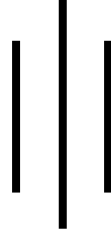


**REVENUE PLANNING AND ITS EFFECT ON  
PROFITABILITY (WITH SPECIAL REFERENCE OF  
SHIKHAR INSURANCE COMPANY LIMITED)**



SUBMITTED BY

**BHUWAN PATHAK**

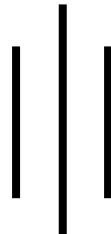
**Shankar Dev Campus,**

Putalisadak, Kathmandu

Campus Roll No: 1375/066

T.U. Reg. No: 7-2-31-874-2006

2<sup>nd</sup> Year symbol no.: 390808



A THESIS SUBMITTED TO:

Office of the dean

Faculty of Management

Tribhuvan University

*In partial fulfillment of the requirement for the degree of **Master of  
Business Studies (M.B.S)**,*

Kathmandu, Nepal,

December, 2013.

Date: .....

## **RECOMMENDATION**

This is certify that the thesis

Submitted by:

**BHUWAN PATHAK**

Entitled:

**REVENUE PLANNING AND ITS EFFECT ON PROFITABILITY**

**WITH SPECIAL REFERENCE OF**

**SHIKHAR INSURANCE COMPANY LIMITED [SICL]**

Has been prepared as approved by this Department in the prescribed format of the Faculty of Management. This is forwarded for examination.

.....

Joginder Goet  
(Thesis Supervisor)

Prof. Dr. Kamal Deep Dhakal  
(Head of Research Department)

Asso. Prof. Prakash Singh Pradhan  
(Campus Chief)

Date: .....

## **VIVA-VOCE SHEET**

We have conducted the viva-voce examination of the thesis Submitted

By  
**BHUWAN PATHAK**

Entitled:

**REVENUE PLANNING AND ITS EFFECT ON PROFITABILITY  
WITH SPECIAL REFERENCE OF  
SHIKHAR INSURANCE COMPANY LIMITED [SICL]**

*And found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as the partial fulfillment of the requirements for the **Masters of Business Studies (M.B.S.)***

### **Viva-Voce Committee**

Head, Research Department: .....

Member (Thesis Supervisor): .....

Member (External Expert): .....

## DECLARATION

I hereby declare that the work reported in this thesis entitled "Revenue Planning and Its effect on Profitability" Position of Shikhar Insurance Company Ltd. (An analytical study or institutional and Individual Investors) 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 of the Master of Business Studies (MBS) under the supervision of **Mr. Joginder Goet**, lecturer of Shanker Dev Campus.

Date: .....

.....  
Bhuwan Pathak  
Researcher  
Shanker Dev Campus  
Campus Roll No: 1375/066  
T.U. Reg. No: 7-2-31-874-2006  
2<sup>nd</sup> Year symbol no.: 390808

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I would like to express my heartfelt gratitude to all for their cooperation and support of several hands. I would like to express my heartfelt gratitude to all for their I express my sincere honor and special sense of gratitude to my academic supervision, **Mr. Joginder Goet** for his generous guidance, thoughtful encouragement and brilliant insight throughout this research work.

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Finally, due to limitations of resources constraint and others the study may be shortcoming. So I do not heart to declare that the study is comprehensive. I hereby, take responsibility of any defects of analysis or error in this thesis.

Bhuwan Pathak  
December, 2013

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## **ABBREVIATIONS**

Co.	:	Company
CVP	:	Cost Volume Profit
CV	:	Co-efficient of Variation
e.g.	:	Example
Eng.	:	Engineering
etc.	:	That is
IRR	:	Internal Rate of Return
FIFO	:	First in First Out
FY	:	Fiscal Year
LDO	:	Loan, Discount and Overdraft
Ltd	:	Limited
MBO	:	Management by Objective
Misc	:	Miscellaneous
NG	:	Nepal Government
No	:	Number
P.E	:	Probable Error
PES	:	Public Enterprises
PPC	:	Profit Planning and Control
Pvt	:	Private
R&D	:	Research and Development
S.D	:	Standard Deviation
SICL	:	Shikhar Insurance Company Limited

# **CHAPTER-I**

## **INTRODUCTION**

### **1.1 Background of the Study**

The world is changing day by day, new ideas and new technology creates challenges and uncertainty in the modern trade and business sectors. So the tasks are to be done by adopting such changes. We should safeguard against losses of life, physical conditions, materials, goods damaged by any causes etc, so we need the protection. Insurance is that one of the means and method, which serves as protection device.

"Insurance is a cooperative device to spread the loss caused by a particular risk over a number of persons, who are exposed to it and who agree to insure themselves against risk" (Mishra, 2003).

Insurance is an agreement between insurer and insured by which a company provides customers financial protection against losses and harms or damages caused by accidental or prescribed cases in a certain rules and regulation. It is also the transferring the risks to the shoulder of insurance company for the purpose of protecting such risks. Insurance is the equitable transfer of the risk of a loss, from one entity to another in exchange for payment. It is a form of risk management primarily used to hedge against the risk of a contingent, uncertain loss. Insurance is an agreement between insured and the insurer. As per agreement, the insured pays premium to the insurer in installments while the insurer promises to offer financial security from the risks involved. The insurer, then, invests in industrial and financial institutions as per the provisions made in investment guidelines of Insurance Board.

Nepal is one of the least developed country out of Asia situated between two largest and powerful countries India and China. They are not one big in size also in economic, financial, trade, technological etc; they are much more powerful

than Nepal. The history of development process of insurance company in Nepal is not very longer. Before the democracy in Nepal there was not good relation with foreign country. Nepalese peoples are depends upon the agriculture profession, the basis of development such as education, transportation, electricity, communication was not developed so the feelings of insurance is also not termed as important.

### **1.1.1 Historical Background of the Insurance**

Insurance had been know in different forms for many centuries and in Greek and Roman Civilization a type of Insurance prevailed whereby everyone was made to contribute, according to his ability to pay, levy following calamities such as floods earthquakes and fires which could destroy part of towns.

Insurance as we know it today was developed into a business due to the rapid expansion of trade from Europe to all parts if the world and serious losses being sustained by merchants to their ships and valuable cargoes due to not only the Acts of god on the high seas but also from pirates and various wars in the sixteenth and seventeenth centuries. To protect themselves, they formed associations whereby a percentage of the value of the expected risk was put into a common fund for the benefit of any member suffering a loss. A favorite meeting place was London coffee house owned by Edward Lloyd and Lloyds of London. These were the world famous Insurance organization that began business from their small premises.

Later on, Joint stock companies as underwriters at Lloyds were founded and it is still in business today although the insurance office was incorporated in 1710. The international diversification of risk was made possible since London was famous as a centre of risk diversification. And today, there are thousands of Insurance Companies throughout the world that provide reinsurance to spread risks.

The last phase of Rana regime in Nepal there was some development in education, trade and electricity sector for example establishment of Biratnagar Jute Mills, Matches factory, Sugar Mills etc. After the establishment of Nepal Bank Limited in 1994 BS, country slowly moves toward the developmental process. Industry, Trade, and business sector are slowly developed .The relation with foreign country also improved and peoples used to go India and other foreign country. Lack of comprehensive services and the dominant role of the foreign, particularly Indian Insurance Companies took over major share of Insurance market which caused Nepal outflow of national capital from the country. The country realizes the drawback and felt to establish National Level Insurance Company.

### **1.1.2 Insurance in Nepal**

After the establishment of the democracy in 2007 BS. Country moves to the developmental process. At that time there was Development of National Life and General Insurance Company and deposit Insurance and credit guarantee Corporation. At that time Nepal has to remain mostly dependent in Indian Companies for life Insurance business. Nepal Insurance and Transport Company is said to be the first Insurance Company in Nepal in 1947 AD.

Consequently National Insurance Corporation Private Limited was established in 1968. And latter on it was converted into Corporation in 1969 locally known as "Rastriya Beema Sansthan" under the Nepal Insurance Corporation Act, 1968. Initially, this corporation had dealt only in general Insurance but since 1973, it started life Insurance business also side by side with general insurance and with other varieties of Insurance. The Insurance Industry could not pick up the pace till the democracy restoration in 1990. However after 1993 Second generation of Insurance Industry was developed in Nepal. House of Representatives had passed Insurance Act, 1992. Similarly, Insurance regulation 1993 also comes into the enactment. The preamble of the Insurance Act, 1992 clearly states the purpose of the Insurance Board as "to systematize, regularize, develop and regulate the insurance business in Nepal".

The number of the insurance companies is growing in Nepal gradually. Liberalized economic policy and the priority given to the privatization by His Majesty's Government in the past and now by Nepal's Government added extra energy to developed Insurance company In Nepal. The Insurance Committee (Beema Samiti) made a provision to separate the life and non-life Insurance in Nepal. There are total 25 Insurance companies in Nepal out of these one government, 18 private, 3 foreign and 3 joint venture Insurance companies are in existence.

Rastriya Beema Sansthan is only one which works life as well as non life insurance and out of other 24 Insurance companies there are 16 Non-Life Insurance companies and 8 life Insurance companies. Shikhar Insurance Company Limited is one of the Non life Insurance company in Nepal.

### **1.1.3 Introduction of Shikhar Insurance Company Limited (SICL)**

Shikhar Insurance Company Limited (SICL) is the company with limited liability established under the Insurance Act 2049, in 2061, Kartik 26. and in operation from thereafter. Head office is located at Thapathali, Kathmandu and its ten branches over Nepal. Authorized capital Rs. 250 million, issued and paid up capital Rs. 125 million is the capital structure of the company. Shareholders of the company are 13.20% Nepalese organized organization 66.80% and 20% are general citizen of Nepal. (Source: SICL Eighth AGM report 2067/68)

Shikhar Insurance Company Promoted by the reputed industrials and business houses involved fields. Promoter of Shikhar Insurance Company Limited are: Amir Pratap Rana ( Promoter/director of Kumari Bank, Venus Footwear, etc other industries), Ang Teshering Sherpa (MD of Yeti Airlines and also associated with other organizations), Bikas J.B Rana (Executive Chairman of Fishtail Air Pvt.Ltd.), Birendra Bahadur Basnet (MD of Buddha Air), Gaurav Agrawal (associated with Shiv Kumar Group), Pradip Jung Pandey (associated

with Iomus Investment), Rajendra Prasad Shrestha (established businessman in the Carpet Industries and also involved in travel trade business), Kailash Sirohiya (promoter of Kantipur Media Group), Binod Gyawali (associated with Nepal Republic Media).

CEO of SICL Mr. Dip Prakash Pandey and his team are leading the company smoothly. Shikhar Insurance Company provides the world class quality services with wide range of Non-life Insurance programme. The policies are varied by legal and by nature which ensures that the customer feels life of comfort and free from worries.

SICL is a company with a vision and mission to face the every challenge that persists in the Insurance Industries. Developing policies adapting to the challenge and change as per requirement of the client at an economic price. The company believes that the relationship between the insurers and insured is one of the confidence and trust over goal is to set the standard for the Insurance Industry by providing quality services that exceeds customer expectations. The company has the right combination of dedicated service-oriented Professionals for which one can always trust for the excellent services.

SICL works for non-life Insurance such as Fire and Allied Perils Insurance, Vehicles Insurance, Household Insurance, Marine Transit Insurance, Travel Trip Insurance, burglary Housebreaking Insurance, Cash in Transit Insurance, Personal Accident Insurance, and etc. Insurance services are provided.

Bancassurance is a new venture of SICL which will sell Insurance services to the customers instantly from the bank's premise. With the introduction of this product SICL has stand out as a pioneer in this kind of service. SICL offers Fire Insurance, Vehicle Insurance, Travel Insurance, Transit Insurance and Personal Accident Insurance through Bancassurance. Kumari Bank Ltd. New road,

Sunrise Bank Ltd. Giridhara and Global Bank Ltd. Kantipath are involved in such Insurance.

## **1.2 Statement of the Problems**

Nepalese people are not very much aware about insurance lack of proper knowledge and education about insurance they are facing much more worries of their properties and even their life. Nepalese Insurance Company is trying to educate about Insurance gain for general people that Insurance is the protecting device. Revenue Planning and Profitability Analysis is the major task of management to find out the internal strength and weakness to face the external threats and opportunities. Revenue is the amount generated by the company by collecting the Insurance premium form the customers. Analysis of such revenue is the part of collecting from various sources. The development has created major challenges in terms of providing services to the clients and maximizing the market value of the company.

Profitability is another part which is the major objective of the company to sustain and retain in the modern competitive market condition. To operate day to day operation and other operating cost should be maintained, for that the cost are maintained out of the revenue which must be less than profit. Some major statements of the problems are:

- How the revenue is generated by rendering insurance services by the company?
- What tools and techniques are used to evaluate and analysis of revenue and profitability by insurance Company?
- What is the condition of revenue planning and which effects profitability of the company?
- Contribution of insurance company in National Income?
- What is the condition of budgeted and actual performance of the company?

The successful operation of the Company depends upon the Planning of revenue and which effects positive impact on the profitability. The operating costs should be maintained under the profitability or the profit should exceed its costs.

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

The main objectives of the preparing this report can be outlined as under:

- To analyze the planned and actual revenue.
- To evaluate revenue generation from various sources.
- To analyze of the premium collection and profitability.
- To provide appropriate suggestions.

### **1.4 Significance of the Study**

Revenue Planning is an important job for any kind of the organization or companies because the achievement of the goal depends upon the proper planning of revenue. In the context of Nepal most of the Nepalese organization basically government organization are failing to plan such revenue so they are facing losses. No organization or company exist or retain in the market without maintaining profit which is caused by proper planning. Profit is the excess amount over its costs and it should be maintained by every company.

Shikhar Insurance Company Limited also has maintained its revenue and profit by proper planning in the field of Insurance sector in Nepal. Such revenue is generated by company from collecting the Insurance premium of various types of non life Insurance schemes. It guaranteed the losses and compensates such losses, so the general peoples are free from worries that insured at SICL of their properties. The companies also have maintained the certain profitability to maintain its operating cost. After analysis of Revenue planning and Profitability condition the company could locate its strength and weakness and helps to formulate another plan and policies to grape opportunities and threats. The study helps to the management of the company as well as the readers and researchers who are interested in the field of revenue planning and analysis of

profitability sector. The study also shows the current status of SICL in the stated field. So the study is needed to observe the status of revenue planning and analysis of profitability of Insurance business special reference taking with Shikhar Insurance Company. The study also might contribute to the literature of Insurance Business in Nepal.

### **1.5 Limitations of the Study**

After analysis of the revenue planning and profitability condition of the company, the study also holds the following limitations:

- This study is mainly concerned to only one insurance company of Nepal
- The whole study is based on secondary data from the respective company's websites on net, article, journals and newspapers.
- The study will base only on the latest five year data.
- In this study only selected tools and technique are used for planning and analyzing.
- This study is conducted only for recommendation and suggestions not for directing.

### **1.6 Organization of the Study**

The study will be organized into five chapters:

#### **Chapter 1: Introduction**

This chapter is based with the subject matters of the study consisting background of the study, statement of the problem, objectives of the study, significance of the study, limitations of the study and organization of study.

#### **Chapter 2: Conceptual Framework and Review of Literature**

This chapter deals with review of the different literature of the study field. Therefore, it includes conceptual framework along with the review

of literature of related books, journal, research work and thesis of previous works.

### **Chapter 3: Research methodology**

This chapter deals with research methodology adopted to study consisting of research methodology converting variables and data with presentation variables.

### **Chapter 4: Data presentation and analysis**

This chapter deals with presentation, analysis and interpretation of data. It includes of calculation of different financial and statical tools, trend analysis and open end options and major findings.

### **Chapter 5: Summary, Conclusions and Recommendations**

This chapter deals with summary of the study held, the conclusions made ultimately and the possible suggestion or recommendations for the company.

## **CHAPTER-II**

# **CONCEPTUAL FRAMEWORK AND REVIEW OF LITERATURE**

This chapter deals with the conceptual framework about revenue plan, Insurance and profitability with the reference taking with Shikhar Insurance Company Limited. This chapter also concerned with the review of literature of relevant financial statement and journals, books, thesis of previous research studies.

A literature review is an account of what has been published on a topic by accredited scholars and researchers. A review may be a self-contained unit at the end of a book or a preface to and rationale for engaging in primary research. A review is a required part of a grant and research proposal and often a chapter in a thesis and dissertations. The purpose of writing the literature review is to convey to the reader what knowledge and ideas have been established on a topic and what their strengths and weaknesses are.

### **2.1 Conceptual framework**

#### **2.1.1 Revenue Planning**

Sales plan incorporates the management decision that are based on forecast, other inputs, and management judgments about such recited items as sales volume, prices, sales, efforts, production and financing.

"A sales forecast is converted to sales plan when management has brought to bear in its judgment, planned, strategies, commitment of resources and the managerial commitment to aggressive to attain sales goal"(Welsch, et al., 2006:172).

Revenue planning or sales plan is the very first stage of planning in master budgeting. It displays the planned sales in rupees and in unit both. A sale

planning provides an estimate of goods or service to be sold and revenue to be realized from sale of goods and services. It is an essential part of profit planning because it is the basis of effective for other future plans. If sales plan is not be realistic, most of the other parts of planning also not became realistic. Sales Plan forms a fundamental basis on which all other plans or budgets are built up.

#### **2.1.1.1 Long Term and Short Term Sales Plan**

The preparation of sales plan is based upon the sales forecast. A Comprehensive sales plan includes two separate but related plans, one strategic plan and other tactical plan.

- **Strategic sales plan:** Strategic plan also known as long term plan covers 5 to 10 years period. It is usually developed by year and annual amount. It is prepared on the basis of management established objectives, policies and strategies. Long run sales plan don't include the detail plan. This is the lump sum forecasting sales. It is prepared by considering future market potentials, population changes, state of economy, Industry projections company objectives and long term strategies.
- **Tactical sales plan:** Tactical sales plan covers not more than one year so it also called the short term plan. It includes the detail plan of future 12 month time period detailed by quarter and months for the first quarter. The tactical sales plan includes a detailed plan for each major product and for groupings of minor products. Short term sales plan are usually developed in terms of physical units and in sales rupees.

A comprehensive sales plan incorporates such management decision as objectives, goals, strategies and premises. Both the long term and short term sales plan must be developed in harmony with comprehensive profit plan.

### **2.1.1.2 Factors to be Considered While Preparing Sales Plan**

Sales plan is the basis of overall other plans in comprehensive profit plan and control programme. If the sales plan is not realistic management cannot plan other functional plans correctly. So, management should consider the following main points while developing sales plan.

- Past sales figure and trends
- Salesman's estimates
- General economic trends
- Economic trends in company's industry
- Political and legal events
- Pricing policy of the company.
- Management policy Planned advertising and promotion.
- Expected advertising and promotion
- Expected action of competitors.
- Market research studies.
- Availability of material and labours.
- Government policy and regulations.
- Other factors expected to affect sales in the industry (Goet & Shah, 2012:5-6).

### **2.1.1.3 Purposes of Sales Plan**

Sales plan is the starting point in preparing the profit plan. It is a forecast of future sales of a company. It is a detailed schedule showing the expected sales for coming period. These sales are usually expressed in both sales quantity and sales amount. The primary purposes of sales plan can be outlined as below:

- To reduce uncertainty about future revenues
- To incorporate management judgments and decisions into the planning process.
- To provide necessary information for developing other elements of comprehensive profit plan.
- To facilitate management's control of sales activities.

- To plan for future marketing expenses and arrange for manpower needed.

#### **2.1.1.4 Methods of Sales Forecasting**

Method of projecting sales may vary with the nature of organization, organizational structure of the business, environment in which business operates etc. In general, following methods can be used for forecasting sales in an organization.

##### **1. Judgment method**

Under this method is also known as personal judgment method or a rule of thumb method or non-mathematical method. In this method, sales forecast is made on the basis of personal judgment of executive or person responsible for sales forecasting.

- **Sales force composite:** In this method sales forecast is made by personal judgment of sales forces from sales divisions. Based upon the historical sales data and socioeconomic information, sales force prepares sales projections and submit it to sales department. Since, Sales force are directly related with customers and market condition, they can forecast sales better.
- **Sales division manager composite:** Under this method forecast is made by sales department executives or division manager on the basis of collecting relevant information regarding product market situation. This method is based on the concept that the divisional managers have better idea about the market and they can evaluate market more closely based on information available sales force working in different part of market.
- **Chief executive decision:** Under this approach chief executive decision about the future projected level of sales. After receiving historical sales data from sales department and getting information from environmental scanning. Chief executive uses his judgment to forecast the sales

## 2 Mathematical or statistical method

Under this approach statistical and mathematical tools are used for the projection of sales. Following statistical and mathematical methods are usually for projection of sales:

- **Economic rhythm method:** Under this method, sales are projected bases upon the economic rhythm i.e. movement if economy. Under this approach, the entire economic factor that has a high influence on demand or sales of the product is analyzed. The historical sales are adjusted with the influences of economic factors like cyclical variance, seasonal variance, price variance etc.
- **Regression method:** Regression method is the most popular statistical tools of demand estimation. Under this approach, the firm estimated the demand function, quantity to be forecasted is a dependent variable and all other variables that affect the demand are called independent variables.
- **Time series analysis:** It is one of the most frequently used forecasting methods if sales. Under this method, sales are projected in the basis if drawing a best-fit line of the past sales. Time series analysis attempt to forecast future value of time series by examining past observation of data. In this, assumption is made that, the series will continue to more as in the past.

### 2.1.1.5 Steps in Developing a Comprehensive Sales Budget

Sales planning process is a necessary part if profit planning and control. A comprehensive sales plan includes both the strategic and tactical sales plan. It includes the following steps:

- **Develop management guidelines for sales:** All the participants in the sales planning process should be provided with specific management guidelines to be followed in sales planning. Therefore guidelines should specify sales planning responsibilities. The guidelines should be emphasizing enterprise objectives, goals and sales strategies. The

guideline should direct attention to such area like product emphasis, general pricing policies, marketing strategies and competitive position.

- **Prepare sales forecast:** One or more sales forecast should be prepared. Each separate forecast should use different assumption which should be clearly explained in the forecast. The management guidelines should provide the broad assumptions. The forecast should include strategic and tactical sales forecast which are consistent with the time dimension used in comprehensive profit plan. Different methods such as time series analysis, regression method, Delphi technique, sales force estimates etc can be used for sales forecasting.
- **Assemble other relevant data:** All other information relevant to developing a realistic sales plan should be collected and evaluated. This information should relate both threats and opportunities and also the strength and weakness. The primary threats or constraints that should be evaluated are management capacity, source of raw materials, or goods for sales, availability of labour force, capital availability, availability of alternative distribution channel etc. Sales planning opportunities include redesign of old products, introduction of new products, changes in sales territories, attractive packaging, advertising innovation, new market strategies. etc.
- **Develop the strategic and tactical sales:** Using the information provided in management guideline, sales forecast, and other relevant data, management develops a comprehensive sales plan. This process should recognize the importance of management goals both strategic and tactical. The process should recognize the importance of management goals both strategic and tactical. The process should involve participation by sales manager from the bottom to the top. Extensive participation by middle and lower level of managers is more appropriate and useful in developing tactical sales plan. The strategic sales plan should primary involve top management participation.

- **Secure managerial commitment to attain the goals specified in the comprehensive sales plan:** Top management must be fully committed to attain the sales goals which are specified in the approved sales plan. This commitment requires full communication to the sales manager of the goals, approved marketing plan and the strategies by sales responsibility (Welsch, et al., 2006:176-182).

### **2.1.2 Profit Planning and Control (PPC)**

Planning is the basic foundation of PPC. First we should clear in the concept of planning. According to the Oxford Dictionary planning means:

- To do something, arrangement for doing or using something considered working in advance.
- Way of arrangement something especially when on a drawing scheme.
- Go according to plan.

Planning is the deciding in advance what is to be done in future. It is the process of developing enterprises objectives and selecting a future course of action to accomplish them. It includes developing premises about the environment in which they are to be accomplished. Planning is the feed forward process to reduce uncertainty about the future. The planning process is based and conviction that management's can play its activities and condition the state of the enterprises that determine its destiny Profit planning and control represents an overall plan of operations, providing guidelines to management and acting as single light for the management. It enables the management to correct its policy. Profit planning and control (PPC) is also called comprehensive managerial budgeting only. The word PPC has recently introduced in business literature. Most of profit oriented business concerns use PPC as managerial tools.

