a certain amount of money in the event of a stated contingency in exchange for paying a fee known as a premium. These are a few essential variables related to the insurance.

### **Risk**

Risk is defined as the inability to forecast the occurrence and magnitude of losses, or more specifically, as uncertainties about future losses. In general, risk is the likelihood of adverse consequences. Risk can have several meanings. It is also able to define in terms of insurance and statistics. The possibility of an economic loss occurring is taken into account in the insurance's content. Everyone aspires to protect themselves from danger or bad circumstances. People want to protect their property or lives, therefore they insure it with insurance firms. It follows that insurance is unnecessary if there is no danger in the world.

### **Risk Management**

Risk management systematically and efficiently handles the pure risks. In simple words, risk management means to plan, organize, direct, coordinate, and control the risk. Well, in practice, it is referred to as both a device and process of making decisions for either personal or organizational risky situations.

### **Insurance**

Insurance has been introduced to safeguard the interest of people from uncertainty by providing certainty of payment at a given contingency. The immediate enterprises that are involved in the insurance business are insurance companies. But basically, the insurers and their counterpart insurance companies are an integrated part of the same business. They are the two wheels of a car. In the absence of one, the other cannot function. Insurance works as a double-edged weapon. On one hand, it provides financial security against risk; on the other hand, it provides capital to business

houses. Nowadays, insurance has not only been necessary but also a part and parcel of the business world.

It might be challenging to define insurance in a way that takes into account all relevant perspectives. In the words of Crane (1980), “Insurance may be defined as a system of combining many loss exposures, with the cost of losses being shared by all of the participants.” Insurance can be defined as a social tool used to build up funds to cover the unpredictable losses incurred by an individual who is insured against the risk. For the nation's economic development, insurance gives protection against property loss, a strong mental foundation, and enough capital to support increased wealth. Every participant will have financial protection from aging, passing away, damaging, losing, and disappearing their assets, including their life savings. Insurance shields society from deterioration by preventing financial losses. As a result, property, human, and future-day insurance are all well-protected forms of lay insurance.

Bickihaup (1983) defines insurance as “An economic system of reducing the risk through transfer and pending of losses. A legal process of transforming in a contract of indemnity, a business institution providing many jobs in a free enterprise economy, a social device in which the losses of few are paid by many or as actuarial system of applied mathematics.” Magee (1959) regards insurance as “cooperative risk carrying”, transfer of specializing risk carriers, “redistribution of actual loss” etc. He adds further “as a business institution, insurance has been defined as a plan by which large number of people associate themselves and transfer to the shoulder of all risk that attach to and individuals.” Therefore, insurance is understood to be a tool that uses an economic factor to reduce or eliminate risk.

We can use the insurance as a total of risk management is often misleading concept. In the words of Mehr (1986), “The word insurance sometimes is applied to a fund accumulated to meet certain losses, as well as to a simple transfer of risk. But the accumulated definition of insurance must include either accumulation of a fund or the transfer of risk but not necessarily both.” In actuality, insurance entails distributing a loss across multiple entities over a given time frame. In fact, “Insurance distribute the cost of the risk over a large group of individuals subjected to the some risk in order to reimburse the few who actually suffer from the risk.” (Ackerman; 1951)

It provides financial protection to people against various losses, be it an accidental death, fire, sickness and injury, or loss of income. Two major constituents of the industry include: one, insurers who actually underwrite insurance policies and, hence, undertake financial risk; the other includes insurance agents or brokers who sell insurance policies in the market to various businesses and people. These are generally large companies, although many small insurers actively compete for a piece of the insurance market. Insurance agents act only as middlemen between the insured and the insurer; mostly, they are other firms' employees or self-employed professionals.

The term reinsurance is also very important in an insurance business. Insurance companies are not capable of bearing huge sums assured of policies for potential incidents and losses occurring from catastrophes like earthquakes, floods, storms, etc. Reinsurance literally means a contract or agreement in which a part of the risk, which is insured with an insurance company, is transferred to another insurance company called a reinsurer. Reinsurance means the insuring again by the insurer of a risk already insured. Section 2(h) of the insurance Act 2049 defines reinsurance business as "re-insuring the portion of the risk which is in excess of the risk to be hold by the Insurer".

The insurer shall get the financial position and valuation of liabilities assessed by an actuary once in three years. Therefore, there is an important role for an actuary in insurance business with regard to the evaluation of a company's financial position, valuation of liability, forecasting new business policies, and analysis related to financial activities, and shall furnish a copy of reports submitted by the Actuary. Actuary means a person having excellence knowledge of Statistics, Finance and Account, in others he/she should be a competence mathematician and certified from any recognized Institute of Actuary. Huge amounts of money go to foreign lands for Actuarial Counseling due to the unavailability of any Actuary in Nepal till now. Section 2(j) of the Insurance Act.2049 puts forward "Actuary means a person having the qualification as prescribed and is appointed by the Insurer for assessing and calculating the liabilities of the Insurance Business. And qualification of the actuary defined as; any person who has obtained the fellowship award from an Institute of Actuary recognized by the Board may work as an Actuary pursuant to this Regulation".

According to section 35 of the Insurance Regulation 2049, "the report of the valuation of Life Insurance Business within the Government of Nepal made by an Actuary shall be submitted to the Board, and the approval of the Board shall be taken for making arrangement according to the valuation report. If the report of Actuary has not submitted pursuant to Section 26, Certificate of Registration of the Insurer Cannot renewed".

### **2.1.2.2 Types of Insurance**

Insurance can be broadly classified into two parts, life insurance and general insurance. Life insurance may be defined as the contract, whereby the insurer, in consideration of a premium, undertakes to pay a certain sum of money either on the death of the insured or on the expiry of the defined period. General insurance considers all insurance except life insurance.

### **Life Insurance**

Life insurance provides protection against a broad spectrum of risks, although it provides that sum of money against various types of risks related to a human being's body through the issuance of different kinds of policies. Life insurance is an arrangement for providing post-death resources for the maintenance of survivors or the discharge of obligations of the estate of the deceased. Basically, the life insurance as a form of assurance policy conducted by the insurers directly relates to providing assurance against the economic part of total life. "Life insurance contract may be defined as the contract, where by the insurer in consideration of a premium undertakes, to pay a certain amount of money either on the death of the insured or on the expiry of certain period." (Mishra, 1996). It is specifically about that area of human life which is of concern for life insurance. Because assurance or insurance of a person's life is impossible, as there is a surety of death for a person once born, the life insurance only provides assurance against its economic aspect of human life, not of the human life itself. Life insurance provides future benefits or helps to live comfortably in retirement life by providing protection at an unseen future accident. It never fulfilled the losses of human life, but it measures various risk and provides the sum of amount accordance to the policy. So, it is called social insurance because of the very important role it plays in society. Life insurance is defined sometimes as "a

contract by the insurer, for certain sum of amount of money or premium proportionate to the age, health and other circumstances of the person whose life is insured if such person shall die within the period limited in the policy, will pay the sum specified to the person in whose favors such policy is granted."

Two very key pre-requisite basic principles must be fulfilled rather than other principles of life insurance, and in their absence, contract of life insurance will be a wagering agreement that shall be void.

- **Principle of Insurable Interest.**

A person has an insurable interest in such subject matter insured if he or she will derive a pecuniary benefit from its existence or will suffer a pecuniary loss from its destruction.

- **Principle of Utmost Good Faith**

It means the insured will not get the financial benefit on the base of false statement and insurer also should tell loss and gain upon the subject matter. Today life insurers' offer tax deferred annuities, estate planning and tax planning services in addition to providing death-benefit coverage.

### **Non-Life Insurance**

Non-life insurance, also known as general insurance is a kind of insurance, in which insurer charges nonrefundable premium for bearing of risk and shall compensate according to the terms and conditions of policy, if defined incident occurred. It is a pure insurance because it can measure and risk in terms of money. General insurance is the insurance of property and liabilities risk of insured against some specified cost i.e. the premium. It includes property insurance, liability insurance and other forms of insurance. General insurance considers all kinds of risk except death of human body risk and it provided certainty against the risk through certain amount of money. This part of insurance includes the insurance and risk transfer of the property and liability of insured where, property insurance, against loss arising from the ownership or use of the property, includes two general classifications. The first indemnifies the insured in the event of the loss growing out of damage too, or destruction of, his/her own property. The second form pays damages, for which the insured is legally liable, the consequence of negligent acts that result in injuries to other persons or damage to their property. This is also known as liabilities insurance. General Insurance

responsible to payment of any amount to insured. But, when the accident occurs due to negligence of insured, where the insurer does not responsible to pay any amount against the risk.

Insurer and insured may agree to accept every kind of risk under their contract and risk transfer through the assurance. But the coverage written by the property liability insurance insurers may be divided into five types, physical damage or loss, loss of income and extra expenses resulting from physical damage to property, liabilities, health and security.

General insurers provided various types of non-life insurance policies as listed below:

- Marine Insurance Policy
- Fire Insurance Policy
- Aviation Insurance Policy
- Automobile Insurance Policy
- Engineering Insurance Policy
- Boiler Insurance Policy
- Contractor All Risk Insurance Policy
- Burglary Insurance Policy
- Money In Transit Insurance Policy
- Personal Accident Insurance Policy
- Household Insurance Policy
- Medical Aid Scheme Insurance Policy
- Fidelity Guarantee Insurance Policy
- Women's compensation And Employers Liability Insurance Policy
- Machinery All Insurer Risk Insurance Policy
- Miscellaneous Insurance Policy

The scope of life insurance business is seen to be bright because of its nature and popularity. So, the various investors are interested to invest in life insurance business, although having restriction of government and challenge of other affecting factor.

### **2.1.2.3 Listed Life Insurance in Nepal**

Nepal insurance Act, 2049 (section-2.1) has defined life insurance as the contract of insurance, effected on human life on the basis of age to pay fixed sum to the assured or his/her nominee, on the death or on the happening of any contingency, depended on human life in consideration of payment of fixed installment premium by the assured.” Life insurance was supplied by insurance firms under a variety of plans. The insurer offered a range of insurance based on the preferences and interests of the insured. The following policies are typically seen in life insurance companies: policies for child endowment, whole life annuities, term insurance, money back, group insurance, and survivorship, among others. Following insurance company provided life insurance service in Nepal.

- Rastriya Jiban Beema Company Limited
- National Life Insurance Company Limited
- Nepal Life Insurance Company Limited
- Life Insurance Corporation (Nepal) Limited
- MetLife (ALICO)
- Surya Jyoti Life Insurance Company Limited
- Himalayan Life Insurance Limited
- Asian Life Insurance Company Limited
- IME Life Insurance Company Limited
- Reliable Nepal Life Insurance Company Limited
- Sanima Reliance Life Insurance Limited
- Citizen Life Insurance Limited
- Sun Nepal Life Insurance Company Limited
- Prabhu Mahalaxmi Life Insurance Limited

Among insurance companies in Nepal, three insurance company that will be covered in this case study.

Among them one is Nepal Life Insurance Co. Ltd. (Established under company act 2053 and Insurance Act 2049 in 4th of May 2001), is one of the esteemed and pioneer Private Life Insurance Company. Triveni Group, the promoters of the Co. are reputed business houses and enlightened persons of the Country, so the financial situation of the Co. is always stable. It is the first and the only Insurance Co., which has been

given license to transact life insurance business exclusively and is solely invested by Nepalese citizens.

The other one is MetLife (ALICO). MetLife, Inc. (NYSE: MET), through its subsidiaries and affiliates (“MetLife”), is one of the world’s leading financial services companies, providing insurance, annuities, employee benefits and asset management to help its individual and institutional customers navigate their changing world.

Founded in 1868, MetLife has operations in more than 40 markets globally and holds leading positions in the United States, Japan, Latin America, Asia, Europe and the Middle East.

MetLife is a branch of MetLife, Inc. operating in Nepal since 5 December 2001. As the first foreign company to be granted an insurance license in Nepal, MetLife is one of the leading Life Insurance, Accident & Health Insurance and Employee Benefits insurers in the country, providing attractive insurance protection and benefits at a competitive price.

Our business centers on the heart of local communities, understanding their needs and providing them protection solutions through our network of professional agents and institutional partners. We have over 8,000 agents in Nepal who work hard to ensure each and every one of our customers find a plan perfectly suited to them.

The last one is Asian Life Insurance Company, Asian Life Insurance Company Limited (ALICL) established under the Company Act 2053 on 27th February, 2008 (Falgun 15, 2064) and started functioning on 3rd April, 2008 (Chaitra 21, 2064). The Authorized Capital of the Company is Rs. 5 billion with Rs. 3399.8 million paid up capital.(Promoter to Public Shareholding Ratio 51:49). ALICL has a Life Funds of Rs. 41 billion (Chaitra end 2080-81). The member of the board of directors and other individual investors are leaders in other professions and business, such as banks, insurance companies, financial institutions, private enterprises etc. Some investors are from reputed position holders of ex- government services. ALICL is serving the nation through its 132 branch network across the nation.

### 2.1.3 Sectors of Investment for Life Insurance Companies

The working capital policy of the insurance company is much dependent upon the investment policy of the organization and the regulatory requirements. It is so because an insurance company may invest both on long term asset or short term asset. Investment on short term financial assets like treasury bills, call deposits and current deposits are important sectors of investment for insurance companies. The insurance regulatory has prescribed certain requirements for investment for life insurance companies, which has been presented in the table that follows.

Table 2.1

#### *Sectors of Investment for Life Insurance Companies*

| <b>Classification of Investment</b> | <b>Sectors of Investment</b>   | <b>Percentage of Investment</b>   | <b>Remarks</b>   |
|-------------------------------------|--|---|--|
| Group A                             | Treasury bills or treasury bonds issued by Nepal Rastra Bank or the Government | At least 25% of total Investment  |  |
| Group B                             | Fixed Deposit in Commercial Banks  | Not less than 35% of total investment. However, this will not restrict to invest more than 65% in Group A | Amount not exceeding 20% of total investment in fixed deposit of a single commercial bank with good standing if the bank has completed 3 years of operation and has been regularly auditing its books of accounts, otherwise fixed deposit in a single commercial bank cannot exceed 5% of the total investment  |
|                                     | Fixed deposit in Development Banks   | Not exceeding 15% of the amount of total investment   | Amount not exceeding 5% of total investment in fixed deposit of a single development bank with good standing if the bank has completed 3 years of operation and has been regularly auditing its books of accounts, otherwise fixed deposit in a single development bank cannot exceed 2% of the total investment |
|                                     | Investment in Citizens Unit Scheme or Mutual Funds                             | Not exceeding 5% of the amount of total investment  |  |
| Compulsory Investment (Group A+ B)  | As mentioned above   | Not less than 75% of total investment   |  |

|   |   |                                       |  |
|---|---|---------------------------------------|--|
| Optional Investment (Group C)   | Non-convertible Preference Shares, Secured Debentures and Bonds of BFIs | Not exceeding 10% of total investment | 5% of total investment or 10% of total paid-up value of the particular company, whichever is less can be invested  |
|   | Fixed deposit in Finance Companies                                      | Not exceeding 10% of total investment | Amount not exceeding 3% of total investment may be deposited in fixed deposit of a single finance company with good standing if the company has completed 5 years of operation and has been regularly auditing its books of accounts, otherwise fixed deposit in a single finance company cannot exceed 1% of the total investment |
|   | Equity Shares of Public Limited Companies                               | Not exceeding 5% of total investment  | 2% of total investment or 10% of total paid-up value of the particular company, whichever is less can be invested  |
| If treasury bills or bonds issued by Nepal Rastra Bank or the Government of Nepal are not available, the remaining investment shall be deposited as fixed deposit in Commercial Bank and it shall be informed to the Insurance Board of Nepal. While determining the amount of fixed deposit in a particular bank, amount in call deposits or other accounts shall be taken into account. |   |                                       |  |

*Source: Beema Samiti*

As presented in the table 2.1, insurance board of Nepal prescribes investment mostly on secured sectors. The aim is to secure other people's money and also to provide liquidity to the company. Treasury bills, treasury bonds, fixed deposits, shares, debentures all can be kept as collateral to fulfill the liquidity requirement of the insurer. Insurers are expected to make both short term as well as long term investment keeping in view above investment directives. While long term investment is not relevant to this study, short term investment is an important part of working capital.

## **2.2 Review of Related Studies**

### **2.2.1 Review of Articles / Journals**

Khan & Jain (2007) hastate in his article "*Working Capital Policy*" that working capital management is concerned with the problems that arise in attempting to manage the current assets, the current liabilities and the interrelationship that exists between them. Working Capital Management involves the relationship between a firms' short – term assets and short –term liabilities. The goal of working capital management is to ensure that a firm is able to continue its operations and that it has sufficient ability to

satisfy both maturing short-term debt and upcoming operational expenses. Working Capital Management also refers to the decisions relating to working capital and short-term financing and it involves managing the relationship between a firm's short-term assets and its short-term liabilities. The goal of working capital management is to ensure that the firm is able to continue its operations and that it has sufficient cash flow to satisfy both maturing short-term debt and upcoming operational expenses. Working capital entails short term decisions generally relating to the next one year period which are “reversible”. These decisions are therefore not taken on the same basis as Capital Investment Decision (NPD) rather they will be based on cash flow and or profitability. Management will use a combination of policies and techniques of working capital. These policies aim at managing the current assets (generally cash and cash equivalent, inventories and debtors).

