

CHAPTER- 1

INTRODUCTION

1.1 Background of the Study

Financial institutions can be considered as the means for economic growth of the country. The development process of a country involves the mobilization and development of resources. Development of trade, commerce and industry are the prime requisite for the attainment of the economic, political, and social goals. To fulfill the purpose of planning, financial functions more often dominate the other functions. “There is always lack of finance in underdevelopment economic because natural resources are either underutilized or unutilized in productive sectors or even other purposes, i.e.; social welfare and so on, likewise, underdevelopment countries are not deficient in land, water, mineral, forest or power resources through they may be untapped; constituting only potential resources”. (Dewett; 1995: 459). So in these countries for the rapid development of the economy, there should be proper mobilization of resources. Due to various difficulties or even ignorance of the people, such resources have not been properly utilized; hoarding could be one of the reasons for this. So, banks and other financial institutions play a vital role to encourage thrift and discourage hoarding by mobilizing the resources and removing the habit of hoarding. They pursue rapid economic growth by developing the banking habit among the people, collecting small-scattered fund for further productive purposes and rendering other valuable services to the country. Thus, this gives the individuals an opportunity to borrow fund against future income which may improve the economic wellbeing of the borrower.

Financial institutions in the economy play a crucial role in the process of economic growth of the country. Financial institutions refer to a business concern that is mainly confined to finance for the development of trade, commerce and industry, which are the prime factors of economic development. Insurance is a financial institution, which primarily deals in borrowing and lending. Insurance is a vital part of national economy and a vehicle for the mobilization of economy’s financial resources and extension of credit to the business and service enterprises.

Insurance are also the heart of the financial system. They hold the premium of individuals, government, institutions and business units. They make fund available through their lending and investing activities to borrowers: individuals, business firms and government institutions. In doing so, they assist both the flow of goods and services from the producers to consumers and the financial activities of the government. These facts show that the insurance of the nation is very important to the functioning of its economy.

Proper financial decision making is extremely important in insurance company for its efficiency and profitability. Most of the financial decision of a insurance are concerned with current assets and current liabilities which simply known as working capital management. Working capital plays vital role in the success or failure of business. Working capital is lifeblood and controlling nerve-center of any organization. The excess working capital as well as short capital is harmful for business. So the management of working capital is not simple one, with the minor mistakes on decision about the adequacy of working capital, in a concern may put company into liquidation.

The aspect of working capital concerned with short term financing decision has received much attention in the literature of finance. Because of the earlier emphasis of financial management was more on long term financial decision, which led to the growth and development of many useful theories concerning these decisions as compared to short term financing decision. However in recent years, it has been realized that the area of working capital intricately interwoven with the success or failure of the enterprises. Today one may come across with such situation where shortage of funds for working capital as well as the uncontrolled over expansion of working capital has caused many businesses to fail and in less serve caused, has situated their growth. This aspect of financial management is equally applicable to the small as well as large scale enterprises. The only difference is that in small firm working capital management may be the factor that decides success or failure where as in longer firms, efficient working capital management can significantly affect the firm's risk, return and share price. But the working capital management of a insurance is different from other type of business. A insurance plays significant role to fulfill the requirement of working capital of other type of business enterprises. It also needs to efficiently manage its own working capital. Investment in working capital of other

business enterprises is a part of current assets of insurance company working capital and we can consider collection of premium as a part of current liabilities.

1.2 Concept and development of insurance in Nepal

Insurance is a form of risk management primarily used to hedge against the risk of a contingent, uncertain loss. Insurance is defined as the equitable transfer of the risk of a loss, from one entity to another, in exchange for payment. An insurer is a company selling the insurance; an insured, or policyholder, is the person or entity buying the insurance policy. The insurance rate is a factor used to determine the amount to be charged for a certain amount of insurance coverage, called the premium. Risk management, the practice of appraising and controlling risk, has evolved as a discrete field of study and practice.

Insurance company plays the vital role for the economy development of the nation as well as for the words economy. Whether the company is developed or non-developed, It is very important to mobilize the fund in different investment sector. For economic development, financial sector play for most role, where they collect funds from customer by paying some percent interest and invest it to large industries and others business sectors by taking some percent interest. The participation of insurance company play even more important role for the economic development, beside the economic sector social culture industrial and technology sector are also should be strong for the development and progress of a country.