"Profit planning is an example of short range planning. This planning focuses on improving the profit especially from a particular product over a relatively

short period of time. Therefore as used here, it is not the same as corporate planning of a cost rendition program" (Terry, 1968:245).

Profit plan as an exact and rigorous analysis of the past and the probable and desired future experience with a view to substituting considered intention for opportunism in management the establishment of system of periodic performance reports detailed by assigned responsibility and follow up procedures. Profit planning has to resolve a number of conflicting issues before expressing the established direction and decisions made by the top management. Conflicting aim should be brought to produce more sales and profit out of many investor also increase the investment in working capital and the risks of bad debts.

"A profit planning and control program can be one of the more effective communication networks in an enterprise. Communication for effective planning and control requires that both the executive and the subordinate have the same understanding of responsibilities ensure a degree of understanding not otherwise possible. Full and open reporting in performing reports that focus on assigned responsibilities likewise enhance the degree of communication essential to sound management"(Welsch, et al., 2001:215).

PPC is a systematic and formalized approach for performing significant phases of managerial planning and controlling functions. It is one of the most important techniques which have been developed to facilitate effective performance of the management process. It involves the following:

- Development and application of broad and long range objectives of the enterprise.
- Specification of enterprises goals
- Development of long run profit planning broad terms.
- Development of short run profit plan detailed by assigned responsibility

- System of periodical performance report detailed by assigned responsibilities
- Development of follow up procedure.

PPC consists of mainly two budgets;

- **Operational Budget:** Budget related with revenue and expenses, such as sales budget, production budget, purchase budget etc
- **Financial Budget:** Budget related with financial statements such as, balance sheet, income statement etc.

### **2.1.2.1 Long Term and Short Term Profit Planning**

Long range profit planning is closely concerns with the concept of the organization as long live institutions. It is most important for aboard and long living enterprises. Long range planning varying five to ten years with the enterprises is sometimes extended to ten years. Strategic Planning is one of the most difficult time span involved in planning as many problem, in short range planning can be traced to the absence of a clear sense of direction and the practices which a comprehensive long-range plan provides. The short term planning is limited time dimensions usually it coves one year's time period. Short -term planning is used by management as a substantial part of the long-range plan.

### **2.1.2.2 Corporate Planning**

Corporate Planning is one of the parts of profit plan. It was first started in USA in 1950 and it is however being used in one form in another in many companies there.

- Before drawing up a plan which is designed to does something decide what you want it to do.
- In these days of rapid change it is necessary to look ahead as far as possible to anticipate these changes.

- Instead of treating a company as collection of department, treat it as a corporate whole.
- Take full account of the company's environment before doing up any plan.

Corporate planning refers to the systematic process of setting corporate objectives and making strategic decisions and developing the plans necessary to achieve these objectives. It includes the long term planning. The main objectives of corporate planning are:

- Achievement of the objectives.
- Embodiment of goals and objectives in the enterprises.
- Formulating of realistic and attainable objectives.
- Communication with goal and objectives.

### **2.1.2.3 Major Tools Used in PPC**

PPC represent the overall plan of operations which covers defined time frame and formulates of planning decision of management. It consist of three main budget, they can summarized as below:

**1. Operating Budget:** The operating budget covers the expenses and revenue incurred in the organization. This budget relates to the physical activities or operations of a firm such as sales, production, purchase, labour and other different expenses head budget.

- **Sales budget:** Sales plan is a starting point in preparing profit plan. It is a comprehensive plan incorporates management decision as objectives, goals, strategies and premises of the organization. It is a detailed schedule of expected sales for the coming period which usually expressed in both unit and amount. Once the sales budget is set, a decision can be made on the level of production that will be needed to support sales and the production budget can be set well.
- **Production Budget:** After a sales budget is prepared the second step is to prepare the production plan. It refers to the development of policies

about production level, use of production facilities and inventory Level. Production plan is the planning of units to be produced in budgeted period. It is prepared by considering the sales plan, desired ending inventory and estimated initial inventory. Production plan specifies the number of units to be produced of each product for each time period.

- **Purchase budget:** Purchase budget refers to the merchandise purchase budget in the non manufacturing concern. In the merchandising firm merchandise purchase budget is prepared for goods purchased from suppliers during the period.
- **Direct Material Budget:** Material purchase Budget includes the quantities of materials to be purchased and cost of materials to be purchased. It is prepares considering material usage, desired ending inventory and available beginning inventory.
- **Direct Labour Budget:** The direct labour budget is to prepare after production budget is prepared. It includes the direct labour hour budget, manpower budget and direct labour cost budget. Planning and controlling of direct labour refers the area of labour requirement, recruitments, training, performance evaluation, union negotiations and wages and salary administration.
- **Overhead Budget:** Overhead refers to the total of indirect material indirect labour and indirect expenses. The overheads budget is manufacturing overhead budget, office and administration budget and selling and distribution budget.

Manufacturing overhead budget provides the schedule of all costs of production rather than direct material and direct labour. These costs should be broken down by cost behavior for budgeting purposes and a predetermined overhead rate developed. This rate will be used to apply manufacturing overhead to units of product throughout the budget period.

Office and administrative overhead budget is prepared on the basis of management administration and control of organization. These costs are incurred in the responsibilities centers which provide the supervision and service to all functions of the organization.

Selling and distribution overhead budget are prepared on the basis of expenses incurred in selling, distribution and delivery of product to customers. Selling and distribution overhead budget should be correlated with firm's sales budget. Planning of selling and distribution overhead should be planned by responsible centre.

## 2. Financial Budget

Financial budget are concerned with expected cash receipts and disbursement budget, budgeted income statement, and budgeted balance sheet.

- **Budgeted Income statement:** It is the part of the completion of profit plan which determine the position of planned profit or loss. Budgeted Income statement helps to measure that performance of the organization. It is prepared on the basis of using either variable costing or absorption costing technique and all type of inventories are valued FIFO method of inventory costing
- **Cash Budget:** Cash budget is the budget which shows the cash receipts, cash disbursement and the balance of cash in stock. Cash budget is also can prepared by two approaches one, cash receipt and disbursement approach and other is financial accounting approach.

Cash receipt and disbursement approach is also called direct or cash account method. This approach is appropriate for short term period. This approach involves estimation of cash inflows and outflows, determination of surplus and deficit and determination of interim finance needs.

Financial accounting approach is also called indirect of income statement approach, under this approach cash from operation is first ascertained by adjusting noncash items and changes in working capital in budgeted net income. Then the other cash sources and requirements are identified. This method is useful for making long range cash projections.

- **Budgeted Balance Sheet:** It is a statement of assets and liabilities prepared after the preparation of operating budget and financial budget. It is based in functional or operating budgets, cash budget, and projected income statement with previous year assets and liabilities. Budgeted balance sheet is developed by adjusting the data contained in the other budgets with the beginning balance sheet.

### 3. Appropriation of Budget

Appropriation of budget includes all other types of expenditure and advertising and research sectors. PPC has the relationship with the following budgets.

- **Flexible budget:** Flexible Budget is the budget which recognizes the difference in behavior between fixed and variable costs in relation to fluctuations in output, turnover, or other variable factors. It is a budget that is a function of one or more levels of activity. The flexible budget is a kind of budget, which recognizes the variability of costs and incorporates any changes in levels of activities by preparing alternative budgets for different expected levels of activity.
- **Capital Expenditure Budget:** It is a budget for planning and controlling of Long term expenditure for expansion, replacement and contraction of fixed assets. Capital Expenditure Budget is useful to earn the expected profit and to control or reduce future costs. The major elements includes in the cost of project as cash outlays at different times during the life of a project. The cash outlays are affected by the provision of residual value of

old equipment, tax position addition working capital needed etc. Cash inflows are expected cash revenue during the life of a project. The non-cash expenses like depreciation and tax position can affect the cash inflows.

- **Zero Based Budgeting:** Zero based budgeting is also known as the priority based budgeting. It is one of the new approaches which have been developed in the field of budgeting. This method of budgeting was emerged in the late 1960s as an attempt to overcome the limitations of traditional budgeting. It is the cost benefit approach. Under this approach managers are required to start at zero level every year and to justify all costs as if the programme involved were being initiated for the first time. No costs are viewed as being on going in nature; the manager must start at the ground level each year and justification for all costs in the proposed budget regardless of the type of cost involved.
- **Activity Based Budgeting:** Activity based costing focuses of the cost of activities to produce and sell products and services. It can lead to improve decision making. Activity based budgeting separates indirect costs into separate homogeneous activity cost pools. Management uses the causes and effect criterion to identify to cost drives for each of these indirect cost pools. Under this method of budgeting different application rates are used for different activities to charge overhead to products instead of a single overhead absorption rate.
- **Cost Volume Profit Analysis (CVP Analysis):** CVP analysis is the managerial tool to study the relationship between selling price of product, sales volume, unit variable cost, total fixed cost and sales mix of product. In studies the relationship between cost, sales volume and profit. Break even analysis (sometimes used as a synonymous of CVP analysis) also studies the relationship between cost, sales volume and profit. Breakeven point or break even sales is that level of sales where total sales revenue is equal to total cost.

- **Performance Report:** Performance report is an important position of comprehensive PPC. Performance report phase of PPC Programmed significantly influence the extent to which the organization's planned goals and objectives are attained. It deals with control aspect of PPC or management control function of management defined as the action necessary to assure the objective plan, policies and standards are being attended. Performance report is one of the vital tools of management to exercise its control function effectively.

### 2.1.3 Control

Control is exercised by using personal evaluation periodic performance reports and special reports. It can be defined as a process of measuring and evaluating actual performance of each organization component of an enterprises and initializing corrective action when necessary to ensure efficient accomplishment of enterprises objectives, goals, policies and standards. After the profit and planning process end the third control process starts. Dictionary meaning of control is:

- Have a power or authority over same body or same thing.
- Regulating something
- Management, guidance, restriction
- Standard of comparison for checking the results of the experiment (Hornby, 1992:151-158).

"Control is an ambiguous word; it means the ability direct oneself and one's work. It can also mean domination of one person by another (management. Objectives are the basis of control on the first sense, but they must never become the basis of control as in the second for this would defeat their purpose, indeed one of the major contributions of management by substitute management. By objective is that to enables us to substitute management by self control for management by domination" (Drucker, 1954:244).

The comparison of actual result with the planned goals and standard constitutes measurement of the effectiveness of control during a specified past period. This provides the basis for effective feedback the facts shown in a performance report cannot be changed, however the historical measurement may lead to improve control in the future. The Significant concept here is that objective, policies and standards fulfill two basic requirements in the overall control process namely.

- Feed forward to provide a basic for control at the point of action.
- Feedback to provide a basis for measurement of the effectiveness of control after the action was taken place more over feedback is instrumental in re-planning.

A control process designed to help monitor the periodic activities of business and of each responsibility center has the following phases.

- Compare actual performance for the period with the planned goals and objectives.
- Prepare a performance report that shows actual results, planned results.
- If any differences between the two (i.e. variation above or below planned results)
- Analyze the variations and the related operations to determine the underlying causes of the variations.
- Develop alternatives courses of action to correct any deficiencies and learn from successes.
- Make a choice (corrective action) from the set of alternatives and implement it.
- Follow up to appraise the effectiveness of the correction. Follow with feed forward for re-planning.

#### **2.1.4 Planning of Sales in Non-Manufacturing Sector**

Revenue planning is essential for both manufacturing as well as non manufacturing sector. A non-manufacturing enterprises usually purchase and

sells a number of dissimilar products that vary in major ways such as usage, size, weight, price, style and service required. Because of this diversity in characteristics of items sold, planning focuses on rupees than one unit. Two different approaches are used to plan sales. The two approaches are as under below:

- **Unit price approach:** This is identical with the sales plan for manufacturing concern. In this approach unit to be sold and the unit sales price for each product are planned. This method is practical when two number of product lines are small and the selling price is relatively high.
- **Sales rupee approach:** This approach plans sales in rupees only for each sales department. This approach is applicable when the number of product lines is large and the selling prices across the product lines vary significantly. It is often impractical to plan units and individual prices for all items in these cases.

### **2.1.5 Developing of Budgets**

Profit plans are developed with the help of various budgets. Budget is a comprehensive and co-ordinate plan expressed in financial terms for the operations and resources of an organization for some specific period in the future. Budget is the plan of the firm's expectation in the future. A broader definition recommended by the institute of cost and works accounts is as a financial or quantitative statement prepared prior to a definite period of time of the policy to be pursued during that time for the purpose of attaining a given objectives.

"Budget as a tool of planning and control is clearly related to the broader system of planning and control in an organization. Planning involves the specification of basic objectives that will guide it, in operation terms. It involves the step of setting objectives, specifying goals, formulating strategies and expressing budgets. A budget is a comprehensive and coordinated plan

expressed in financial terms, for the operations and resources of an enterprise for same specified period in future" (Khan & Jain, 1993:296).

#### **2.1.5.1 Purposes of Budgeting**

The main objective of budgeting is to ensure the planned profit of the enterprises. It is considered as a tax of planning and controlling the profit. One of the primary objectives of an annual budgets is to measure the profit expectation for the next financial year with due regard to all the circumstance favorable and unfavorable that can influence the trading prospect (Roginald & Gerge, 1982:17).

The main purposes or objectives of budgeting can be summarized as below:

- It is a plan, which reflects the policy, objectives, and goal of the business in financial terms.
- It is a control of document by which management can monitor actual performance.
- It is the plan, to forecast the future to avoid losses and to maximize the profit.
- It defines the objectives for the entire executive's communications.
- It is a plan to bring about coordination between different functions of enterprises, i.e. helps in coordination.
- It works as a motivation for employees.
- It measures against which to evaluate the quality of management.
- Budget Facilities centralize control with delegated authority and responsibility.

#### **2.1.5.2 Classification of Budgets**

Budgets can be classified in various viewpoints depending upon basis of adopted for such classification. Generally used basis of classification can be shown as below:

1. On the basis of time

2. On the basis of function
3. On the basis of Flexibility
4. On the basis of mature of business activities.

1. **On the basis of time:** On this basis the budget can be classified as:

- **Long term budget:** These budgets cover normally 5 to 10 years period and show the long term performance of enterprises.
- **Short term budgets:** these budgets are usually for a period of one year. These budgets are prepared for production and purchase of materials.

## 2. On the basis of Function

On the basis of function budget can be classified as per the function of an organization. The various forecasts of individual functions are coordinated then consolidated to show the total effect of all the functions. Those budgets whose number on the size and nature of business are called functional budget. Normally following functional budgets are prepared:

- **Sales budget:** It is the first step of budgeting. It displays the projected sales in units and rupees. Sales budgets can be prepared as product, as per time, as per salesman geographical locations.
- **Production Budget:** Production budget is the second budget of manufacturing concern. It is also the transformation process of sales budget. It is prepared as per sales productive capacity requirement of investors.
- **Production cost budget:** Production cost budget is elated to cost of production including direct material cost, direct labour cost and expenses fixed, variable and semi-variable costs.
- **Purchase budget:** After preparation of production plan the next step of PPC in manufacturing concern is to plan and control raw material and components uses in manufacturing of finished products. Purchase would

include both direct and indirect materials and goods. Non-manufacturing concern have to prepare purchase budget according to sales unit.

- **Personal Budget:** It can be prepared from the data given in the production/sales budget. This has reference to the utilization of men or labour employed in production activities. It would be split up between direct and indirect labour.
- **Selling and Distribution Cost Budget:** It is budget concern with the estimate of cost selling and distributions of goods.
- **Research Budget:** Research budget is related to improvement in the quality or research for new products, of the purpose of satisfying the customers.
- **Plant Utilization Budget:** Plant Utilization budget covers the plant and machinery requirements to meet the budgeted production during the budget period. Schedule will be produced showing the available load in each department expressed in standard hours or unit.
- **Cash budget:** Cash budget is the planning of cash flows and cash requirement for the budgeted period.
- **Office and Administration Budget:** This budget represent cost of all administrative expenses such as managing director's fee, staff salary and expenses incurred for office management.
- **Master Budget:** Master budget is the detailed outlined and systematically expression of financial planning of the firms. It is the summary of all phases of an organization's plans and goals for the future. It is a comprehensive expression of management's plans for the future and how these plans are accomplished. Master budget includes all the above budgets and also the income statement and the budgeted balance sheet.
- **Capital Budget:** Capital Budget is the process of one uses to make decision concerning investments in long-term assets of the firm. It is the decision of long term investment which mainly focuses on the acquisition, expansion and modification of fixed assets, research and development, Product development and cost reduction, expenditure incurred in

compliance to statutory regulation as to labour, social welfare and environmental issues are major forms of capital expenditure.

### **3. On the basis of Flexibility**

Flexibility refers to the change the budget allocating amount according to the volume of activities. So, there are two types of budget from this point of views:

- **Static Budget:** static budget shows only one activity level at one. They don't be changed according to the volume of activity, Such Budget are usually prepared from one to three months in advance of the fiscal year to which they are applicable.
- **Flexible Budget:** This budget shows the series of activity level. The main objectives if this budget is to select at least lost combination for the firm. In case of such budgets revenue and cost targets are set in respect of different level of activity even from zero to hundred percent of production volume.

#### **2.1.5.3 Limitation of Budgeting**

Budgeting is the comprehensive plan of an organization also suffers from the limitations. Such problems or limitations are:

- Developing the budget especially forecast the sales plan.
- Budgeting is not a science, It success links with the precision of estimates.
- The budgeting system will be defeated of carelessly budget goals conflict with the organizational objectives.
- Installation of a perfect system of budgeting is nit possible in a short period. Budgeting has to be a continuous exercise. It is a dynamic process
- Budgeting will lower moral or productivity if unrealistic targets are set and it's used as a pressure tactic.

## **2.2 Insurance**

### **2.2.1 Concept of Insurance**

Insurance is an arrangement by which a company gives customers financial protection against loss or harm, for example, in case of theft or illness, in return for payment. It is a legal contract that protects citizens from the financial costs that arises from consequences of losses of life, Loss of Physical condition, material, goods damage, failure of business enterprises etc. Life insurance companies protect individuals against risk. Life insurance companies accept regular payments from Individuals in exchange for contracted payments in the event of the policy holder's death and others. Insurance exist to overcome the outcomes of disadvantageous and unexpected happenings. Every person does try to control or minimize the type of risks but they cannot eliminate the risks. Financial institution help protect individuals against certain risks, such as risks to health, disability, and life so these financial institutions are known as insurance companies.

Insurance has been defined as a plan if actions by which large number of the people associate themselves and transfer the risk to the shoulders of insurance companies to protect against risks that are attached to individuals life and properties. Insurance has been introduced to safeguard the Interest of people from uncertainty by providing certainty of payments at a given contingency. It is also defined as the equitable transfer of risks of a losses one to another in exchanger of premium.

Insurance is defined as a social contract providing financial compensation from the effects of misfortunes, and these payments are being made from the accumulated contribution of all parties participating in the scheme.

Insurance c companies are financial intermediaries as they collect and invest large amount of premiums. They offer protection to the investors, provide means for accumulating savings, and invest funds to the government and other

sector. Insurance Companies have developed into a central part for the economic development of every country. Insurance companies are the most important type of contractual savings institutions.

### **2.2.2 Growth of Insurance Business in Nepal**

Nepalese history of modern insurance business is not very long. Yet, before the insurance there existed the joint family system and the 'Guthi' system that aimed at providing security like that of insurance business. These systems provided economic security in society to some extent. But the securities provided by this system were not sufficient or they could not complete the needs of ever increasing demands of securities and protection made by the societies. After the establishment of Nepal Bank Ltd. 1994 B.S. the banking service started to enter the trade, business and other financial sectors. As result, people started to become aware and the persons who frequently visited India, got their Life insurances done through Indian insurance companies. After sometime, by studying the feasibility of life insurance in Nepal, some of the Indian Insurance company's agents entered to Nepal and started to collect the premiums for life insurance from Nepalese people. Later, the Indian agents felt difficulties in collecting the premiums from Nepalese people (agent) and as a result, they started to hire the Nepalese agents to get the job done through them. This helped a lot to develop awareness about insurance business in Nepal.

The Increasing awareness regarding the insurance in Nepalese people created the need for insurance business in Nepal. And for the first time on 8th Aswin 2004 B.S. the Nepal Bank Limited established the first insurance company in the country entitled "Nepal transport and Insurance Company Limited" The total principles of this company was NRs. 500000. Establish under the company law of Nepal. Its primary aim was to provide protection against the possible risks of fire and theft in transportation and other business. But this insurance company could not provide the facilities for life insurance and many other types of insurances and the services of this company were available only in some specific areas. As a result, still there was some ground left for the

Indian insurance companies. Rubi General Insurance Company was one of the renowned Indian Insurance Companies of that time. These insurance companies collected some 8 million rupees every year as premiums. Thus, a mentionable amount stated to go out every year and there was even shortage of money for national development. That's why; the need for a national level Nepalese insurance was felt.

After the political changes in 2007 B.S many development programs started to operate and the modern equipments started to be used in trades and businesses since 2013 B.S and as a result, many risks against the lives and properties arose. Thus the need for a well managed and modern insurance company providing protection against such risks emerged. The Indian insurance companies like, Hindustan general Insurance, Sterling insurance, Rubi General Insurance, Life Insurance Company, National Insurance company, the Oriental fire insurance etc. continued their business in Nepal. These insurance companies were providing both life and non-life insurances and these companies had their own strength and weaknesses. In 2016 B.S the first Insurance Company of Nepal established by Nepal Bank Limited, Nepal Transport and Insurance Company was renamed as 'Nepal Insurance and Transport Company', but it could not bring any changes. Consequently the Indian insurance companies continued to take the Nepalese capita to India and invest.

Thus, one hand the saving amount of the country was continuously going out and on the other, the Nepalese insurance company was unable to fulfill the demands regarding insurance. As a result the Government of Nepal(GON) in its third fifth year plan, proposed to establish an insurance company and accordingly, formed a temporary committee on Bhadra 1, 2024 B.S to submit a report regarding the possibilities of establishing an insurance company by the government and after studying the report presented by this committee, the Government of Nepal established an insurance company named Rastriya

Beema Sansthan(RBS) on 1st Poush 2024 B.S which was established as a private company under the company Act,2021. It's authorized capital; was 10 million and paid up capital was 2.5 million. After being formally inaugurated by His Majesty the King Mahendra in 11th Falgun, 2024 B.S it started non-life insurance business for the first time in national level. But still, the problem of life insurance remained the same.

It was after one year that the Rastriya Beema Sansthan Private Limited started its insurance business the government approved the insurance Act, 2025 and on 1st Poush, 2025 transformed the Rastriya Beema Sansthan Private Limited into Rastriya Beema Sansthan. And even after the change in its status it continued the non-life insurance only or it could not start the life insurance. As a result the non Nepalese insurance companies could continue their businesses but after the establishment of Rastriya Beema Sansthan in companies to continue the business that they were, Rubi General Insurance Company LTD. The Oriental and Fire Insurance Company Ltd, Sterling General Insurance Company Ltd. and Life Insurance Company Ltd.

After the nationalization the insurance business in India 1971 A.D only the life insurance company of India, Oriental Insurance Company (merging previous sterling insurance and National Insurance Company Ltd. (merging previous Rubi General insurance company) continued their business in Nepal. Although there was the provision of operating life insurance business in Insurance Act, 2025 yet, some of the mandatory steps made it difficult to start the business. Maybe because of that reason after five years that Rastriya Beema Sansthan(RBS) was established, it started life insurance since 7th Falgun 2029 B.S which caused many foreign insurance companies to close their offices in Nepal except the Oriental Insurance Company Ltd. National Insurance Company Ltd. Here we should not forget the important contributions made by National Life insurance company to arise and even increase the awareness regarding the insurance business in Nepalese people.

For the first time in Nepal, His Majesty's Government approved as well as issued the Insurance Act, 2025 in 2025 B.S to systematize or manage the Nepalese as well as non Nepalese insurance companies and thus, to legally ensure the interest of both the insured and the insurance companies. Along with its issuance an insurance committee was also formed under the Ministry of Finance to monitor and regulate the insurance businesses. Because it was the mandatory provision the insurance companies and the agents had to register themselves in the insurance committee to take the license. In addition, this Act also had the provisions regarding the qualification of the insurer and their agents, their dissolution or dismissal, insurer's financial transactions, the other beneficiaries in the absence of the designated beneficiary to claim the insurance amount, Thus Act started supervision and controlling the insurance companies too. Based on insurance Act, 2025 insurance regulation 2026 was also made effective in 2026 B.S.