Davies & David (2012) in their articles " Uncovering Cash and Insights from Working Capital“ they wrote managing a company’s working capital isn’t the sexiest task. It’s often painstakingly technical. It’s hard to know how well a company is doing, even relative to peers; published financial data are too high level for precise benchmarking. And because working capital doesn’t appear on the income statement, it doesn’t directly affect earnings or operating profit—the measures that most commonly influence compensation. Although working capital management has long been a business-school staple, our research shows that performance is surprisingly variable, even among companies in the same industry (exhibit). The process of improving working capital can also highlight opportunities in other areas, such as operations, supply-chain management, procurement, sales, and finance.

Clure (2014) published a articles questioning “*What Is Working Capital*” as per Clure Working capital refers to the cash a business requires for day-to-day operations, or, more specifically, for financing the conversion of raw materials into finished goods, which the company sells for payment. Among the most important items of working capital are levels of inventory, accounts receivable and accounts payable. Analysts look at these items for signs of a company's efficiency and financial strength.

He took a simplistic case: a spaghetti sauce company use \$100 to build up its inventory of tomatoes, onions, garlic, spices etc. A week later, the company assembles the ingredients into sauce and ships it out. A week after that, the checks arrive from customers. That \$100, which has been tied up for two weeks, is the company's working capital. The quicker the company sells the spaghetti sauce, the sooner the company can go out and buy new ingredients, which will be made into more sauce sold at a profit. If the ingredients sit in inventory for a month, company cash is tied-up and can't be used to grow the spaghetti business. Even worse, the company can be left strapped for cash when it needs to pay its bills and make investments. Working capital also gets trapped when customers do not pay their invoices on time or suppliers get paid too quickly or not fast enough.

The better a company manages its working capital, the less the company needs to borrow. Even companies with cash surpluses need to manage working capital to ensure that those surpluses are invested in ways that will generate suitable returns for investors. (Get some more background information, in *The Working Capital Position*.)

Not All Companies are the same some companies are inherently better placed than others. Insurance companies, for instance, receive premium payments up front before having to make any payments; however, insurance companies do have unpredictable cash outflow as claims come in.

Chuan-guo (2014) in his article "*Working Capital Management*" writes Working Capital and strategic choices are two concepts that have been widely discussed because they impact many aspects of business and financial management. Since Smith, working capital has been discussed in holistic terms. The current assets, current liabilities, cash flow, and working capital policy derived from working capital have been examined primarily for their impact on a firm's value. Studies on working capital management since Frecka fall into three competing views. Under one view, higher working capital levels allow firms to increase their sales and obtain greater discounts for early payments and, hence, may increase firms' value. Working capital management plays a significant role in the better performance of manufacturing firms. In this line, authors such as Kim et al. suggest that working capital decisions affect

firm performance significantly and find that firms with higher values hold a significantly higher investment in working capital than firms with lower values. The second view suggests that firms with higher working capital levels may face additional financing expenses which increase their probability of going bankrupt. Firms characterized by high working capital display high sensitivities of investment in working capital to cash flow and low sensitivities of investment in fixed capital to cash flow. From this view, authors such as Shin et al. argue that the firms with higher profits are not motivated to manage working capital and firm performance. Their findings suggest that there is a negative relationship between working capital and firm performance.

There is a specific working capital level which objectively creates enterprise value maximization. If there is a shortage of working capital, enterprises will probably borrow money at a high interest rate at the wrong time to maintain regular operations and credit, thus affecting the ability to pay interests and dividends. However, a high working capital level means there is a substantial amount of liquidity that does not create more economic benefits, which implies that enterprises may lack investment opportunities and potential development will be influenced. Enterprises should maintain a proper working capital level.

Therefore, enterprises need to adjust the holdings and composition of working capital to adapt to market needs. Due to the differences in adjustment costs (such as interest, rent, and conversion cost) and different maintenance costs (if they did not plan to do anything), enterprises' working capital adjustments are different in different strategic types. The clients of enterprises with a terminal market strategy are a single person whose purchasing behavior is at will. Enterprises cannot actually forecast the person, place, time, and product categories of purchase behavior. They may pursue differences, spend more money on temporary marketing outlays to meet customers' needs, and keep more short-term loans to maintain differentiation. Therefore, they may not be concerned much with the adjustment of working capital. However, enterprises with a middle market strategy tend to have fewer monetary funds to reduce opportunity costs and reduce external financing costs to avoid interest. The clients of companies with a hybrid strategy are diverse, meaning that they may be a person or a company. The business of these companies is complex, and therefore they

may pay more attention to liquidity and working capital policy and adjust it as soon as possible.

Loth (2017) writes In his articles "*The Working Capital Position*" "the working capital ratio (Current Assets/Current Liabilities) indicates whether a company has enough short term assets to cover its short term debt. Anything below 1 indicates negative W/C (working capital). While anything over 2 means that the company is not investing excess assets. Most believe that a ratio between 1.2 and 2.0 is sufficient. Also known as "net working capital ".

If a company's current assets do not exceed its current liabilities, then it may run into trouble paying back creditors in the short term. The worst-case scenario is bankruptcy. A declining working capital ratio over a longer time period could also be a red flag that warrants further analysis. For example, it could be that the company's sales volumes are decreasing and, as a result, its accounts receivables number continues to get smaller and smaller. Working capital also gives investors an idea of the company's underlying operational efficiency. Money that is tied up in inventory or money that customers still owe to the company cannot be used to pay off any of the company's obligations. So, if a company is not operating in the most efficient manner (slow collection), it will show up as an increase in the working capital. This can be seen by comparing the working capital from one period to another; slow collection may signal an underlying problem in the company's operations.

Things to Remember from his studies.

- If the ratio is less than one then they have negative working capital.
- A high working capital ratio isn't always a good thing, it could indicate that they have too much inventory or they are not investing their excess cash.

### **2.2.2 Review of Thesis**

Under the heading "Working Capital Management in Hotel Industry (With Reference to Hotel Radisson, Hotel Soaltee, and Hotel Hyatt)," Pandey (2010) conducted research on working capital management in the Nepalese hotel industry using the financial statements of three sample hotels for the five-year period from 2057/58 to 2061/62.

### **Tools Used**

Under this study, financial as well as statistical tools have been used to analyze the gathered data and information.

### **The Main Objectives of the Study are:**

- To assess the correlation between sales and various working capital factors; to study the composition of working capital; and to assess the liquidity position and profitability situation.
- To investigate the aforementioned hotels' working capital, cash flow, and cash conversion cycles.

### **The Major Findings of the Study were:**

- It was found that all three companies have been following aggressive financing policy.
- They have negative working capital during the study period; none of the hotels seem to have solid view of the management of working capital.
- Hotel Hyatt has very poor liquidity position as compared to other hotel turnover of the entire hotels is decreasing due to unstable political situation for more than a decade.
- Sales revenue were decreasing but operating expenses were in increasing trend accounting for the loss to the hotels.
- Hotel Radisson and Hotel Hyatt have been paying high amount of interest expenses than Hotel Soaltee.

A case study of a working capital and its impact was conducted by Dahal (2010) with reference to NIC and NABIL Bank.

### **Tools Used**

Several financial instruments were used for the analysis in the research study. Ratio analysis was the primary focus.

### **The Main Objectives of the Study are:**

- To evaluate the banks' positions with regard to profitability, long-term solvency, liquidity, and asset usage.
- To research the effects of current liabilities and assets on profitability and liquidity.
- To offer pertinent advice and suggestions for raising the profitability situation of Nepalese commercial banks and improving working capital management.

**The Major Findings of the Study are:**

- Compared to NABIL, the average percentage of loans and advances as well as cash and bank balances were higher in NIC.
- NIC has a stronger liquidity situation than NABIL. The quick ratio, cash and bank balance ratio, and liquidity ratio of both banks were trending downward.
- NIC has a lower turnover rate than NABIL. Therefore, NABIL uses deposits in income-generating activities more effectively than NIC.
- Profitability gauges the company's effectiveness. Even if both NABIL and NIC receive the same amount of interest, NABIL was in a far more profitable.
- NIC Bank's average long-term debt to net worth ratio was lower than NABIL's.
- In NABIL Bank, there is a positive correlation between cash and bank balance as well as current liabilities, indicating a positive relationship between the two variables.
- There were a statistical difference between the mean current ratio and quick ratio of NABIL and NIC. The ratio of bank balance to deposit and cash, however, did not alter much.
- There was no statistically significant difference in the mean interest earned to total assets ratio between NABIL and NIC, however there was a significant difference in the net profit to total assets and net profit to total deposit.

Pathak (2012) has done a research work on “*Working Capital Management of Commercial Banks in Nepal*” a comparative study of EBL and NBBL.

## **Tools Used**

The information and data acquired for this study have been analyzed using both statistical and financial methodologies.

## **The Main Objectives of the Study are:**

- To study the working capital Management of EBL and NBBL.
- To study the position of current assets and current liabilities and their impact.
- To examine the liquidity and profitability position of EBL and NBBL.
- On the basis of the analysis to provide recommendation and suggestion for the improvement of the working capital management of EBL and NBBL.

## **The Major Findings of the Study are:**

- While EBL's net working capital was positive, NBBL's net working capital is negative in some years, indicating that EBL had enough working capital to meet its operational needs.
- The net working capital that NBBL and EBL maintain was highly variable.
- The variability of EBL during the study period indicates that EBL was more efficient than NBBL.
- NBBL had a stronger profitability position than EBL.
- There was a strong correlation between government security investments and EBL's total deposit.
- There was no statistically significant difference in the mean value of the percentage of cash and bank balance, loan and advance, and government securities for NBBL and EBL.
- The mean value of net profit to total assets, net profit to total deposit and interest on to total assets of NBBL was not statistically different from that of EBL.

Joshi (2013) had conducted a research study on "*Working Capital Management of Commercial Banks in Nepal*" wrote Working capital is regarded as the lifeblood and nerve of a business concern and is essential to accommodate the smooth operations of any organization. It was detrimental to an organization's ability to accomplish its main goals to allocate working capital too little or too much. Since maintaining the ideal

level of working capital was closely tied to the trade-off between risk and return, it was therefore the central issue.

### **Tools Used**

Sample size, sample bank type, methodology, and statistical tools were all used in the study. The primary study paradigm involves the use of regression analysis, trend line analysis, standard deviation analysis, and field survey data.

### **The Main Objectives of the Study are:**

- Working capital was highly significant in financial management of the bank. Top level management should be responsible for managing working capital.
- Aggressive working capital policy was appropriate in the commercial banks.
- Working capital had greater impact on the profitability and risk of the bank.
- Working capital policy certainly affects the risks of the banks.
- The liquidity position of the bank was not so satisfactory; the bank was also adopting relaxed working capital investment policy.
- Eventually, the nature and size of the business was the most influential factor in the working capital management of the banks.

### **The Major Findings of the Study were:**

- Determining the exact amount of working capital required by a given company organization were challenging.
- When funding all of their assets, banks had relied more on loan capital than equity capital.
- It was been determined that a greater amount of short-term debt than long-term debt was utilized to meet the funding demand.
- In order to have appropriate liquidity, the banks had also been more concerned about increasing gross working capital.
- Given that each bank had a higher percentage of short-term borrowing to operating capital, it can be assumed that the observed banks incur risks.
- EBL was thought to have the greatest liquidity based on the highest ratio.

Dhungana (2013) had carried out research “*A Study on Working Capital Management of Selected Joint Venture Banks in Nepal*”

### **Tools Used**

The information and data acquired for this study have been analyzed using both statistical and financial methodologies.

### **The Main Objectives of the Study are:**

- To study the position of current Assets and current liabilities of NABIL, NIBL and SCBNL, and their impact on Liquidity.
- To analyze the composition of working capital and liquidity utilization of NABIL, NIBL and SCBNL.
- To analyze the composition of working capital and assets utilization of NABIL, NIBL and SCBNL.
- To analyze the comparative study of working capital Management among NABIL, NIBL and SCBNL.

### **The Major Findings of the Study are:**

- In terms of average key components of current assets, NIBL had more cash and bank balances, loans, and advances; in SCBNL, on the other hand, there were higher government securities, money at call or short notice, and miscellaneous assets.
- The current ratio and quick ratio were used to examine the liquidity position of sample banks. SCBNL had the highest quick ratio and the highest current ratio.
- There was no discernible correlation between the total deposit of the sample institutions and government securities.
- There were considerable differences in the composition of working capital between cash and bank balance, money at call or short notice, loan and advance, government securities, and miscellaneous current assets.

Acharya (2014), had carried out research “*Working Capital Management of Manufacturing Companies Listed in NEPSE*”.

### **Tools Used**

In order to evaluate the collected information and data, this study has used statistical and financial methodologies.

### **The Main Objectives of the Study were:**

- To analyze the current assets and current liabilities policies to examine the factors affecting working capital on profitability.
- To examine factors affecting working capital management. To provide appropriate suggestions.

### **The Major Findings of the Study were:**

- It was discovered that the businesses face a number of challenges, including low net working capital, low turnover, low return, and bad liquidity.
- Inadequate working capital policies, a failing financial condition, and insufficient credit and collection policies.

### **2.3 Research gap**

There is a discrepancy between the current study and earlier studies on the financial analysis of the insurance sector. The earlier studies were either case studies of specific businesses or comparison analyses of two separate business categories, such as manufacturing and non-manufacturing firms, life and non-life insurance companies, etc. While a lot of study had been done in the insurance business, no thesis has examined the entire working capital of a life insurance company while simply taking the Insurance Board of Nepal's asset holding and investing guidelines into consideration.

As opposed to other businesses, life insurance has distinct income and expense account heads. Furthermore, the guidelines set forth by the Insurance Board of Nepal have a significant impact on the working capital policies of insurance companies. However, prior investigations either overlooked or disregarded this crucial component. This research has clarified that aspect. Additionally, this study uses a variety of judgment tools in addition to focusing on the examination of financial activity ratios to determine the company's true situation in a number of areas that were

not included in earlier research. The majority of earlier research was outside the scope of this one. Due to these factors, this may be the first attempt at discussing the topic and providing a quick synopsis of all the financial operations associated with the life insurance industry in Nepal.

## **CHAPTER-III**

### **RESEARCH METHODOLOGY**

This chapter elaborates on the methodology that devolved into this study. Research methodology is an activity of forming new knowledge for the solution of the problem, which did not exist already.

The present study is aimed at presenting, evaluating, and finding the overall financial activities related to selected companies and comparing each other's position and aspects. The methodology of the research for attaining this goal has been prepared by concern authorities as this chapter shows.

#### **3.1 Research Design**

A research design is a set of arrangements which includes relatively structured conditions for gathering and analyzing data in such a way that it aims to combine relevance to the research purpose along with economy in procedure. This study tries to analyze primary information regarding the opinion of the respondents along with secondary data. In keeping with the nature of this study, historical and survey research designs are followed to collect and elicit information relating to views and their reaction. On the other hand, to extract better results for this study, various financial ratios are used to analyze different aspects of this study using the analytical research design.

#### **3.2 Population and Sampling**

There are fourteen life insurance service. NLIC, MetLife and ALICL are used as a sample for this research among the insurance companies which are providing life insurance service in Nepal. The working capital management for the ten fiscal years is examined in this study.

Population of this study

- Rastriya Jiban Beema Company Limited
- National Life Insurance Company Limited
- Nepal Life Insurance Company Limited
- Life Insurance Corporation (Nepal) Limited

- MetLife American Life Insurance Company (ALICO)
- Surya Jyoti Life Insurance Company Limited
- Himalayan Life Insurance Limited
- Asian Life Insurance Company Limited
- IME Life Insurance Company Limited
- Reliable Nepal Life Insurance Company Limited
- Sanima Reliance Life Insurance Limited
- Citizen Life Insurance Limited
- Sun Nepal Life Insurance Company Limited
- Prabhu Mahalaxmi Life Insurance Limited
- Population size = 14
- Sample size = 3
- Sample percentage = 21.43%

### **3.3 Nature and Sources of Data**

A specific set of analyses is presented in order to meet the study's objectives. The description of secondary data used for the historical performance evaluation forms the basis of the research. As a result, secondary data are employed in the study in order to reach a reliable conclusion. The primary sources of data are:

- The Insurance Board's annual reports and bulletins;
- Websites; libraries; various business programs on television and radio; etc.

### **3.4 Data Collection Technique**

For more reliable information, discussions was held with the respondents. On the other hand, this tertiary data is also available during the visit to these organizations while collecting annual reports, economic bulletins and browsers. To get more reliable information, discussion was held with the respondents. Discussed information was really important to analyze and interpret the data regarding study time. According to necessity of study, I visited the concerned web site. In pursuit of better results, rechecking of data is undertaken, and also transcribed into easy formats for analysis.

### **3.5 Data Processing Procedure**

The methods of analysis are applied as possible on a statistical basis. The data obtained from the various sources cannot be directly used in their original form due to poor database. Accounting system maintained and shown in annual report of life insurance companies is different as their own view. They need to be verified and simplified for the purpose of analysis. The data to be obtained will be presented in various tables, diagrams, and charts, all with supporting interpretations.

