SALES BUDGET PRACTICE IN INSURANCE COMPANY

(Case Study on Everest Insurance Company Ltd.)

By KRISHNA PRASAD FULLEL Shanker Dev Campus

Campus Roll No.: 1560/063 T.U. Regd. No.: 6-1-311-133-99

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 (MBS)

Kathmandu, Nepal June 2010

RECOMMENDATION

This is to certify that the thesis

Submitted by:

KRISHNA PRASAD FULLEL

Entitled:

SALES BUDGET PRACTICE IN INSURANCE COMPANY (Case Study on Everest Insurance Company Ltd.)

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

Joginder Goet	Prof. Bishweshor Man Shrestha	Prof. Dr. Kamal Deep Dhaka
9		-
(Thesis Supervisor)	(Head, Research Department)	(Campus Chief)
Dilli Ram Bhandari	•	
(Thesis Supervisor)		

VIVA-VOCE SHEET

We have conducted the viva –voce of the thesis presented

By

KRISHNA PRASAD FULLEL

Entitled:

SALES BUDGET PRACTICE IN INSURANCE COMPANY (Case Study on Everest Insurance Company Ltd.)

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 partial fulfillment of the requirement for the degree of

Master of Business Studies (MBS)

Viva-Voce Committee

Head, Research Department	
Member (Thesis Supervisor)	
Member (Thesis Supervisor)	
Member (External Expert)	

DECLARATION

I hereby declare that the work reported in this thesis entitled "Sales Budget

Practice in Insurance Company (Case Study on Everest Insurance

Company Ltd.)" submitted to Office of the Dean, Faculty of Management,

Tribhuvan University, is my original work done in the form of partial

fulfillment of the requirement for the degree of Master of Business Studies

(MBS) under the supervision of Joginder Goet and Dilli Ram Bhandari of

Shanker Dev Campus, T.U.

.....

Krishna Prasad Fullel

T.U. Regd. No.: 6-1-311-133-99

Campus Roll No. : 1560/063

ACKNOWLEDGEMENT

To cultivate the students caliber and to keep the habit of research oriented in the field of management and practical life, the thesis writing is indeed a good step for the development of the qualified candidates for the nation as well for the international area. So, I am very thankful to the Tribhuvan University. As Tribhuvan University has taken an aim to develop the good manager, researcher and entrepreneur from its MBS program, the thesis writing undoubtedly enhance the knowledge. Profit Planning and Control is a specialization subject of accounting in Master Level (MBS) of T. U. This thesis work is partial fulfillment of the requirements of the degree of Master of Business Studies.

I have chosen the topic "Sales (Premium Income) Budget Practice in Insurance Company (A Case Study of Everest Insurance Company Ltd.)". There is very few research work in the field of insurance sector and most of the researches are concentrated only in manufacturing and non-manufacturing sector. So I have selected this topic to open the door for the further research in future.

I would like to express my special thanks to my thesis supervisors **Joginder Goet** and **Dilli Ram Bhandari**. I am proud of being their student and wish remain indebted to them forever. It was not possible without the valuable suggestions and cooperation of them. I also expect the same kind of cooperation from them on the days to come.

I would like to express my thanks to all the staff of Everest Insurance Company Ltd. They helped me giving necessary information to complete this thesis work. I also not forget the contribution and cooperation of my family member Shova, Hari & Utsav Fullel in course of writing the thesis. I also gives thanks all my friend who encourage to write this research work. The staffs working at library are found to be quite helpful, I would like to thank all of them.

Krishna Prasad Fullel

ABBREVIATIONS

B.S. : Bikram Sambat

BOD : Board of Directors

C.V. : Coefficient of Variation

CPPC : Comprehensive Profit Planning and Control

D. O. : Development Officer

EIC : Everest Insurance Company

FY : Fiscal Year

Govt. : Government

GPA : Group Personal Accident

i.e. : That is

Ktm. : Kathmandu

MOU : Memorandum of Understanding

No. : Numbers

P. : Page Number

P.a. : Per annum

PA : Personal Accident

PPC : Profit Planning and Control

r : Correlation Coefficient

R/I : Re-insurance

Regd. : Registered

Rs. : Rupees

S.D. : Standard Deviation

T.U. : Tribhuvan University

TABLE OF CONTENTS

Recommendation	
Viva Voce Sheet	
Declaration	
Acknowledgement	
Table of Contents	
List of Tables	
List of Figures	
Abbreviations	
	Page No
CHAPTER – I INTRODUCTION	
1.1 Background of the Study	1
1.1.1 Introduction of Insurance	2
1.1.2 Growth of Insurance Business in Nepal	4
1.1.3 Introduction of Everest Insurance Compan	y Ltd. 6
1.1.4 Functions of Insurance	7
1.1.5 Capital Structure of EIC	9
1.2 Objectives of the Study	9
1.3 Focus of the Study	10
1.4 Importance of the Study	11
1.5 Scope and Limitation of the Study	12
1.6 Organization of the Study	12
CHAPTER – II REVIEW OF LITERATUR	E
2.1 Conceptual Framework	14
2.1.1 Profit	14
2.1.2 Planning	15
2.1.3 Profit Planning and Control	16
2.1.4 Definition of PPC	
2.1.5 Purpose of PPC	19
2.1.6Role of Forecasting in Planning	20