Under the insurance Act, 2025, National Life and General Insurance Company was established in 2043 B.S aiming both life and non-life insurance business which started its work or business since 2044 B.S. Thus up to 2044 Two Nepalese insurance companies namely Nepal Insurance Company Pvt.Ltd and the Rastriya Beema Sansthan and three Indian companies Oriental insurance company Ltd, National Insurance Company ltd and National Life and general insurance company were doing their business.

After the restoration of democracy in Nepal in 2043 B.S the government adopted the policies for economic liberalization. As a result, It also become necessary to review the insurance business for timely operation. For this, the entering government on 2047 B.S formed a taskforce, under the chairmanship of Mr. Krishna Bdr. Deuja, GON's former secretary and former executive chairman of Rastriya Beema Sansthan. This taskforce submitted its report in 2048 B.S. basically suggesting to improve the insurance board and amend the

insurance Act 2025. It has also drafted and proposed for a new insurance Act. It was after 2048 B.S that there was the provision for executive chairman in the insurance board. In 2049, the parliament approved the insurance Act 2049 by dissolving or substituting the existing insurance Act. 2025 B.S and under this new act the insurance regulations 2049 were also made effective which also has important provisions regarding the different aspects of insurance. The Insurance Act, 2049 was amended in 2052 B.S and the insurance regulation 2049 in 2053 for the first time. After the issuance of insurance Act 2049, mainly life and non-life insurance companies have started their businesses. In fact, it was only after 2049 that the insurance business started to flourish in Nepal because many industries were established and the people really became aware of the businesses. As the result the number of people to have the insurance mentioned increased which ultimately contributed to the development of insurance business. Currently there are many insurance companies working in life and non Life insurance field.

### **2.2.3 Types of Insurance and Nepalese Insurance companies**

Insurance companies may be classified into two groups:

- Life insurance companies, which sell life insurance, annuities and pensions products.
- Non-life, general, or property/casualty insurance companies, which sell other types of insurance.

General insurance companies can be further divided into these sub categories.

- Standard lines
- Excess lines

In most countries, life and non-life insurers are subject to different regulatory regimes and different tax and accounting rules. The main reason for the distinction between the two types of company is that life, annuity, and pension business is very long-term in nature coverage for life assurance or a pension

can cover risks over many decades. By contrast, non-life insurance cover usually covers a shorter period, such as one year. In the United States, standard line insurance companies are insurers that have received a license or authorization from a state for the purpose of writing specific kinds of insurance in that state, such as automobile insurance or homeowners' insurance. They are typically referred to as "admitted" insurers. Generally, such an insurance company must submit its rates and policy forms to the state's insurance regulator to receive his or her prior approval; although whether an insurance company must receive prior approval depends upon the kind of insurance being written. Standard line insurance companies usually charge lower premiums than excess line insurers and may sell directly to individual insured. They are regulated by state laws, which include restrictions on rates and forms, and which aim to protect consumers and the public from unfair or abusive practices. These insurers also are required to contribute to state guarantee funds, which are used to pay for losses if an insurer becomes insolvent. Excess line insurance companies (also known as Excess and Surplus) typically insure risks not covered by the standard lines insurance market, due to a variety of reasons (e.g., new entity or an entity that does not have an adequate loss history, an entity with unique risk characteristics, or an entity that has a loss history that does not fit the underwriting requirements of the standard lines insurance market). They are typically referred to as non-admitted or unlicensed insurers. Non-admitted insurers are generally not licensed or authorized in the states in which they write business, although they must be licensed or authorized in the state in which they are domiciled. These companies have more flexibility and can react faster than standard line insurance companies because they are not required to file rates and forms. However, they still have substantial regulatory requirements placed upon them (<http://www.aamga.org/faqs>).

### 2.2.3.1 Types of Insurance:

1. Life Insurance
2. Non-Life Insurance

**1. Life Insurance:** Life Insurance is an Insurance in which a stipulated sum is paid for the beneficiary of insured at the death or specified to the insured at a certain age. It is defined as a contract; one party provides certain payments to another party after the death or fixed time period. In life Insurance both the party insurer and insured have to follow the basic principles as a contract. Utmost good faith and insurable interest should be included in contract.

Life insurance can be classified as per the term and condition of insurance policies which are described as below.

- **Term Life Insurance:** Term Insurance which is designed to provide protection if the insured person dies during a specified period of time, account for a substantial portion of the face amount of all life insurance purchased by individuals in the United States each year. In most cases, term Insurance has no cash value and thus cannot be used to meet savings needs. Its exclusive focus on death protection means that for a given amount of premium dollars, a person can usually buy a larger face amount of term insurance coverage than what can be purchased with any other types of life insurance. Another way of stating the fact is that of all forms of life insurance, term life insurance provides the most death protection per premium dollar spent. Term Insurance also the different types such as yearly renewable term, 5, 10, 15, or 20 years term. Term age of 65, Decreasing term, Reentry Term etc term insurance policies are different as per their Insurance policies.
- **Whole Life Insurance:** In contrast to term Insurance, which expires at the end of a specified period of time, whole life insurance may be kept in force for the insured's entire lifetime and thus is one of the permanent insurance. In recent years, whole life insurance has accounted for more than half of all life insurance policies sold in the United States, although

it lags behind term insurance with respect to the total face amount coverage issued. Whole life insurance contracts contain the previously mentioned saving elements called cash values. If the owner of a whole life policy decides to terminate it before the insured's death, then the cash value can be refunded. This is in contrast to term insurance; where discontinued policies simply cease to provide coverage without any type of refund for the policy owner. Whole life cash values arise as a by-product of the method selected for paying the premiums. Several premium payment methods exist. A straight life contract is arranged so that the premium are payable as long as the insured lives. In a limited pay life policy, premiums are paid only for a specified period of time, such as 20 years (called twenty-pay life) or until age 65. After that time, no further premiums are necessary, but the coverage remains in effect until the insured's death. Rather than paying premiums in installments, it is also possible to pay for a whole life policy with only one premium; when those arrangements are used, the contract is known a single-premium life.

Form the historical or traditional perspective, there are two types of whole life insurance they are ordinary life insurance and Limited Life insurance. Ordinary life insurance provides whole life insurance with premiums that are payable for the whole of life. This kind of life insurance contains cash surrender or non forfeiture options, dividend options and settlement options that can be used t meet a wide variety of financial needs and objectives. Another whole life Insurance is limited Payment Life Insurance: Under the terms of limited payment whole life policies, the face amount of the policy is payable at death, but premiums are charged for a limited number of years only, after which the policy becomes paid- up for its full amount. The limitation may be expressed as a number of years of premium payments are an age to which premiums must be paid. A paid-up policy should not be confused with a

matured policy. A policy is considered matured when the face amount becomes payable either as a death claim or because the policy cash value equals the face amount, is an endowment policy. A policy paid-up policy is one that has not necessarily matured, but on which no further premium payments are due.

- **Endowment insurance:** Term policies provides for the payment of the full policy amount only in the event of the insured's death. Endowment policies, by contrast, provide not only for the payment of the policy face on the death of the insured during a fixed term of years, but also the payment of the full face amount at the end of the term if the insured is living. Whereas policies payable only in the event of death are purchased chiefly for the benefit of others, endowment policies, although affording protection to others against the death of the insured during the fixed term, usually pay to the insured if he/she survives the endowment period. Variation of endowment insurance is enormous worldwide. Many policies are for set duration of from 5 to 30 or more years, and others are arranged to mature at certain ages, such as at ages 60, 65, or 70. Endowment policies of from three to ten year's duration are common in many Asian countries. Premiums often are due throughout the term, although limited payment plans, such as an endowment at age 65 paid up in 20 years, have been available. Endowment insurance policies are also the single-premium endowment policies, a semi-endowment policy, modified endowment policies, deposit term and juvenile endowment policies.
- **Other types of Life Insurance:** Nowadays different types and policies of life insurance products are sold. Some policies are designed to meet special needs; these policies have unique characteristics, and combine term insurance and cash value of life insurance to meet the demand and needs of customers. Such life insurance are:
  - **Modified Life insurance**
  - **Preferred Risks**

- **Second to Die Life Insurance**
- **Juvenile Insurance**
- **Saving Bank Life Insurance**
- **Industrial Life Insurance**
- **Group Life Insurance**

**2. Non Life Insurance:** This part of insurance can be defined as the pure insurance. Non-Life insurance, known as General insurance is the insurance of property and liability risk of insured against some specified cost i.e. the premium. This part of insurance includes the insurance or risks transfer of the property and liability of insured where property insurance, against loss arising from the ownership or use of property, includes two general classifications. The first indemnifies the insured in the event of loss growing out of damages too, destruction of 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 known as “Liability insurance”. Due to the nature and character holdings such insurance is regarded as the general form of insurance and the term ‘insurance’, itself generally, refer to this type. Under the scope of general insurance, every kinds of agreed risk might be included under agreed definition of loss but that must have some common principal.

Based upon the principles the insurer and insured may agree to accept every kind of risk and its transfer through the insurer. But the “Coverage written by the property and liability insurance may be divided into five types, physical damage or loss, Loss of income and extra expenses resulting from physical damage to property, Liability Health and Surety. In practice the insurers provides various kind of non-life insurance policies, which are based upon these classification. Among them, these are the practical forms.

The problem of risk is always present in human life and in their property. It can be minimized to some extent but it is impossible to avoid or eliminate losses altogether. The transferring of these risks is possible through the system of insurance. Insurance helps a person by protecting himself against every risk in the field of his activity. General insurance can be classified as:

- Personal insurance
- Property insurance
- Liability insurance
- Insurance of interest

Introduction of Marine insurance was the first in the world history of insurance. Fire insurance was a later development. After fire insurance, life insurance came into existence. Conventionally, insurance was considered as a cooperative form of distributing a certain risk over a group of persons who are exposed to it. But now it is taken as a contract or an agreement in which it is agreed that a certain amount of money would be paid as compensation in case the loss or destruction occurs due to certain risks. In return, the insured agrees to pay a certain amount as premium.

- **Fire Insurance:** Fire insurance is a device to compensate for the loss consequent upon destruction by fire. Thus the fire insurer shifts the burden of fire losses from their actual victims over all the members of the society. It a corporative devices to share the loss. It relieves that the insured from the borrowed of the fire losses to which he is exposed. Fire insurance provides indemnity for loss damage caused b y the fire. Basic form of fire insurance offers protection to the insured against the destruction of physical property as a result of fire.

"Fire Insurance business up the business effecting, otherwise than incidentally to some other class of insurance business, contract of

insurance against loss by or incidental to fire or other occurrence customarily included among the risks insured against in fire insurance"(The insurance Act, 1938).

The scope of fire insurance has not been border, there is debate and confusion about the risk be included or not be included in the fire insurance. There may be different types, stages of incidents, how did fire occurred bow was property destroyed, which property was destroyed, every step of insurance companies don't have any kind of responsibility to provide compensation to insured. Fire insurance is important to the individual, society businessman, and government who can compensate of losing the property under the policy for fire insurance. In the 21<sup>th</sup> century competition is increasing in different fields especially in sector of business, fire insurance also cannot get separate from that competition. Fire insurance policy cannot fulfill all requirements of insured. Different types of risks should be included separately in insurance policy to get financial security against different types of risk caused by fire.

- **Marine Insurance:** Marine insurance has been defined as a contract between insurers and insured whereby the insurer undertakes to indemnify the insured in a manner and to the interest thereby agreed, against marine losses incident to marine adventure.

"Marine insurance is a contract whereby the insurer undertakes to indemnity the inured in a manner and to the extent whereby agreed against marine losses, that is to say the losses incidental to marine adventures" (Indian Marine Insurance Act, 1963).

Marine Insurance is also different types they are Hull Insurance, Cargo Insurance, Freight Insurance, liability Insurance. The different types of such insurance are different in their nature and insurance policies,

principles. So the compensation policies are also be different.

- **Vehicle Insurance:** Auto insurance protects the policyholder against financial loss in the event of an incident involving a vehicle they own, such as in a traffic collision. Coverage typically includes: Property coverage, for damage to or theft of the car, Liability coverage, for the legal responsibility to others for bodily injury or property damage, Medical coverage, for the cost of treating injuries, rehabilitation and sometimes lost wages and funeral expenses.

Most countries, such as the United Kingdom, require drivers to buy some, but not all, of these coverages. When a car is used as collateral for a loan the lender usually requires specific coverage.

- **Casualty insurance:** Casualty insurance insures against accidents, not necessarily tied to any specific property. It is a broad spectrum of insurance that a number of other types of insurance could be classified, such as auto, workers compensation, and some liability insurances. Crime insurance is a form of casualty insurance that covers the policyholder against losses arising from the criminal acts of third parties. For example, a company can obtain crime insurance to cover losses arising from theft or embezzlement. Political risk insurance is a form of casualty insurance that can be taken out by businesses with operations in countries in which there is a risk that revolution or other political conditions could result in a loss.
- **Liability insurance:** Liability insurance is a very broad superset that covers legal claims against the insured. Many types of insurance include an aspect of liability coverage. For example, a homeowner's insurance policy will normally include liability coverage which protects the insured in the event of a claim brought by someone who slips and falls on the property; automobile insurance also includes an aspect of liability insurance that indemnifies against the harm that a crashing car can cause

to others' lives, health, or property. The protection offered by a liability insurance policy is twofold: a legal defense in the event of a lawsuit commenced against the policyholder and indemnification (payment on behalf of the insured) with respect to a settlement or court verdict. Liability policies typically cover only the negligence of the insured, and will not apply to results of willful or intentional acts by the insured.

- **Aviation Insurance:** Aviation insurance is insurance which is designed specifically to meet the needs of aviators. There are a number of different types of available for a variety of aircrafts and pilots. Laws about aviation insurance tend to be less clearly defined than those regarding car insurance, which can make it difficult to choose the right policy and carrier. Just as with insurance for other types of vehicles, there are a number of levels of coverage in aviation insurance policies, including liability coverage for accidents when the policyholder is at fault, theft and loss coverage, life insurance riders, and insurance for other types of situations, such as loss of cargo. The more services requested on a policy, the more expensive it will be. Coverage also varies depending on the type of craft: helicopters, sport planes, commercial airliners, and so forth are all covered differently.

### **Other type non-life insurances**

There exist many insurance covering different fields of risk classes. Since the insurers are ready to provide new kinds of insurance plans, there does not exit the limit on the kinds of insurance policies written. However, these are the practically important policy practices by the insurers.

- Landlord Insurance
- Terrorism Insurance
- Home Insurance
- Crop Insurance
- Earthquake Insurance etc.

### 2.2.3.2 Short Description of Nepalese Insurance Companies.

Since 2004 B.S many insurance companies have been established in Nepal. A brief introduction of those insurance companies is discussed as below:

- 1. Nepal Insurance Company Limited:** It is the first insurance company in Nepal established and registered on 8<sup>th</sup> Aswin 2004 B.S and started its business from the date of registration. Its head office is located in Kathmandu and branch offices are all over Nepal. Nepal Insurance Company provides non-life insurance business of fire, machinery breakdown, electronic equipment, marine cargo, personal accident, burglary and house breakdown, Group personal accident, fidelity guarantee, workmen's compensation, contractor's all risks, erection all risks, trader's comprehensive, householder's comprehensive, medical and health engineering insurance, cash in transit, goods in transit insurance and other insurance.
- 2. The Oriental Insurance Company Limited:** It is an insurance company organized as an institution on 1956 A.D and registered and started its business in Nepal from 2024/05/30.B.S .Head office is in Kathmandu and its branches are all over Nepal. The company provides non-Life insurance business of fire, machinery breakdown, electronic equipment, marine cargo, personal accident, burglary and house breakdown, Group personal accident, fidelity guarantee, workmen's compensation, contractor's all risks, erection all risks, trader's comprehensive, householder's comprehensive, medical and health aviation insurance, public liability insurance, cash in transit and other insurance services.
- 3. Rastriya Beema Sansthan:** This insurance company is registered and started business as an organized institution from 2024/09/01. B.S. It provides its business services from head office in Ramshapath, Kathmandu and branches all over Nepal. Life and non-life insurance business are provided by this company. Different types of life insurance, fire, machinery breakdown, electronic equipment, marine cargo, personal accident, burglary and house breakdown, Group

personal accident, fidelity guarantee, workmen's compensation, contractor's all risks, erection all risks, trader's comprehensive, householder's comprehensive, medical and health, motor insurance, risk and engineering insurance, cash transit, goods in transit and other insurance.

- 4. National Insurance Company Limited:** National Insurance Company Limited became an organized institution and registration on 2030/09/17 B.S and started its business. Non-Life insurance business activities are done by this company. Head office at Tripureshwor, Kathmandu and branch and also many different places of Nepal.
- 5. National Life & General Insurance Company Limited:** This insurance company became and organized institution on 2043/02/19 and registration and started insurance business in Nepal from 2044/09/24.B.S. Life and Non-life insurance business services are provided by this institution from head office Lazimpat, Kathmandu and different branches all over Nepal.
- 6. Himalayan General Insurance Company Limited:** this institution became organized on 2045/08/08.B.S and registered and started its insurance business from 2050/04/06 B.S from head office Kathmandu and branch Biratnagar, Birgunj and Pokhara. The company works on Non-Life insurance business activities.
- 7. United Insurance Company(Nepal) Limited:** this insurance became an organized institution on 2049/.03/15 B.S an registered on 2050/07/06 B.s and started its insurance business from 2050/08/16 B.S. Non-life insurance business are done from its head office Kathmandu and Branch at Birthamodh, Ithari, Rajbiraj, Janakpur, and Dang.
- 8. Premium Insurance Company Limited:** This institution became organized on 2048/11/01 B.S and registered on 2051/01/08 B.S and started its insurance business in Nepal from 2051/01/29 B.S from head office Putalisadak, Kathmandu and branch Biratnagar, Birgunj, Pokhara

and Dharan. The company works on Non-Life insurance business activities.

**9. Everest Insurance Company Limited:** This institution became organized institution on 2048/08/18.B.S and registered 2051/02/17 B.S and started its insurance business from 2051/04/17. B.S from head office Kantipath, Kathmandu and branch Pokhara, Butwal and Dharan. The company works on Non-Life insurance business activities.

**10. Neco insurance Company Limited:** This institution became organized institution on 2051/09/01 B.S and registered 2053/02/17 B.S and started its insurance business from 2051/04/17. B.S from head office Hattisar, Kathmandu and branch Biratnagar, Birgunj, Pokhara Bharatpur, Birthamodh and Nepalgunj. The company works on Non-Life insurance business activities.

**11. Sagarmatha Insurance Company:** This institution became organized institution on 2051/10/17.B.S and registered 2053/03/12 B.S and started its insurance business from 2043/04/02 B.S from head office Thapathali, Kathmandu and branch Biratnagar, Birgunj and Butwal. The company works on Non-Life insurance business activities.

**12. Alliance Insurance Company Limited.** This institution became organized institution on 2052/03/18.B.S and registered 2053/01/01 B.S and started its insurance business from 2053/04/17. B.S from head office Durbarmarg, Kathmandu and branch Biratnagar, Birgunj, Pokhara, Bharatpur, Butwal and Hetauda. The company works on Non-Life insurance business activities.

**13. Nepal Life Insurance Company Limited:** This institution started its insurance business from 2058/01/21. B.S from head office Kamaladi, Kathmandu. The company works on Life insurance business activities.

**14. Life Insurance corporation (Nepal) Limited:** This institution became organized institution on 2057/09/11.B.S and registered and started its insurance business from 2058/01/12. B.S from head office Kamaladi,

Kathmandu and branch Biratnagar, Birgunj, Nepalgunj and Butwal. The company works on different types of Life insurance business activities.

**15. American Life Insurance Company Limited (ALICO):** This institution started its insurance business in Nepal since 2058B.S from head office U.S.A. The company works on different types of Life insurance business activities from branch office Minbhawan, Dillibazar Kathmandu

**16. N.B Insurance Company Limited:** This institution started its insurance business in Nepal since 2057/10/19B.S from head office Kamaladi Kathmandu. The company works on different types of Life insurance business activities from branch office Biratnagar, Birgunj, Pokhara, Butwal, Nepalgunj, Banepa and Narayanghat.

**17. Prudential Insurance Company Limited:** This insurance company became organized institution on 2057/0815. B.S. and started insurance business in Nepal since 2059/03/06B.S. It provides its business services from head office Putalisadak, Kathmandu and branches Birgunj and Biratnagar. Non-life insurance businesses are provided by this company. Different types of life insurance, fire, machinery breakdown, electronic equipment, marine cargo, personal accident, burglary and house breakdown, Group personal accident, fidelity guarantee, workmen's compensation, contractor's all risks, erection all risks, trader's comprehensive, householder's comprehensive, medical and health insurance.

**18. Shikhar Insurance Company Limited:** This institution started its insurance business in Nepal since 2061/07/26 B.S from head office Kathmandu. The company works on different types of Non-Life insurance business activities from branch office Biratnagar, Birgunj, and Pokhara.

**19. Lumbini General Insurance Company Limited:** This institution started its insurance business in Nepal since 2062/04/02B.S from head office Kathmandu. The company works on different types of Non-Life

insurance business activities from branch office Biratnagar, Pokhara, Butwal, Nepalgunj, Bhaktapur, Dhangadi and Narayanghat.

**20. NLG Insurance Company:** This institution started its insurance business in Nepal since 2062 Baishakh B.S from head office Kathmandu. The company works on different types of Non-Life insurance business activities.

**21. Siddhartha Insurance Company LTD.** This institution started its insurance business in Nepal since 2063/01/01B.S from head office Kathmandu. The company works on different types of Non-Life insurance business activities from branch office Biratnagar, Birgunj, Pokhara, and Bhairahwa.

**22. Asian Life Insurance Company:** This institution started its insurance business in Nepal since 2064 Falgun from head office Kamaladi Kathmandu. The company works on different types of Life insurance business activities.

**23. Surya Life Insurance Company:** This institution started its insurance business in Nepal since 2064 Chaitra from head office Kathmandu. The company works on different types of Life insurance business.

**24. Guras Life Insurance Company:** This institution started its insurance business in Nepal since 2064 Chaitra from head office Kathmandu. The company works on different types of Life insurance business activities.

**25. Prime Life Insurance Company:** This institution started its insurance business in Nepal since 2065 Baishakh from head office Kathmandu. The company works on different types of Life insurance business activities.

Insurance Board (Beema Samiti) is the Insurance Regulatory Authority of Nepal. The line ministry is the Finance Ministry Nepal. The word bema means Insurance and Samiti denotes Board. Hence Beema Samiti is synonymous to Insurance Board. Which is constitutes to systematize, regularize, develop

and regulate the insurance business within the country under the Insurance Act 1992.

Beema Samiti observes all the insurance related activities in the kingdom of Nepal. As a regulatory body the board's main concern is to create a professional, healthy and developed insurance market in Nepal. Furthermore after the restoration of democracy in Nepal in 1990 A.D., insurance environment began to change simultaneously along with other factors, thus to meet the requirements of the changing situation, the Insurance Act, 1992 A.D. (Beema Ain, 2049 B.S.)

#### **2.2.4 Re-Insurance**

A significant part of an insurance organization is reinsurance, a method created to divide the task of handling risk among several insurers. Often this is accomplished through cooperative arrangements, called treaties that specify the ways in which risks will be shared by members of the group. "Reinsurance is another important insurance operation. This section discusses the meaning of reinsurance, the reasons for reinsurance, and the different types of reinsurance contracts. Reinsurance is the shifting of part or all of the insurance originally written by one insurer to another insurer. The insurer that initially writes the business is called the ceding company. The insurer that accepts part of all of the insurance from the ceding company is called the reinsurer (Thapa & Neupane, 2065:416).

The insurance law 2049 has clarified that original insurance company reinsures the business more than experienced part of risk. This process of reinsuring the business is called reinsurance business.

Reinsurance is important business and necessary for insurance company, so the reasons for reinsurance are:

- To develop and extend the insurance business.

- For proper distribution of risks and unnecessary burden for insurance company.
- For stability in profit,
- Stability in Premium Rate
- Insured can feel more secured and involved in the field of the reinsurance.