### **3.6 Tools and Techniques of Analysis**

Accurate tools used in the analysis of collected data show clear revelation about the study and also the efficiency and effectiveness of the study. In this study, a number of accounting, financial, and statistical tools are used to analyze data for presenting the data in clear vision. Analysis is classified into three types of analysis for the purpose of best effort on the presentation of the collected data.

#### **3.6.1 Financial Tools**

By ratio analysis, weakness of management and strength of it can be found out. So, an organization should use this tool to know about its situation and to take corrective action. To bargain more effectively for outside funds means a firm's management should be interested in all aspects of financial analysis that outside supplier of capital use in evaluating the firm. Following ratios would be computed and interpreted to judge the financial position of an organization:

##### **3.6.1.1 Liquidity Ratios:**

Liquidity ratios are used to measure the firm's ability to meet the short term solvency of the company. There are mainly three types of liquidity ratios.

##### **Current Ratio**

The current ratio refers to the relationship between current assets and current liabilities. Current assets are those assets that are converted into cash within a short period, i.e., one year. Current assets are: inventories, cash in hand, cash in bank, bills receivables, account receivables, marketable securities, prepaid expenses, short-term loans, and advances, etc., while on the other hand, current liabilities include bills payables, cash payable, cash credit, outstanding expenses, bank overdraft, etc. It

shows the current position of the firm about the payment of its current obligation. The higher the ratio, the more favorable the position of the firm. The normative standard for this ratio is 2:1. The more current ratio is low, the more unfavorable the position of the firm.

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

### **Quick Ratio/Acid-Test Ratio or Liquid Ratio**

All the current assets are not equally liquid so quick assets do not include those current assets that are not converted in a short period. Examples of these assets are prepaid expenses and inventory. The standard ratio is taken as 1:1. The formula for calculating the ratio is given below.

$$\text{Quick ratio} = \frac{\text{Quick Assets (C. A. - Prepaid expenses)}}{\text{Current Liabilities}}$$

### **3.6.1.2 Profitability Ratio**

The main objective of the firm is profit. The company should aim to earn maximum profit by fulfilling the social responsibilities. Different obligations of the firm are to be met through maximum profit. Every investor invests his/her saving only after when he/she is confident about the reasonable return. Moreover its shareholders get adequate return only under the profitability condition of the company. In other words, profit provides money for repaying debt and providing internal funds. Hence it shows the overall efficiency of the business concern. Following profitability ratios have been used in the present study.

#### **Return on Current Assets**

This ratio analyzes the earning power of the current assets of the company. The ratio is calculated by dividing net profit by total current assets. i.e.

$$\text{Return on Current Assets} = \frac{\text{Net Profit}}{\text{Current assets}}$$

#### **Return on Net Working Capital**

It estimates the profitability of net working capital and the efficiency of working capital. The ratio is obtained by dividing the net profit by net working capital, i.e.

$$\text{Return on Net Working Capital} = \frac{\text{Net Profit}}{\text{Net Working Capital}}$$

### **Return on Investment**

Investment means the long terms fund provided by the creditors and owner of the firm. It is also referred as net worth. It can be calculated in two ways. Firstly, it is summation of long-term liabilities plus shareholder equity. Alternatively, it is summation of net working capital plus fixed assets. Higher ROI demonstrates efficient uses of long-term funds. It is computed by using the following formula, Net profit / capital employed.

$$\text{Return on Investment} = \frac{\text{Net Profit}}{\text{Investment}}$$

### **3.6.1.3 Turnover Ratio**

Turnover ratios show the connection between sales and assets. It is sometimes referred to as the assets utilization ratio, activity, or efficiency. This ratio illustrates the effectiveness of asset management, or how effective is it? It indicates how quickly and effectively a business can turn its assets into revenue. A higher asset utilization rate is shown by the grater turnover ratio. As a result, it gauges how well a business uses its resources or funds. In the current investigation, the turnover ratios shown below were utilized.

#### **Receivables (Debtors) Turnover Ratio**

This ratio illustrates the connection between the company's sales and account receivables. It displays the company's debt collection velocity. Stated differently, the debtor turnover ratio serves as a gauge for a company's debtors' liquidity. The more effective the management is at collecting debts from debtors, the greater the ratio. It shows that the business is getting money from the debtors in a short amount of time. A low ratio level indicates that debts are not being repaid quickly.

$$\text{Receivables (Debtors) Turnover Ratio} = \frac{\text{Credit Sales}}{\text{Debtors}}$$

#### **Current Assets Turnover Ratio**

The link between current assets and sales is displayed by this ratio. It examines the extent to which the business can effectively use its present assets. The ratio illustrates

how much working capital is needed for every rupee of sales. A poor turnover of inventory or receivables can indicate a lack of working capital, which could be the source of the low turnover.

$$\text{Current Assets Turnover Ratio} = \frac{\text{Operating Income}}{\text{current assets}}$$

### **Cash and Bank Balance Turnover Ratio**

It demonstrates how well management works when money is used in the regular course of business. It gauges how quickly an organization can turn cash into sales. Sales are split by cash and bank balance to determine it. The higher ratio suggests that sales are generated from cash quickly. This is demonstrated by the formula below:

$$\text{Cash and Bank Balance Turnover Ratio} = \frac{\text{Operating Income}}{\text{Cash And Bank Balance}}$$

### **3.6.2 Statistical Tools**

Statistical tools are typically employed to achieve accuracy in research and analysis. The study will be presented using several charts and the main statistical tools, including the mean, standard deviation, coefficient of variance, and coefficient of correlation.

$$\text{Mean}(\bar{X}) = \frac{\sum X}{n}$$

Central tendency is measured using the mean. The average measurements, which distill a vast amount of data into a single value that encapsulates the entire set. The normal value that most data tend to cluster around is the mean, or average of the data.

$$\text{Standard Deviation}(\sigma) = \sqrt{\frac{\sum (X - \bar{X})^2}{N}}$$

Dispersion is the measurement of the scattered-nests of the mass of figures in a series around an average. The standard deviation is an absolute measure of dispersion that accounts for the limitations of other measurements of dispersion. The mean of the mean is the standard deviation. A big standard deviation of various ratios is calculated; a small standard deviation indicates a high degree of homogeneity of a series and uniformity of the data.

$$\text{Coefficient of Variance (C.V.)} = \frac{\sigma}{X} \times 100$$

The ratio of the standard deviation to the mean, stated in percentage terms, is known as the coefficient of variance, which is a relative measure of dispersion that is comparable across distributions. Since it is independent of units, it is stated in percent and used to compare the variability of two series or sets of data with the same but different units. Therefore, the coefficient of variance can be used to compare the variability of two distributions harshly. Increased CV will result in less consistency, uniformity, etc., and decreased CV will result in more of those things.

## CHAPTER -IV

### DATA PRESENTATION AND ANALYSIS

Working capital management is a critical component of financial management that determines an organization's success or failure in considerable measure. A lack of funds, erratic cash flows, and prolonged fund blocking in accounts receivable are the common issues that businesses experience as a result of poor working capital management. Only after a thorough examination of all of its components can working capital be managed appropriately. Management is able to identify trends and take appropriate remedial action as needed thanks to working capital analysis. The primary goal of the study is to examine how NLIC, MetLife, and ALICL manage their working capital, as was stated in the introduction chapter. The amount, composition, and use of current assets, as well as the relationship between current assets and total assets in terms of profitability and liquidity, are all covered in this chapter along with fixed assets.

#### **4.1 Liquidity Management Ratio**

The ability of a business to pay its present debts as they fall due is referred to as liquidity. The sum from current assets is realized to pay short-term obligations. The assets that are now available should be liquid or almost liquid. Converting current assets into cash is necessary to cover short-term obligations. It is important to compare current assets to short-term liabilities in order to determine whether they are sufficient or insufficient. A adequate liquidity position will exist if current assets are sufficient to cover current liabilities, and vice versa. Because of the aforementioned rationale, a liquidity position analysis is required. To assess the financial solvency situation in the short term, the following ratios have been computed.

- Current ratio/ Quick Ratio
- Absolute liquid ratio

##### **i) Current Ratio / Quick Ratio**

The current ratio gauges the company's short-term solvency in gross terms. By dividing current assets by current liabilities, one can get this ratio. Assets that can be

quickly turned into cash—typically little more than a year—are referred to as current assets. Cash and bank balances, various debtors, short-term investments, and other current assets are examples of current assets. Similarly, obligations that must be paid off quickly—typically within a year—are referred to as current liabilities. Estimated liabilities for claims that have been intimated, Beema Samiti service fees, agent commissions, short-term secured loans, and other current liabilities are examples of current liabilities.

In general, the current ratio assesses the gross term short-term solvency. It typically comprises fewer liquid assets, such as inventory, and does not reflect the firm's true liquidity position. Therefore, the quick ratio is used to assess the company's net liquidity condition. Since the insurance company is a service provider and has an absolute service business, inventory and prepayment charges are not included in current assets when calculating net liquidity positions. Thus, these insurance companies' rapid ratios are also their current ratios.

Table 4.1

*Calculation of current ratio*

| Fiscal year  | NLIC                   |                       |               | MetLife                |                      |               | ALICL                 |                      |               |
|--------------|------------------------|-----------------------|---------------|------------------------|----------------------|---------------|-----------------------|----------------------|---------------|
|              | Current Assets         | Current Liabilities   | Current Ratio | Current Assets         | Current Liabilities  | Current Ratio | Current Assets        | Current Liabilities  | Current Ratio |
| 2069/70      | 4,851,670,796          | 310,512,176           | 15.62         | 4,460,781,544          | 168,898,476          | 26.41         | 3,029,910,726         | 208,879,172          | 14.51         |
| 2070/71      | 9,177,414,383          | 449,611,662           | 20.41         | 6,761,032,607          | 172,882,172          | 39.11         | 4,206,711,517         | 134,211,510          | 31.34         |
| 2071/72      | 18,143,902,304         | 651,984,773           | 27.83         | 9,852,381,517          | 193,626,256          | 50.88         | 1,251,697,472         | 168,510,367          | 7.43          |
| 2072/73      | 26,164,551,007         | 807,368,890           | 32.41         | 10,108,998,503         | 216,880,005          | 46.61         | 1,420,160,829         | 223,986,348          | 6.34          |
| 2073/74      | 30,153,826,908         | 1,166,664,004         | 25.85         | 12,114,147,121         | 191,262,063          | 63.34         | 1,796,576,875         | 305,880,888          | 5.87          |
| 2074/75      | 30,171,355,249         | 1,609,525,984         | 18.75         | 15,325,170,798         | 216,648,732          | 70.74         | 1,681,581,509         | 376,251,932          | 4.47          |
| 2075/76      | 30,015,948,754         | 1,485,148,739         | 20.21         | 16,728,198,927         | 286,097,609          | 58.47         | 2,034,286,495         | 249,977,218          | 8.14          |
| 2076/77      | 29,576,525,571         | 2,324,130,755         | 12.73         | 18,309,576,451         | 346,087,193          | 52.90         | 2,442,675,274         | 334,633,001          | 7.30          |
| 2077/78      | 28,924,945,127         | 2,018,119,313         | 14.33         | 20,023,971,310         | 383,946,414          | 52.15         | 3,108,435,981         | 420,452,712          | 7.39          |
| 2078/79      | 48,412,851,795         | 2,929,861,302         | 16.52         | 7,054,248,395          | 344,752,546          | 20.46         | 2,761,919,417         | 482,091,000          | 5.73          |
| <b>Total</b> | <b>255,592,991,894</b> | <b>13,752,927,598</b> | <b>18.58</b>  | <b>120,738,507,173</b> | <b>2,521,081,466</b> | <b>47.89</b>  | <b>23,733,956,095</b> | <b>2,904,874,146</b> | <b>8.17</b>   |
| <b>Mean</b>  | <b>25,559,299,189</b>  | <b>1,375,292,760</b>  |               | <b>12,073,850,717</b>  | <b>252,108,147</b>   |               | <b>2,373,395,610</b>  | <b>290,487,415</b>   |               |
| <b>S.D.</b>  | <b>11,681,264,840</b>  | <b>817,130,193</b>    |               | <b>5,044,811,114</b>   | <b>76,663,572</b>    |               | <b>870,705,400</b>    | <b>107,316,443</b>   |               |
| <b>C.V.</b>  | <b>46%</b>             | <b>59%</b>            |               | <b>42%</b>             | <b>30%</b>           |               | <b>37%</b>            | <b>37%</b>           |               |

*Source: - Annual report of the three insurance companies*

The financial data for NLIC, MetLife, and ALICL over several fiscal years reveal distinct differences in liquidity management, as indicated by their current assets, current liabilities, and current ratios.

NLIC maintains a strong current ratio throughout the period, averaging 18.58, suggesting solid liquidity and an ability to cover its short-term liabilities with ease. NLIC's current ratio peaks at 32.41 in 2072/73 and remains consistently high, despite some variability (C.V. of 46% for current assets and 59% for current liabilities).

MetLife displays the highest average current ratio at 47.89, reflecting exceptional liquidity management. MetLife's current ratio reaches a maximum of 70.74 in 2074/75 and maintains low variability (C.V. of 42% for current assets and 30% for current liabilities), indicating consistent performance in meeting short-term obligations.

ALICL, on the other hand, shows the lowest average current ratio at 8.17, indicating a relatively weaker liquidity position compared to NLIC and MetLife. ALICL's current ratio fluctuates significantly, peaking at 31.34 in 2070/71 and dropping as low as 4.47 in 2074/75. This fluctuation is mirrored in its current assets and liabilities (both with a C.V. of 37%), suggesting less stable liquidity management.

In summary, MetLife demonstrates the best liquidity position with the highest and most consistent current ratios, followed by NLIC with strong but more variable liquidity, and ALICL with the lowest and most inconsistent liquidity performance.

## **ii) Absolute Liquid Ratio**

The absolute liquid ratio calculates a company's ability to pay its short-term debts with its cash, or absolute liquid assets. The less liquid form of asset, account receivable, is included in the liquid asset category. It cannot be utilized as easily as cash to pay for short-term obligations. As a result, the absolute liquid ratio is computed in this case to determine the cash shortfall short term solvency.

Table 4.2

*Calculation of Absolute Liquid Ratio*

| Fiscal year  | NLIC                  |                       |  | MetLife               |                      |  | ALICL                 |                      |  |
|--------------|-----------------------|-----------------------|--|-----------------------|----------------------|--|-----------------------|----------------------|--|
|              | Cash and Bank Balance | Current Liabilities   | Cash and Bank to Current Liabilities Ratio | Cash and Bank Balance | Current Liabilities  | Cash and Bank to Current Liabilities Ratio | Cash and Bank Balance | Current Liabilities  | Cash and Bank to Current Liabilities Ratio |
| 2069/70      | 195,530,437           | 310,512,176           | 0.63                                       | 461,017,179           | 168,898,476          | 2.73                                       | 47,530,232            | 208,879,172          | 0.23                                       |
| 2070/71      | 181,557,233           | 449,611,662           | 0.40                                       | 30,254,022            | 172,882,172          | 0.17                                       | 87,659,989            | 134,211,510          | 0.65                                       |
| 2071/72      | 586,338,759           | 651,984,773           | 0.90                                       | 76,783,755            | 193,626,256          | 0.40                                       | 214,498,737           | 168,510,367          | 1.27                                       |
| 2072/73      | 1,415,883,115         | 807,368,890           | 1.75                                       | 81,738,285            | 216,880,005          | 0.38                                       | 224,756,506           | 223,986,348          | 1.00                                       |
| 2073/74      | 2,028,252,768         | 1,166,664,004         | 1.74                                       | 147,317,586           | 191,262,063          | 0.77                                       | 565,035,055           | 305,880,888          | 1.85                                       |
| 2074/75      | 2,862,016,067         | 1,609,525,984         | 1.78                                       | 8,402,334             | 216,648,732          | 0.04                                       | 696,175,867           | 376,251,932          | 1.85                                       |
| 2075/76      | 8,050,479,882         | 1,485,148,739         | 5.42                                       | 121,348,153           | 286,097,609          | 0.42                                       | 988,136,256           | 249,977,218          | 3.95                                       |
| 2076/77      | 11,786,994,934        | 2,324,130,755         | 5.07                                       | 130,615,378           | 346,087,193          | 0.38                                       | 883,805,960           | 334,633,001          | 2.64                                       |
| 2077/78      | 16,778,553,384        | 2,018,119,313         | 8.31                                       | 220,985,887           | 383,946,414          | 0.58                                       | 373,142,319           | 420,452,712          | 0.89                                       |
| 2078/79      | 202,327,981           | 2,929,861,302         | 0.07                                       | 217,595,545           | 344,752,546          | 0.63                                       | 439,660,714           | 482,091,000          | 0.91                                       |
| <b>Total</b> | <b>44,087,934,560</b> | <b>13,752,927,598</b> | <b>3.21</b>                                | <b>1,496,058,124</b>  | <b>2,521,081,466</b> | <b>0.59</b>                                | <b>4,520,401,636</b>  | <b>2,904,874,146</b> | <b>1.56</b>                                |
| <b>Mean</b>  | <b>4,408,793,456</b>  | <b>1,375,292,760</b>  |  | <b>149,605,812</b>    | <b>252,108,147</b>   |  | <b>452,040,164</b>    | <b>290,487,415</b>   |  |
| <b>S.D.</b>  | <b>5,528,601,336</b>  | <b>817,130,193</b>    |  | <b>123,268,589</b>    | <b>76,663,572</b>    |  | <b>309,362,880</b>    | <b>107,316,443</b>   |  |
| <b>C.V.</b>  | <b>125%</b>           | <b>59%</b>            |  | <b>82%</b>            | <b>30%</b>           |  | <b>68%</b>            | <b>37%</b>           |  |

*Source: - Annual report of the three insurance companies*

The provided data details the cash and bank balances, current liabilities, and the cash and bank to current liabilities ratios for NLIC, MetLife, and ALICL across multiple fiscal years. NLIC shows varying cash balances from 195.53 million in 2069/70 to a peak of 16.78 billion in 2077/78, alongside fluctuations in liabilities and ratios. MetLife demonstrates a similar pattern with significant fluctuations, while ALICL generally maintains lower cash balances but varying ratios. Overall, NLIC has the highest total cash and bank balance of approximately 44.09 billion, MetLife follows with 13.75 billion, and ALICL with 4.52 billion. Mean values and coefficients of variation highlight the volatility and scale differences across the years are analyzed.