Through the history of insurance company it is not very old in Nepal but they have come long way to reach the present position “the concept of the insurance developed in ancient period in Nepal. The system of maintaining “Guthi” can be taken as the beginning point of the development of insurance in Nepal. The income from such Guthi was use to build building and repairing temple and so on but now they are convert into commercial phenomenon’.(Agrawal; 2060;69)

Insurance is most important in our life which work double-edge weapon. On one side it provides financial security against risk and on the other side; it provides capital to the business house. Now a day’s insurance has not been necessary things but also a part and parcel of business word. In the context, the importance and necessity of

insurance business in Nepal cannot ignore. There is no longer history of insurance business in Nepal. The necessity of formal insurance was not realized before the revolution of 2007 B.S. At the time people's life was mostly depended on agriculture. There were no big industries and the country had not link with outer world. The sign of modern industrialization could be seen only at the end of Rana rule. Some modern factories like jute mills, matches factories and sugar mills were established in Biratnager. At that time some people traveling to India for life insurance. Insurance agents of Indian insurance company used to come to Nepal to make insurance of Nepalese people. But now days there are almost 25 insurance companies in Nepal. They are some life insurance company and some are non life insurance company. Among them Nepal life insurance company is a life insurance company.

List of life insurance and non life insurance company

Life insurance company	Non life insurance company
National life insurance company	Nepal insurance company
Nepal life insurance company	The oriental insurance
Life insurance corporation	National insurance company
Amarician life insurance	Himalayan general insurance
Asian life insurance	United insurance company
Gurans life insurance	Premiur insurance company
Surya life insurance	Everest insurance company
Prime life insurance	Neco insurance company
	Sagarmatha insurance company
	Alliance insurance company
	NB insurance company
	Prudential insurance company
	Shikhar insurance company
	Lumbini general company
	NLG insurance company
	Siddartha insurance
Life and non life insurance	Rastrya Bema sasthan

1.3 Introduction of Nepal Life Insurance Company

Nepal life insurance company limited; is the biggest insurance company in Nepal which established under the Company Act 2053 and Insurance Act 2049 as a public limited company on 2058/0121 (04/05/2001) . NLIC is the foremost life insurance company established by private investors which is in Kathmandu which is the head office of the company. The company has opened 19 branches at Kathmandu, Biratnagar, Birgunj, Butwal, Pokhara, Banepa, Narayanghat, Nepalgunj, Birtamod, Lahan, Janakpur, Mahendranagar, Dang, Surkhet, Hetauda, Phidim, Umlabari, Dhangadi and Nuwakot The promoters of the company are a group of well known businessmen and business houses of Nepal. Within the nine years of operation the Company has set up an excellent business record and has a strong financial position. The company has insured itself with well-know reinsurance company "Hannover Re Life Reinsurance Company", Germany for individual policies and "SCOR Global Life ", France for Term Assurance Foreign Expatriate policies .To endeavor through the noble institution of Life Insurance in making every family economically safe and secure whereby every citizen of Nepal may contribute his might in building a healthy, prosperous, strong & Vibrant Nation. To cater to financial and social needs of every segment of society by designing differentiated and innovative insurance instruments. To provide after sales service to customers that can be hailed as the best

Being in the business of selling life insurance service it is performing the same job as the other insurers dealing with "Life Insurance". However, Nepal Life Insurance Company has its own identity because of the mission and manner for which it is working. The company is working with a time bound strategy to fulfill its vision of spreading message of insurance to every home and to contribute substantially in making Nepal an economically healthy and vibrant nation. Apart from spreading the network of branches all over Nepal the company plans to make a quantum jump in number of agents and to provide them adequate training for providing knowledge and skill, so that the company can reach and depth in the market.

The company is focusing on providing qualitative services of International Standard. Company ambition is to provide across the counter services in all its operations.

This ambition cannot be fulfilled without the help of information technology. The company has strong IT infrastructure. All Branches of NLIC has been connected through wide area networking to provide better customers service. The company becomes famous because of service. So this study is to find out how NLIC ltd, has been able to manage its working capital for achieving its goal.

1.4 Focus of the Study

Working capital can be regarded as the life blood of the company. It refers to the administration of all aspects of the current assets and current liabilities. It plays vital role in every organization whether they are trading, manufacturing, or service. In order to complete the rivals in the market, working capital management is the vital part of any firm. Since it affects all functional areas of any firm, the firm should have working capital management in order to survive in the market.

So this study focuses on how working capital. Working capital is the crucial aspect of management. Working capital in this modern business age covers broad area .working capital management covers almost half of the work of the financial management. Among this broad area we are focused on its size. Structure, turnover position, liquidity and profitability position of Nepal life insurance company ltd.