Organization for reinsurance is found in many forms, from individual contractual arrangements with reinsurance to pools whereby a number of primary insurers agree to accept certain types of insurance on some prearranged basis.

**Facultative Reinsurance:** "Facultative reinsurance is an optional, case by case method that is used when the preceding company receives an applications fir insurance that exceeds its retention limit. Before the policy is used, the primary insurer shops around for reinsurance and contracts several reinsurance. The primary insurer is under no obligation to cede insurance, and the reinsurance. But if a willing reinsurer can be found; the primary insurer the reinsurer can then enter into a valid contract" (Thapa & Neupane, 2065:419).

Facultative reinsurance is a form of reinsurance in which a contract is negotiated for a specific insurance policy. This type of reinsurance is purchased when a policy is unusual or large and the original insurer is concerned about the liability risks. The policyholder is not informed that reinsurance has been taken out, in contrast with coinsurance, in which multiple insurers take on the risk of a policy together. The other type of reinsurance is treaty reinsurance, in which a group of policies or risk categories are covered together

**Treaty Reinsurance:** "In this type of reinsurance all the risk falling under

a specific department within a certain parameters arising a year would be automatically in predetermined proportion. There will be two types treaty reinsurance" (Thapa & Neupane, 2065:419).

Treaty Reinsurance refers to an established agreement between the insurance company and the reinsurer. Under the terms of the treaty, the insurance company is obligated to pass on a certain percentage of its business to the reinsures and the reinsures is to automatically accept this portion of the business. This is usually composed of a class of policies from the reinsurer. For example, the treaty agrees to cover casualty insurance policies. What happens is that the insurance company automatically passes on casualty risk to the reinsurance company. This can be contrasted to another type of reinsurance contract-the facultative policy, where the reinsurer makes a decision whether to accept a risk or not.

- a) **Proportion Treaties:** in this form of reinsurance the premium and the claims are share in the same proportion in which the risk is shared between the company and the reinsurance.
- b) **Non-Proportional Treaties:** In non-proportional form of reinsurance, the loss would be paid by the reinsures as per determined arrangement.

### **2.2.5 Functions of Insurance Companies:**

When Insurance viewed as a generic terms and defining the generic concept it will take the form of social Insurance and private insurance. Here the social Insurance means the insurance plan which are conducted by the government and are usually administered by the state of federal agencies as directed by the objective of providing the minimum level of living standards and maintaining the society having enhanced justice and equal distribution of resources.

The function of Insurance companies can be outlines as below:

- The Insurance Company turns the loss of uncertainties into certainty by taking premium from persons or institutions to compensate in case of events occurring.
- The insurance companies provide protection taking the burden of compensation for the loss that may take place at any time by spreading risk among themselves.
- Insurance companies provide schemes of distributing risks among the persons or institutions that are engaged in insurance risk sharing business.
- Insurance companies are financial intermediaries as they collect small amount of money in the form of premium from various persons and organizations and they invest the capital and utilize it in combining both aspects of protection and investment.
- Insurance companies are effective set of institutions to manage risk and provide a valuable service to society.

**2.2.6 SICL and Its Products of Insurance:** SICL is a non-life insurance company established and working since 2061 B.S, Now it is working from the head office at Thapathali, Shikhar Biz Centre Kathmandu and its 10 other branches at different locations of Nepal with its total 128 staffs. Shikhar Insurance, Happy Surance is its slogan. Delivering the different types of its non-life insurance product, SICL is one of the better and profitable insurance company of Nepal. SICL get success in collect the highest premium out of the other insurance in fiscal year 2012/13.

Insurance products of SICL are Trekker's Assistance insurance, Contractor's All Risk Insurance, Fire and Allied Peril Insurance, fidelity Guarantee Insurance, Erection All Risk Insurance, Public Liability Insurance. Marine Transit Insurance, Group Medical Insurance, Secure Mind Insurance, Travel Trip Insurance, Household Insurance, Vehicle Insurance, Health Insurance

Duty Insurance etc. out of them some insurance product are can be discussed as below;

- **Fire and Allied Perils Insurance:** One can never be certain as what future holds. Something one cannot avoid mishaps despite taking proper precautionary measures due to many reasons. Sometimes one may have to losses huge investment because of various risks including natural calamities. Shikhar Fire and Allied perils insurance covers loss due to fire with extension of Earthquake, Riot, strike Damage, Malicious damage, Terrorism, Strom Typhoon, Aircraft an Aerial Damages.
- **Vehicle Insurance:** There are various reasons which can lead to accidents and vehicle damages and sometimes it can happen without one's fault. This could be true in situations where there are many vehicles and congested roads everywhere. To avoid this unpleasant situation, SICL provides the security. This insurance covers both the damage of vehicles and the third party liability under comprehensive vehicle policy. It also covers the personal accident of the driver and the passengers.
- **Household Insurance:** Home is where the heart lies and it is the greatest possession of one's life. Everybody seeks to give the best possible protection to their home. Home cannot be protected by only keeping various security measures available. It is exposed to various dangers like fire, burglary, riot, strike, malicious damage, sabotage, terrorism and other natural calamities like flood, storm, earthquake etc. Shikhar household insurance policy provides the comprehensive coverage against the above mentioned risks.
- **Marine Transit Insurance:** Marine insurance is closely connected with important commercial institutions like banking and shipping and assist the development of trade and commerce and thereby the economy of a country. Marine insurance is a contract under which the insurer undertakes to indemnify the insured against financial losses incidental to marine adventures losses that occurs during transit of goods

either by rail, road, sea or air. Marine cargo has many risks and especially for Nepal where we do not have our own dockyard, it would take longer time for the goods to reach its destination. Shikhar Marine Transit Insurance takes the responsibility of the goods and provides peace of mind.

- **Travel Trip Insurance:** SICL offers comprehensive travel trip insurance policy having worldwide cover. People travel abroad for various purpose, it can either be for pleasure or for business. It cannot be guaranteed that everything will go smoothly while travelling. In case of medical emergency, accidents or personal liability the financial burden in the foreign land can be too much to cope with as medical and emergency expense in many European and western countries are expensive. So it is always better to take proper measures to deal with such situations before traveling abroad as precaution is better than cure. Shikhar travel trip insurance covers the medical and emergency expenses, personal liability loss of passport, delay/loss of checked baggage etc.

SICL provides other different non life insurance such as burglary housebreaking, cash in transit, personal accident, and Bancassurance etc insurance product.

### **2.3 Review of Journal and Articles**

Gollier C. (2003) wrote in *"The Geneva Papers on Risk and Insurance Theory"* "Insurance involves pooling funds from many insured entities (known as exposures) to pay for the losses that some may incur. The insured entities are therefore protected from risk for a fee, with the fee being dependent upon the frequency and severity of the event occurring. In order to be insurable, the risk insured against must meet certain characteristics in order to be an insurable risk. Insurance as a financial intermediary is a commercial enterprise and a

major part of the financial services industry, but individual entities can also self-insure through saving money for possible future losses."

**Shrestha (2002)**, in his Article , "*Insurance Business : Opportunity and Threats* ", has stated that the Govt. Properties including corporation is insured to Govt. Co. is priority basis, it is difficult to pursue in such corporation and Govt. Offices, so the environment is not very positive. Only lip service from Govt., the economic growth of the country is very slow. People cannot afford to pay insurance premium. The sense for insurance unawareness and unconscious mass is very high. Thus insurance business is very challenging. One has to create the market tremendous market opportunity is felt due to the right person. After the formation of Nepal Insurance Association, the companies can plead their problem jointly to the Govt. and should to forward for the interest and benefit of insurers. This platform should be taken as an opportunity.

**Pant (2007)** in this article "*Insurance in Nepal Yesterday Today and Tomorrow*" has focused on the historical background of the Insurance Company in Nepal, today's status of the insurance company and future o f the insurance company. In this article he has focused definition of insurance, importance of insurance, historical background of insurance and future status of insurance business in Nepalese context.

**Khanal (2007)** published in his working paper series on "*Banking and insurance services liberalization and development in Bangladesh, Nepal and Malaysia: A comparative analysis*" where he has focused status of insurance business in Nepal and deals regulatory body of insurance sector in Nepal i.e. Beema Samiti. In this study he has focused overview of the growth and importance of the banking and insurance sectors as well as of the regulatory framework in place in the three economies is then presented, followed by comparative case studies of bank performance according to ownership structure.

He has also pointed out in his study failure of insurance companies to undertake long-term investment In Nepal, the Insurance Board has set the investment norms. The insurance companies are required to invest at least 75 per cent of their total investment in government securities, treasury bills and fixed time bank deposits. This has led to hampering of long-term investment and encouragement of misallocation of savings.

**Manandhar(2008)** published an article entitled “*Challenges of Insurance Industry in Nepal*” has stated that the future upcoming threats in the field of insurance in reference to Nepal. Where he has focused problems related to collection of the premium, obstacles for grappling the insurance and insurance policy.

**Gurung (2010)** wrote an abstract on the journal of Nepalese Business Studies on titled “*Insurance and Its Business in Nepal.*” This study aims mainly to analyze the performance of insurance business in Nepal. The data used in this study is mainly quantitative and analysis has been carried out by using simple percentage and correlation coefficient. The study reveals that there are altogether 25 insurance companies viz. 8 life insurance and 16 non-life insurance and one offer both life and non-life services. They have altogether 340 branch offices in Nepal. The growth of insurance policies for both life and non-life insurance companies has been increasing and significant during the study period. Similarly, the progressive trend of premium collection reached to 48 percent for non-life and 37.06 percent for life insurance in FY 2066/67 and contributed 1.70 percent in GDP of the economy. Moreover, the investment of insurance companies has been positive but fluctuating over the period under study. However, the correlation coefficient between total premium collection and total investment is positive with  $r=0.97$  and significant as its PE is only 0.0163. These facts reveal that the performance of insurance business in Nepal is satisfactory

## **2.4 Review of Previous Research Works**

**Goet (1999)** has conducted a research work on *"Revenue Planning and Management Practice in Nepal, A case study of Nepal Electricity Authority."*

His major objectives, findings and recommendations are:

### **Main Objectives:**

- To analyze the sales revenue programme of NEA.
- To analyze the category-wise revenue planning of NEA.
- To Analyze the meter reader system of NEA

### **Major Findings:**

- NEA does not considered major demand determination of electricity such as family income, price of electricity. Connection charges, cost of alternatives, cost of auto generation and reliability of NEA service.
- No Plan and programme has been made about possible consumption of electricity in agriculture sector.
- NEA has failed to convert sales unit into sales revenue.
- NEA has not adopted practice of preparing monthly budget.
- The revenue plans have been prepared by the branches and sub-branches have not been used to prepare central revenue planning .
- There is consistency between planned sales and actual sales; their correlation is positive and high.
- NEA has not able to bring transmission loss down in respect with target.
- Meter reading system is not properly managed.

### **Major Recommendations:**

- NEA planners should be properly trained about budgeting and revenue planning.
- NEA should prepare plans and programs for agriculture sector which is capable of massive consumption of electricity.
- To achieve target growth in sales revenue, NEA should make realistic

forecasts.

- NEA should start the practice of preparing of monthly budget for sales revenue and also it should take in account all the suggestions made by branches and sub-branches
- NEA should introduce programmers and action plan for the reduction of transmission losses.
- NEA should put more effort to manage the study to the profitable sector such as domestic, industrial, non-commercial, commercial and temporary supply.

**Thapa (2004)** submitted his study on “*Insurance Industry in Nepal, A Comparative Study on Premium Collection and Investment Pattern,*” for thesis study he uses both primary and secondary sources of data. The period covered was for 1996/97 to 1999/2001.

**Main Objectives:**

- To examine how far the different insurance premium are collected and invested them properly.
- To study the variance of budgeted and actual achievements.
- To analyze the growth of the premium collection trend.
- To provide the suggestion and recommendations for improvements of overall profitability.

**Major Findings:**

- The premium collection rate of Nepalese insurance industry has been fluctuating trend.
- The insurance industry has not consisted in the investment proportion and various investment sector and investment portfolio too.
- The co-efficient of correlation between premium and investment of Nepalese insurance industry has high degree of positive correlation with signification relationship.

**Major Recommendations:**

- The entire insurance should follow the investment policy and improve its management and should maintain and make uniformity on premium collection under all insurance policies and should try to reduce in claim paid amount.
- The insurer should enforce the diversification among the investment portfolio.
- Insurance premium fund should be invested in different sector other than HMG Bond and Bank Fixed deposit in order to inhere the life standard of people thereby increase the insurance premium.
- Insurer should try to remove fluctuation or premium collection, investment and Net income trend too.

**Panta (2006)** has conducted a research work on topic "*A study on revenue planning in Manufacturing Enterprise: A case study of Royal Drugs Limited.*"

**Main Objectives:**

- To analyze the revenue planning of RDL
- To examine the revenue generation of RDL.
- To recommendation and suggestion to RDL.

**Major Findings:**

- RDL has not practice of preparing long range sales budget. RDL yearly sales target and achievement is very poor.
- Production Budget of RDL is satisfactory in terms of budgeted and achievement but its production is not satisfactory because it has planned its production below break-even point level. So the utilization is also very low.
- Short range production achievement is poor and its range is also high difference or gap.

- RDL is being unable to utilize all its assets optimally because although sales and production decreased over the years, its current assets have not decreased.
- It has not classified all its costs into fixed and variable portions. Due to this it is impossible to monitor the cost incurred in RDL. All the costs have been classified on the basis of personal decision as manufacturing costs and variable costs and administration costs are fixed costs.
- Manpower planning of RDL is weak because its ratio of actual sales per employee is decreasing over its last year.

**Major Recommendations:**

- RDL should clearly define its objectives, policies and strategies for achievement of its long-term plan and policies.
- Since the sales budget is the corner stone of functional budget, it should be prepared in a realistic way and it should include both strategic and long-term sales budgeting. All the other factors affecting sales budget should be traced out so that a realistic sales budget can be prepared.
- Production planning should be made on the basis of appropriation of sales planning and reasonable amount of inventory of finish goods so that loss due to expiry of goods can be reduced.
- An effective cost control system should be developed by preparing all the cost-related budgets like manufacturing overhead budget, selling and distribution expenses budget, administrative expenses budget, etc. separately with clear definition of cost variability and cost controllability cost. Also a cost monitoring mechanism should be developed so that all the controllable and uncontrollable costs can be optimally utilized. It will also help in planning future costs.
- Cash flow analysis should be made so that contribution of different operating, financing and investing activities can be analyzed and evaluated.

**Aryal (2010)** conducted a study on “*Premium Collection and Investment Position of Prudential Insurance Company Limited*” , “A Comparative Study on Premium Collection and Investment Pattern,” for thesis study she uses both primary and secondary sources of data. The period covered was for 2060/061 to 2064/065.

**Main Objectives:**

- To define current situation of Prudential Insurance Company Ltd.
- Find out the premium collection and investment position.
- Analyze the past trends with current situations.
- Proving the appropriate suggestions.

**Major Findings:**

- Calculated ratio fire premium to total premium collection in each year following the fluctuating trend. Its claim paid ratio was small portion to total claim. So it seems most profitable business of the company.
- One of a major portion of premium collection in this company is Marine insurance premium. It shows that the marine insurance is riskier than fire insurance.
- The contribution of Motor premium collection was highly fluctuation in the trend. The above analysis shows the highest portion of total claims was adopted by motor claims of this company.
- It seems motor insurance too risky and bad sector in this company. Engineering insurance premium holds smallest portion in this company. The analysis shows that engineering claims was a smaller portion to total claims paid. But, comparing the collection of premium and claim paid, we can't say it was a less risky business.

**Major Recommendations:**

- She has suggested company to focus more attention in fire business

to collect the premium in respect to little by little growth of fire premium collection.

- The company should be selective in marine insurance to maintain its claim paid ratio and profitability and the company should take good strategies for taking vehicle business.
- The company should give more emphasis in engineering and miscellaneous insurance products for expansion and Growth.the Company should select more returnable and less risky sector of investment.
- For excellent investment decision as well as new product, company should take independent research and development department. R & D department will help to meet future goals of the company as well as the betterment of the company.

**Sapkota (2011)** has conducted a research on a topic "*Profit Planning Practice in Commercial Bank*" with special reference to Nepal Industrial and Commercial Bank Limited. This study for thesis he uses both primary and secondary sources of data. The period covered was for 2004/05 to 2008/09. The basis aim of this study is to find out how profit planning practice is done in commercial banks. He uses financial and statistical tools such as ratio analysis, standard deviation, and coefficient variation main finding of her study.

**Main Objectives:**

- To focus the current profit planning adopted and its effectiveness in NIC Bank Ltd.
- Study the variance of budgeted and actual achievements.
- Analyzes the growth of the business of bank over the period.
- To provide the suggestion and recommendations for improvements of the overall profitability of the bank.

### **Major Findings:**

- The bank has 85% average contribution of customer deposit in the resources mobilization as per the data 2004/05 to 2008/09 and uses the other resources of 15% in average.
- NIC Bank Ltd. is well performing in the deposit collection sector. Actual deposit is higher than the budgeted figure.
- The statical tool CV represents that NIC's actual LDO is the variable nature than budgeted LDO. LDO is in increasing trend over the period.
- The yearly interest income is in fluctuating trend in amount where the outstanding LDO is increasing.

### **Major Recommendations:**

- The size of Nepali banking market is increasing day by day the number of financial indicated the increasing competition in the financial market.
- To monitor with proper regulation this even more, the government had to bring new strategies.
- Foreign banks are allowed to operate in Nepal from 2010 A.D there will be more challenges of Nepalese Financial Institutions.
- The central Bank of Nepal (NRB) should make some policies toward the banking sector to comfort and able to compete with this increasing financial institutions.

**Sharma (2012)** has conducted a research a research topic on "*Premium collection and Investment Position of Shikhar Insurance Company Ltd.*" This study for thesis he uses both primary and secondary sources of data. The period covered was for 2062/63 to 2067/68. The basis aim of this study is to find out how premium collection and Investment practice is done in Insurance Company. He uses financial and statistical tools for this study.

### **Main Objectives:**

- To examine current status of Premium collection & investment position.

- To analyze the trend of insurance premium collection.
- To explore the investment position.
- To analyze the trend of the settlement of the claims.

### **Major Findings:**

- Fire premium collection is in decreasing trend since company has able to reduce fire claim paid which is good sign for the company. Marine insurance premium collection hold average portion premium in total premium.
- Motor insurance premium collection seems increasing trend and its claim paid ratio is also in increasing trend. Aviation insurance premium hold higher portion in total premium collection. The trend of aviation insurance premium collection ratio is in decreasing order.
- Engineering and Miscellaneous insurance premium hold fewer portions in total premium collection. According to the analysis of investment position of this company in different sector of investment seems good but not satisfactory and also found there are no sound policy and separate department for investing fund but it is necessary to manage.
- The investment of SICL on total premium collection is fluctuating trend and found that the overall ratio has slightly decreased which indicate the satisfactory condition of the company.

### **Major Recommendations:**

- The company should reduce the fire claim paid trend for betterment of company and should give more attention for marine insurance, aviation and engineering insurance to retain its contribution in total premium collection and company should be selective in marine claim paid ratio and profitability.
- The company should good strategies for taking vehicle business i.e. take only private vehicle business. Miscellaneous insurance product should

develop the company for its expansion and for its profitability growth.

- The Company should make effective R&D department, sound policy and separate department for the investing and gain return with less risks to meet the goals as well as betterment of the company.
- The company is suggested to expand its insurance activities in rural area by establishment of branches or by appointment of agents according to its potentiality.

## **2.5 Research Gap**

Rapid changes in competition, technologies and developments, world's market also changing day by day to sustain and retain their values. They should adopt the changes and develop their policies and objectives as the change. The researchers have to find the changes and analyze their study as per the changes. Most of the past researchers studied and conducted their study on few year back period so they cannot explain the adequate current phenomenon.

All the above past researcher studies on revenue planning on manufacturing sector, government organization, investment sector, and banking sectors. They all taken the past few years data to study and their study also have not shown the profitability effect by revenue planning on insurance business of Nepal. Thus continuous attempt needs to be taken so this study is based in current data for analyzing the revenue planning and its effect on profitability on insurance business taking Shikhar Insurance Company Limited, a non-life insurance business to fulfill the past research gap which was not done before.

## **CHAPTER-III**

### **RESEARCH METHODOLOGY**

#### **3.1 INTRODUCTION**

By research methodology we mean an overall method used while taking part in research activity. It is also the way to solve systematically about the research problem, this study has intense relation with the application of planning and control in insurance business, regarding the objectives of present research is to highlight the current proactive of PPC in SICL. IT therefore requires an appropriate research methodology. To perform this activity, the chapter includes Research design, Population and sample, the sampling procedure, data gathering procedure and the data analysis procedures have been included.

#### **3.2 Research Design**

This study is a case study in nature. Research design is the main part of any research work. It is the preplan of any research or thesis work. A research design is the management of condition and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. To achieve the objective of this study descriptive and analytical research designs have been used. The research is so designed that the analysis and interpretation of the secondary data and primary data related to the evaluation of past behavior of the insurer. This research is also relating to the revenue collection and its effect on profitability of SICL, whereas premium collection is means of revenue generation in insurance business.

#### **3.3 Population and Sample**

This research aims to studying the revenue planning i.e. premium planning and its effect on profitability in insurance company. There are all together 25 insurance companies are in operation in the country. It will be lengthy, time-

consuming, and vague while taking into consideration of all these companies. So, this study undergoes to research the premium collection planning or revenue planning position of Shikhar Insurance Company Limited and its effect in profitability among 25 insurance companies. Here, Shikhar Insurance Company Limited is taken as sample study among the non-life insurance companies.

### **3.4 Sources of Data Collection**

This study is based on both secondary and primary sources of data and other information and relevant data have been collected from the publications of Insurance Board of Nepal, various publication journal articles, booklets, published of the government agencies, web site, brochures, prospectus and annual report of SICL. Five year period from B.S 2064/65 to 2068/69 has been taken for data collection and analysis. Primary data are presented and analyzed from the interviews and questionnaires to the top level middle level executives and lower level employees, but this study is mainly based on secondary data.

### **3.5 Study Variables or tools used to analysis**

Data collected from various sources were managed, presented in proper tables, format and analyzed. Data collected for the purpose to show premium collection or revenue generation and profitability positions are analyzed through the use of different important tools. The first important tool is financial analyzed tool and second important tool is statistical tool which is briefly discussed in this study.

#### **3.5.1 Financial Analysis Tools**

Generally, the financial analysis tools were used for the purpose of the assessment of the financial position to a particular organization. There were various tools in financial sector but for the purpose of this study ratio analysis is performed for the study. Certainly ratio analysis showed the position of the premium collection, profitability and their contribution on overall performance.

## Ratio Analysis

"Ratio analysis is the process of determining and interpreting of numerical interrelationship between figures and financial statements. Since an absolute accounting figure does not provide much meaning by itself it has to be analyzed in relation to other figure so that significant information about the company's financial performance can be derived"(Sah, 2011:54).

Ratio can be expressed as percentage, fraction and stated comparison between numbers. It is an indicator yardstick for measuring rod or evaluating the financial performance and position of firm. There are various types of ratios and in order to an analyze premium collection (revenue collection) and profitability position of SICL, the following ratios are used.