#### **4.2 Position of Working Capital**

Absolute liquid ratio tells about the ability of a business to pay off its short-term debts using cash or absolute liquid assets. Account receivable is one category of liquid asset, though relatively of a lesser liquid type of asset. It will be less convenient to use like cash to settle immediate debts. In this case, the absolute liquid ratio is determined of the cash shortfall's short-term solvency.

The ultimate goal for an organization is to maximize return on investment for its shareholders. A business organization must Acquire and operate at a profit that is considered to maximize the wealth of its stockholders. Only through effective sales initiatives can one ensure a constant level of profit since revenues do not result in cash directly. Hence the corporation has to invest sufficient amount of money in current assets to sustain its sales efforts. As such, effective current asset management is therefore core to overall financial management and has a larger impact on maximizing capital for owners. In the light of this information, it is important to accurately analyze the present assets so as to determine how well they are performing, similarly how their management is operating. Accordingly, this thesis first analyzes the three insurance companies' total current assets.

Table - 4.3

*Current Assets***(Amount in NPR)**

| Fiscal Year | Current Assets |                |                  |
|-------------|----------------|----------------|------------------|
|             | NLIC           | MetLife        | ALICL            |
| 2069/70     | 4,851,670,796  | 4,460,781,544  | 3,029,910,726.39 |
| 2070/71     | 9,177,414,383  | 6,761,032,607  | 4,206,711,516.94 |
| 2071/72     | 18,143,902,304 | 9,852,381,517  | 1,251,697,471.55 |
| 2072/73     | 26,164,551,007 | 10,108,998,503 | 1,420,160,829.42 |
| 2073/74     | 30,153,826,908 | 12,114,147,121 | 1,796,576,874.56 |
| 2074/75     | 30,171,355,249 | 15,325,170,798 | 1,681,581,509.00 |
| 2075/76     | 30,015,948,754 | 16,728,198,927 | 2,034,286,495.00 |
| 2076/77     | 29,576,525,571 | 18,309,576,451 | 2,442,675,274.00 |
| 2077/78     | 28,924,945,127 | 20,023,971,310 | 3,108,435,981    |
| 2078/79     | 48,412,851,795 | 7,054,248,395  | 2,761,919,417    |

Source: - Annual report of NLIC, MetLife and ALICL

This table represents current assets position of the three insurance companies. The current assets of these insurance companies consist of investment, cash and bank balance, sundry debtors and others. The provided data outlines the fiscal year figures for NLIC, MetLife, and ALICL. In 2078/79, NLIC reported an operating income of approximately 48.41 billion, MetLife had an operating income of about 7.05 billion, and ALICL recorded an operating income of around 2.76 billion. Over the years, the operating income for NLIC shows a consistent increase, reaching 48.41 billion in 2078/79. MetLife's operating income fluctuated, with a peak of 18.31 billion in 2076/77, followed by a decline to 7.05 billion in 2078/79. ALICL's operating income also varied, reaching its peak of 3.11 billion in 2077/78. These figures provide insights into the financial performance of the respective companies over the specified fiscal years.

#### **4.2.1 Position of Current Assets**

Both current and fixed assets are needed by business organizations. Current assets are short-term assets required for ongoing business operations, such as cash and receivables, whereas fixed assets are long-term, or durable, assets. The main part of working capital is the total of these short-term assets. Without working capital, a corporate organization is difficult to find.

A company needs working capital since cash flow and productive sales are not constant. Since there might not be a perfect matching between cash inflow and outflow, the company requires funds to pay expenses and draw in more insurance policy holders. Holding cash could also be necessary to cover future expenses.

#### **4.2.2 Working Capital policy Analysis**

Insurance businesses do not need to tie up funds in the form of inventory because they are service providers. It provides customers with insurance services, and service exchanges are paid for in cash. The restrictions imposed by the Beema Samiti make it impossible for life insurance businesses to determine their annual profit. Therefore, these insurance companies simply factor in operating profit when determining how well to employ the premiums they have collected. It must pay for running expenses, administrative costs, depreciation, personnel costs, bonuses, and employer-only intensive packages, among other things.

The amount of working capital required by various organizations depends on a variety of factors, including the size and nature of the business, the firm's liquidity status, etc. Throughout the investigation, several senior finance department officials were questioned regarding their working capital management. It was discovered that there are no established policies for managing working capital, and there is no systematic method for estimating working capital needs. Excessive operating capital is not required for long-term investments, such as securities, when there is high investment. Even long-term investments, such as those made in government bonds, fixed deposits, and other long-term financial assets, provide some liquidity to the business and can be used as collateral to help finance the working capital needs in crisis.

#### **4.2.3 Size of Working Capital**

The effective management of current assets determines whether a company succeeds or fails. These resources need to be kept up to date to support the volume of business operations. The term "current assets policy" refers to any company's policy addressing the total quantity of current assets needed to support a specific level of sales. The level of current assets relative to total assets and their relationship to fixed assets have been examined in this analysis of the current assets policy.

Any business's size shouldn't be larger or smaller. Thus, the working capital is sufficient. Although there is little profitability, there is high liquidity due to high working capital. Poor liquidity and high profitability are the results of low working capital. A low liquidity situation makes it impossible for the company to continue operating. Here, five distinct ratios are used to measure the present asset level. The following calculations are made using those five different types of ratios in order to examine the working capital size.

- Current Assets to Total Assets
- Current Assets to Fixed Assets
- Current Assets to Operating Income
- Net Working Capital to Current Assets
- Net working Capital to Operating Income

#### **Percentage of Current Assets to Total Assets**

This ratio can be examined to learn more about the company's working capital composition. It represents the portion of gross working capital held in total assets. Greater liquidity position and a lower danger of technical insolvency are indicated by a higher percentage of current assets in total assets, and vice versa. The percentage of current assets to total assets is shown in the table below.

Table 4.4  
*Percentage of Current Assets on Total Assets*

(Ratio in %)

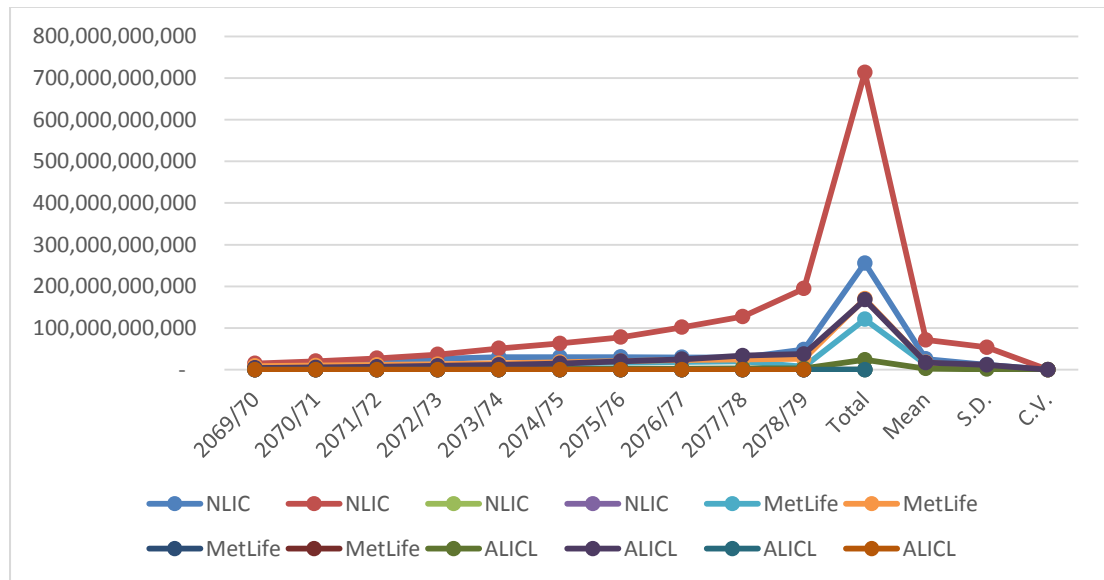
| Fiscal year  | NLIC                   |                        |            |          | MetLife                |                        |            |          | ALICL                 |                        |            |          |
|--------------|------------------------|------------------------|------------|----------|------------------------|------------------------|------------|----------|-----------------------|------------------------|------------|----------|
|              | Current Assets         | Total Assets           | Ratio      | % change | Current Assets         | Total Assets           | Ratio      | % change | Current Assets        | Total Assets           | Ratio      | % change |
| 2069/70      | 4,851,670,796          | 14,904,029,589         | 33%        | 0%       | 4,460,781,544          | 8,659,172,796          | 52%        | 0%       | 3,029,910,726         | 4,097,518,684          | 74%        | 0%       |
| 2070/71      | 9,177,414,383          | 20,040,173,782         | 46%        | 13%      | 6,761,032,607          | 9,974,099,951          | 68%        | 16%      | 4,206,711,517         | 5,406,805,603          | 78%        | 4%       |
| 2071/72      | 18,143,902,304         | 27,094,072,184         | 67%        | 21%      | 9,852,381,517          | 11,338,468,795         | 87%        | 19%      | 1,251,697,472         | 6,908,855,883          | 18%        | -60%     |
| 2072/73      | 26,164,551,007         | 36,311,154,112         | 72%        | 5%       | 10,108,998,503         | 13,074,740,469         | 77%        | -10%     | 1,420,160,829         | 8,952,904,443          | 16%        | -2%      |
| 2073/74      | 30,153,826,908         | 50,745,147,864         | 59%        | -13%     | 12,114,147,121         | 15,163,705,178         | 80%        | 3%       | 1,796,576,875         | 11,338,685,364         | 16%        | 0%       |
| 2074/75      | 30,171,355,249         | 62,880,324,200         | 48%        | -11%     | 15,325,170,798         | 18,022,848,339         | 85%        | 5%       | 1,681,581,509         | 14,886,416,183         | 11%        | -5%      |
| 2075/76      | 30,015,948,754         | 77,819,058,027         | 39%        | -9%      | 16,728,198,927         | 20,420,510,761         | 82%        | -3%      | 2,034,286,495         | 20,076,526,152         | 10%        | -1%      |
| 2076/77      | 29,576,525,571         | 101,781,944,244        | 29%        | -10%     | 18,309,576,451         | 22,801,061,497         | 80%        | -2%      | 2,442,675,274         | 24,701,411,868         | 10%        | 0%       |
| 2077/78      | 28,924,945,127         | 127,279,287,540        | 23%        | -6%      | 20,023,971,310         | 24,509,764,933         | 82%        | 1%       | 3,108,435,981         | 33,800,383,709         | 9%         | -1%      |
| 2078/79      | 48,412,851,795         | 194,420,103,336        | 25%        | 2%       | 7,054,248,395          | 25,864,666,066         | 27%        | -54%     | 2,761,919,417         | 37,463,139,958         | 7%         | -2%      |
| <b>Total</b> | <b>255,592,991,894</b> | <b>713,275,294,878</b> | <b>36%</b> |          | <b>120,738,507,173</b> | <b>169,829,038,785</b> | <b>71%</b> |          | <b>23,733,956,095</b> | <b>167,632,647,847</b> | <b>14%</b> |          |
| <b>Mean</b>  | <b>25,559,299,189</b>  | <b>71,327,529,488</b>  |            |          | <b>12,073,850,717</b>  | <b>16,982,903,879</b>  |            |          | <b>2,373,395,609</b>  | <b>16,763,264,785</b>  |            |          |
| <b>S.D.</b>  | <b>11,681,264,840</b>  | <b>53,613,180,733</b>  |            |          | <b>5,044,811,114</b>   | <b>5,925,703,542</b>   |            |          | <b>870,705,400</b>    | <b>11,283,572,789</b>  |            |          |
| <b>C.V.</b>  | <b>46%</b>             | <b>75%</b>             |            |          | <b>42%</b>             | <b>35%</b>             |            |          | <b>37%</b>            | <b>67%</b>             |            |          |

Source: - Annual report of three insurance companies

The table presents a comparative analysis of the financial performance of three companies—NLIC, MetLife, and ALICL—over the fiscal years 2069/70 to 2078/79. For each company, the table details current assets, total assets, their ratio, and percentage change. NLIC’s current assets grew significantly from 4.85 billion to 48.41 billion, with a fluctuating ratio peaking at 72% and then declining to 25%. MetLife showed steady growth in current assets from 4.46 billion to 20.02 billion, maintaining a high current to total asset ratio, generally around 80%. ALICL’s current assets started at 3.02 billion, faced a sharp drop, and eventually settled at 2.76 billion, with its ratio declining significantly to 7%. The total row summarizes the accumulated assets and their average, while the standard deviation and coefficient of variation (C.V.) provide insights into the volatility of the assets and ratios over the period.

Figure 4.1

*Relationship between Current Assets and Total Assets*



There is not a linear link between total assets and current assets, meaning that an increase in total assets does not always translate into an increase in the percentage of current assets in that total. The above graphic presentation made the concept clear. Two lines are not parallel, as the illustration illustrates. Karl Pearson's correlation coefficient is computed as follows to determine the significance of the link between two variables (CA & TA) during the study period.

Karl Pearson's correlation coefficient, which illustrates the impact of one variable's amount on another, is a useful tool for interpreting the relationship between two

variables. When the correlation coefficient is 1, it indicates that the variables are positively correlated with one another; conversely, when the correlation coefficient is -1, it indicates that the variables are negatively correlated.

### **Percentage of Current Assets to Fixed Assets**

Every company should make investments in both fixed and current assets to support specific business levers. Therefore, the company needs to figure out how much of its existing assets are fixed assets. The link between current assets and fixed assets can be used to gauge the amount of current assets and provide insight into the firm's financing program for current assets. Given a given level of fixed assets, an aggressive current assets strategy is indicated by a greater current assets to fixed assets ratio; conversely, a conservative current assets policy is indicated by a lower ratio. The management of current assets directly affects both the financial management objectives of profitability and liquidity; when current asset volume decreases, profitability rises but liquidity falls, and vice versa.

Table 4.5

## Percentage of Current Assets to Fixed Assets

(Ratio in %)

| Fiscal year  | NLIC                   |                      |                       |          | MetLife                |                    |                       |          | ALICL                 |                      |                       |          |
|--------------|------------------------|----------------------|-----------------------|----------|------------------------|--------------------|-----------------------|----------|-----------------------|----------------------|-----------------------|----------|
|              | Current Assets         | Fixed Assets         | Ratio (% of CA on FA) | % change | Current Assets         | Fixed Assets       | Ratio (% of CA on FA) | % change | Current Assets        | Fixed Assets         | Ratio (% of CA on FA) | % change |
| 2069/70      | 4,851,670,796          | 343,074,576          | 1414%                 | 0%       | 4,460,781,544          | 6,066,858          | 73527%                | 0%       | 3,029,910,726         | 67,844,854           | 4466%                 | 0%       |
| 2070/71      | 9,177,414,383          | 336,609,681          | 2726%                 | -2%      | 6,761,032,607          | 13,899,572         | 48642%                | 129%     | 4,206,711,517         | 72,580,547           | 5796%                 | 7%       |
| 2071/72      | 18,143,902,304         | 331,945,260          | 5466%                 | -1%      | 9,852,381,517          | 21,550,200         | 45718%                | 55%      | 1,251,697,472         | 203,356,452          | 616%                  | 180%     |
| 2072/73      | 26,164,551,007         | 68,926,981           | 37960%                | -79%     | 10,108,998,503         | 26,469,311         | 38191%                | 23%      | 1,420,160,829         | 415,789,718          | 342%                  | 104%     |
| 2073/74      | 30,153,826,908         | 67,474,156           | 44689%                | -2%      | 12,114,147,121         | 46,008,407         | 26330%                | 74%      | 1,796,576,875         | 472,585,171          | 380%                  | 14%      |
| 2074/75      | 30,171,355,249         | 65,042,899           | 46387%                | -4%      | 15,325,170,798         | 47,790,429         | 32067%                | 4%       | 1,681,581,509         | 468,352,750          | 359%                  | -1%      |
| 2075/76      | 30,015,948,754         | 74,328,937           | 40383%                | 14%      | 16,728,198,927         | 51,671,959         | 32374%                | 8%       | 2,034,286,495         | 488,716,570          | 416%                  | 4%       |
| 2076/77      | 29,576,525,571         | 83,803,430           | 35293%                | 13%      | 18,309,576,451         | 53,970,050         | 33925%                | 4%       | 2,442,675,274         | 481,548,729          | 507%                  | -1%      |
| 2077/78      | 28,924,945,127         | 76,164,497           | 37977%                | -9%      | 20,023,971,310         | 48,570,522         | 41227%                | -10%     | 3,108,435,981         | 476,137,342          | 653%                  | -1%      |
| 2078/79      | 48,412,851,795         | 523,687,846          | 9245%                 | 588%     | 7,054,248,395          | 43,783,566         | 16112%                | -10%     | 2,761,919,417         | 572,910,605          | 482%                  | 20%      |
| <b>Total</b> | <b>255,592,991,894</b> | <b>1,971,058,263</b> | <b>12967%</b>         |          | <b>120,738,507,173</b> | <b>359,780,874</b> | <b>33559%</b>         |          | <b>23,733,956,095</b> | <b>3,719,822,737</b> | <b>638%</b>           |          |
| <b>Mean</b>  | <b>25,559,299,189</b>  | <b>197,105,826</b>   |                       |          | <b>12,073,850,717</b>  | <b>35,978,087</b>  |                       |          | <b>2,373,395,609</b>  | <b>371,982,274</b>   |                       |          |
| <b>S.D.</b>  | <b>11,681,264,840</b>  | <b>160,878,493</b>   |                       |          | <b>5,044,811,114</b>   | <b>16,463,187</b>  |                       |          | <b>870,705,400</b>    | <b>175,714,289</b>   |                       |          |
| <b>C.V.</b>  | <b>46%</b>             | <b>82%</b>           |                       |          | <b>42%</b>             | <b>46%</b>         |                       |          | <b>37%</b>            | <b>47%</b>           |                       |          |

Source: - Annual report of three insurance companies

The table and figure above depicts the financial data comparing three entities – NLIC, MetLife, and ALICL – over fiscal years 2069/70 to 2078/79. The table contains values for current assets and fixed assets, as well as calculated ratios of current assets to fixed assets (as a percentage) and the year-over-year percentage change in this ratio.