1.5 Statement of the Problem

One of the major problems that the Nepalese organizations are facing is with working capital management. Most of the Nepalese public enterprises still lack of such orientation and they could not able to build effective working capital management. Nepal life insurance may not be out from this fact. However, it is necessary to assess the level of working capital in Nepal life insurance. The working capital management undoubtedly is a prime concern of any organization which influences almost all functions. The organizations are generally found to concentrate on actuation of the working capital but not through proper analysis of trade- off between risk and return. They do not pay more attention on effective utilization in spite of high level of importance of optimum level and efficient use of working capital.

There is lack of such scientific and empirical research that could identify the issues of working capital management of Nepal life insurance. Adequate level of working

capital or liquidity is determined by how an organization maintains its current assets and manages its current liabilities. In this regard, the performance of Nepal life insurance is to be analyzed in term of its working capital management. This study will attempt to find the facts and suggestion in connection with some major issues which can also be regarded as problem of working capital

Management. Therefore, the following issues can be taken as the research questions of the present research.

-) Dose life insurance adopts the working capital management policies and practices?
-) What is the proportion of Nepal investment in current assets to total assets and fixed assets?
-) How working capital affects sales and net profit in Nepal life insurance?
-) Is Nepal life insurance able to mange working capital properly?
-) What is the profitability position of Nepal life insurance?
-) How working capital finance in this company?

1.6 Objectives of the Study

The objectives are to gain an insight into the management of working capital in NT. More specifically, the following general objectives can be outlined:

-) To examine and critically analyze the working capital management of Nepal life insurance company.
-) To examine liquidity position and profitability position of Nepal Life Insurance Company.
-) To assess the size and growth of working capital, and
-) To recommend viable suggestions to cope up with working capital management shortcomings in Nepal life insurance company.

1.7 Significance of the Study

Profitability is the outcome of effective management of an organization. It can be a major objective of the organization. In this regard, working capital management may be a strong indicator for determining profit. Because the proper management of

working capital helps to increase sales and the sales definitely increases the profit of the organization. Most of the researcher focused on the sales planning and profit planning of the organization. Few researchers were conducted on the working capital management but were unable to give casual linkage between the working capital on profit and sales and future strategies to support working capital management. For that purpose, present study may be a valuable piece of study in the field of financial institute especially in Nepal Life Insurance Company. It seems very valuable for both academicians as well as practitioners. This is helpful for future researchers for important guidelines.

1.8 Limitations of the Study

The present study concerns only with Nepal life insurance Company due to time and resource constraints. Thus, it may not be a representative because of small sample. However, it provides some clues about the facts. More specifically the following factors have limited the scope of the study.

-) The study is based on the secondary data of few year periods i.e. from fiscal year 2061/2062 to fiscal year 2065/2066.
-) The study is made through the analysis of financial statement published and presented by the company
-) The study is based on the only one company which is Nepal life insurance company ltd.
-) To some extant data published on website and that of insurance company may differ. So the data from website of the related insurance company are taken.
-) Simple statistical and financial tools are used for data analysis.
-) The study has to be conducted with time limitation being a partially requirement for an academic program.

1.9 Organization of the Study

This study has been divided into five major chapters. These are as follows.

Chapter I Introduction: This chapter deals with background, a brief overview of Nepal life insurance company, focus of the study, statement of the problem, objective of the study, significance of the study and limitation of the study.

Chapter II Review of Literatures: This chapter deals with the review of related literatures and available studies written and conducted by different experts and researchers in the field by working capital.

Chapter III Research Methodology: This chapter presents the methodology used in this study. It deals with research design, population and sample, sources of data, data processing, financial & statistical tools used for the study.

Chapter IV Presentation and Analysis of data: This chapter fulfills the objective of the study by presenting the data and analyzing them with the help of various statistical tools followed by methodology.

Chapter V Summary, Conclusion & Recommendation: The last chapter summarizes the whole study. Moreover, it draws the conclusions and forwards the recommendation for the improvement of working capital management of NLIC

CHAPTER II

REVIEW OF LITERATURE

The process of studying different materials, which are concerned with selected topics of the research, is known as review of literature. According to P.V Young, “Review of literature is useful in research because it provides the insight and general knowledge about the subject matter of research.” In other words, review of literature is finding the pertinent fact with the available literature in ones field of research. The study of material available on research topics is called review of literature. Review of literature not only provides solid information on the topic but also guides along the future stream of action. The textual constraints would help it to support areas of research in order to explore the relevant and true facts for the reporting purpose.