Ratios related to SICL are given as below:

- Fire Premium to Total Premium Collection:

$$\frac{\text{Total Fire Premium collection}}{\text{Total Premium collection}}$$

- Fire Claim Paid to Total Claim Collection:

$$\frac{\text{Fire Claim Paid}}{\text{Total Claim Paid}}$$

- Marine Premium To Total Premium Collection:

$$\frac{\text{Marine Premium collection}}{\text{Total Premium collection}}$$

- Marine Claim Paid To Total Claim Collection:

$$\frac{\text{Marine Claim Paid}}{\text{Total Claim Paid}}$$

- Motor Premium To Total Premium Collection:

$$\frac{\text{Motor Premium collection}}{\text{Total Premium collection}}$$

- Motor Claim Paid to Total Claim Collection:

$$\frac{\text{Motor Claim Paid}}{\text{Total Claim Paid}}$$

- Engineering Premium to Total Premium Collection:

$$\frac{\text{Engineering Premium collection}}{\text{Total Premium collection}}$$

- Engineering Claim Paid To Total Claim Collection:

$$\frac{\text{Engineering Claim Paid}}{\text{Total Claim Paid}}$$

- Aviation Premium To Total Premium Collection:

$$\frac{\text{AviationPremium collection}}{\text{Total Premium collection}}$$

- Aviation Claim Paid To Total Claim Collection:

$$\frac{\text{Aviation Claim Paid}}{\text{Total Claim Paid}}$$

- Miscellaneous Premium To Total Premium Collection:

$$\frac{\text{Miscellaneous Premium collection}}{\text{Total Premium collection}}$$

- Miscellaneous Claim Paid To Total Claim Collection:

$$\frac{\text{Miscellaneous Claim Paid}}{\text{Total Claim Paid}}$$

- Investment on Commercial Bank Fixed Deposit To Total Investment:

$$\frac{\text{Investment on Commercial Bank Fixed Deposit}}{\text{Total Investment}}$$

- Fixed Assets Turnover Ratio:

$$\frac{\text{Total Premium Collection}}{\text{Total Fixed Assets}}$$

- Capital Employed Turnover Ratio:

$$\frac{\text{Total Premium Collection}}{\text{Capital Employed}}$$

- Net Profit Margin:

$$\frac{\text{Net Profit}}{\text{Total Premium collection}} \times 100$$

- Gross profit Margin:

$$\frac{\text{Gross Profit}}{\text{Total Premium collection}} \times 100$$

- Return On Investment (ROI):

$$\frac{(\text{Net Income} + \text{Investment})}{\text{Average Total Profit}} \times 100$$

- Earnings Per Share(EPS):

$$\frac{\text{EAT} - \text{Preference Dividend}}{\text{No. of Ordinary Shares}}$$

- Price Earning (P/E) Ratio:

$$\frac{\text{Price per Ordinary Share}}{\text{Earnings Per Share}}$$

### 3.5.2 Statistical Analysis Tools

Statistical tools are used for attaining accuracy on analysis and study. We can use different statistical tools to analyze n interpret. According to this study, objectively, mean, standard deviation, coefficient of variation and correlation etc are performed which can describe as below.

- **Arithmetical Mean:** Arithmetical Mean simply refers to mean of a set of observation is the sum of all the observations divided by the number of observation. Arithmetical Mean also arithmetical average.
- **Standard Deviation:** Standard deviation is commonly used to measure of risk. It shows the deviation of actual mean with average mean. Standard deviation measures the absolute dispersion or variability of a distribution. The greater variability or dispersion, greater the standard deviation for the greater will be the magnitude of the deviation of the value from variability, smaller the standard deviation for the high degree of uniformity of the observation as well as homogeneity of series. Hence, standard deviation is extremely useful in judging the representative of mean.
- **Co-efficient of Variation (C.V.):** The corresponding relative measure of dispersion is known as the co-efficient of variation. it is used in such problems where the study needs to compare the variability of two or more then the series the higher co-efficient of variation of series refers more variable or less consistency or less uniformity and vice-versa.
- **Co-Efficient of Correlation:** Co-efficient of correlation is used for measuring the magnitude of linear relationship between two variables. In this study to attained the relationship between Premium Collection and Profitability position. Premium collection and claim paid and Investment and net income earns, co -efficient of correlation is used. If the value of co-efficient of correlation lies between +1 and -1, when co-efficient of correlation( $r$ ) = +1, it means there is perfect positive correlation between the variables,  $r = -1$ , it means there is perfectly negative correlation between the variables and  $r = 0$  refers there is no relationship between variables. Among the various methods of finding out co-efficient of correlation, Karl Person's method is applied in this study.
- **Probable Error:** Probable error of the correlation coefficient denoted

by P.E is the measure of testing the reliability of the calculated value of r. If the value of r be the calculated value of r from a sample of n pair of observation, then P.E is calculated as:

$$\text{Probable Error (P.E)} = 0.6745 \times \frac{1-r^2}{\sqrt{n}}$$

Where,

r= the value of correlation coefficient

n= number of pair of observation

P.E is used in interpretation whether the calculated value of r is significant or not.

If  $r > \text{P.E.}$ , there is evidence of correlation or it is significant.

If  $r < \text{P.E.}$ , there is no evidence of correlation or it is insignificant.

If  $\text{P.E.} < r < 6 \text{ P.E.}$ , nothing can be calculated.

## **CHAPTER-IV**

### **DATA PRESENTATION AND ANALYSIS**

The analysis of data consists of organizing, tabulating, performing statistical analysis and drawing inferences. So, this chapter deals with the presentation and analyzing of the data that we brought in the raw form to be processed so that understandable meaning is given. The necessary data that are brought from the concerned institutions are organized and classified for analysis. The data is based on questionnaires, data collection forms, and note cards. They are tabulated and compared with the standard ones and presented in the graphs, charts and analyzed to find or check the relation. It is necessary to arrange the data so that it makes some sense to the researcher and so that it can later be presented to the reader of thesis.

The data and information are collected from the concerned Insurance Company, libraries, booklets, published reports, journals, internet website and for the primary data interview with the concerned officials are made and filled questionnaires from the respective Insurance Company are brought and they are organized and classified in such a form that it is easy for the analysis. The data are tabulated after the rearrangement of raw data. Then they are presented in the form of figures, graphs, charts so that it will be easy for the analysis. The first part deals with presentation and analysis of secondary data while second part deals with analysis of primary data and third part include the major findings of the study.

For the evaluation of the premium collection condition and composition among the portfolios sales budget, mean, standard deviation and coefficient of variance are used. For the comparison of all the respective matter in premium collection as well as profitability position are computed from various ratios in portfolio wise as following ways:

## 4.1 Analysis of Secondary Data

### Revenue plan:

A company should prepare various sub-plans for the completion of the profit plan. A revenue plan is one of them. SICL is an insurance company established in Nepal so the sales plan refers to the premium plan or the revenue planning refers to the premium collection planning. Analysis of past premium collection has been made to know about the previous collection trend & to forecast the future premium collection trend of SICL. The following table represents the budgeted sales & actual Premium Collection achievement of SICL.

#### 4.1.1 Analysis of Budgeted and Actual Premium Collection

Budgeted and actual premium collection of SICL can be shown clearly from the below table and figure, available last five year data.

**Table: 4.1**

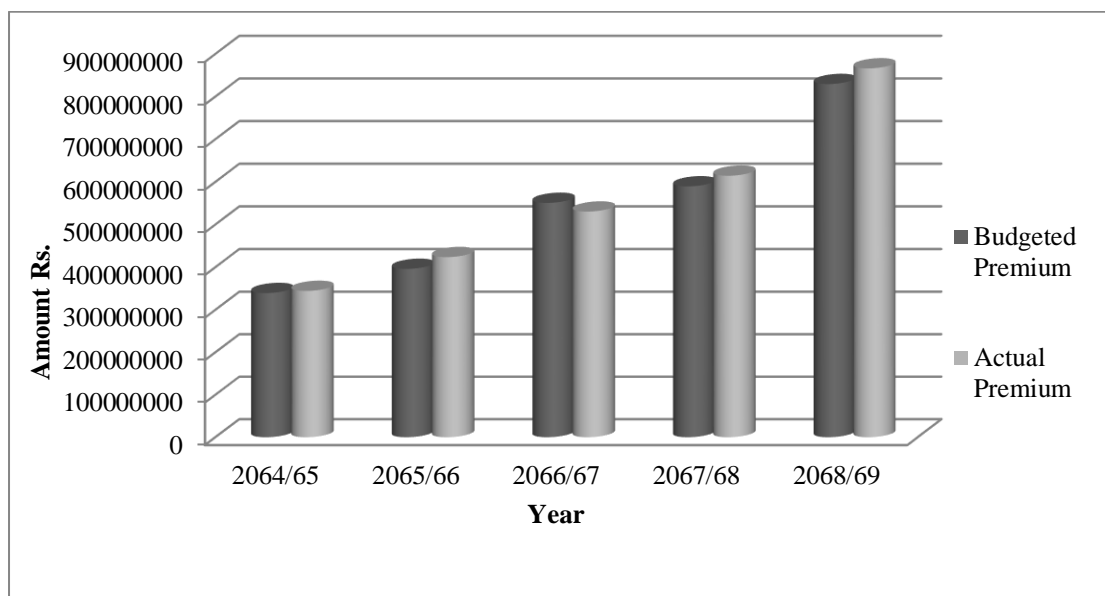
#### **Budgeted and Actual Premium Collection**

Fiscal Year(B.S)	Budgeted Premium Collection	Actual Premium Collection	Variance		Remarks
			Rs.	%	
2064/65	339331000	344373044	5042044	1.49	Favourable
2065/66	396029000	423656425	27627425	6.98	Favourable
2066/67	550753352	530424521	(20328831)	(3.69)	Unfavourable
2067/68	589551800	614403970	24852170	4.22	Favourable
2068/69	829445400	866111183	36665783	4.42	Favourable
Mean	54102210	555793829			
S.D	171661951	180296784			
C.V (%)	31.73	32.43			

(Sources: SICL Annual Report and Appendix I)

**Figure: 4.1**

**Budgeted and Actual Premium Collection**



The above table and figure shows that the situation of actual and planned premium collection is achieved in every year, but the year 2066/67 it is unachieved and unfavourable condition. Mean, S.D and C.V of budgeted premium collection is 541022.11, 171661.95 & 31.73% respectively. Similarly the actual premium collection mean, S.D and C.V are 555793.83, 180296.78 & 32.43% respectively.

The premium collection of SICL is in increasing and the budgeted and actual variances of them are also the favourable condition except in the year 2066/67, so the targeted revenue is collected except that year. Budgeted Vs Actual premium collection in the year 2065/66 is in highest percentage. Achievement in of each year is favourable condition.

**4.1.2 Product-Wise Premium Collection of SICL**

SICL is insurance business organization in the field of non-life. So the company has different types of non-life insurance product to collect the revenue. Product wise contribution in collecting the revenue can also show as the following table.

**Table: 4.2**  
**Product-Wise Premium Collection** (In Rs.)

Year Product	2064/65	2065/66	2066/67	2067/68	2068/69
Fire Insurance	55912818	65285906	71207271	88882986	102245311
Marine Insurance	20288814	24463386	28402817	30899269	32576568
Motor Insurance	86738361	117154103	216831426	223260159	264425547
Engineering Insurance	8362488	13584115	20676931	25380696	27594509
Aviation Insurance	117290029	144900806	126278333	161561806	329692787
Miscellaneous Insurance	55790534	58268109	67027743	84419054	109576463
Total Premium Collection	344383044	423656425	530424521	614403970	866111183
% Increase	-	23.02	25.20	15.83	40.97

(Sources: SICL Annual Report)

From the above table the revenue collection of SICL from different insurance product has shown from the year 2064/65 to 2068/69 for the five year period. Fire insurance, motor insurance, marine insurance, aviation insurance, engineering insurance, and miscellaneous insurance product has contribute for collection of total premium.

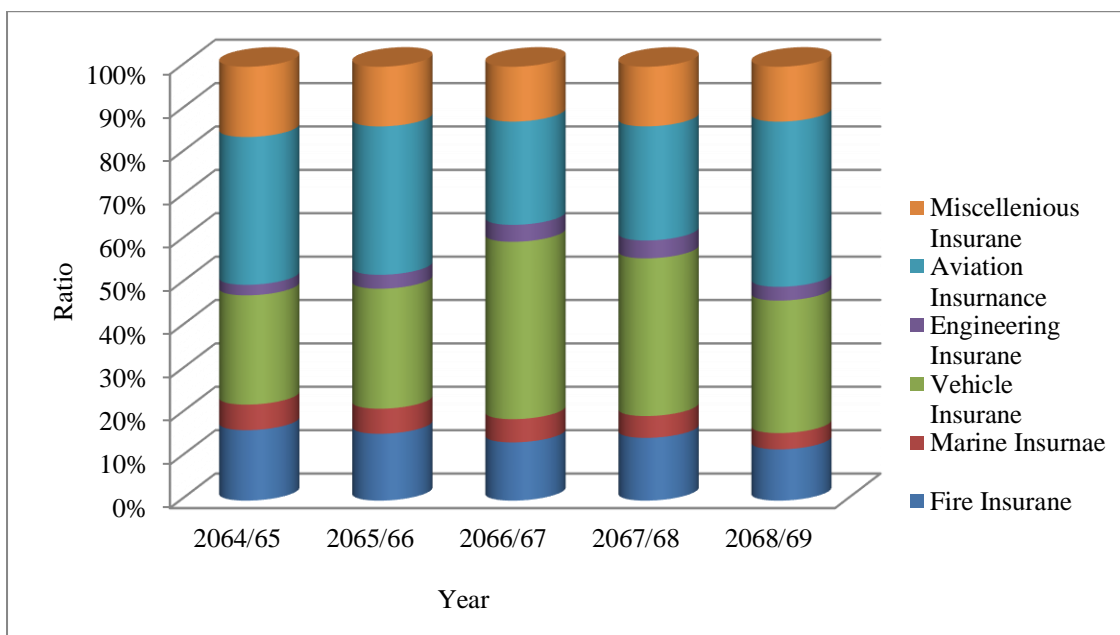
**Contribution of each insurance product ratio in each year in total premium collection are presented as below.**

**Table 4.3**  
**Product-Wise Premium Collection Ratio** (in %)

Year \ Product	2064/65	2065/66	2066/67	2067/68	2068/69
Fire Insurance	16.23	15.41	13.42	14.47	11.81
Marine Insurance	5.89	5.77	5.35	5.03	3.75
Motor Insurance	25.19	27.65	40.88	36.34	30.53
Eng. Insurance	2.43	3.21	3.90	4.13	3.19
Aviation Insurance	34.06	34.21	23.81	26.29	38.07
Misc. Insurance	16.20	13.75	12.64	13.74	12.65
Total Premium Collection	100	100	100	100	100

(Sources: SICL Annual Report)

**Figure: 4.2**  
**Contribution of Each Product on Total Premium Collection**



The above table and figure show that the product-wise contribution in revenue collection in the each year. Total Premium collection of SICL is increasing. The premium collection in the year 2065/66 is 23.02% which is in the increasing trend in every year by 25.20%, 15.83% in year 2066/67, 2067/68 respectively and fiscal year 2068/69 increase % is 40.97%. Contribution of each insurance product on total premium collection can be shown by presenting the figure and can explain and analyze the each product on collecting revenue each year.

The figure clearly shows the % holds by each insurance product in each year. Here in year 2064/65 the largest portion on premium collection is from Aviation Insurance and the lowest contribution is from Engineering Insurance. all the product of insurance are in increasing trend But vehicle and aviation insurance are getting changing in highest contribution in total premium collection, like year 2065/66 highest contribution from aviation insurance and another year 2066/67 greater contribution from vehicle insurance. In the fiscal year 2068/69 the maximum contribution is from aviation insurance and minimum contribution from engineering insurance.

## **4.2 Analysis of different Financial Ratios**

### **4.2.1 Fire Premium to Total Premium Collection and Fire Claim Paid to Total Claim Paid**

This ratio used to measure the collection of fire premium collection in total premium collection and fire claim paid to total claim paid. It represents the weight of fire premium collection and fire claim over the total premium collection and total claims paid respectively of SICL.

**Table: 4.4**

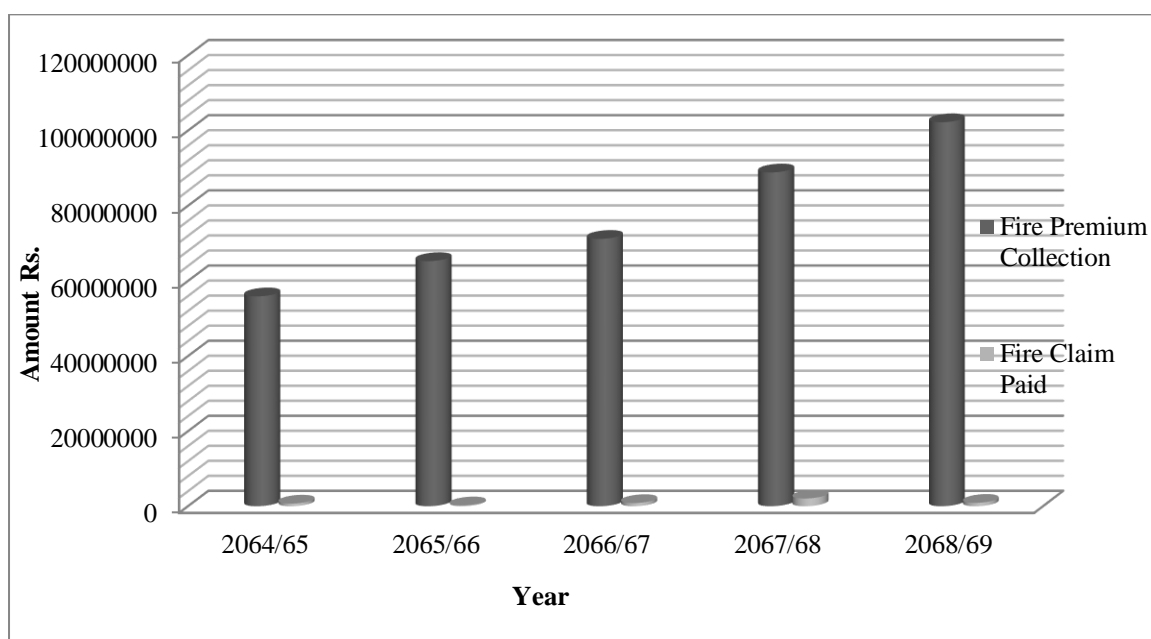
**Fire Premium to Total Premium Collection and Fire Claim Paid to Total Claim Paid**

<b>Fiscal year</b>	<b>Total Premium Collection(Rs)</b>	<b>Fire Premium Collection(Rs)</b>	<b>Ratio (%)</b>	<b>Fire Claim Paid(Rs)</b>	<b>Total Claim Paid(Rs)</b>	<b>Ratio (%)</b>
2064/65	344383044	55912818	16.23	702347	42384377	1.66
2065/66	423656425	65285906	15.41	223852	32231093	0.69
2066/67	530424521	71207271	13.42	841414	54389672	1.55
2067/68	614403970	88882986	14.47	2063021	86415755	2.39
2068/69	866111183	102245311	11.81	901086	120829330	0.75
Mean			14.27			1.41
S.D			1.55			0.63
C.V			10.86			44.68

(Sources: SICL Annual Report and Appendix II)

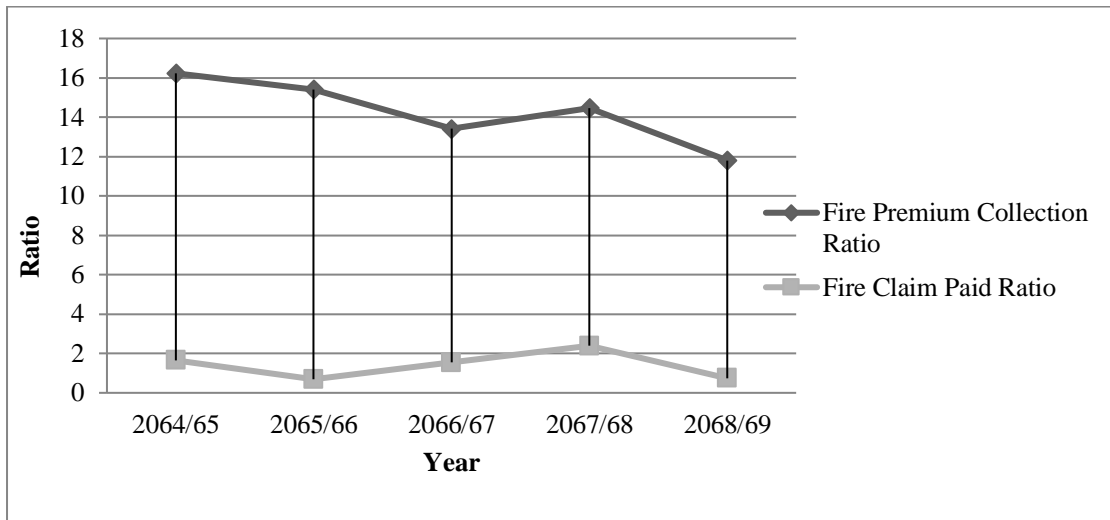
**Figure: 4.3**

**Fire Premium to Total Premium Collection and Fire Claim Paid to Total Claim Paid**



**Figure: 4.4**

**Fire Premium to Total Premium Collection and Fire Claim Paid to Total Claim Paid**



The above table and figures show that the fire Insurance Premium holds one of a major portion of the total premium in the company. Above table shows the average of fire premium to total premium collection of SICL is 14.27%. According to the table highest collection of SICL is 16.23% in the year 2064/65 and lowest is 11.81% in the year 2068/69. The trend of collection of the fire premium is decreasing trend. S.D. is 1.55% and C.V. is 10.86%. From above calculation table CV has found that 10.86% that means more uniformity in collection of premium over five year.

The claim paid to fire insurance is not a single trend of SICL. The highest portion of claims to total claims is 2.39% in the year 2067/68 and lowest is 0.69% in the year 2065/066. The average fire claim paid in this 5 year is 1.41% S.D. is 0.63% and C.V. is 44.68%. By this figure, we can understand that the fire insurance is a most profitable and less risky business product of insurer.

#### **4.2.2 Marine Premium to Total Premium Collection and Marine Claim Paid to Total Claim Paid**

This ratio used to measure the contribution of marine premium collection in total premium collection and marine claim paid to total claim paid of the company. It represents the weight of marine premium collection and marine claim over the total premium collection and total claims paid respectively of SICL.

**Table 4.5**

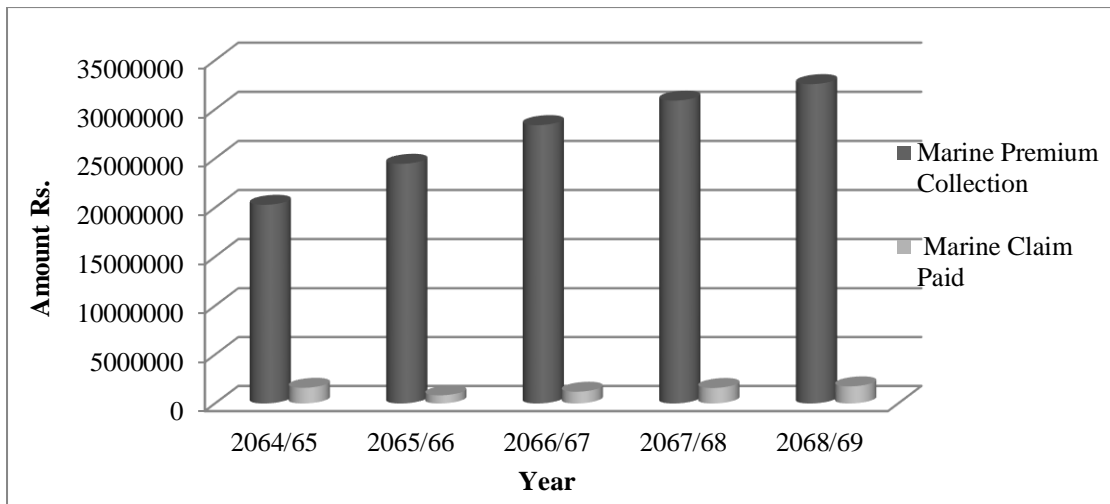
#### **Marine Premium to Total Premium Collection and Marine Claim Paid to Total Claim Paid**

<b>Fiscal year</b>	<b>Total Premium Collection(Rs)</b>	<b>Marine Premium Collection(Rs)</b>	<b>Ratio (%)</b>	<b>Marine Claim Paid(Rs)</b>	<b>Total Claim Paid(Rs)</b>	<b>Ratio (%)</b>
2064/65	344383044	20288814	5.89	1606215	42384377	3.79
2065/66	423656425	24463386	5.77	836414	32231093	2.60
2066/67	530424521	28402817	5.35	1204768	54389672	2.22
2067/68	614403970	30899269	5.03	1587734	86415755	1.84
2068/69	866111183	32576568	3.76	1752481	120829330	1.45
Mean			5.16			2.38
S.D			0.76			0.80
C.V			14.80			33.71

(Sources: SICL Annual Report and Appendix III)

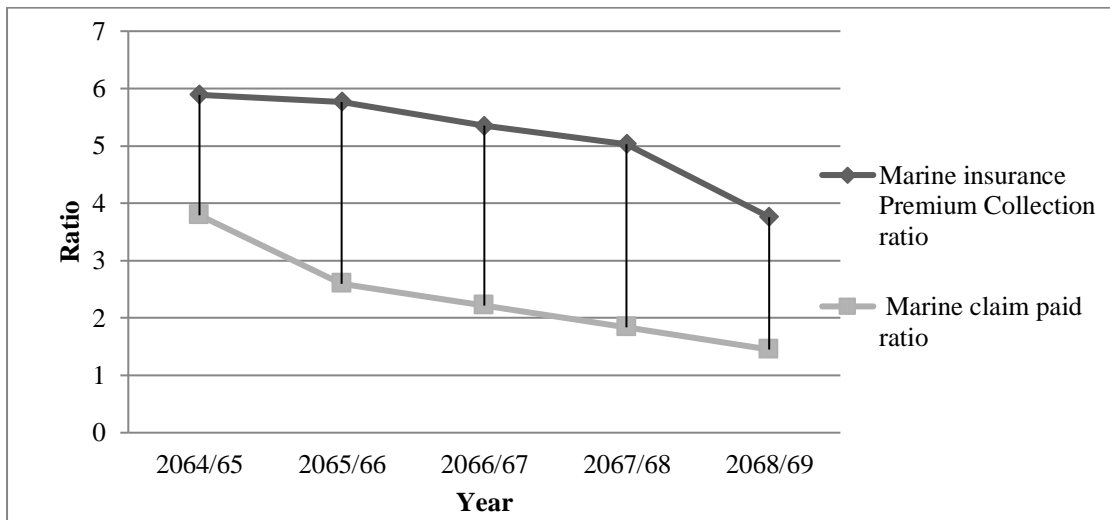
**Figure: 4.5**

#### **Marine Premium to Total Premium Collection and Marine Claim Paid to Total Claim Paid**



**Figure 4.6**

**Marine Premium to Total Premium Collection and Marine Claim Paid to Total Claim Paid**



From the above table and figure the highest premium collection of Marine Insurance premium of Insurer is 5.89% in the year of 2064/65 and lowest collection is 3.76% in the year 2066/067. It is decreasing trend over period. The average marine premium collection to total premium collection in this five years period is 5.16%, S.D. is 0.76% and C.V. is 14.80%. That means the company has lost some portion of marine premium ratio to total premium ratio.