For NLIC, over the ten-year span, both current assets and fixed assets have increased dramatically, with the ratio peaking at 9,245% in the final year listed. There's a significant year-over-year variability, with the ratio percentage change ranging from -79% to a high of 5,888%. The mean current assets for NLIC are around 25 billion with a high coefficient of variation (C.V), indicating substantial fluctuation over the years.

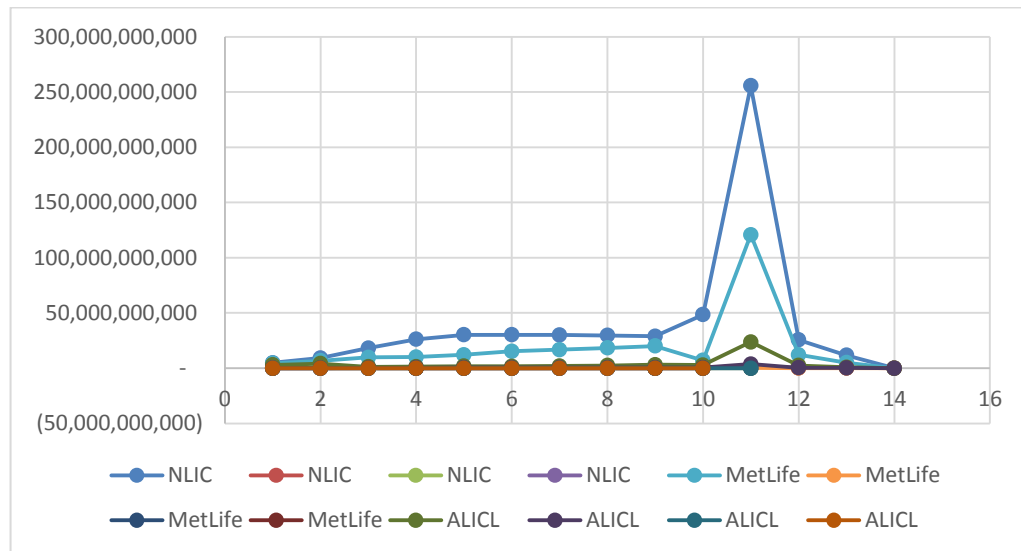
MetLife shows an impressive growth in current assets and a ratio of current assets to fixed assets starting from 7,352% and peaking at 32,374% with some dips in-between. The year-over-year percentage change for MetLife fluctuates quite significantly, with changes ranging from an increase of 7,885% to a decrease of 10%.

ALICL's data demonstrates a steady increase in current assets over the years, with the ratio of current assets to fixed assets starting at 4,466% and reaching up to 6,535%, before dipping slightly in the last year to 4,822%. The year-over-year percentage change in the ratio for ALICL sees a considerable swing, with a 180% peak and fluctuations throughout the period.

Summary statistics indicate overall high total and mean figures across all entities, with NLIC showing remarkable total current assets and a high standard deviation, indicating significant variance across the fiscal years. The coefficient of variation across all entities is high, suggesting fluctuations and potential volatility in their financial ratios over the period surveyed.

Figure 4.2

*Relationship between Fixed Assets and Current Assets*



### **Current Assets as Percentage of Operating Income**

The life insurance industry is a long-term industry that differs greatly from other business sectors. The primary source of revenue for life insurance firms is the premiums they collect from their clients. These premiums must be returned to the insured together with a set bonus amount when the policy matures or the insured is deceased. As a result, life insurance firms are unable to assess their profitability without an actuary's appraisal. Operating revenue in this case includes income from written-back provisions, life insurance fund transfers, investment loans, and other sources of income. A company that provides services, like an insurance company, depends on this kind of operating revenue. The collecting of premiums from various insurance types is not the source of operating income. The business should design its insurance plan in accordance with the availability of resources and consumer insurance preferences. The financial policy, or the total assets and working capital needed by the business to operate as planned, is significantly impacted by the insurance policy. Here, their ability to coordinate with one another is crucial. A sufficient quantity of current assets should be available for all transactions, which are undoubtedly impacted by increased insurance aims. If the company's premium collection is sluggish, additional working capital will be needed to cover daily expenses. On the other hand, there is less need for operating capital if premium collection happens quickly.

Table 4.6

*Percentage of Current Assets to Operating Income*

| Fiscal year  | NLIC                   |                       |                       |          | MetLife                |                      |                       |          | ALICL                 |                      |                       |          |
|--------------|------------------------|-----------------------|-----------------------|----------|------------------------|----------------------|-----------------------|----------|-----------------------|----------------------|-----------------------|----------|
|              | Current Assets         | Operating Income      | Ratio (% of CA on OI) | % change | Current Assets         | Operating Income     | Ratio (% of CA on OI) | % change | Current Assets        | Operating Income     | Ratio (% of CA on OI) | % change |
| 2069/70      | 4,851,670,796          | 774,607,048           | 16%                   | 0%       | 4,460,781,544          | 556,347,383          | 12%                   | 0%       | 3,029,910,726         | 125,427,322          | 4%                    | 0%       |
| 2070/71      | 9,177,414,383          | 614,111,885           | 7%                    | -9%      | 6,761,032,607          | 87,072,924           | 1%                    | -11%     | 4,206,711,517         | 75,125,329           | 2%                    | -2%      |
| 2071/72      | 18,143,902,304         | 527,555,789           | 3%                    | -4%      | 9,852,381,517          | 68,007,096           | 1%                    | -1%      | 1,251,697,472         | 31,274,699           | 2%                    | 1%       |
| 2072/73      | 26,164,551,007         | 906,634,254           | 3%                    | 1%       | 10,108,998,503         | 344,135,750          | 3%                    | 3%       | 1,420,160,829         | 106,070,088          | 7%                    | 5%       |
| 2073/74      | 30,153,826,908         | 1,280,156,593         | 4%                    | 1%       | 12,114,147,121         | 460,410,265          | 4%                    | 0%       | 1,796,576,875         | 85,960,339           | 5%                    | -3%      |
| 2074/75      | 30,171,355,249         | 1,806,934,086         | 6%                    | 2%       | 15,325,170,798         | 558,330,847          | 4%                    | 0%       | 1,681,581,509         | 78,217,796           | 5%                    | 0%       |
| 2075/76      | 30,015,948,754         | 1,635,465,458         | 5%                    | -1%      | 16,728,198,927         | 558,192,767          | 3%                    | 0%       | 2,034,286,495         | 235,856,180          | 12%                   | 7%       |
| 2076/77      | 29,576,525,571         | 1,731,601,293         | 6%                    | 0%       | 18,309,576,451         | 678,357,180          | 4%                    | 0%       | 2,442,675,274         | 568,531,235          | 23%                   | 12%      |
| 2077/78      | 28,924,945,127         | 3,116,349,378         | 11%                   | 5%       | 20,023,971,310         | 351,090,897          | 2%                    | -2%      | 3,108,435,981         | 570,365,855          | 18%                   | -5%      |
| 2078/79      | 48,412,851,795         | 25,965,590,223        | 54%                   | 43%      | 7,054,248,395          | 596,567,442          | 8%                    | 7%       | 2,761,919,417         | 635,739,628          | 23%                   | 5%       |
| <b>Total</b> | <b>255,592,991,894</b> | <b>38,359,006,007</b> | <b>15%</b>            |          | <b>120,738,507,173</b> | <b>4,258,512,551</b> | <b>4%</b>             |          | <b>23,733,956,095</b> | <b>2,512,568,471</b> | <b>11%</b>            |          |
| <b>Mean</b>  | <b>25,559,299,189</b>  | <b>3,835,900,601</b>  |                       |          | <b>12,073,850,717</b>  | <b>425,851,255</b>   |                       |          | <b>2,373,395,609</b>  | <b>251,256,847</b>   |                       |          |
| <b>S.D.</b>  | <b>11,681,264,840</b>  | <b>7,412,399,255</b>  |                       |          | <b>5,044,811,114</b>   | <b>200,320,163</b>   |                       |          | <b>870,705,400</b>    | <b>228,943,215</b>   |                       |          |
| <b>C.V.</b>  | <b>46%</b>             | <b>193%</b>           |                       |          | <b>42%</b>             | <b>47%</b>           |                       |          | <b>37%</b>            | <b>91%</b>           |                       |          |

Source: - Annual report of three insurance companies

The data presents a comparison of current assets and operating income over a ten-year period for three entities: NLIC, MetLife, and ALICL. Each row corresponds to a fiscal year, starting from 2069/70 and ending at 2078/79, with columns detailing the current assets, operating income, the ratio of current assets to operating income (expressly calculated in percentages), and the percentage change in this ratio from the previous year for each entity.

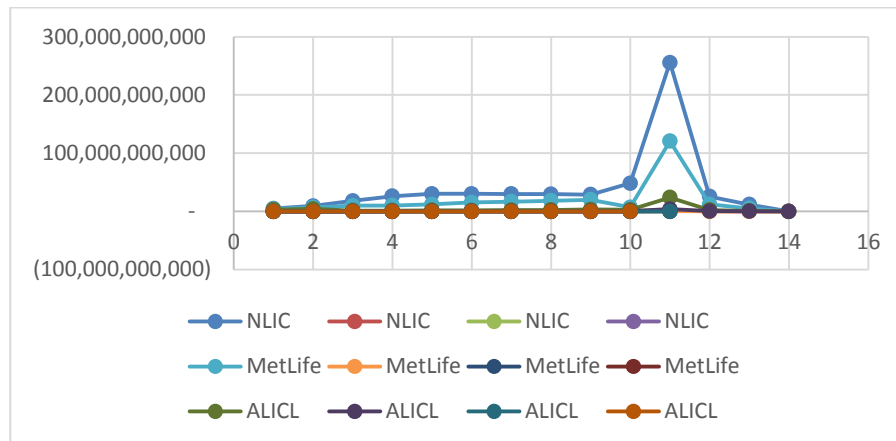
For NLIC, their current assets grew consistently, reaching a peak in 2078/79, and this is mirrored in the ratio of current assets to operating income, which saw a significant increase to 54% in the final fiscal year with a 43% change from the previous year. MetLife's current assets also follow a growth trend overall but with smaller ratios of current assets to operating income, peaking at 8% in 2078/79 with a 7% change from the previous year. ALICL showed a more volatile pattern in the percentage changes of their ratio, peaking at 23% in 2078/79 with a 5% change from 2077/78.

At the bottom of the data, summary statistics indicate tallies of total current assets and operating income over the full period. NLIC's total current assets are the highest, while MetLife has the most considerable operating income. The standard deviation (S.D.) values inform us of the spread of the data across the fiscal years, with NLIC showing substantial variation in operating income, as indicated by a high coefficient of variation (C.V.) of 193%. MetLife has a more consistent profile with lower C.V.'s for current assets and operating income, suggesting more stability over the years. ALICL has a moderate coefficient of variation, signifying a mid-level fluctuation in their financial figures.

It is also made clear by the graphical representation in the following image that working capital is not proportionate to sales. Because of the amount of working capital the company retains, the sale is ineffective. The working capital curve and the sale curve are separate, indicating that the two are independent.

Figure 4.3

*Relationship between Current Assets and Operating Income*



### Net Working Capital as Percentage of Current Assets

The difference between current assets and current liabilities is known as net working capital. Working capital is the amount that is left over when current liabilities exceed current assets. A company should look for fresh sources of funding if its working capital is low or it has a working capital deficit; if not, its current assets should be liquidated to cover its current liabilities. Four columns for NLIC, MetLife, and ALICL in the following table, which is organized by fiscal year from 2069/70 to 2078/79, reflect current assets, net working capital, the ratio (the proportion of working capital on current assets), and percentage change from the prior year.

Table 4.7

*Proportion of Net Working Capital to Current Assets*

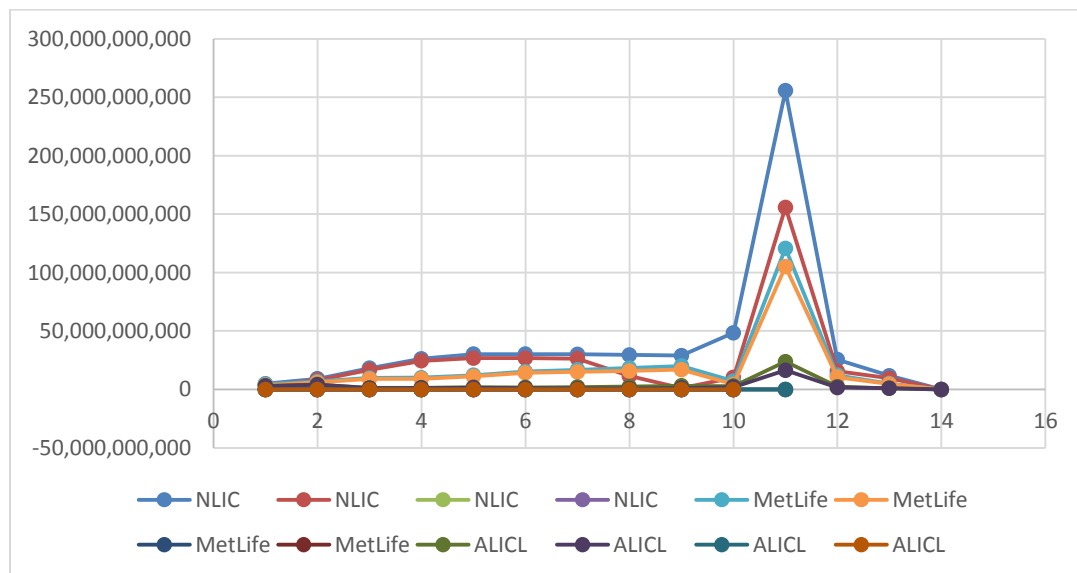
| Fiscal year  | NLIC                   |                        |                       |          | MetLife                |                        |                       |          | ALICL                 |                       |                       |          |
|--------------|------------------------|------------------------|-----------------------|----------|------------------------|------------------------|-----------------------|----------|-----------------------|-----------------------|-----------------------|----------|
|              | Current Assets         | Net Working Capital    | Ratio (% of WC on CA) | % change | Current Assets         | Net Working Capital    | Ratio (% of WC on CA) | % change | Current Assets        | Net Working Capital   | Ratio (% of WC on CA) | % change |
| 2069/70      | 4,851,670,796          | 3,853,979,228          | 79%                   | 0%       | 4,460,781,544          | 3,615,971,076          | 81%                   | 0%       | 3,029,910,726         | 2,821,031,555         | 93%                   | 0%       |
| 2070/71      | 9,177,414,383          | 8,042,330,241          | 88%                   | 8%       | 6,761,032,607          | 6,017,192,000          | 89%                   | 8%       | 4,206,711,517         | 4,072,500,007         | 97%                   | 4%       |
| 2071/72      | 18,143,902,304         | 16,699,856,842         | 92%                   | 4%       | 9,852,381,517          | 9,010,858,230          | 91%                   | 2%       | 1,251,697,472         | 1,083,187,105         | 87%                   | -10%     |
| 2072/73      | 26,164,551,007         | 24,491,660,998         | 94%                   | 2%       | 10,108,998,503         | 9,140,083,447          | 90%                   | -1%      | 1,420,160,829         | 1,196,174,481         | 84%                   | -2%      |
| 2073/74      | 30,153,826,908         | 26,711,267,534         | 89%                   | -5%      | 12,114,147,121         | 11,198,442,188         | 92%                   | 2%       | 1,796,576,875         | 1,490,695,987         | 83%                   | -1%      |
| 2074/75      | 30,171,355,249         | 26,834,823,657         | 89%                   | 0%       | 15,325,170,798         | 14,125,693,684         | 92%                   | 0%       | 1,681,581,509         | 1,099,983,371         | 65%                   | -18%     |
| 2075/76      | 30,015,948,754         | 26,359,396,438         | 88%                   | -1%      | 16,728,198,927         | 14,939,936,164         | 89%                   | -3%      | 2,034,286,495         | 739,518,501           | 36%                   | -29%     |
| 2076/77      | 29,576,525,571         | 11,379,246,625         | 38%                   | -49%     | 18,309,576,451         | 15,796,776,179         | 86%                   | -3%      | 2,442,675,274         | 719,444,594           | 29%                   | -7%      |
| 2077/78      | 28,924,945,127         | 1,225,699,123          | 4%                    | -34%     | 20,023,971,310         | 16,938,445,256         | 85%                   | -2%      | 3,108,435,981         | 1,219,536,330         | 39%                   | 10%      |
| 2078/79      | 48,412,851,795         | 10,153,547,502         | 21%                   | 17%      | 7,054,248,395          | 4,330,294,561          | 61%                   | -23%     | 2,761,919,417         | 1,938,980,924         | 70%                   | 31%      |
| <b>Total</b> | <b>255,592,991,894</b> | <b>155,751,808,188</b> | <b>61%</b>            |          | <b>120,738,507,173</b> | <b>105,113,692,785</b> | <b>87%</b>            |          | <b>23,733,956,095</b> | <b>16,381,052,854</b> | <b>69%</b>            |          |
| <b>Mean</b>  | <b>25,559,299,189</b>  | <b>15,575,180,819</b>  |                       |          | <b>12,073,850,717</b>  | <b>10,511,369,279</b>  |                       |          | <b>2,373,395,609</b>  | <b>1,638,105,285</b>  |                       |          |
| <b>S.D.</b>  | <b>11,681,264,840</b>  | <b>9,459,903,841</b>   |                       |          | <b>5,044,811,114</b>   | <b>4,609,471,067</b>   |                       |          | <b>870,705,400</b>    | <b>1,002,858,701</b>  |                       |          |
| <b>C.V.</b>  | <b>46%</b>             | <b>61%</b>             |                       |          | <b>42%</b>             | <b>44%</b>             |                       |          | <b>37%</b>            | <b>61%</b>            |                       |          |