This chapter is divided into two parts. First part deals with the conceptual framework of working capital management and second part deals with relating of some available literature including review of books, journals, articles and review of previous master’s thesis.

2.1 Conceptual framework

Business firms need various types of assets in order to carry out its operation. Some assets are required to meet the needs of regular productions and some others are required especially to meet day to day expenses and short term obligations. The assets such as cash, marketable securities, accounts receivables and inventories which are known as current assets are required to be maintained at certain level depending upon the volume of production and sales.

Working capital is a furnish investment in short term assets (Weston, 1981:137). Working capital is a firm’s investment in short term assets-cash, short term securities, account receivables and inventories. (Weston and Brigham, 1984:266). The cash and marketable securities are respectively considered as purely liquid and near liquid assets where as the accounts receivable and inventories are not. However they can be liquidated as and when necessary within a period of less than one year. In short, WC is the source of financing current assets and it includes short as well as long term financing (Pradhan, 2000:139).

Working capital management is concerned with the problem that arises in the management of current assets and current liabilities. It affects the overall functional areas of the firm. Thus, the success or failure of any firm virtually depends upon the efficiency of working capital management. It is the lifeblood and controlling nerve center for any type of business organization because without the proper control upon it no business organization can run smoothly. As, it is the management of current assets and current liabilities; it plays the crucial role in success and failure of an organization. All the firm whether public or private, manufacturing or non-manufacturing must have adequate working capital to serve in competitive market. Because excessive investment in working capital affects a firm's profitability just as idle investment, earn nothing, in other hand inadequate investment on working capital affects the liquidity position of the firm and leads to financial embracement, reputation risk and failure of the firm. So, immature decision made in management of working capital can lead to adverse effects in business and reduce the liquidity, turnover and profitability and increase the cost of financing of the enterprise.

Therefore, the role of working management is more significant for every business organization irrespective of their nature. There are two concepts of working capital i.e. Gross concept and net concept.

1. Gross working capital
2. Net working capital

1. Gross working capital

The term gross working capital is regarded as the firm's total assets. It focuses only the optimum investment in current assets and financing of current assets (Khan & Jain; 1999:604). It consists of cash, marketable securities, receivables and inventories. From the management viewpoint, gross working capital deals with the problems of managing individual current assets in day-to-day operations (Kucchal; 1988:157). Current assets are the most powerful part of any organization. It can affect the profitability and can create the problem in daily operations. It also enables a firm to plan and control funds to maximize the return on investment (Kulkarni; 1990:376). This concept is also known as qualitative concept.

2. Net working capital

Net working capital commonly defined as the difference between current assets and current liabilities. It focuses on the liquidity position of the firm in long run. Net working capital can be positive or negative. Positive net working capital will arise when current assets exceed current liabilities and negative working capital arises when current liabilities exceed current assets. Positive working capital helps to increase the profit but in reverse negative working capital may harmful to the company. So, net working capital can be more useful for the analysis of trade-off between profitability and risk (khan and jain; 1999:15.4). The concept of net working capital is also the equally important in every organization. It enables a firm to determine how much amount is left for operational requirement (kulkarni; 1990:376). Net working capital is not very useful for comparing the performance of different firms as a measure of liquidity, but it is quite useful for internal control. It is also known as quantitative concept.

2.2 Classification of working capital management

There are two types of working capital management.