The claim paid to marine insurance is decreasing trend of SICL. The highest

portion of marine claims to total claims is 3.79% in the year 2064/65 and lowest is 1.45% in the year 2068/69. The average marine claim paid in this 5 year is 2.385% S.D. is 0.80% and C.V. is 33.71%. By this figure, it can say that the marine insurance is second less risky insurance. Its total premium collection and claim paid is greater than fire insurance.

#### **4.2.3 Motor Premium to Total Premium Collection and Motor Claim Paid to Total Claim Paid**

This ratio is used to measure the contribution of motor premium collection in total premium collection and motor claim paid to total claim paid of the SICL. It shows the portion of share hold by motor premium collection in total premium collection and motor claim paid portion to total claim paid.

**Table: 4.6**

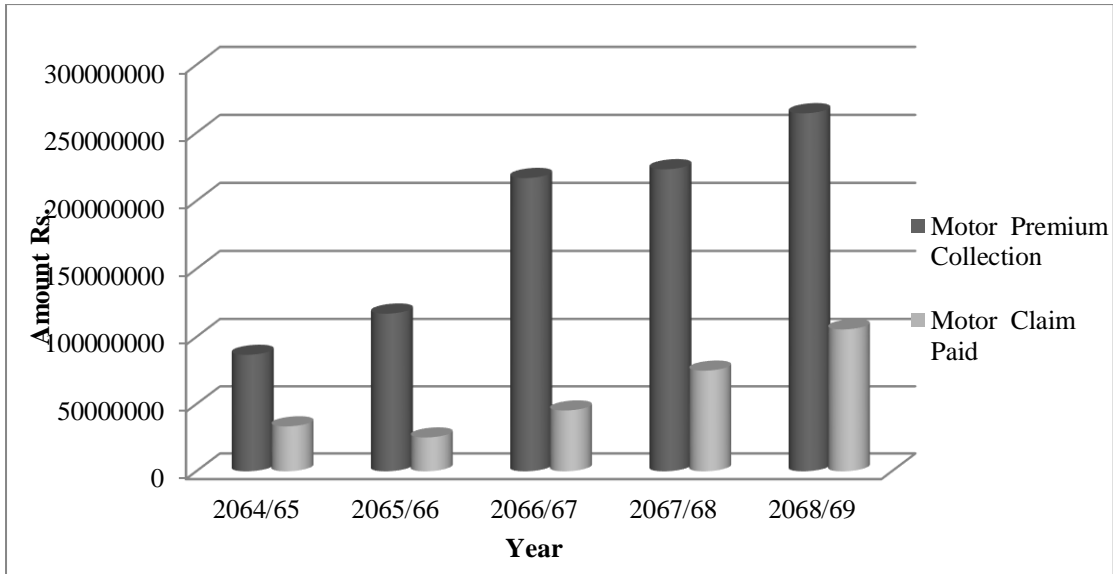
#### **Motor Premium to Total Premium Collection and Motor Claim Paid to Total Claim Paid**

<b>Fiscal year</b>	<b>Total Premium Collection (Rs)</b>	<b>Motor Premium Collection (Rs)</b>	<b>Ratio (%)</b>	<b>Motor Claim Paid(Rs)</b>	<b>Total Claim Paid(Rs)</b>	<b>Ratio (%)</b>
2064/65	344383044	86738361	25.19	33464623	42384377	78.96
2065/66	423656425	117154103	27.65	25191042	32231093	78.16
2066/67	530424521	216831426	40.88	45288402	54389672	83.27
2067/68	614403970	223260159	36.34	74952964	86415755	86.74
2068/69	866111183	264425547	30.53	105594568	120829330	87.39
Mean			32.12			82.90
S.D			5.75			3.82
C.V			17.89			4.61

(Sources: SICL Annual Report and Appendix IV)

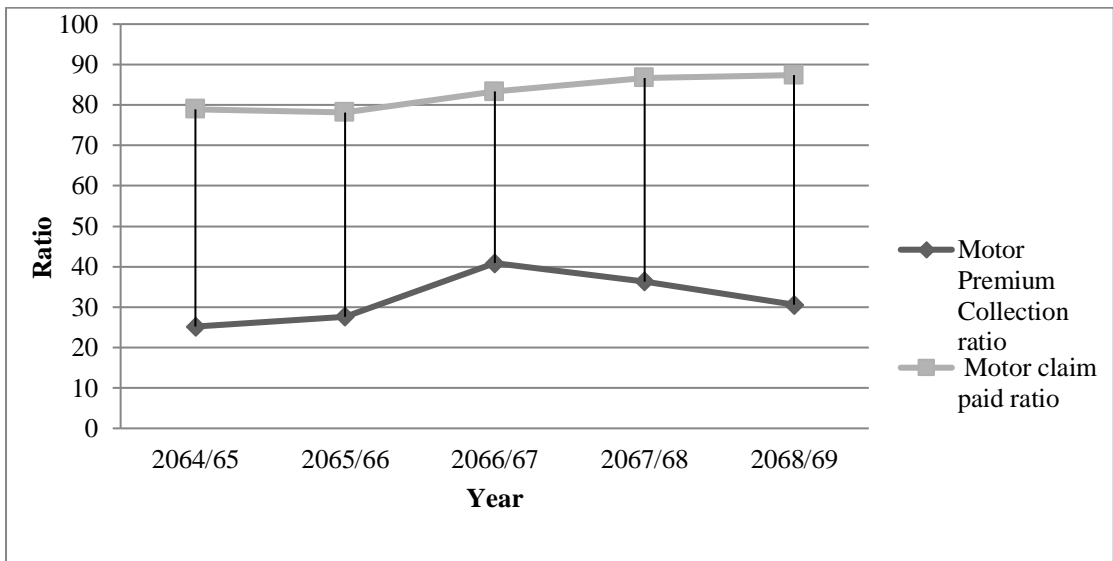
**Figure: 4.7**

#### **Motor Premium to Total Premium Collection and Motor Claim Paid to Total Claim Paid**



**Figure: 4.8**

**Motor Premium to Total Premium Collection and Motor Claim Paid to Total Claim Paid**



The contribution of Motor premium collection is occupied highest portion in compare with total premium of this company. Its contribution to total premium is increasing order up to fiscal year 2066/67 then after increase in decreasing trend. Its highest contribution is 40.88% in the year 2066/67 and then decreasing trend become 30.53% in the year 2068/69 and lowest is in the year 2064/65 up to 25.19%. The average motor premium collection to total premium collection in this five year period is 32.12%, S.D. is 5.75% and

C.V.is 17.89%. That means trend of premium collection ratio is riskier business products.

The above table shows the highest portion of total claim paid is adopt by motor claims of this company. The highest portion of motor claim to total claim is 87.39% in the year 2068/69 and the lowest portion of the motor claim to total claim is 78.16% in the year of 2065/66. Its average claim paid within the five year is 82.90%, standard deviation and coefficient of variation are 3.82% and 4.61% respectively. It seems motor insurance too risky insurance in this company. From above figure, since the portion of premium collection is highest size in total premium collection, the claim paid to this sector also highest size in compare with total claim paid.

**4.2.4 Engineering Premium to Total Premium Collection and Engineering Claim Paid to Total Claim Paid** This ratio is used to measure the collection of engineering premium collection in total premium collection and engineering claim paid to total claim paid. It shows the weight of engineering premium collection over the total premium collection and weight of engineering premium collection over the total premium collection and weight of engineering claim paid to total claim paid.

**Table: 4.7**

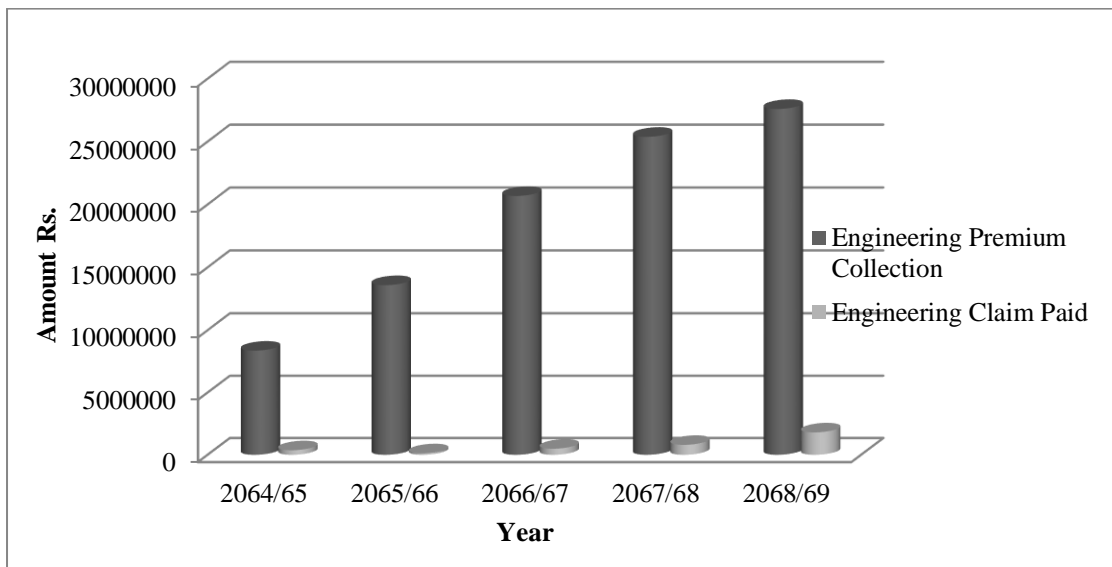
**Engineering Premium to Total Premium Collection and Engineering Claim Paid to Total Claim Paid**

<b>Fiscal year</b>	<b>Total Premium Collection (Rs)</b>	<b>Engineering Premium Collection (Rs)</b>	<b>Ratio (%)</b>	<b>Engineering Claim Paid(Rs)</b>	<b>Total Claim Paid(Rs)</b>	<b>Ratio (%)</b>
2064/65	344383044	8362488	2.43	365942	42384377	0.86
2065/66	423656425	13584115	3.21	122898	32231093	0.38
2066/67	530424521	20676931	3.90	487031	54389672	0.90

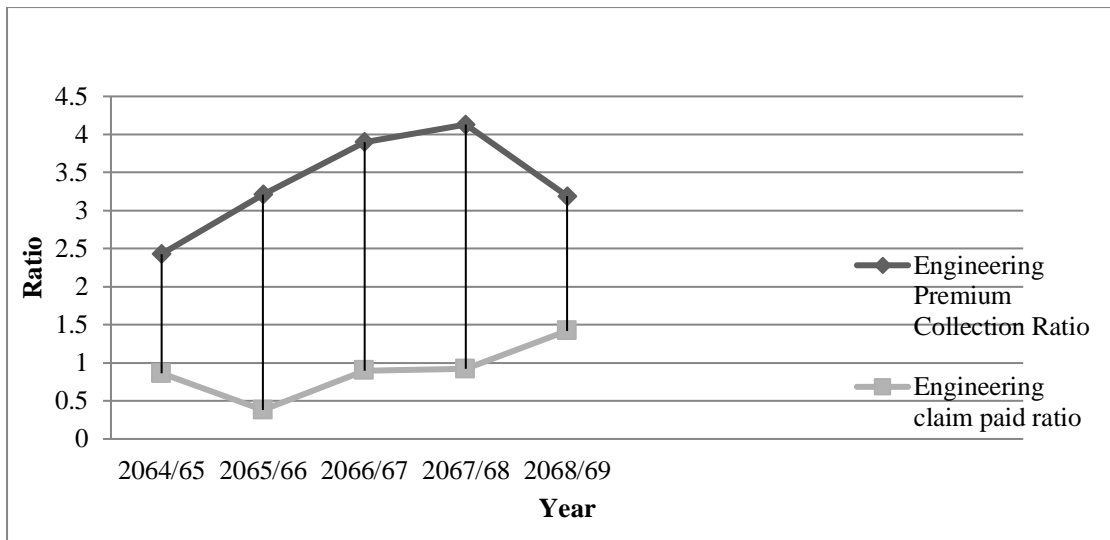
2067/68	614403970	25380696	4.13	798093	86415755	0.92
2068/69	866111183	27594509	3.19	1799293	120829330	1.42
Mean			3.37			0.90
S.D			0.60			0.33
C.V			17.80			36.77

(Sources: SICL Annual Report and Appendix V)

**Figure: 4.9**  
**Engineering Premium to Total Premium Collection and Engineering**  
**Claim Paid to Total Claim Paid**



**Figure: 4.10**  
**Engineering Premium to Total Premium Collection and Engineering**  
**Claim Paid to Total Claim Paid**



Engineering insurance premium holds smaller portion in this company from its premium collection ratio in total Premium collection. The highest premium collection of this company is 4.13% in the year 2067/68. The average engineering premium collection to total premium collection ratio in this five years period is 3.37%, S.D. 0.60% and C.V. is 17.80%. It indicates that the collection of premium is less risky business.

The above table shows that engineering claims is also a smaller portion to total claim paid among other insurance product. Its five years average claim is 0.90%, S.D. is 0.33% and C.V. is 36.77%. But comparing other insurance product, the collection of the premium and claim paid it is a risky business.

#### 4.2.5 Aviation Premiums to Total Premium Collection and Aviation Claim Paid to Total Claim Paid

This ratio is used to measure the collection of aviation premium collection in total premium collection and aviation claim paid to total claim paid. It reveals the percentage of aviation premium collection over the total premium and weight of aviation claim paid to total claim paid.

**Table: 4.8**

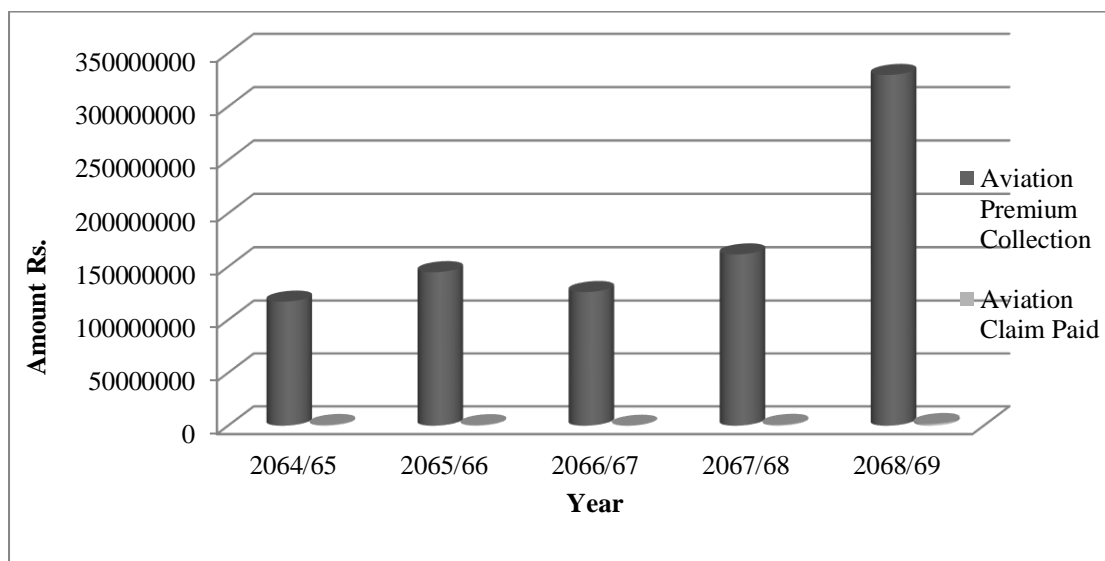
**Aviation Premium to Total Premium Collection and Marine Claim Paid to Total Claim Paid**

<b>Fiscal year</b>	<b>Total Premium Collection (Rs)</b>	<b>Aviation Premium Collection (Rs)</b>	<b>Ratio (%)</b>	<b>Aviation Claim Paid(Rs)</b>	<b>Total Claim Paid(Rs)</b>	<b>Ratio (%)</b>
2064/65	344383044	117290029	34.06	715271	42384377	1.69
2065/66	423656425	144900806	34.20	543903	32231093	1.69
2066/67	530424521	126278333	23.81	23435	54389672	0.04
2067/68	614403970	161561806	26.30	846391	86415755	0.98
2068/69	866111183	329692787	38.07	1653709	120829330	1.37
Mean			31.29			1.15
S.D			5.35			0.62
C.V			17.09			53.31

(Sources: SICL Annual Report and Appendix VI)

**Figure: 4.11**

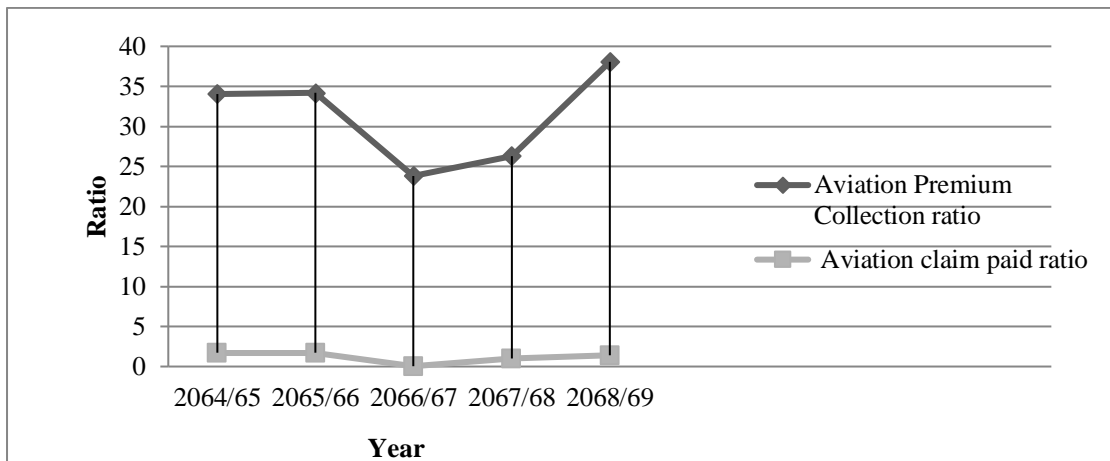
**Aviation Premium to Total Premium Collection and Marine Claim Paid to Total Claim Paid**



**Figure: 4.12**

**Aviation Premium to Total Premium Collection and Marine Claim Paid to Total Claim Paid**

### Paid to Total Claim Paid



Aviation insurance premium holds highest portion in this company in the last fiscal year. The highest premium collection of Aviation Insurance premium of Insurer is 38.07% in the year of 2068/69 and lowest collection is 23.81% in the year 2066/067. It is decreasing trend till 2066/067 and afterward it is in the increasing trend. The average Aviation premium collection to total premium collection in this five years period is 31.29%, S.D. is 5.35% and C.V. is 17.09%. The above table shows that aviation claims is a smaller portion to total claim paid as premium collection. In the five year the company paid claim in decreasing. In the company Collection Premium Ratio 2066/067 is 23.81% but claim paid ratio 2066/067 is 0.04% only. But comparing the collection of the premium and claim paid it is a less risky business. Its five years average claim is 1.15%, S.D. is 0.62% and C.V. is 53.31%.

#### **4.2.6 Miscellaneous Premiums to Total Premium Collection and Miscellaneous Claim Paid to Total Claim Paid**

Insurance considers various policies in miscellaneous insurance. Therefore it is major source of premium collection. This ration is used to measure the contribution of miscellaneous premium collection towards total premium collection and miscellaneous claim paid to total claim paid of the SICL. It shows the percentage of share hold b y miscellaneous premium collection

and claim paid in total collection and claim paid by the company.