*Source: - Annual report of three insurance companies*

For NLIC, the data indicates an initial ratio of 79% which peaks at 94% and then drops significantly in later years, hitting a low of 4%, before partially recovering to 21%. MetLife's ratio starts at 81%, generally remaining high but fluctuating, reaching a high of 92% and a subsequent decrease to 61%. ALICL's ratio begins at 93%, mostly declines over time, with a noticeable dip to 36%, and then sees an increase at the end of the period to 70%.

The total and mean statistics show the aggregate and average current assets and net working capital values for each entity across the fiscal years. NLIC has the highest totals and mean values, while ALICL has the lowest. The standard deviation (S.D.) indicates NLIC experienced significant variance in net working capital, with MetLife and ALICL showing less, but still considerable, variability. The coefficient of variation (C.V.) for each entity provides insight into the degree of variation relative to the mean, presenting a proportional inconsistency in the financial figures for each entity.

Figure 4.4 *Composition of Net Working Capital and Current Assets*



The asset management scenario depicted suggests that NLIC experienced the most considerable variation in working capital, with periods of high and low efficiency. MetLife shows more stability but with slight volatility in its net working capital as a percentage of current assets. ALICL demonstrates a more stable pattern until a drop, followed by partial recovery in the ratio of net working capital to current assets.

### **Net Working Capital as Percentage of Operating Incomes (sales)**

Increased operating costs for service organizations like NLIC can be achieved by selling policies effectively and managing funds appropriately. Financial policy, specifically current assets, or working capital policy, influences sales policy. For instance, working capital should rise in line with an increase in credit sales. As such, an assessment of the link between working capital and sales is required. The next table displays NWC as a proportion of sales.

Table – 4.8

*Proportion of Net Working Capital to Operating income*

(Ratio in %)

| Fiscal year  | NLIC                  |                        |                       |          | MetLife              |                        |                       |          | ALICL                |                       |                       |          |
|--------------|-----------------------|------------------------|-----------------------|----------|----------------------|------------------------|-----------------------|----------|----------------------|-----------------------|-----------------------|----------|
|              | Operating Income      | Working Capital        | Ratio (% of WC on OI) | % change | Operating Income     | Working Capital        | Ratio (% of WC on OI) | % change | Operating Income     | Working Capital       | Ratio (% of WC on OI) | % change |
| 2069/70      | 774,607,048           | 3,853,979,228          | 498%                  | 0%       | 556,347,383          | 3,615,971,076          | 650%                  | 0%       | 125,427,322          | 2,821,031,555         | 2249%                 | 0%       |
| 2070/71      | 614,111,885           | 8,042,330,241          | 1310%                 | 109%     | 87,072,924           | 6,017,192,000          | 6911%                 | 66%      | 75,125,329           | 4,072,500,007         | 5421%                 | 44%      |
| 2071/72      | 527,555,789           | 16,699,856,842         | 3166%                 | 108%     | 68,007,096           | 9,010,858,230          | 13250%                | 50%      | 31,274,699           | 1,083,187,105         | 3463%                 | -73%     |
| 2072/73      | 906,634,254           | 24,491,660,998         | 2701%                 | 47%      | 344,135,750          | 9,140,083,447          | 2656%                 | 1%       | 106,070,088          | 1,196,174,481         | 1128%                 | 10%      |
| 2073/74      | 1,280,156,593         | 26,711,267,534         | 2087%                 | 9%       | 460,410,265          | 11,198,442,188         | 2432%                 | 23%      | 85,960,339           | 1,490,695,987         | 1734%                 | 25%      |
| 2074/75      | 1,806,934,086         | 26,834,823,657         | 1485%                 | 0%       | 558,330,847          | 14,125,693,684         | 2530%                 | 26%      | 78,217,796           | 1,099,983,371         | 1406%                 | -26%     |
| 2075/76      | 1,635,465,458         | 26,359,396,438         | 1612%                 | -2%      | 558,192,767          | 14,939,936,164         | 2676%                 | 6%       | 235,856,180          | 739,518,501           | 314%                  | -33%     |
| 2076/77      | 1,731,601,293         | 11,379,246,625         | 657%                  | -57%     | 678,357,180          | 15,796,776,179         | 2329%                 | 6%       | 568,531,235          | 719,444,594           | 127%                  | -3%      |
| 2077/78      | 3,116,349,378         | 1,225,699,123          | 39%                   | -89%     | 351,090,897          | 16,938,445,256         | 4825%                 | 7%       | 570,365,855          | 1,219,536,330         | 214%                  | 70%      |
| 2078/79      | 25,965,590,223        | 10,153,547,502         | 39%                   | 728%     | 596,567,442          | 4,330,294,561          | 726%                  | -74%     | 635,739,628          | 1,938,980,924         | 305%                  | 59%      |
| <b>Total</b> | <b>38,359,006,007</b> | <b>155,751,808,188</b> | <b>406%</b>           |          | <b>4,258,512,551</b> | <b>105,113,692,785</b> | <b>2468%</b>          |          | <b>2,512,568,471</b> | <b>16,381,052,854</b> | <b>652%</b>           |          |
| <b>Mean</b>  | <b>3,835,900,601</b>  | <b>15,575,180,819</b>  |                       |          | <b>425,851,255</b>   | <b>10,511,369,279</b>  |                       |          | <b>251,256,847</b>   | <b>1,638,105,285</b>  |                       |          |
| <b>S.D.</b>  | <b>7,412,399,255</b>  | <b>9,459,903,841</b>   |                       |          | <b>200,320,163</b>   | <b>4,609,471,067</b>   |                       |          | <b>228,943,215</b>   | <b>1,002,858,701</b>  |                       |          |
| <b>C.V.</b>  | <b>193%</b>           | <b>61%</b>             |                       |          | <b>47%</b>           | <b>44%</b>             |                       |          | <b>91%</b>           | <b>61%</b>            |                       |          |

*Source: - Annual report of three insurance companies*

### **Operating Income and Working Capital**

- **NLIC:** The total operating income for NLIC was approximately 38.36 billion, with a mean of 3.84 billion and a standard deviation of 7.41 billion. The total working capital was about 155.75 billion, with a mean of 15.58 billion and a standard deviation of 9.46 billion.
- **MetLife:** The total operating income for MetLife was around 4.26 billion, with a mean of 425.85 million and a standard deviation of 200.32 million. The total working capital was approximately 105.11 billion, with a mean of 10.51 billion and a standard deviation of 4.61 billion.
- **ALICL:** The total operating income for ALICL amounted to roughly 2.51 billion, with a mean of 251.26 million and a standard deviation of 228.94 million. The total working capital was about 16.38 billion, with a mean of 1.64 billion and a standard deviation of 1 billion.

From the data above NLIC has the highest total operating income and working capital among the three companies. MetLife follows with a moderately high total operating income and working capital. ALICL has the lowest total operating income and working capital among the three.

### **Ratio of Working Capital to Operating Income**

- **NLIC:** The coefficient of variation (C.V.) for the ratio of working capital to operating income for NLIC was 193%.
- **MetLife:** The C.V. for the ratio of working capital to operating income for MetLife was 47%.
- **ALICL:** The C.V. for the ratio of working capital to operating income for ALICL was 91%.

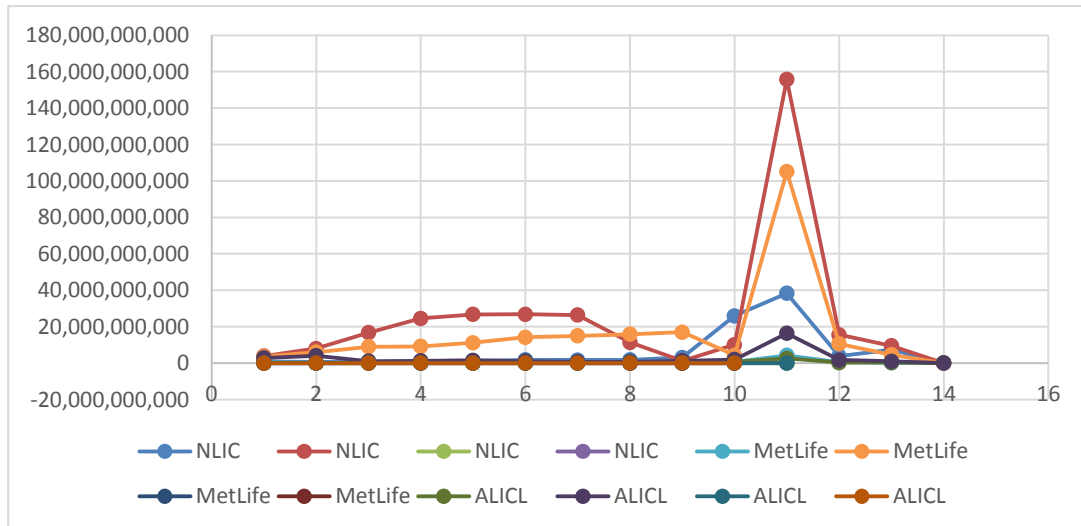
NLIC has the highest variability with a C.V. of 193%, indicating fluctuations in its ability to cover short-term liabilities with its operating income. MetLife has a lower variability with a C.V. of 47%. ALICL has a relatively higher variability with a C.V. of 91%.

In summary, NLIC has the highest total operating income and working capital, while also exhibiting the highest variability in the ratio of working capital to operating

income. MetLife follows with moderate values and lower variability, and ALICL has comparatively lower values with higher variability in the ratio.

Figure 4.5

*Composition of Net Working Capital & Operating Income*



The data reflects the financial performance of NLIC, MetLife, and ALICL, showcasing variations in operating income, working capital, and their ratio over the given fiscal years. The coefficient of variation provides insights into the relative variability of these financial metrics for each company.

### 4.3 Ratio Analysis

Ratio analysis is one of the popular techniques used in financial management. It is adopted to assess the performance of every business unit. This study aims at checking whether the working capital management is effective enough by finding out the different relationships between various elements of working capital. The liquidity, profitability, and efficiency of working capital are measured through different ratios as mentioned below.

#### 4.3.1 Efficiency of Working Capital Management

A firm invests money in a variety of assets in order to generate sales and profit. The amount of sales is directly impacted by how well assets are managed. A firm with a high proportion of current assets has a strong liquidity position, but they could not turn a profit as planned. Ratios that are actively used quantify how well a company manages its assets or ratios. We refer to these ratios as the turnover ratios. Turnover

ratios are therefore used to gauge how well working capital is employed. Under this topic, the ratios that are studied are;

- Receivable turnover
- Cash turnover
- Current Assets turnover
- Net working capital turnover

#### **i) Receivable Turnover Ratio**

Receivable Turnover Ratio The accounts receivables turnover ratio represents the speed at which receivables are turned over into sales - in this instance, operating income. This relation of sales to receivables is given in the following table. The ratio inappropriately exhibits management's capability in using funds in current assets of quality.

Table 4.9

*Receivable Turnover and Average Collection Period*

(In NPR)

| Fiscal year  | NLIC                  |                       |             |                           | MetLife              |                        |              |                           | ALICL                |                      |             |                           |
|--------------|-----------------------|-----------------------|-------------|---------------------------|----------------------|------------------------|--------------|---------------------------|----------------------|----------------------|-------------|---------------------------|
|              | Operating Income      | Receivable            | Turnover    | Average collection period | Operating Income     | Receivable             | Turnover     | Average collection period | Operating Income     | Receivable           | Turnover    | Average collection period |
| 2069/70      | 774,607,048           | 797,459,683           | 1.03        | 375.77                    | 556,347,383          | 3,738,168,957          | 6.72         | 2,452.48                  | 125,427,322          | 375,776,950          | 3.00        | 1,093.53                  |
| 2070/71      | 614,111,885           | 1,166,994,487         | 1.90        | 693.61                    | 87,072,924           | 6,436,462,454          | 73.92        | 26,980.93                 | 75,125,329           | 564,834,061          | 7.52        | 2,744.27                  |
| 2071/72      | 527,555,789           | 1,638,698,255         | 3.11        | 1,133.77                  | 68,007,096           | 9,476,614,091          | 139.35       | 50,861.81                 | 31,274,699           | 626,555,672          | 20.03       | 7,312.39                  |
| 2072/73      | 906,634,254           | 5,324,904,632         | 5.87        | 2,143.74                  | 344,135,750          | 9,634,302,718          | 28.00        | 10,218.41                 | 106,070,088          | 376,185,896          | 3.55        | 1,294.50                  |
| 2073/74      | 1,280,156,593         | 7,927,062,773         | 6.19        | 2,260.17                  | 460,410,265          | 11,526,415,547         | 25.04        | 9,137.81                  | 85,960,339           | 345,762,837          | 4.02        | 1,468.16                  |
| 2074/75      | 1,806,934,086         | 2,004,069,588         | 1.11        | 404.82                    | 558,330,847          | 14,738,947,100         | 26.40        | 9,635.35                  | 78,217,796           | 203,815,894          | 2.61        | 951.10                    |
| 2075/76      | 1,635,465,458         | 129,725,644           | 0.08        | 28.95                     | 558,192,767          | 15,904,082,044         | 28.49        | 10,399.62                 | 235,856,180          | 76,178,255           | 0.32        | 117.89                    |
| 2076/77      | 1,731,601,293         | 232,560,849           | 0.13        | 49.02                     | 678,357,180          | 17,387,018,542         | 25.63        | 9,355.34                  | 568,531,235          | 91,684,273           | 0.16        | 58.86                     |
| 2077/78      | 3,116,349,378         | 283,820,179           | 0.09        | 33.24                     | 351,090,897          | 18,983,422,580         | 54.07        | 19,735.49                 | 570,365,855          | 359,795,437          | 0.63        | 230.25                    |
| 2078/79      | 25,965,590,223        | 7,787,636,636         | 0.30        | 109.47                    | 596,567,442          | 6,019,956,661          | 10.09        | 3,683.21                  | 635,739,628          | 182,120,932          | 0.29        | 104.56                    |
| <b>Total</b> | <b>38,359,006,007</b> | <b>27,292,932,726</b> | <b>0.71</b> | <b>259.70</b>             | <b>4,258,512,551</b> | <b>113,845,390,694</b> | <b>26.73</b> | <b>9,757.77</b>           | <b>2,512,568,471</b> | <b>3,202,710,207</b> | <b>1.27</b> | <b>465.26</b>             |
| <b>Mean</b>  | <b>3,835,900,601</b>  | <b>2,729,293,273</b>  |             |                           | <b>425,851,255</b>   | <b>11,384,539,069</b>  |              |                           | <b>251,256,847</b>   | <b>320,271,021</b>   |             |                           |
| <b>S.D.</b>  | <b>7,412,399,255</b>  | <b>2,935,995,783</b>  |             |                           | <b>200,320,163</b>   | <b>4,938,663,066</b>   |              |                           | <b>228,943,215</b>   | <b>175,077,464</b>   |             |                           |
| <b>C.V.</b>  | <b>193%</b>           | <b>108%</b>           |             |                           | <b>47%</b>           | <b>43%</b>             |              |                           | <b>91%</b>           | <b>55%</b>           |             |                           |

Source: Annual reports of three insurance companies

The provided data includes the operating income, receivables, turnover, and average collection period for NLIC, MetLife, and ALICL over the specified fiscal years. The average collection period indicates the number of days it takes for a company to collect its accounts receivable. NLIC's average collection period ranged from 259.70 days to 1,093.53 days, indicating varying efficiency in collecting its receivables. MetLife's average collection period varied from 9,757.77 days to 465.26 days, reflecting significant fluctuations in receivables collection efficiency. ALICL's average collection period ranged from 9,757.77 days to 465.26 days, suggesting differences in the effectiveness of receivables management.