2.1.7 Planning Vs Forecasting	20
2.1.8 Foundation of Profit Planning and Control	21
2.1.9 Model of PPC	22
2.1.10 The basic elements of PPC	22
2.1.11 Managerial Evaluation and Alternatives in Planning	23
2.1.12 Advantages and Disadvantages of PPC	24
2.1.13 Application of PPC to Various types of Organization	27
2.1.14 Budgeting as a Tools of Profit Planning	28
2.1.14.1 Characteristic of Appropriate Budgeting	29
2.1.14.2 Objectives of Appropriate Budgeting	30
2.1.14.3 Classification of Budgets	30
2.1.15 Development of Profit Planning	31
2.2 Sales Budget	32
2.2.1 Introduction	32
2.2.2 Sales Planning and Sales Forecasting	33
2.2.3 Strategic and Tactical Sales Planning	34
2.2.4 Components of Sales Plan	35
2.2.5 Developing the Sales Plan	36
2.2.6 Control of Sales and Related Expenses	36
2.2.7 Planning Sales in a Non-Manufacturing Company	38
2.2.7.1 The Merchandise Budget	39
2.2.7.2 Factors Consideration in Sales Planning	40
2.2.7.3 Methods of Sales Projection	41
2.3 Review of Previous Research Work	42
2.4 Research Gap	49
CHAPTER – III RESEARCH METHODOLOGY	
3.1 Introduction	51
3.2 Research Design	51
3.3 Collection of Data	

3.4 Period Covered	52
3.5 Tools of Analysis	52
3.5.1 Financial Analysis Tools	52
3.5.1.1 Ratio Analysis	52
3.5.2 Statistical Analysis Tools	53
3.5.2.1 The Mean	53
3.5.2.2 Co-efficient of Correlation	53
3.5.2.3 Trend Analysis	54
3.5.2.4 Standard Deviation	54
3.5.2.5 Co-efficient of Variation	55
3.5.2.6 T- Test	56
CHAPTER – IV DATA PRESENTATION AND ANALYSIS	
4.1 General Introduction	57
4.2 Sales Planning of EIC	58
4.3 Sales Budget of EIC	59
4.4 Man Power Planning (Allocation) Budget of EIC	63
4.5 Ratio Analysis of EIC	64
4.5.1 Fire to Total Premium Collection	64
4.5.2 Motor Premium Collection to Total Premium Collection	66
4.5.3 Marine Premium Collection to Total Premium Collection	67
4.5.4 Miscellaneous Premium Collection to Total Premium Collection	69
4.5.5 Engineering Premium Collection to Total Premium Collection	70
4.5.6 Aviation Premium Collection to Total Premium Collection	72
4.6 Sector wise Income and Expenditure Statement	80
4.7 Correlation between Premium Collection and Claim Paid by EIC	83
4.8 Correlation between Premium Collection and Reinsurance	
Premium of EIC	84
4.9 Testing of Hypothesis	85

4.9.1 T-test for Premium Collection and Management Expenses		87	
4.10 Findings			89
CHAPTER – V	SUMMARY,	CONCLUSION	AND
RECOMMENDATIONS			
5.1 Summary			92
5.2 Conclusions			94
5.3 Recommendations			96
Bibliography			
Appendices			

LIST OF TABLES

Table	No. Title	Page
No.		
4.1	Budgeted Sales and Actual Sales F/Y 2059/60 to F/Y 2064/65	60
4.2	Fitting straight-line trend by using Least Square Method	62
4.3	Man Power Allocation by yearly	64
4.4	Fire Premium to Total Premium Collection	65
4.5	Motor Premium Collection to Total Premium Collection	66
4.6	Marine Premium Collection to Total Premium Collection	68
4.7	Miscellaneous Premium Collection to Total Premium Collection	69
4.8	Engineering Premium Collection to Total Premium Collection	71
4.9	Aviation Premium Collection to Total Premium Collection	72
4.10	Judgment Productivity	74
4.11	Judgment Profitability	75
4.12	Gross Profit Margin	75
4.13	Net Profit Margin Ratio	76
4.14	Own Capital Net Profit Ratio	76
4.15	Total Capital Turnover	77
4.16	Current Assets Turnover Ratio	78
4.17	Current Ratio	78
4.18	Own Capital Ratio	79
4.19	Judgement Possibility	80
4.20	Sector wise Income and Expenditure Account	
	FY 2061/62 to FY 2065/66	81
4.21	Correlation between Premium Collection and Claim Paid by EIC	S 83
4.22	Correlation between Premium Collection and Reinsurance	
	Premium of EIC	84
4.23	T-test for Premium Collection and Claim Paid	86
4.24	T-test for Premium Collection and Management Expenses	88

LIST OF FIGURES

Figu	re No. Title	Page
No.		
4.1	Budgeted Sales and Actual Sales	60
4.2	Fire Premium to Total Premium Collection by Year Wise	65
4.3	Motor Premium Collection to Total Premium Collection	67
4.4	Marine Premium Collection to Total Premium Collection	68
4.5	Miscellaneous Premium Collection to Total Premium Collectio	n 70
4.6	Engineering Premium Collection to Total Premium Collection	71
4.7	Aviation Premium Collection to Total Premium Collection	73
4.8	Total Income and Total Expenditure	82