**Table: 4.9**

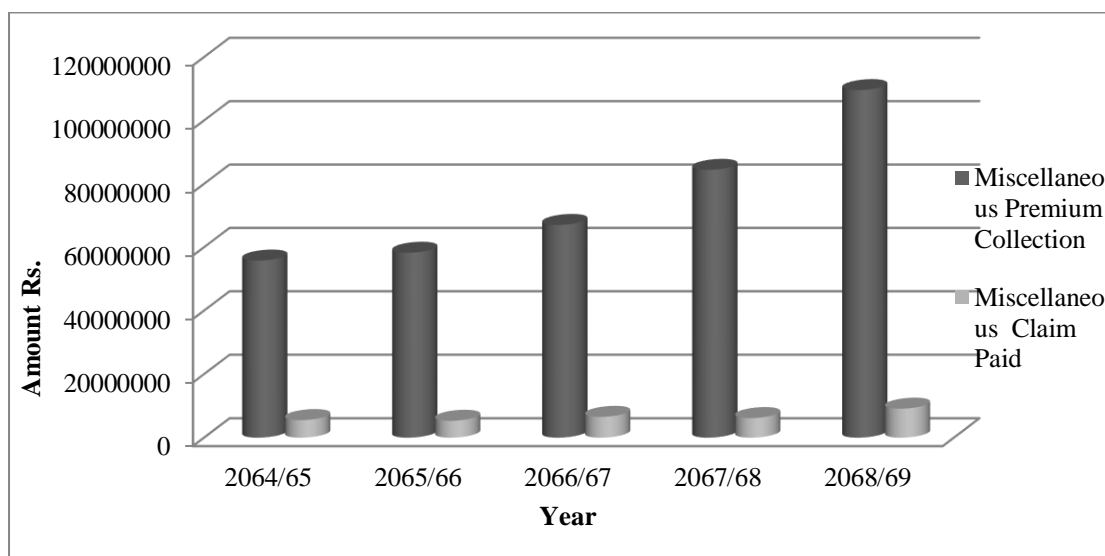
**Miscellaneous Premium to Total Premium Collection and Miscellaneous Claim Paid to Total Claim Paid**

<b>Fiscal year</b>	<b>Total Premium Collection (Rs)</b>	<b>Misc. Premium Collection (Rs)</b>	<b>Ratio (%)</b>	<b>Misc. Claim Paid (Rs)</b>	<b>Total Claim Paid (Rs)</b>	<b>Ratio (%)</b>
2064/65	344383044	55790534	16.20	5529979	42384377	13.05
2065/66	423656425	58268109	13.74	5312964	32231093	16.48
2066/67	530424521	67027743	12.64	6544622	54389672	12.03
2067/68	614403970	84419054	13.74	6167552	86415755	7.14
2068/69	866111183	109576463	12.65	9128193	120829330	7.55
Mean			13.79			11.25
S.D			1.30			3.52
C.V			9.42			31.25

(Sources: SICL Annual Report and Appendix VII)

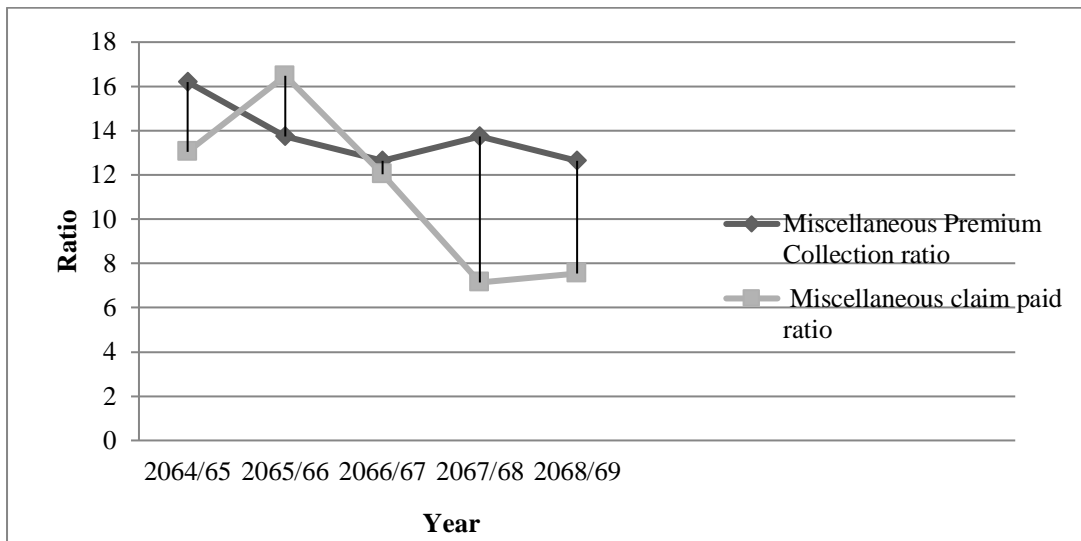
**Figure: 4.13**

**Miscellaneous Premium to Total Premium Collection and Miscellaneous Claim Paid to Total Claim Paid**



**Figure: 4.14**

**Miscellaneous Premium to Total Premium Collection and Miscellaneous Claim Paid to Total Claim Paid**



The above table and figure show that the miscellaneous premium holds medium portion in this company. The highest premium collection of this company is 16.20% in the year 2064/065 and lowest contribution is 12.64% in the year 2066/67. The average miscellaneous premium collection to total premium collection in these five years is 13.79%, S.D. is 1.30% and C.V. is 9.42%. The claim paid of miscellaneous insurance to total claim paid is fluctuating trends. The highest portion is 16.48% in the year 2065/066 and lowest portion is 7.14% in the year 2067/68. The average claims paid within these five years is 11.25%, S.D. is 3.52% and C.V. is 31.25%. From above figure, since the portion of premium collection is medium size in total premium collection, the claim paid to this sector also medium size in compare with total claim paid.

**4.2.7 Total Claim Paid to Total Premium Collection**

Total claim paid to total premium collection ratio is calculated by dividing the total claim paid by the corresponding total premium collection for the year which is given as below.

**Table: 4.10**

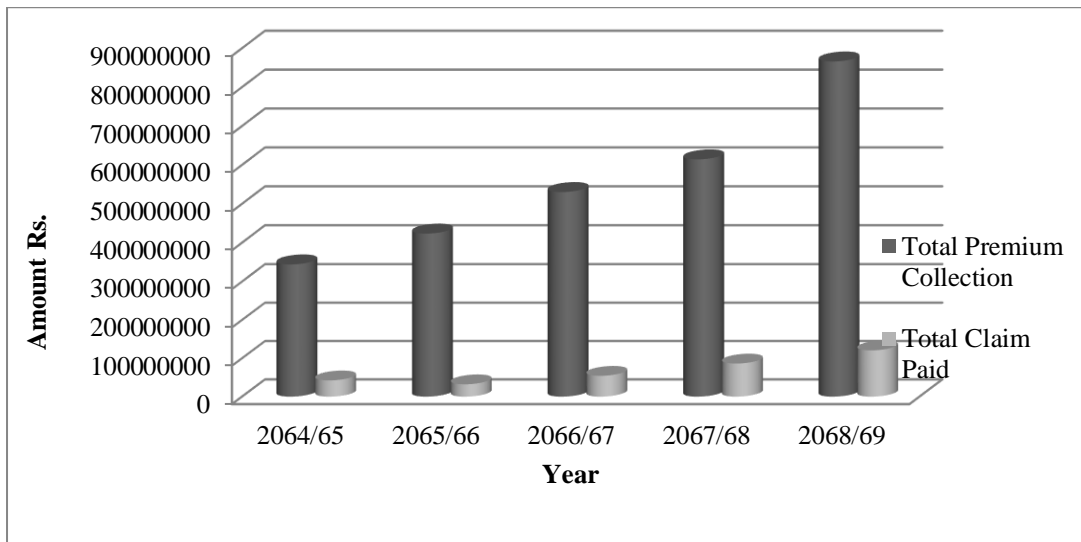
**Total Claim Paid to Total Premium Collection**

<b>Fiscal year</b>	<b>Total Premium Collection(Rs)</b>	<b>Total Claim Paid (Rs)</b>	<b>Ratio (%)</b>
2064/65	344383044	42384377	12.31
2065/66	423656425	32231093	7.61
2066/67	530424521	54389672	10.25
2067/68	614403970	86415755	14.06
2068/69	866111183	120829330	13.95
Mean			11.64
S.D			2.44
C.V			9.42

(Sources: SICL Annual Report and Appendix VIII)

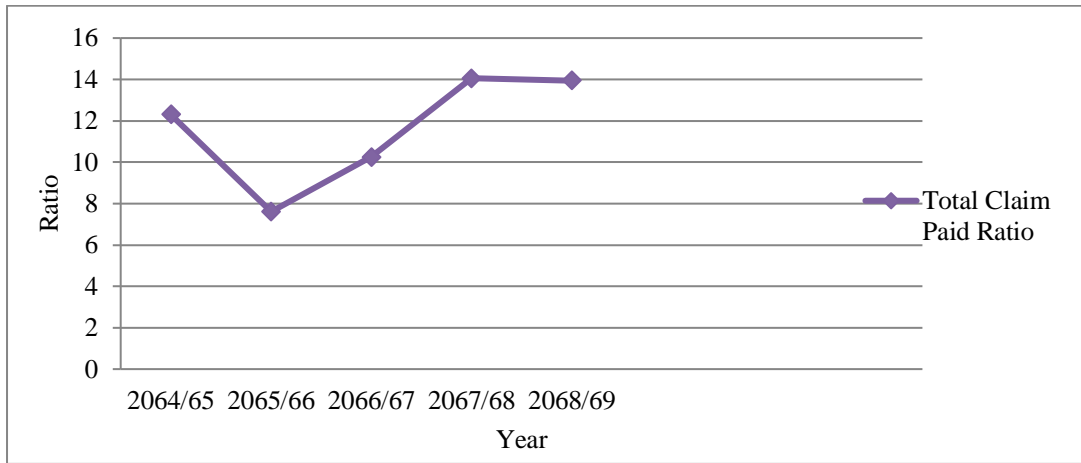
**Figure: 4.15**

**Total Claim Paid to Total Premium Collection**



**Figure: 4.16**

**Total Claim Paid to Total Premium Collection**



The above table and figures show that the total claim paid of the company is in increasing as increasing the premium collection the highest claim was paid in the year 2067/68 which is 14.065 and the minimum in the year 2065/66 is 7.61%. In the year 2065/66 claim paid is decline but afterward it is increasing. In other hand the ratio of claim paid to total premium collection is in fluctuating trend. In the year 2064/65 it is 12.31% and it decline 7.61% in the next year. The ratio increase up to 14.06% in the year 2067/68 but it decline last year 2068/69. The average claims paid within these five years is 11.64%, S.D. is 2.44% and C.V. is 9.42%

**4.2.8 Profitability Analysis**

**4.2.8.1 Net Profit to Total Premium Collection**

Net profit ratio is a tools or technique of analyzing the profitability ratio of the company. It shows condition of profit situation and the ratio is the relation between two factors, here net profit ration calculated by dividing net profit for the year by its corresponding total premium collection for the year.

**Table: 4.11**

**Net Profit to Total Premium Collection**

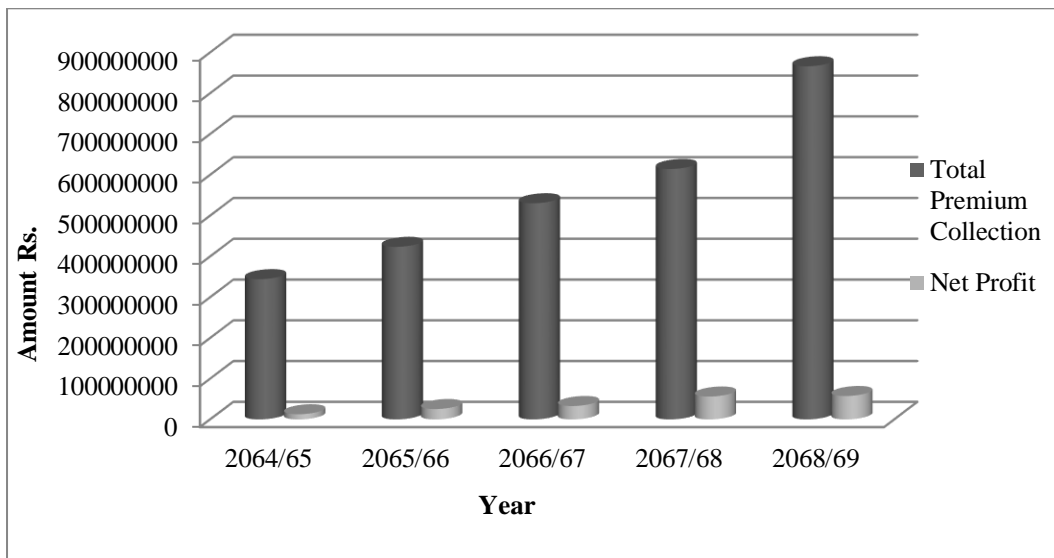
Fiscal year	Total Premium Collection(Rs)	Net Profit(Rs)	Ratio (%)
2064/65	344383044	12691556	3.69

2065/66	423656425	25501305	6.02
2066/67	530424521	32935951	6.21
2067/68	614403970	56234765	9.15
2068/69	866111183	57515539	6.34
Mean			6.28
S.D			1.73
C.V			27.59

(Sources: SICL Annual Report and Appendix IX)

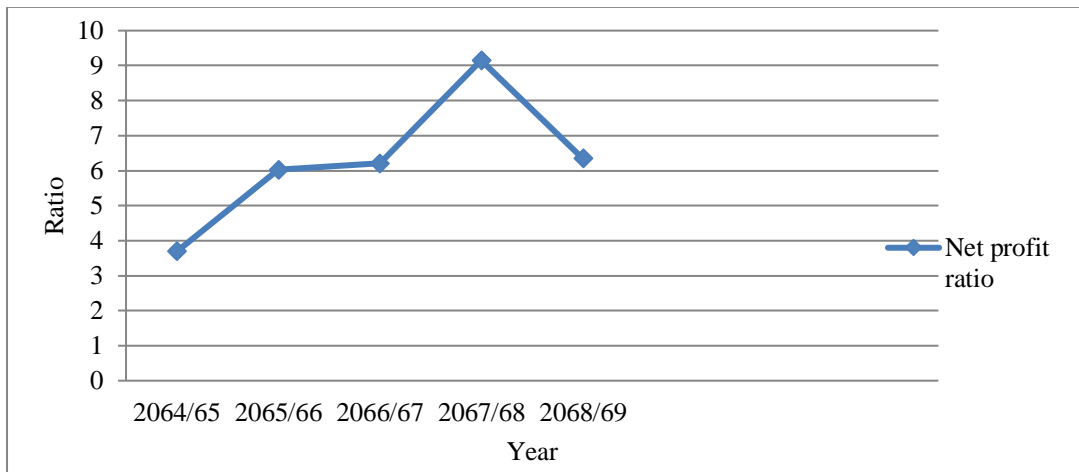
**Figure: 4.17**

**Net Profit to Total Premium Collection**



**Figure: 4.18**

**Net Profit to Total Premium Collection**



From the above table and figure the Total premium collection and net profit of the every year is increasing but the last fiscal the increasing trend of net profit has decreases. By analyzing the five year period maximum net profit ratio is 9.15% for the year 2067/68 which is in increasing trend. In the early year net profit ratio is minimum3.69% and latter it increasing. Average net profit ratio of five year is 6.28% and 1.73%, 27.59% S.D and C.V respectively.

#### **4.2.9 Trend Analysis**

##### **4.2.9.1 Trend Analysis of Total Premium Collection**

Trend analysis is the analysis of a certain period and foresting the new trend value for the coming year. Analyzing the past and foresting the future values is a trend analysis. Analyzing the past five year data of SICL next three years trend values are forecasted.

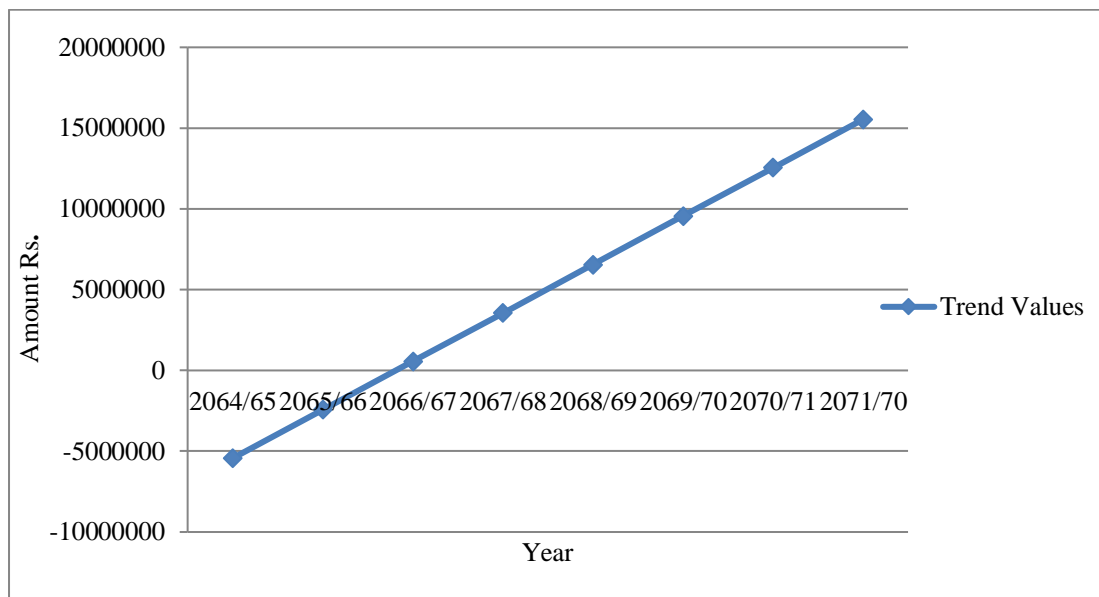
**Table 4.12**  
**Trend values of Total Premium Collection**

<b>Fiscal year</b>	<b>Trend Values(Rs.)</b>	<b>Change (%)</b>
2064/65	308955064	-
2065/66	432375446.3	39.95
2066/67	555795828.6	28.54
2067/68	679216210.9	22.21
2068/69	802636593.2	18.17
2069/70	926056975.5	15.38
2070/71	1049477358	13.33
2071/70	1172897740	11.76

(Sources: SICL Annual Report and Appendix X)

**Figure: 4.19**

**Trend values of Total Premium Collection**



Total Premium collection of SICL is increasing trend with the decreasing percentage changes. Above table and figure analyze the past five year data from the year 2064/65 to 2068/69 the trend value of premium collection is forecasted for next three year. Here trend value of SICL premium collection is increasing trend

**4.2.9.2 Trend Analysis of Net profit of SICL**

By analyzing the net profit of the past five year data, the trend value of next future coming year can be forecast as under:

**Table: 4.13**

**Trend values of Net Profit Collection**

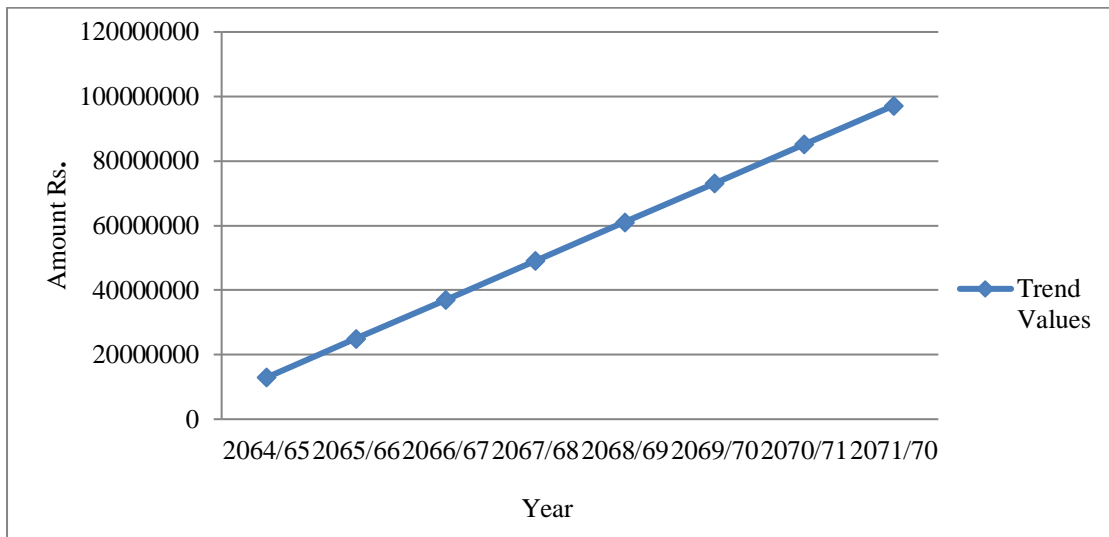
Fiscal year	Trend Values(Rs.)	Change (%)
2064/65	12899538	-
2065/66	24937680.6	93.32
2066/67	36975823.2	48.27
2067/68	49013965.8	32.56
2068/69	61052108.4	24.56

2069/70	73090251	19.72
2070/71	85128393.6	16.47
2071/72	97166536.2	14.14

(Sources: SICL Annual Report and Appendix-XI)

**Figure: 4.20**

**Trend values of Net Profit Collection**



The above table and figure analyze the past five year data from the year 2064/65 to 2068/69 the trend value of net profit earned and it is forecasted for next three year trend values. As the past analysis the next trend net profit of SICL be Rs.73090251, Rs.85128393.6 and Rs. 97166536.2 respectively for the year 2069/70,2070/71 and 2071/72.

Here trend value of SICL premium collection is increasing trend. Net profit of SICL is increasing trend as increase in the profit and profitability condition is also improving. Trend values of net profit are in increasing but the % increase is decreasing.

#### 4.2.10 Relationship between Premium Collection and Profitability

**Table: 4.14**

##### **Relationship between Premium Collection and Profitability**

<b>Coefficient of correlation(r)</b>	<b>r<sup>2</sup></b>	<b>Probable error (P.E)</b>	<b>Significant/Insignificant</b>
0.9038	0.8169	0.0552	Significant

(Sources: SICL Annual Report and Appendix XII)

Correlation of coefficient between total premium collection and net profit found that there is positive relationship between total premium collection and net profit of the SICL. It indicates that the increase in total premium collection trends to increase in net profit of the company which the P.E of the company also indicate the important relationship.

Here  $r > P.E$ . Here correlation of coefficient is 0.9038, Coefficient of variation 0.8069, P.E 0.0552 and the relationship between the P.E and Coefficient of variation is significant and the important, where  $0.8169 > 0.0552$ .

#### 4.3 Major Findings

- Actual and planned premium collection is achieved in every year, but the year 2066/67 it is unachieved and unfavourable condition. C.V of budgeted premium collection is 31.73% and C.V of actual premium collection is 32.43%.
- Calculated ratio of fire premium to total premium collection in each year following the decreasing trend. Company is able to maintain 14.27% average ratios. The highest ratio is 16.23% in the year 2064/65 and lowest is 11.81% in the year 2068/69.
- Marine Premium collection in each year decreasing trend over five year's period. The average marine premium collection to total premium collection in this five years period is 5.16%, S.D. is 0.76% and C.V. is 14.80%.
- The contribution of Motor Premium Collection is highest in the

each of five fiscal year. The ratio of motor premium collection in each year is increasing but since the fiscal year 2067/68 it is in decreasing. So it is also a major profitable insurance product of the company. The portion of premium collection is highest size in total premium collection, average insurance premium collection is 32.12% and the claim paid to this sector also highest size with average claim paid ratio 82.90% in compare with total claim paid.

- The above analysis shows the highest portion of total claim paid is adopt by motor claims of this company. The highest portion of motor claim to total claim is 87.39% in the year 2068/69 and the lowest portion of the motor claim to total claim is 78.16% in the year of 2065/66. Its average claim paid within the five year is 82.90%, of total claim standard deviation and co efficient of variation are 3.82 and 4.61% respectively.
- The analysis shows aviation insurance premium collection is also in increasing trend and the last fiscal year its major contribution in total premium collection. According to the figure it seems motor insurance is profitable as well as riskier insurance, aviation and engineering insurance is most profitable business on this company from premium collection point of view.
- C.V of claim paid point of view the aviation insurance claim paid is highest, which is 53.31% it refer more variable or less consistency insurance business. And C.V of motor insurance claim paid 4.61 which is lowest C.V of the study which refer less variable and more consistent insurance business of SICL
- Total Premium collection of the SICL is increasing where there is average greater portion is from motor insurance premium collection n and lowest average insurance premium collection is from engineering insurance premium collection.
- Average total claim paid out of five year is 11.64% where as net profit is 6.28% and the C.V of total claim paid is 9.42% and Net profit is

27.59%. From the analysis it can say that the net profit is more variable or less consistency.

- From the trend analysis of total premium collection and net profit, it is increasing trend but the trend is increasing in decreasing trend by the analysis of its percentage changes.
- Coefficient of variation 0.8069, P.E 0.0552 and the relationship between the P.E and Coefficient of variation is significant and the important.
- From the analysis of study and considering interview, field of Nepalese insurer, following facts are, conclude, there are no sound policy and separate department for investing fund.

## **CHAPTER -V**

### **SUMMARY, CONCLUSIONS & RECOMMENDATIONS**

#### **5.1 Summary**

Planning means arrangement for doing or using something or considering in advance. It is the first phase of live function of management & followed by organization, directing, coordinating & controlling. It is concerned with how an organization can change internally to adapt to variations in external condition. In industry & commerce the difference between success & failure, profit & loss depends upon the outcome of well laid plans.

Revenue is the outcome of sales of goods & rendering the resources are measured in terms of change made to customer's clients or tenants for goods & resources provided them. Estimation the future revenue is called revenue planning. It is a necessary part of PPC. The revenue plan should be designed to co-ordinate the efforts of the sales department. It provides for the basic management decision about marketing.

Revenue planning is the essence of management & without it's effective PPC cannot be developed however, only preparation of plan is not sufficient for the successful operation of the business in addition this effective implementation & follow up system is very important.