1) Permanent working capital

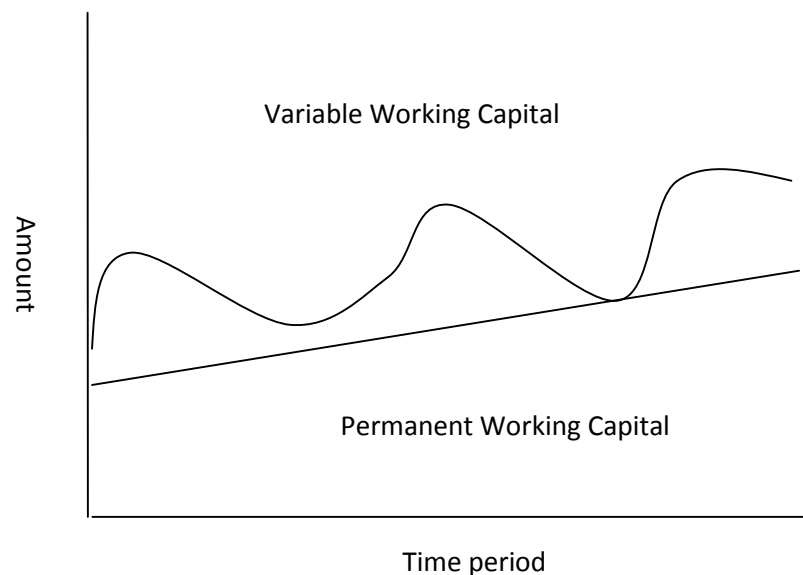
Permanent working capital is the minimum amount of current assets required throughout the year to conduct a business on a continuous and uninterrupted basis, even during the dullest season of the year. It will remain permanently in the business and will not be returned until the business is wound up (Khan and Jain; 1999: 172) but it could vary from year to year depending upon the growth of the company and the stage of the business cycle in which it operates (Kulkarni; 1990:376). Business firm could not be able to survive itself in the competitive market without permanent working capital. For instance, every business enterprises has to maintain a minimum stock of raw material, work in progress, finished products, spare parts etc. It always requires money for the payment of wages and salaries throughout the year (Kucchal; 1988:161).

2) Temporary working capital

Temporary working capital is also known as variable, seasonal and fluctuate working capital. It represents the extra working capital, required at certain times during the operation year to meet some special emergency. It may required in seasonal changes of business and certain abnormal conditions like strikes, lockouts, dull market conditions, cut-throat competition etc. Therefore, the firm to meet liquidity requirements that will last only temporary creates temporary working capital (Kucchal; 1988: 401)

Figure 1

Classification of Working Capital



2.3 Need for working capital

The need for working capital to run day to day business activities cannot be overemphasized (pandey; 1999:809). It helps to achieve entire goal of the business and maximize the wealth of shareholders. Business firm generally holds working capital for three purposes. They are as follows.

1. Transaction motive

The transaction motive refers to the holding cash to meet day to day routine cash requirement of the business. It helps business to run smoothly and uninterrupted basis.

2) Precautionary motive

The precautionary motive refers to the holding of cash to meet the random and unforeseen fluctuations in cash flow i.e. unpredictable changes in demand and supply, strikes, failure of important customer, unexpected slow down in collection of account receivable etc.

3) Speculative motive

The speculative motive refers to the desire of a firm to take advantages of opportunities, which present themselves at unexpected moment for example they can make purchase at favorable or reduce price on payment of immediate cash, speculate on interest rate etc.

2.4 Working capital policy

Working capital policy refers to the firm's basic policies regarding target levels for each category of current assets and how current assets will be financed. (Western, J.Fred.: 1996:343). So first of all, in working capital management, a firm has to determine how much funds should be invested in working capital in gross concept. Every firm can adopt different financing policy according to financial manger's attitude towards the risk return trade off. One of the most important decisions of finance manager is how much current liabilities should be used to finance current assets. Every firm has to find out the different sources of funds for working capital.

i) Current Assets Investment Policy

Current assets investment policy refers to the policy regarding the total amount of current assets to be carried to support the given level of sales. There are three alternative current assets investment policies-Fat Cat, Lean & Mean and Moderate.

a) Fat Cat Policy

This is also known as relaxed current assets investment policy. It is the policy under which relatively large amounts of cash and marketable securities and inventories are carried, and sales are stimulated by liberal credit policy which results in high level of

receivables. This also creates the longer receivable collection period. Thus this policy provides the low expected return in investment with lower risk.