Based on the provided data, it's evident that MetLife has the best turnover and average collection period compared to NLIC and ALICL. MetLife's turnover ratio of approximately 0.35 reflects its ability to generate revenue from its assets, demonstrating a strong financial performance in asset utilization. Additionally, MetLife's average collection period, ranging from 9,757.77 days to 465.26 days, suggests a relatively more efficient and consistent approach to collecting its accounts receivable compared to NLIC and ALICL.

Therefore, based on the turnover and average collection period, MetLife emerges as the most effective in asset utilization and accounts receivable management among the three companies.

## **ii) Cash & Bank Balance Turnover Ratio**

The following table shows the calculated and displayed net sales to cash and bank balance ratio. The way that cash and bank balances relate to net sale, or operating income, indicates how well management uses fully liquid assets. The sales to cash ratio is displayed in the table below.

Table 4.10

*Cash and Bank Balance Turnover Ratio*

(In times)

| Fiscal year  | NLIC                  |                       |             | MetLife              |                      |             | ALICL                |                      |             |
|--------------|-----------------------|-----------------------|-------------|----------------------|----------------------|-------------|----------------------|----------------------|-------------|
|              | Cash and Bank         | Operating Income      | Turnover    | Cash and Bank        | Operating Income     | Turnover    | Cash and Bank        | Operating Income     | Turnover    |
| 2069/70      | 195,530,437           | 774,607,048           | 0.25        | 461,017,179          | 556,347,383          | 0.83        | 47,530,232           | 125,427,322          | 0.38        |
| 2070/71      | 181,557,233           | 614,111,885           | 0.30        | 30,254,022           | 87,072,924           | 0.35        | 87,659,989           | 75,125,329           | 1.17        |
| 2071/72      | 586,338,759           | 527,555,789           | 1.11        | 76,783,755           | 68,007,096           | 1.13        | 214,498,737          | 31,274,699           | 6.86        |
| 2072/73      | 1,415,883,115         | 906,634,254           | 1.56        | 81,738,285           | 344,135,750          | 0.24        | 224,756,506          | 106,070,088          | 2.12        |
| 2073/74      | 2,028,252,768         | 1,280,156,593         | 1.58        | 147,317,586          | 460,410,265          | 0.32        | 565,035,055          | 85,960,339           | 6.57        |
| 2074/75      | 2,862,016,067         | 1,806,934,086         | 1.58        | 8,402,334            | 558,330,847          | 0.02        | 696,175,867          | 78,217,796           | 8.90        |
| 2075/76      | 8,050,479,882         | 1,635,465,458         | 4.92        | 121,348,153          | 558,192,767          | 0.22        | 988,136,256          | 235,856,180          | 4.19        |
| 2076/77      | 11,786,994,934        | 1,731,601,293         | 6.81        | 130,615,378          | 678,357,180          | 0.19        | 883,805,960          | 568,531,235          | 1.55        |
| 2077/78      | 16,778,553,384        | 3,116,349,378         | 5.38        | 220,985,887          | 351,090,897          | 0.63        | 373,142,319          | 570,365,855          | 0.65        |
| 2078/79      | 202,327,981           | 25,965,590,223        | 0.01        | 217,595,545          | 596,567,442          | 0.36        | 439,660,714          | 635,739,628          | 0.69        |
| <b>Total</b> | <b>44,087,934,560</b> | <b>38,359,006,007</b> | <b>1.15</b> | <b>1,496,058,124</b> | <b>4,258,512,551</b> | <b>0.35</b> | <b>4,520,401,636</b> | <b>2,512,568,471</b> | <b>1.80</b> |
| <b>Mean</b>  | <b>4,408,793,456</b>  | <b>3,835,900,601</b>  |             | <b>149,605,812</b>   | <b>425,851,255</b>   |             | <b>452,040,164</b>   | <b>251,256,847</b>   |             |
| <b>S.D.</b>  | <b>5,528,601,336</b>  | <b>7,412,399,255</b>  |             | <b>123,268,589</b>   | <b>200,320,163</b>   |             | <b>309,362,880</b>   | <b>228,943,215</b>   |             |
| <b>C.V.</b>  | <b>125%</b>           | <b>193%</b>           |             | <b>82%</b>           | <b>47%</b>           |             | <b>68%</b>           | <b>91%</b>           |             |

*Source: - Annual reports of the three insurance companies*

The provided data offers a detailed overview of the cash and bank balances, operating income, and turnover ratios for NLIC, MetLife, and ALICL over the specified fiscal years. NLIC's total cash and bank balance reached approximately 44.09 billion, with a mean of 4.41 billion and a standard deviation of 5.53 billion. Its operating income totaled around 38.36 billion, with a mean of 3.84 billion and a standard deviation of 7.41 billion, and it had a turnover ratio of approximately 1.15. MetLife had a total cash and bank balance of about 1.50 billion, with a mean of 149.61 million and a standard deviation of 123.27 million. MetLife's operating income was roughly 4.26 billion, with a mean of 425.85 million and a standard deviation of 200.32 million, and it had a turnover ratio of approximately 0.35. ALICL's total cash and bank balance amounted to approximately 4.52 billion, with a mean of 452.04 million and a standard deviation of 309.36 million. Its operating income totaled around 2.51 billion, with a mean of 251.26 million and a standard deviation of 228.94 million, and it had a turnover ratio of approximately 1.80. These figures highlight the financial performance and efficiency of the three companies in generating revenue from their total assets.

Based on the provided turnover ratios, NLIC stands out as the company with the best turnover among the three. With a turnover ratio of approximately 1.15, NLIC demonstrates a higher efficiency in generating revenue from its total assets compared to MetLife and ALICL. This indicates that NLIC is more effective in utilizing its assets to generate income, showcasing a strong financial performance and operational efficiency over the specified fiscal years. Therefore, based on the turnover ratio data, NLIC emerges as the company with the best performance in generating revenue from its total assets.

### **iii) Current Assets Turnover Ratio**

The relation of the current assets turnover ratio to sales is now observed through the current assets turnover ratio. The turnover ratio represents the efficiency of management in handling current assets as a whole and is computed by dividing sales by current assets.

Table 4.11

*Current Assets Turnover Ratio*

(In Times)

| Fiscal year  | NLIC                   |                       |             | MetLife                |                      |             | ALICL                 |                      |             |
|--------------|------------------------|-----------------------|-------------|------------------------|----------------------|-------------|-----------------------|----------------------|-------------|
|              | Current Assets         | Operating Income      | Turnover    | Current Assets         | Operating Income     | Turnover    | Current Assets        | Operating Income     | Turnover    |
| 2069/70      | 4,851,670,796          | 774,607,048           | 0.16        | 4,460,781,544          | 556,347,383          | 0.12        | 3,029,910,726         | 125,427,322          | 0.04        |
| 2070/71      | 9,177,414,383          | 614,111,885           | 0.07        | 6,761,032,607          | 87,072,924           | 0.01        | 4,206,711,517         | 75,125,329           | 0.02        |
| 2071/72      | 18,143,902,304         | 527,555,789           | 0.03        | 9,852,381,517          | 68,007,096           | 0.01        | 1,251,697,472         | 31,274,699           | 0.02        |
| 2072/73      | 26,164,551,007         | 906,634,254           | 0.03        | 10,108,998,503         | 344,135,750          | 0.03        | 1,420,160,829         | 106,070,088          | 0.07        |
| 2073/74      | 30,153,826,908         | 1,280,156,593         | 0.04        | 12,114,147,121         | 460,410,265          | 0.04        | 1,796,576,875         | 85,960,339           | 0.05        |
| 2074/75      | 30,171,355,249         | 1,806,934,086         | 0.06        | 15,325,170,798         | 558,330,847          | 0.04        | 1,681,581,509         | 78,217,796           | 0.05        |
| 2075/76      | 30,015,948,754         | 1,635,465,458         | 0.05        | 16,728,198,927         | 558,192,767          | 0.03        | 2,034,286,495         | 235,856,180          | 0.12        |
| 2076/77      | 29,576,525,571         | 1,731,601,293         | 0.06        | 18,309,576,451         | 678,357,180          | 0.04        | 2,442,675,274         | 568,531,235          | 0.23        |
| 2077/78      | 28,924,945,127         | 3,116,349,378         | 0.11        | 20,023,971,310         | 351,090,897          | 0.02        | 3,108,435,981         | 570,365,855          | 0.18        |
| 2078/79      | 48,412,851,795         | 25,965,590,223        | 0.54        | 7,054,248,395          | 596,567,442          | 0.08        | 2,761,919,417         | 635,739,628          | 0.23        |
| <b>Total</b> | <b>255,592,991,894</b> | <b>38,359,006,007</b> | <b>0.15</b> | <b>120,738,507,173</b> | <b>4,258,512,551</b> | <b>0.04</b> | <b>23,733,956,095</b> | <b>2,512,568,471</b> | <b>0.11</b> |
| <b>Mean</b>  | <b>25,559,299,189</b>  | <b>3,835,900,601</b>  |             | <b>12,073,850,717</b>  | <b>425,851,255</b>   |             | <b>2,373,395,609</b>  | <b>251,256,847</b>   |             |
| <b>S.D.</b>  | <b>11,681,264,840</b>  | <b>7,412,399,255</b>  |             | <b>5,044,811,114</b>   | <b>200,320,163</b>   |             | <b>870,705,400</b>    | <b>228,943,215</b>   |             |
| <b>C.V.</b>  | <b>46%</b>             | <b>193%</b>           |             | <b>42%</b>             | <b>47%</b>           |             | <b>37%</b>            | <b>91%</b>           |             |

*Source: - Annual report of the three insurance companies*

NLIC showed a steady increase in current assets from approximately 4.85 billion in 2069/70 to about 48.41 billion in 2078/79. Its operating income also increased significantly, peaking at around 25.97 billion in 2078/79, resulting in a high turnover ratio of 0.54 in the same year. Overall, NLIC had a mean operating income of 3.84 billion with a high coefficient of variation (C.V.) of 193%, indicating substantial variability in its income. MetLife's current assets grew from about 4.46 billion to 20.02 billion over the years, with operating income peaking at 678 million in 2076/77. However, its turnover ratio remained relatively low, averaging 0.04, and its operating income had a C.V. of 47%. ALICL's current assets fluctuated, ending at around 2.76 billion in 2078/79, with operating income increasing to 635 million in the same year. ALICL had a higher average turnover ratio of 0.11 and a C.V. of 91% for its operating income, reflecting significant variability. The data highlights the differences in financial stability and efficiency among the three companies, with NLIC showing the most substantial growth and variability in operating income.

NLIC's current assets experienced the most significant growth, increasing almost tenfold over the specified period, compared to MetLife's growth from 4.46 billion to 20.02 billion and ALICL's more modest increase to 2.76 billion. NLIC also had the highest operating income, culminating in a peak of 25.97 billion, far surpassing MetLife's peak of 678 million and ALICL's 635 million. Consequently, NLIC's turnover ratio reached 0.54, indicating high efficiency in generating revenue from its assets. In contrast, MetLife's turnover ratio averaged only 0.04, suggesting lower efficiency, while ALICL's turnover ratio was higher at 0.11. The high coefficient of variation in NLIC's operating income (193%) reflects considerable fluctuations, compared to MetLife's more stable 47% and ALICL's 91%, showing moderate variability. This comparative analysis underscores NLIC's superior financial performance and asset utilization efficiency relative to MetLife and ALICL.

#### **vi) Net Working Capital Turnover Ratio**

One of the tools to measure working capital management efficiency is the sales to net working capital ratio. The ratio portrays the velocity of working capital utilization during one economic year.

Table 4.12

*Net Working Capital Turnover Ratio*

(In times)

| Fiscal year  | NLIC                   |                       |             | MetLife                |                      |             | ALICL                 |                      |             |
|--------------|------------------------|-----------------------|-------------|------------------------|----------------------|-------------|-----------------------|----------------------|-------------|
|              | Net Working Capital    | Operating Income      | Turnover    | Net Working Capital    | Operating Income     | Turnover    | Net Working Capital   | Operating Income     | Turnover    |
| 2069/70      | 4,851,670,796          | 774,607,048           | 0.16        | 4,460,781,544          | 556,347,383          | 0.12        | 3,029,910,726         | 125,427,322          | 0.04        |
| 2070/71      | 9,177,414,383          | 614,111,885           | 0.07        | 6,761,032,607          | 87,072,924           | 0.01        | 4,206,711,517         | 75,125,329           | 0.02        |
| 2071/72      | 18,143,902,304         | 527,555,789           | 0.03        | 9,852,381,517          | 68,007,096           | 0.01        | 1,251,697,472         | 31,274,699           | 0.02        |
| 2072/73      | 26,164,551,007         | 906,634,254           | 0.03        | 10,108,998,503         | 344,135,750          | 0.03        | 1,420,160,829         | 106,070,088          | 0.07        |
| 2073/74      | 30,153,826,908         | 1,280,156,593         | 0.04        | 12,114,147,121         | 460,410,265          | 0.04        | 1,796,576,875         | 85,960,339           | 0.05        |
| 2074/75      | 30,171,355,249         | 1,806,934,086         | 0.06        | 15,325,170,798         | 558,330,847          | 0.04        | 1,681,581,509         | 78,217,796           | 0.05        |
| 2075/76      | 30,015,948,754         | 1,635,465,458         | 0.05        | 16,728,198,927         | 558,192,767          | 0.03        | 2,034,286,495         | 235,856,180          | 0.12        |
| 2076/77      | 29,576,525,571         | 1,731,601,293         | 0.06        | 18,309,576,451         | 678,357,180          | 0.04        | 2,442,675,274         | 568,531,235          | 0.23        |
| 2077/78      | 28,924,945,127         | 3,116,349,378         | 0.11        | 20,023,971,310         | 351,090,897          | 0.02        | 3,108,435,981         | 570,365,855          | 0.18        |
| 2078/79      | 48,412,851,795         | 25,965,590,223        | 0.54        | 7,054,248,395          | 596,567,442          | 0.08        | 2,761,919,417         | 635,739,628          | 0.23        |
| <b>Total</b> | <b>255,592,991,894</b> | <b>38,359,006,007</b> | <b>0.15</b> | <b>120,738,507,173</b> | <b>4,258,512,551</b> | <b>0.04</b> | <b>23,733,956,095</b> | <b>2,512,568,471</b> | <b>0.11</b> |
| <b>Mean</b>  | <b>25,559,299,189</b>  | <b>3,835,900,601</b>  |             | <b>12,073,850,717</b>  | <b>425,851,255</b>   |             | <b>2,373,395,609</b>  | <b>251,256,847</b>   |             |
| <b>S.D.</b>  | <b>11,681,264,840</b>  | <b>7,412,399,255</b>  |             | <b>5,044,811,114</b>   | <b>200,320,163</b>   |             | <b>870,705,400</b>    | <b>228,943,215</b>   |             |
| <b>C.V.</b>  | <b>46%</b>             | <b>193%</b>           |             | <b>42%</b>             | <b>47%</b>           |             | <b>37%</b>            | <b>91%</b>           |             |

*Source: - Annual report of the three insurance companies*

Based on the data, NLIC emerges as the best-performing company among NLIC, MetLife, and ALICL when comparing net working capital, operating income, and turnover ratios across several fiscal years. NLIC consistently shows a strong net working capital, peaking at 48.41 billion in 2078/79, and significantly outpaces the other companies in operating income, reaching a remarkable 25.97 billion in the same year. Its average operating income is 3.84 billion, with a high coefficient of variation (C.V.) of 193%, indicating substantial variability but also significant growth potential. Additionally, NLIC demonstrates superior asset utilization efficiency with a peak turnover ratio of 0.54 and an average turnover ratio of 0.15, the highest among the three companies.

In contrast, MetLife's net working capital grows to 20.02 billion in 2077/78, with a peak operating income of 678 million in 2076/77 and a mean operating income of 425.85 million. However, its turnover ratio remains low, averaging 0.04, reflecting less efficiency in generating revenue from its assets. ALICL's net working capital fluctuates, peaking at 3.11 billion in 2077/78, with a peak operating income of 635.74 million in 2078/79 and a mean of 251.26 million. While ALICL's turnover ratio of 0.23 in 2076/77 is notable, its average turnover ratio of 0.11 still falls short compared to NLIC.