Insurance has been introduced to safeguard the interest of people from uncertainties by providing certainty of payment at a given contingency. According to nature, characteristics, and objective of the insurance company, they are also referred to as financial intermediaries. In the modern society's business age it plays vital role through risk bearing and providing certainty. Therefore insurance is a one of major pillar of economic growth of country. In the scenario of Nepal, insurance business is one of the business, which has not

any loss and it suffered at profit from establishment data till the date. Most of the companies are following the rules and regulation regulated by Beema Semite. In respect to the trend of premium collection, investment, and profit; there is fluctuation trend on both premium collection and investment every year. Similarly there is also fluctuation trend on profit earned by the company. Therefore is no uniformity on premium collection, investment, and profit earned. The rate of premium of insurance policy, which regulated by Beema Semite is also unpractical and unscientific. Beema Semite is not able to play effective role in improvement of Insurance Industry. First of all Insurance Board should be change as per demand of market like Nepal Rostra Bank. It is needed to restudy and reanalyzed as per present condition and situation. The insurance act aimed regulation should be clear through to guide the investment related matter to a direction. The regulatory relating the investment should promptly changed according to the change in over all macroeconomic and money capital condition. Insurance business plays the great role in the national financial system. The growing numbers of insurance companies are competing with each other to attract policyholders with different type of insurance policies. In this regard Shikhar Insurance Company Limited plays leading role for socio-economic development within the nation either by transferring risks of by collecting scattered resources. In this study and attempt is made to provide independent views of the premium collection and investment position of SICL

On the basis of study some findings and recommendations are identified, which are useful to improve the future SICL on the premium collection and investment sector. Among 25 insurance companies operating in Nepal, there are 17 insurance companies in non life insurance sector, only SIC L is taken as my study from the non life insurance sector to evaluate the premium collection and investment position. The study analyzed the annual report of five years starting 2062/063 to 2066/067 has been taken into consideration for the purpose of the study

## 5.2 Conclusions

By analyzing the available secondary data for Revenue Planning and its effect on Profitability of SICL, the study concludes the followings:

- Targeted Premium collection has been achieved in every year except the year 2066/67.
- Fire premium to total premium collection ratio is in slightly decreasing trend and also the claim paid ratio has decreasing trend except 2066/067. It seems one of the major profitable business is fire insurance premium.
- The highest premium collection of Marine Insurance premium of Insurer is 5.89% in the year of 2064/65 and lowest collection is 3.76% in the year 2068/69. It is also in the decreasing trend.
- The contribution of Motor premium collection is occupied highest portion in compare with total premium of this company. Its contribution to total premium is increasing order up to year 2066/67 then after in decreasing trend and the total claim paid if motor insurance is also the highest among other.
- Aviation insurance premium holds nearly highest portion in this company. Its contribution on total premium collection is in decreasing trend till 2067/68 but in the year 2068/69 it was increased. The above analysis shows that aviation claims is a smaller portion to total claim paid. In the five year the company paid average claim 1.15% only. So it is also second riskier and the profitable insurance product of SICL.
- Engineering insurance premium holds smaller portion in this company. The above table shows that engineering claims is a smaller portion to total claim paid. But comparing the collection of the premium and claim paid it is a less risky business.
- Miscellaneous premium holds medium portion in this company. From the beginning the portion of miscellaneous insurance premium collection decreases in total premium collection continuous. The claim paid of miscellaneous insurance to total claim paid is

fluctuating trends. From above analysis, since the portion of premium collection is medium size in total premium collection, the claim paid to this sector also medium size in compare with total claim paid.

- Total Premium and Net profit of SICL is increasing trend as increase in the profit and profitability condition is also improving with the decreasing percentage changes. Analyzing the past five year data from year 2064/65 to 2068/69 the trend values of total premium collection and net profit for further 3 years is forecasted and presented.

### **5.3 Recommendations**

From the analysis and interpretation of study Premium collection and the profitability analysis, draw some findings. Concerning these findings, it may be appropriate to make suggestions and recommendations. This may be helpful to the concerned stakeholders of the organization. Thus the following recommendations are made on the basis of findings.

- Targeted insurance premium collection should be set as per the company's capacity and capability.
- The company should advertise or apply best policy to increase fire insurance premium. In overall the company has able to reduce fire claim paid which is good sign for the company.
- The company should give more attention for retain its contribution in total premium collect on and company should be selective in marine insurance to maintain claim ratio and profitability.
- The company should make good strategies for taking vehicle business it may be good to take only private vehicles for the growth of profitability from motor insurance.
- In Nepal the sector of aviation business is in growing up. So, the company should give more attention to collect premium from this sector.
- The company should give emphasis on engineering insurance and miscellaneous insurance product various insurance product need to be lunched for competing other insurance company for retain and growth of

profitability.

- According to the trend analysis of premium collection and net profit it is in increasing but in the decreasing trend. To increase this ratio company should analyse the environment of insurance market as well as new product, effectiveness of research and development department. R&D department will help, to meet future goals of the company as well as the betterment of the company.
- It is necessary to manage the entire insurer a separate department for the purpose of investing and gain return with less risk.
- The entire insurer should improve its premium collection system, apply the customer motivational policy, increase customer service by providing different facilities and to withdraw unnecessary process on insurance and followed scientific insurance system.
- The company is suggested to expand its insurance activities in rural area by establishment of branches or by appointment of agents according to its potentiality.
- Insurance business should be also social responsibility oriented rather than only involving increasing total premium in order to retain stable to this business at present situation.
- Insurance in every sector on investment is necessary and important. As one of the major non-life insurance business in Nepal the company should advertise and educate the people about the profitable part of insurance which can reduce the huge amount of losses due to uncertainty.

The size of Nepalese insurance business is increasing. The number of increasing number of insurance company indicates that the competition in the market. To monitor, control and regulate this business the government also should bring the strategies and policies over them.

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## Appendix I

### Budgeted and Actual Premium Collection (Rs'000')

Budgeted Premium Collection (X)	Actual Premium Collection (Y)	$(X - \bar{X})^2$	$(Y - \bar{Y})^2$
339331.000	344373.044	40679304014	44698748161
396029.000	423656.425	21023002063	17460293430
550753.352	530424.521	94697063	643601768
589551.800	614403.970	2355130773	3435148675
829445.400	866111.183	83187993984	96296860442
$\Sigma X =$ 2705110.552	$\Sigma Y =$ 2778969.143	$\Sigma(X - \bar{X})^2 =$ 147339127897	$\Sigma(Y - \bar{Y})^2 =$ 162534652476

$$\text{Mean}(\bar{X}) = \frac{\Sigma X}{N} = \frac{2705110.552}{5} = 541022.110$$

$$\text{Mean}(\bar{Y}) = \frac{\Sigma Y}{N} = \frac{2778969.143}{5} = 555793.829$$

$$\text{S.D} (\sigma_x) = \sqrt{\frac{\Sigma(X - \bar{X})^2}{n}} = \sqrt{\frac{147339127897}{5}} = 171661.9514$$

$$\text{S.D} (\sigma_y) = \sqrt{\frac{\Sigma(Y - \bar{Y})^2}{n}} = \sqrt{\frac{162534652476}{5}} = 180296.7844$$

$$CV_x = \frac{\sigma_x}{\bar{x}} \times 100 = \frac{171661.9514}{541022.110} \times 100 = 31.72\%$$

$$CV_y = \frac{\sigma_y}{\bar{y}} \times 100 = \frac{180296.7844}{555793.829} \times 100 = 32.43\%$$

## Appendix II

### Calculation of mean, S.D and C.V of Fire Premium to Total Premium Collection and Fire Claim Paid to Total Claim Paid

Fire premium collection ratio(X)	Fire Claim Paid Ratio (Y)	$(X - \bar{X})^2$	$(Y - \bar{Y})^2$
16.23	1.66	3.849444	0.063504
15.41	0.69	1.304164	0.515524
13.42	1.55	0.719104	0.020164
14.47	2.39	0.040804	0.964324
11.81	0.75	6.041764	0.432964
$\Sigma X = 71.34$	$\Sigma Y = 7.04$	11.95528	1.99648

$$\text{Mean}(\bar{X}) = \frac{\Sigma X}{N} = \frac{71.34}{5} = 14.27$$

$$\text{Mean}(\bar{Y}) = \frac{\Sigma Y}{N} = \frac{7.04}{5} = 1.41$$

$$\text{S.D} (\sigma_x) = \sqrt{\frac{\Sigma(X-\bar{X})^2}{n}} = \sqrt{\frac{11.95528}{5}} = 1.55$$

$$\text{S.D} (\sigma_y) = \sqrt{\frac{\Sigma(Y-\bar{Y})^2}{n}} = \sqrt{\frac{1.99648}{5}} = 0.63$$

$$CV_x = \frac{\sigma_x}{\bar{x}} \times 100 = \frac{1.55}{14.27} \times 100 = 10.86\%$$

$$CV_y = \frac{\sigma_y}{\bar{y}} \times 100 = \frac{0.63}{1.41} \times 100 = 44.68\%$$

### Appendix-III

#### Calculation of mean, S.D and C.V Of Marine Premium to Total Premium Collection and Marine Claim Paid to Total Claim Paid

Marine premium collection ratio(X)	Marine Claim Paid Ratio (Y)	$(X - \bar{X})^2$	$(Y - \bar{Y})^2$
5.89	3.79	0.5329	1.9881
5.77	2.60	0.3721	0.0484
5.35	2.22	0.0361	0.0256
5.03	1.84	0.0169	0.2916
3.76	1.45	1.96	0.8649
$\Sigma X = 25.8$	$\Sigma Y = 11.9$	$\Sigma(X - \bar{X})^2 = 2.918$	$\Sigma(Y - \bar{Y})^2 = 3.2186$

$$\text{Mean}(\bar{X}) = \frac{\Sigma X}{N} = \frac{25.8}{5} = 5.16$$

$$\text{Mean}(\bar{Y}) = \frac{\Sigma Y}{N} = \frac{11.9}{5} = 2.38$$

$$\text{S.D} (\sigma_x) = \sqrt{\frac{\Sigma(X - \bar{X})^2}{n}} = \sqrt{\frac{2.918}{5}} = 0.7639$$

$$\text{S.D} (\sigma_y) = \sqrt{\frac{\Sigma(Y - \bar{Y})^2}{n}} = \sqrt{\frac{3.2186}{5}} = 0.8023$$

$$CV_x = \frac{\sigma_x}{\bar{x}} \times 100 = \frac{0.7639}{5.16} \times 100 = 14.80\%$$

$$CV_y = \frac{\sigma_y}{\bar{y}} \times 100 = \frac{0.8023}{2.38} \times 100 = 33.71\%$$

### Appendix-IV

#### Calculation of mean, S.D and C.V of Motor Premium to Total Premium Collection and Motor Claim Paid to Total Claim Paid

Motor premium collection ratio(X)	Motor Claim Paid Ratio(Y)	(X - $\bar{X}$ ) <sup>2</sup>	(Y - $\bar{Y}$ ) <sup>2</sup>
25.19	78.96	47.997184	15.555136
27.65	78.16	19.963024	22.505536
40.88	83.27	76.772644	0.133956
36.34	86.74	17.825284	14.714896
30.53	87.39	2.521744	20.124196
$\Sigma X = 160.59$	$\Sigma Y = 414.52$	$\Sigma(X - \bar{X})^2 = 165.099$	$\Sigma(Y - \bar{Y})^2 = 73.0337$

$$\text{Mean}(\bar{X}) = \frac{\Sigma X}{N} = \frac{160.59}{5} = 32.12$$

$$\text{Mean}(\bar{Y}) = \frac{\Sigma Y}{N} = \frac{414.52}{5} = 82.90$$

$$\text{S.D} (\sigma_x) = \sqrt{\frac{\Sigma(X-\bar{X})^2}{n}} = \sqrt{\frac{165.099}{5}} = 5.7463$$

$$\text{S.D} (\sigma_y) = \sqrt{\frac{\Sigma(Y-\bar{Y})^2}{n}} = \sqrt{\frac{73.0337}{5}} = 3.8219$$

$$CV_x = \frac{\sigma_x}{\bar{x}} \times 100 = \frac{5.7463}{32.12} \times 100 = 17.89\%$$

$$CV_y = \frac{\sigma_y}{\bar{y}} \times 100 = \frac{3.8219}{82.90} \times 100 = 4.61\%$$

## Appendix-V

### Calculation of mean, S.D and C.V of Engineering Premium to Total Premium Collection and Engineering Claim Paid to Total Claim Paid

Eng. premium collection ratio(X)	Eng. Claim Paid Ratio(Y)	(X - $\bar{X}$ ) <sup>2</sup>	(Y - $\bar{Y}$ ) <sup>2</sup>
2.43	0.86	0.887364	0.001296
3.21	0.38	0.026244	0.266256
3.90	0.90	0.278784	0.000016
4.13	0.92	0.574564	0.000576
3.19	1.42	0.033124	0.274576
$\Sigma X = 16.86$	$\Sigma y = 4.48$	$\Sigma(X - \bar{X})^2 = 1.80008$	$\Sigma(Y - \bar{Y})^2 = 0.54272$

$$\text{Mean}(\bar{X}) = \frac{\Sigma X}{N} = \frac{16.86}{5} = 3.37$$

$$\text{Mean}(\bar{Y}) = \frac{\Sigma Y}{N} = \frac{4.48}{5} = 0.896$$

$$\text{S.D} (\sigma_x) = \sqrt{\frac{\Sigma(X - \bar{X})^2}{n}} = \sqrt{\frac{1.80008}{5}} = 0.60$$

$$\text{S.D} (\sigma_y) = \sqrt{\frac{\Sigma(Y - \bar{Y})^2}{n}} = \sqrt{\frac{0.54272}{5}} = 0.3295$$

$$CV_x = \frac{\sigma_x}{\bar{x}} \times 100 = \frac{0.60}{3.37} \times 100 = 17.80\%$$

$$CV_y = \frac{\sigma_y}{\bar{y}} \times 100 = \frac{0.3295}{0.896} \times 100 = 36.77\%$$

## Appendix VI

### Calculation of mean, S.D and C.V of Engineering Premium to Total Premium Collection and Engineering Claim Paid to Total Claim Paid

Aviation premium collection ratio (X)	Aviation Claim Paid Ratio(Y)	$(X - \bar{X})^2$	$(Y - \bar{Y})^2$
34.06	1.69	7.683984	0.287296
34.20	1.69	8.479744	0.287296
23.81	0.04	55.920484	1.240996
26.30	0.98	24.880144	0.030276
38.07	1.37	45.995524	0.046656
$\Sigma X = 156.44$	$\Sigma Y = 5.77$	$\Sigma (X - \bar{X})^2 = 142.960$	$\Sigma (Y - \bar{Y})^2 = 1.89252$

$$\text{Mean}(\bar{X}) = \frac{\Sigma X}{N} = \frac{156.44}{5} = 31.288$$

$$\text{Mean}(\bar{Y}) = \frac{\Sigma Y}{N} = \frac{5.77}{5} = 1.154$$

$$\text{S.D} (\sigma_x) = \sqrt{\frac{\Sigma (X - \bar{X})^2}{n}} = \sqrt{\frac{142.960}{5}} = 5.347$$

$$\text{S.D} (\sigma_y) = \sqrt{\frac{\Sigma (Y - \bar{Y})^2}{n}} = \sqrt{\frac{1.89252}{5}} = 0.6152$$

$$CV_x = \frac{\sigma_x}{\bar{x}} \times 100 = \frac{5.347}{31.288} \times 100 = 17.09\%$$

$$CV_y = \frac{\sigma_y}{\bar{y}} \times 100 = \frac{0.6152}{1.154} \times 100 = 53.31\%$$

## Appendix VII

### Calculation of mean, S.D and C.V of Miscellaneous Premium to Total Premium Collection and Miscellaneous Claim Paid to Total Claim Paid

Misc. premium collection ratio(X)	Misc. Claim Paid Ratio(Y)	$(X - \bar{X})^2$	$(Y - \bar{Y})^2$
16.20	13.05	5.788836	3.24
13.74	16.48	0.002916	27.3529
12.64	12.03	1.331716	0.6084
13.74	7.14	0.002916	16.8921
12.65	7.55	1.308736	13.69
$\Sigma X = 68.97$	$\Sigma y = 56.25$	$\Sigma(X - \bar{X})^2 = 8.43512$	$\Sigma(Y - \bar{Y})^2 = 61.7834$

$$\text{Mean}(\bar{X}) = \frac{\Sigma X}{N} = \frac{68.97}{5} = 13.794$$

$$\text{Mean}(\bar{Y}) = \frac{\Sigma Y}{N} = \frac{56.25}{5} = 11.25$$

$$\text{S.D} (\sigma_x) = \sqrt{\frac{\Sigma(X - \bar{X})^2}{n}} = \sqrt{\frac{8.43512}{5}} = 1.2989$$

$$\text{S.D} (\sigma_y) = \sqrt{\frac{\Sigma(Y - \bar{Y})^2}{n}} = \sqrt{\frac{61.7834}{5}} = 3.5152$$

$$CV_x = \frac{\sigma_x}{\bar{x}} \times 100 = \frac{1.2989}{13.794} \times 100 = 9.42\%$$

$$CV_y = \frac{\sigma_y}{\bar{y}} \times 100 = \frac{3.5152}{11.25} \times 100 = 31.25\%$$

### Appendix VIII

#### Calculation of Mean, S.D and C.V of Total Claim Paid to Total Premium Collection

Total Claim ratio(X)	$(X - \bar{X})^2$
12.31	0.454276
7.61	16.208676
10.25	1.920996
14.06	5.875776
13.95	5.354596
$\Sigma X = 58.18$	$\Sigma(X - \bar{X})^2 = 29.81432$

$$\text{Mean}(\bar{X}) = \frac{\Sigma X}{N} = \frac{58.18}{5} = 11.636$$

$$\text{S.D } (\sigma_x) = \sqrt{\frac{\Sigma(X - \bar{X})^2}{n}} = \sqrt{\frac{29.81432}{5}} = 2.4419$$

$$CV_x = \frac{\sigma_x}{\bar{x}} \times 100 = \frac{2.4419}{11.636} \times 100 = 9.42\%$$

### Appendix IX

#### Calculation of mean, S.D and C.V of Net Profit to Total Premium Collection

Net Profit ratio(X)	$(X - \bar{X})^2$
3.69	6.718464
6.02	0.068644
6.21	0.005184
9.15	8.225424
6.34	0.003364
$\Sigma X = 31.41$	$\Sigma(X - \bar{X})^2 = 15.02108$

$$\text{Mean}(\bar{X}) = \frac{\Sigma X}{N} = \frac{31.41}{5} = 6.282$$

$$S.D (\sigma_x) = \sqrt{\frac{\sum(X-\bar{X})^2}{n}} = \sqrt{\frac{15.02108}{5}} = 1.7333$$

$$CV_x = \frac{\sigma_x}{\bar{x}} \times 100 = \frac{1.7333}{6.282} \times 100 = 27.59\%$$

### Appendix X

#### Trend Values of Total Premium Collection.

Fiscal year	X=t-A (A=2066/67)	Total Premium Y	X <sup>2</sup>	XY
2064/65	-2	344383044	1	-688766088
2065/66	-1	423656425	4	-423656425
2066/67	0	530424521	9	0
2067/68	1	614403970	16	614403970
2068/69	2	866111183	25	1732222366
Total	ΣX=0	ΣY=2778979143	ΣX <sup>2</sup> =55	ΣXY=1234203823

(Note: here, the number of year A is taken as independent variable and N=5)

We have;

$$Y = a + bX \dots \dots \dots (1)$$

Where,

Y= Actual Sales

a = Fixed Cost

b= Variable Cost per Unit

X = (Variable Factor)

The trend equations are:

$$\sum y = na + b\sum x \dots \dots \dots (ii)$$

$$\sum xy = a\sum x + b\sum x^2 \dots \dots \dots (iii)$$

Now, Calculation of value of a and b by putting the value of calculated table in the above equations,

First, putting the calculated above table value in the equation (i),

We get,

$$2778979143 = 5 \times a + b \times 0$$

$$\begin{aligned} a &= \frac{2778979143}{5} \\ &= 555795828.60 \end{aligned}$$

Now, putting the calculated above table value in the equation (ii),

We get,

$$1234203823 = a \times 0 + b \times 10$$

$$\begin{aligned} b &= \frac{1234203823}{10} \\ &= 123420382.30 \end{aligned}$$

Substituting the value of a and b in equation (1) we get trend line equation as below:

$$Y = 555795828.60 + 123420382.30X$$

The fiscal year 2069/70, the value of X will be 3. Then the total premium collection trend value,

$$\begin{aligned} Y &= 555795828.60 + 123420382.30 \times 3 \\ &= 926056975.5 \end{aligned}$$

If the trend does not change the possible Total premium collection for the year 2069/70 will be

Rs. 926056975.5

Similarly for 2070/71, the value of X be 4 and the trend value

$$\begin{aligned} Y &= 555795828.60 + 123420382.30 \times 4 \\ &= 1049477358 \end{aligned}$$

If the trend does not change the possible NP for the year 2070/71 will be,

Rs. 1049477358

And finally if we take X=5 for year 2071/72 Then the trend of total premium collection be,

$$\begin{aligned} Y &= 555795828.60 + 123420382.30 \times 5 \\ &= 1172897740 \end{aligned}$$

If the trend does not change the possible total Premium collection for the year 2071/72 will be Rs. 1172897740

**Appendix-XI**  
**Trend Values of Net Profit.**

<b>Fiscal year</b>	<b>X=t (A=2066/67)</b>	<b>Net Profit Y</b>	<b>X<sup>2</sup></b>	<b>XY</b>
2064/65	-2	12691556	1	-25383112
2065/66	-1	25501305	4	-25501305
2066/67	0	32935951	9	0
2067/68	1	56234765	16	56234765
2068/69	2	57515539	25	115031078
Total	$\Sigma X=0$	$\Sigma Y=184879116$	$\Sigma X^2=55$	$\Sigma XY=120381426$

(Note: here, the number of year is taken as independent variable and N=5)

We have;

$$Y = a + bX \dots\dots\dots (i)$$

Where,

Y = Actual Sales

a = Fixed Cost

b = Variable Cost per Unit

X = (Variable Factor)

The trend equations are:

$$\Sigma y = na + b\Sigma x \dots\dots\dots (ii)$$

$$\Sigma xy = a\Sigma x + b\Sigma x^2 \dots\dots\dots (iii)$$

Now, Calculation of value of a and b by putting the value of calculated table in the above equations,

First, putting the calculated above table value in the equation (i),

We get,

$$184879116 = 5a + b \times 0$$

$$a = \frac{184879116}{5}$$
$$= 36975823.2$$

and, putting the calculated above table value in the equation (ii),

We get,

$$120381426 = a \times 0 + b \times 10$$

$$b = \frac{120381426}{10}$$
$$= 12038142.60$$

Substituting the value of a and b in equation (1) we get trend line equation as below:

$$Y = 36975823.2 + 12038142.60X$$

The fiscal year 2069/70, the value of X will be 3. Then the trend value,

$$Y = 36975823.2 + 12038142.60 \times 33$$
$$= 73090251$$

If the trend does not change the possible NP for the year 2069/70 will be, Rs.73090251

Similarly for 2070/71, the value of X be 4 and the trend value

$$Y = 36975823.2 + 12038142.60 \times 4$$
$$= 85128393.60$$

If the trend does not change the possible NP for the year 2070/71 will be, Rs. 85128393.60

And finally if we take X=5 for year 2071/72 Then the trend value

$$Y = 36975823.2 + 12038142.60 \times 5$$
$$= 97166536.20$$

If the trend does not change the possible NP for the year 2071/72 will be, Rs. 97166536.20

## Appendix-XII

### Relationship between Total Premium Collection and Profitability

Year	Total Premium(x)	Net Profit(y)	x <sup>2</sup>	y <sup>2</sup>	xy
1	3443.83044	126.91556	11859968.1	16107.55937	437075.6688
2	4236.56425	255.01305	17948476.64	65031.65567	1080379.171
3	5304.24521	329.35951	28135017.25	108477.6868	1747003.603
4	6144.0397	562.34765	37749223.84	316234.8795	3455086.287
5	8661.11183	575.15539	75014858.13	330803.7226	4981485.152
	Σx= 27789.79143	Σy= 1848.7912	Σx <sup>2</sup> = 170707544	Σy <sup>2</sup> = 836655.504	Σxy= 11701029.88

Coefficient of correlelation(r)

$$\begin{aligned}
 &= \frac{n\sum xy - (\sum x)(\sum y)}{\sqrt{n\sum x^2 - (\sum x)^2} \times \sqrt{n\sum y^2 - (\sum y)^2}} \\
 &= \frac{5 \times 11701029.88 - (27789.79143)(1848.7912)}{\sqrt{5 \times 170707544 - (27789.79143)^2} \times \sqrt{5 \times 836655.504 - (1848.7912)^2}} \\
 &= \frac{7127627.554}{\sqrt{81265212.28} \times \sqrt{765248.6188}} \\
 &= 0.9038
 \end{aligned}$$

$$\text{Probable Error (P.E)} = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.6745 \times \frac{1-0.9038^2}{\sqrt{5}} = 0.0552$$