b) Lean and Mean Policy

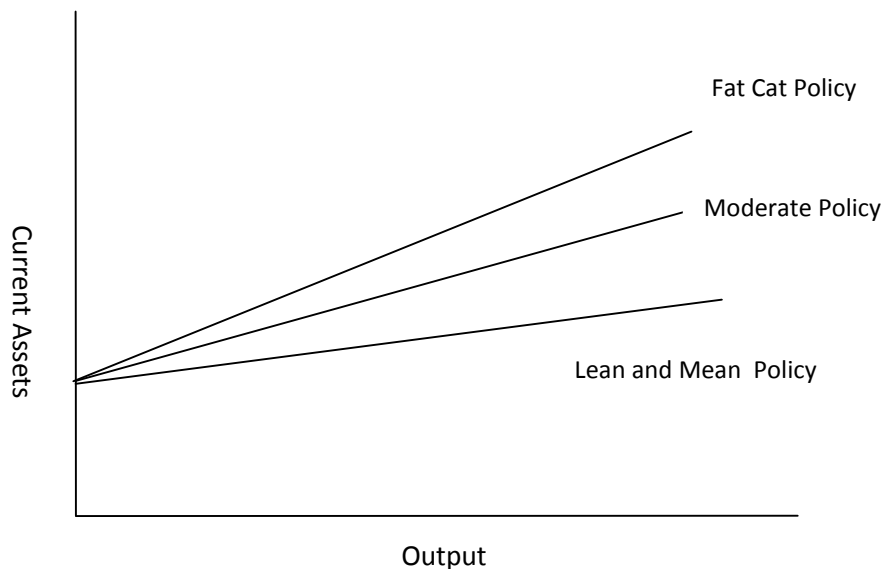
This is also known as restricted current assets investment policy. This is the policy under which holding of cash and marketable securities, inventories and receivables are minimized. This policy tends to reduce the policy conversion and receivable conversion cycle. Under this policy firm follows a tight credit policy and bears the risk of losing sales.

c) Moderate Policy

It is the policy that is between the relaxed and restrictive policies. In moderate policy, a firm holds the amount of current assets in between the relaxed and restrictive policies. Both risk and return are moderate in this policy.

Figure 2

Alternative Current Assets Investment Policy



The relationship between output and current assets level for these alternatives is illustrated in above figure. We see from the figure that the greater the output, the greater the need for investment in current assets to support that output and sales. This relationship is based on the notion that it takes a greater proportional investment in

current assets when only a few units of output are produced than it does later on, when the firm can use its current assets more efficiently.

ii) Current Assets financing policy

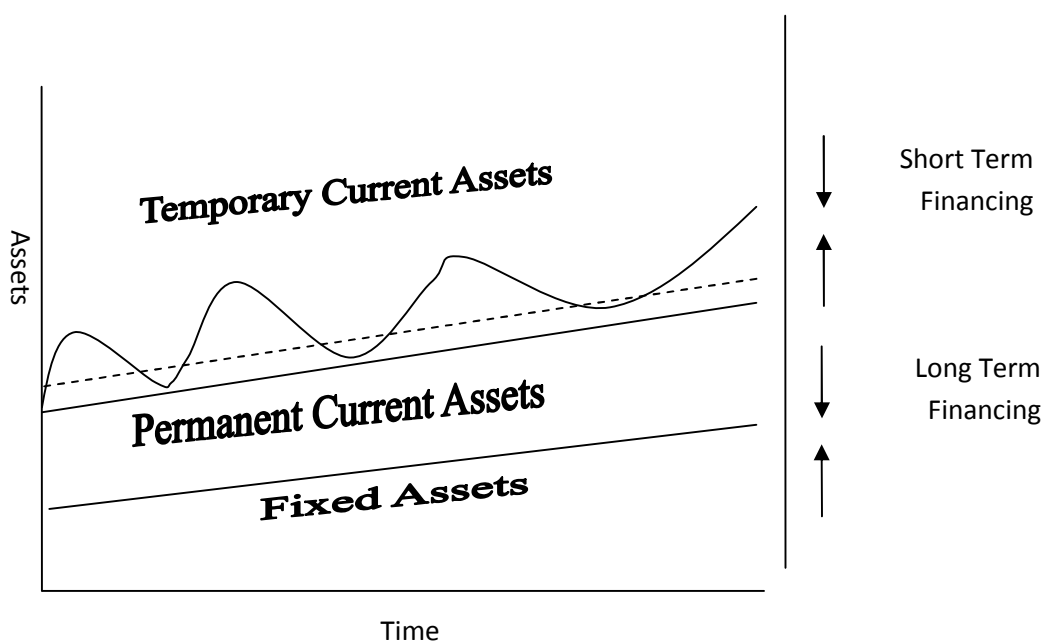
It is the manner in which the permanent and temporary current assets are financed. Current assets are financed with funds raised from different sources. But cost and risk affect the financing of any assets. Thus, current assets financing policy should clearly outline the source of financing of currents. There are three policies – aggressive, conservative and matching policies of current assets financing.

a) Aggressive Policy

In this policy, the firm finances a part of its permanent current assets with short-term financing and rest with long-term financing. In other words, the firm finances not only temporary current assets but also a part of permanent current assets with short-term financing. In this policy, the liquidity position will be low and the risk will be high. A low liquidity position may expose the firm to opportunity costs. If a firm relies heavily on short-term borrowings, during the period of high money, credit may be rational and the firm may be unable to obtain all the financing its needs.