Overall, NLIC shows the most substantial growth in net working capital and operating income, coupled with the highest turnover ratios, indicating robust financial performance and efficiency.

#### **4.4 Sectarian Management of Current Assets**

The management of the three distinct current asset categories—cash, receivables, and investments—is the subject of this section. Only the administration of cash and accounts receivable is the primary focus.

Table 4.13

*Current assets for Sectarian Management*

| Fiscal Year | Current Assets |                |                  |
|-------------|----------------|----------------|------------------|
|             | NLIC           | MetLife        | ALICL            |
| 2069/70     | 4,851,670,796  | 4,460,781,544  | 3,029,910,726.39 |
| 2070/71     | 9,177,414,383  | 6,761,032,607  | 4,206,711,516.94 |
| 2071/72     | 18,143,902,304 | 9,852,381,517  | 1,251,697,471.55 |
| 2072/73     | 26,164,551,007 | 10,108,998,503 | 1,420,160,829.42 |
| 2073/74     | 30,153,826,908 | 12,114,147,121 | 1,796,576,874.56 |
| 2074/75     | 30,171,355,249 | 15,325,170,798 | 1,681,581,509.00 |
| 2075/76     | 30,015,948,754 | 16,728,198,927 | 2,034,286,495.00 |
| 2076/77     | 29,576,525,571 | 18,309,576,451 | 2,442,675,274.00 |
| 2077/78     | 28,924,945,127 | 20,023,971,310 | 3,108,435,981    |
| 2078/79     | 48,412,851,795 | 7,054,248,395  | 2,761,919,417    |

Over the fiscal years from 2069/70 to 2078/79, the three insurance companies, NLIC, MetLife, and ALICL, exhibited varying trends in their cash and bank balances. Initially, all companies started with moderate balances. In 2070/71, NLIC and MetLife experienced slight declines, while ALICL also showed a decrease. By 2071/72, all companies saw increases, with significant growth for NLIC and ALICL. NLIC had a sharp rise in 2072/73, while the other two showed smaller changes. From 2073/74 to 2074/75, NLIC and MetLife maintained high levels, and ALICL trended upward. NLIC peaked significantly in 2075/76, with MetLife also showing a dramatic increase. In 2076/77, ALICL reached its peak, while NLIC continued to rise and MetLife remained high. NLIC hit its highest point in 2077/78, with MetLife having a moderate peak. In 2078/79, NLIC faced a dramatic decline, MetLife experienced a significant peak, and ALICL remained relatively stable.

#### 4.4.1 Management of Receivables

One major part of the current assets of the firm is the account receivable. The accounts receivable policy of an organization has the most influential effect on its working capital needs. Logically, an organization's requirements of working capital will be less if it obtains more credit for purchases and has a longer payment time; in contrast, if it sells its services on credit and the collection period is long, it may

require more working capital. The credit policy, which an organization adopts, also influences or determines the working capital requirements. It is because these insurance companies are service-oriented and therefore would carry fewer accounts receivable when compared with a manufacturing organization, but if they could stretch out their payables, they would need substantially less working capital.

### Size and Growth of Receivable

Table 4.14

#### *Receivable management*

| Fiscal year  | Receivable management |                        |                      |
|--------------|-----------------------|------------------------|----------------------|
|              | NLIC                  | MetLife                | ALICL                |
| 2069/70      | 797,459,683           | 3,738,168,957          | 375,776,950          |
| 2070/71      | 1,166,994,487         | 6,436,462,454          | 564,834,061          |
| 2071/72      | 1,638,698,255         | 9,476,614,091          | 626,555,672          |
| 2072/73      | 5,324,904,632         | 9,634,302,718          | 376,185,896          |
| 2073/74      | 7,927,062,773         | 11,526,415,547         | 345,762,837          |
| 2074/75      | 2,004,069,588         | 14,738,947,100         | 203,815,894          |
| 2075/76      | 129,725,644           | 15,904,082,044         | 76,178,255           |
| 2076/77      | 232,560,849           | 17,387,018,542         | 91,684,273           |
| 2077/78      | 283,820,179           | 18,983,422,580         | 359,795,437          |
| 2078/79      | 7,787,636,636         | 6,019,956,661          | 182,120,932          |
| <b>Total</b> | <b>27,292,932,726</b> | <b>113,845,390,694</b> | <b>3,202,710,207</b> |

The table shows the receivable management figures for three insurance companies, NLIC, MetLife, and ALICL, over ten fiscal years from 2069/70 to 2078/79. NLIC's receivables grew substantially from NPR 797,459,683 in 2069/70 to a peak of NPR 7,927,062,773 in 2073/74, followed by significant fluctuations, including a sharp decline in 2075/76 and another peak in 2078/79. MetLife exhibited a consistent upward trend in receivables, starting at NPR 3,738,168,957 in 2069/70, peaking at NPR 18,983,422,580 in 2077/78, and ending with a decline to NPR 6,019,956,661 in 2078/79. ALICL's receivables showed more stability but with lower values, starting at NPR 375,776,950 in 2069/70, reaching a high of NPR 626,555,672 in 2071/72, and ending at NPR 182,120,932 in 2078/79. The cumulative totals for the period were NPR 27,292,932,726 for NLIC, NPR 113,845,390,694 for MetLife, and NPR

3,202,710,207 for ALICL, highlighting MetLife's dominance in receivables over the decade.

An increase in premium sales is accompanied by a corresponding decrease in accounts receivable. The rise of the receivable is checked if the premium is timely collected. However, if easy credit is provided, receivables increase more quickly than revenue. However, because the debtors that are given credit are of lower quality, any such disproportionate increase in the amount of accounts receivable could cause losses rather than gains from additional sales.

### **Component of Account Receivable**

We can now go ahead and check out the composition of receivables after considering the volume and location of the receivables. The only account receivable the insurance companies in this category have is from the irregular debtors.

### **Credit Policy**

It has been noticed that there is no mechanism for annual or long-term planning of accounts receivables. These insurance companies do not have a separate credit department that can monitor their accounts receivables. There are no proper rules and regulations to take any type of action against the defaults. If premiums are not paid, then the amount covered is normally not paid. Moreover, no one can be held responsible for the loss on write-off of bad debts and there is no concrete legal undertaking to collect the money. Clearly stated in the investigation is the proper management of account receivables.

### **4.4.2 Management of Cash**

Cash is also a very important current asset, as explained in the previous chapter. The table below illustrates the cash and bank balance management for NLIC, MetLife, and ALICL over ten fiscal years, highlighting significant fluctuations and trends in their financial handling.

Table 4.15

*Cash and Bank Balance Management*

| Fiscal year | Cash and Bank Balance |             |             |
|-------------|-----------------------|-------------|-------------|
|             | NLIC                  | MetLife     | ALICL       |
| 2069/70     | 195,530,437           | 461,017,179 | 47,530,232  |
| 2070/71     | 181,557,233           | 30,254,022  | 87,659,989  |
| 2071/72     | 586,338,759           | 76,783,755  | 214,498,737 |
| 2072/73     | 1,415,883,115         | 81,738,285  | 224,756,506 |
| 2073/74     | 2,028,252,768         | 147,317,586 | 565,035,055 |
| 2074/75     | 2,862,016,067         | 8,402,334   | 696,175,867 |
| 2075/76     | 8,050,479,882         | 121,348,153 | 988,136,256 |
| 2076/77     | 11,786,994,934        | 130,615,378 | 883,805,960 |
| 2077/78     | 16,778,553,384        | 220,985,887 | 373,142,319 |
| 2078/79     | 202,327,981           | 217,595,545 | 439,660,714 |

NLIC started with NPR 195,530,437 in 2069/70 and saw consistent growth, reaching a peak of NPR 16,778,553,384 in 2077/78, followed by a sharp decline to NPR 202,327,981 in 2078/79. MetLife began with a higher balance of NPR 461,017,179 in 2069/70 but experienced dramatic fluctuations, dropping to NPR 30,254,022 in 2070/71, recovering intermittently, and peaking at NPR 220,985,887 in 2077/78 before slightly decreasing to NPR 217,595,545 in 2078/79. ALICL's cash and bank balance grew more steadily from NPR 47,530,232 in 2069/70, peaking at NPR 988,136,256 in 2075/76, with notable increases in 2073/74 and 2074/75, before declining to NPR 373,142,319 in 2077/78 and then modestly recovering to NPR 439,660,714 in 2078/79. Overall, NLIC demonstrated significant growth and high volatility, MetLife showed dramatic fluctuations with a general recovery trend, and ALICL managed a steadier increase with fewer extreme variations. It does not follow any systematic approach to budgeting and long-and short- term cash forecasting in its cash management. Sources of cash comprise dividends and interest collected, insurance premiums from its many life policies and other items. To the similar accord, managerial costs, provisions for bonus, depreciation provisions and other costs constitute its expenses.

#### **4.5 Major Findings of The study**

The following summarizes the main empirical findings of the entire study

##### **1. Importance of Working Capital Management:**

- The success or failure of enterprises largely depends on effective working capital management, which involves balancing current assets and liabilities to ensure operational efficiency and financial stability.

##### **2. Analysis Objective and Approach:**

- The study aimed to analyze the working capital management practices of NLIC, MetLife, and ALICL over a period of ten fiscal years, focusing on current assets, current liabilities, operating income, and their interrelationships.

##### **3. Current Asset Composition:**

- Each company uses different types of current assets based on business nature and risk tolerance, influencing their working capital strategies. Effective composition of current assets impacts overall management success.

##### **4. Financial Performance Overview:**

- NLIC demonstrated consistent growth in operating income, peaking significantly in the final year studied (2078/79), whereas MetLife's operating income showed fluctuations with a peak in 2078/79 and ALICL faced sharp drops over the years.

##### **5. Current Assets Policy:**

- The size and composition of current assets relative to total assets varied among the companies, influencing their financial health and risk of technical insolvency.

##### **6. Net Working Capital Analysis:**

- NLIC showed substantial variability in net working capital, reflecting significant fluctuations in its financial operations, whereas MetLife exhibited more stability in this regard.

#### **7. Turnover Ratios:**

- Efficiency in managing current assets was assessed through turnover ratios such as receivable turnover, cash turnover, and current assets turnover, highlighting MetLife's strong performance in asset utilization and receivable management.

#### **8. Liquidity and Solvency:**

- NLIC maintained high liquidity ratios, indicating a robust ability to meet short-term obligations, whereas MetLife showed exceptional liquidity management.

These findings underscore the importance of effective working capital management in influencing financial performance and stability across NLIC, MetLife, and ALICL, each demonstrating unique strengths and challenges in their operational and financial strategies.

## **CHAPTER - V**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Summary**

Only from inside their walls, any organization would be growing and effective because of working capital management practices that apply the knowledge and the expertise coming from their own house. The working capital strategies should also enhance the effectiveness of the organization. A highly sensitive matter relating to finance management, 'working capital management' in the context of three Life Insurance Company of Nepal i.e Nepal Life Insurance Company Limited, MetLife Nepal and Asian Life Insurance Company Limited, were closely related and relevant to the central concern of this research work. The primary objective is, therefore, achieved through an examination of the working capital policies within these insurance companies. Specific objectives include the size, growth, liquidity, and profitability, and efficiency of working capital toward its contribution to the analysis in its entirety of working capital management strategy. The design would further be supported by secondary data in providing information that is essential in working capital and other related variables.

Any organization that applied knowledge and skills from inside would be the only source of growth and effectiveness when it came to working capital management methods. The organization's efficacy ought to be improved by the working capital plans. The main topic of this study project is strongly tied to and pertinent to a very delicate financial management issue: "working capital management" in the context of three Life Insurance Company of Nepal i.e. Nepal Life Insurance Company Limited, MetLife Nepal and Asian Life Insurance Company Limited. As a result, the main goal is accomplished by looking at these insurance firms' working capital plans. The working capital's size, growth, liquidity, profitability, and efficiency with respect to its overall working capital management plan analysis are among the specific goals.

Effective working capital management plays a critical role in determining the success or failure of enterprises. It involves balancing current assets and liabilities to ensure operational efficiency and financial stability. The study analyzed the working capital

management practices of NLIC, MetLife, and ALICL over a decade, focusing on current assets, liabilities, operating income, and their relationships. Each company's unique business nature and risk tolerance influenced their strategies in managing current assets, which significantly impacted their overall management success. NLIC showed consistent growth in operating income, reaching a peak in the final year studied, while MetLife's operating income fluctuated, and ALICL faced declining trends. The size and composition of current assets relative to total assets varied among the companies, affecting their financial health and risk profiles. NLIC exhibited significant variability in net working capital, indicating fluctuations in its financial operations, whereas MetLife demonstrated more stability. Efficiency in current asset management was evaluated through turnover ratios, with MetLife excelling in asset utilization and accounts receivable management. NLIC maintained high liquidity ratios, highlighting its ability to meet short-term obligations effectively. Despite higher variability, NLIC also demonstrated superior profitability compared to MetLife and ALICL. These findings underscore the crucial role of effective working capital management in influencing financial performance and stability across the studied insurance companies, each facing unique operational and financial challenges.

## **5.2 Conclusions**

Based on the summary provided, here are the conclusions drawn from the study on effective working capital management across NLIC, MetLife, and ALICL:

### **1. Critical Role of Working Capital Management:**

Effective management of working capital is pivotal in determining the success or failure of enterprises. Balancing current assets and liabilities ensures operational efficiency and financial stability.

### **2. Impact of Business Nature and Risk Tolerance:**

Each company's unique business characteristics and risk tolerance significantly influence their strategies in managing current assets. This variability affects their overall management success and financial performance.

### **3. Financial Performance Variability:**

NLIC demonstrated consistent growth in operating income over the study period, reaching a peak in the final year. In contrast, MetLife's operating income fluctuated, while ALICL faced declining trends, showcasing different financial trajectories among the companies.

#### **4. Composition of Current Assets:**

Variations in the size and composition of current assets relative to total assets impact financial health and risk profiles. NLIC showed significant variability in net working capital, indicating fluctuating financial operations, whereas MetLife exhibited more stable management practices.

#### **5. Efficiency Metrics:**

Turnover ratios, such as asset utilization and accounts receivable management, highlighted MetLife's strong performance in managing current assets effectively. NLIC maintained high liquidity ratios, demonstrating robust capability in meeting short-term obligations despite its higher variability.

#### **6. Superiority in Profitability:**

Despite its financial fluctuations, NLIC demonstrated superior profitability compared to MetLife and ALICL. This underscores the effectiveness of its working capital management strategies in generating returns.

#### **7. Overall Importance:**

The study underscores the critical role of effective working capital management in influencing financial performance and stability across NLIC, MetLife, and ALICL. Each company faced unique operational and financial challenges, highlighting the need for tailored management strategies.

These conclusions emphasize the importance of strategic working capital management practices tailored to the specific needs and conditions of each insurance company to enhance financial health and operational efficiency.

### **5.3 Recommendations**

Based on the extensive analysis of working capital management across NLIC, MetLife, and ALICL, here are several recommendations:

**1. Customized Working Capital Strategies:**

Tailor working capital management strategies to the specific business nature and risk tolerance of each company. This includes optimizing the composition of current assets to ensure efficient utilization and minimize risk exposure.

**2. Stability Enhancement:**

Focus on enhancing stability in financial performance, particularly for companies like MetLife that exhibited significant fluctuations. Implement measures to stabilize current asset management practices to ensure consistent operational efficiency.

**3. Forecasting and Risk Management:**

Improve forecasting techniques to anticipate fluctuations in net working capital and operational income. Strengthen risk management frameworks to mitigate the impact of volatile financial conditions on overall performance.

**4. Efficiency Metrics Improvement:**

Continuously monitor and enhance turnover ratios such as receivable turnover and current assets turnover. This will improve asset utilization efficiency and optimize cash flow management.

**5. Liquidity Optimization:**

Maintain high liquidity ratios to ensure the ability to meet short-term obligations promptly. Balance liquidity management with profitability goals to achieve sustainable financial health.

**6. Technology Integration:**

Invest in advanced technology and data analytics tools to facilitate real-time monitoring of financial metrics and enhance decision-making capabilities in working capital management.

**7. Benchmarking and Best Practices:**

Regularly benchmark against industry peers to identify best practices in working capital management. Implement proven strategies to optimize working capital efficiency and improve overall financial performance.

**8. Strategic Asset Allocation:**

Optimize the allocation of assets between current assets and fixed assets to support business growth and maintain adequate working capital levels. Ensure that the current assets policy aligns with profitability objectives without compromising liquidity.

**9. Training and Development:**

Provide continuous training and development opportunities for financial management teams to enhance their skills in working capital management. Foster a culture of proactive financial management and responsiveness to market dynamics.

By implementing these recommendations, NLIC, MetLife, and ALICL can strengthen their working capital management practices, improve financial stability, and position themselves for sustainable growth and profitability in the competitive insurance.

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## CHAPTER-I INTRODUCTION 1.1 Background of the Study The

global financial crisis has pressurized business firms to give significant importance to liquidity such that they are turning to their working capital in search of liquidity. The Royal Bank of Scotland (RBS) (2012) has rightly mentioned, "Although some companies began the process of improving their working capital management five or even ten years ago, many others were driven to focus on the issues by funding disruptions and cash shortages brought by the global crisis." Further, RBS puts forward, "The effects of the