Figure 3

Aggressive Financing Policy



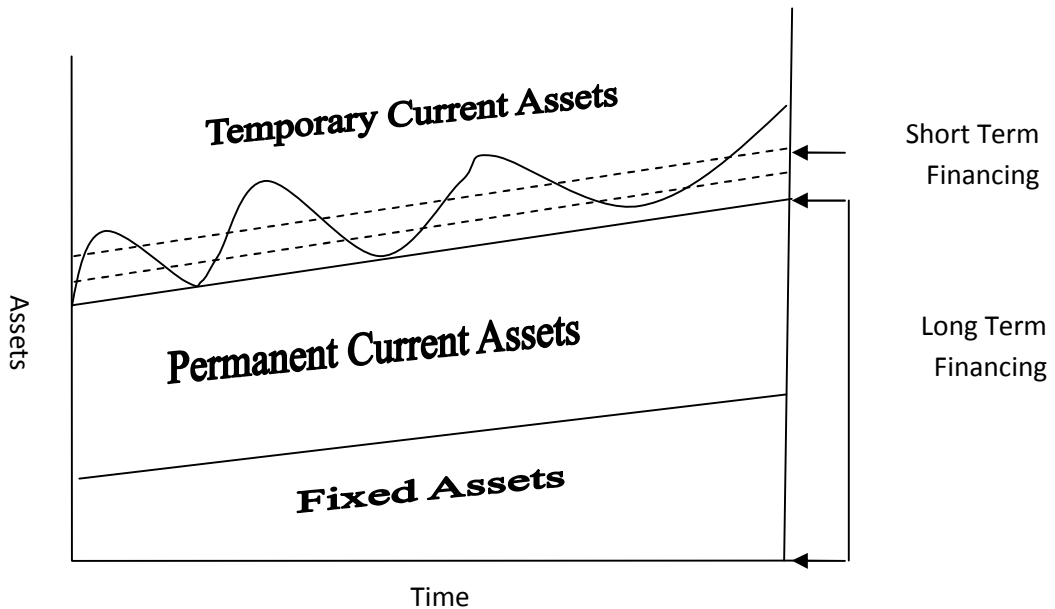
Above figure shows that short-term financing occupies 50 percent of the permanent current assets. In general interest rate increases with time i.e. shorter time, lower the interest rate. It is because lenders are risk adverse and risk generally increases with the length of lending period. Thus, under normal situation the firm borrows on a short-term financing rather than long-term financing, then it runs the risk of renewing the borrowing again and again. The continued financing exposes the firm to certain risk. It is because, in future the retest expenses will fluctuate widely and also, it may be difficult for the firm to raise the funds during the stringent credit periods. In conclusion, there is higher risk, higher risk, higher return and low liquidity position under this policy.

a) Conservative Policy

In this policy, the use of short-term fund is restricted to the emergency situation when there is necessity to invest current assets. Otherwise, the long-term fund should be used as far as possible in financing of investment in current assets. However, the cost of financing in this policy will be more, the liquidity will be relatively greater and risk will be minimized.

A firm may adopt a conservative policy in financing its current and fixed assets. The financing policy of the firm is said to be conservative when it depends more on long-term fund for financing need. Under a conservative plan, the firm finances its permanent assets and a part of temporary current assets with long-term financing. When the firm has no temporary current assets, it stores liquidity by investing surplus funds into marketable securities. The conservative financing relies heavily on long-term financing and, therefore is less risky. The conservative financing policy is shown in figure below. (Pandey 1995:684)

Figure 4
Conservative Financing Policy

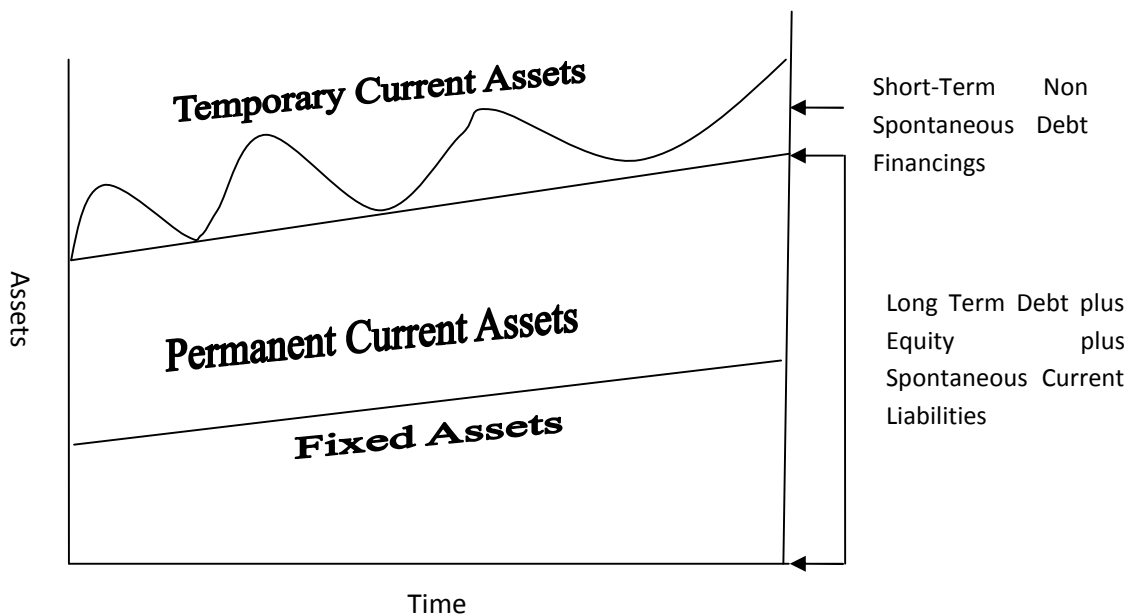


a) Maturity Matching Policy

It is self-liquidity approach. In this policy, the firm finances the permanent current assets with long term financing and temporary with short-term financing. It means that the firm matches the maturity of financing sources with an assets useful life. It lies in between the aggressive and conservative policies. It leads to both neither high nor low level of current assets and current liabilities. It lies in between low profitability Figure 2.5 (J. Fred Weston & Brigham, Eugene F; 1996:348) shows the temporary working capital is financed by short-term financing and long term financing. Thus, no working capital is financed by long-term funds. Hence, net working capital is zero under this policy.

Figure 5

Maturity Matching Financing Policy



2.5 Determinants of Working Capital Requirement.

In all the firms there should have neither too excess nor too inadequate working capital. But there are no sets of rules or formulate to determine the working capital requirement of the firm. It is because of a large number of factors that influence the working capital requirement of the firm. A number of factors affect different firm in different ways. Internal policies and changes in environment also affect the working capital requirement of the firm. Generally, the following factors affect the working capital requirement of the firm.

a) Nature and Size of Business

It depends upon the nature and size of the business. If the size of the firm is bigger, then it requires more working capital. While a small firm needs less working capital. Trading and financial firm require larger amount of working capital relatively to public utilities, while manufacturing concern lies between two extremes.

b) Growth and Expansion

This also affects the working capital requirement of a firm. A growing firm needs more working capital than those static ones. However, it is difficult to precisely determine the relationship between the growth and expansion of the firm and working capital needs.

c) Credit Policy

Working capital requirement depends on terms of terms of sales. Different terms may be followed to different customers according to their credit worthiness. If the firm follows the liberal credit policy then it requires more working capital. Conversely, if a firm follows the stringent credit policy, it requires less working capital.

d) Production Policy

If a firm produces seasonal goods, and then it sells its products in a certain month of the year. In this situation, it can either confine its production only to that period when goods are sold or follow a steady production policy through the year and produce goods at level to meet the peak demand. The former policy does not need more working capital than the latter does.

e) Availability of Credit

Availability of credit facility is another factor that affects the working capital requirement. If the creditors avail a liberal credit terms then the firm will need less working capital and vice-versa. In other words, if the firm can get credit facility easily on favorable conditions, it requires less working capital to run the firm smoothly otherwise more working capital is required to operate the firm smoothly.

f) Manufacturing Cycle

Working capital requirement of an enterprise is also influenced by the manufacturing or production cycle. It refers to the time involved to make the finished goods from the raw materials. During the process of manufacturing cycle, there will be working capital requirement and vice-versa.

g) Profit Margin

The level of profit margin differs from firm to firm. It depends upon the nature and quality of product, marketing management and monopoly power in the market. If the firm deals with high quality product, has a sound marketing management and has enjoyed monopoly power in the market then it earns quite high profit and vice versa. Profit is source of working capital pool by generating more internal funds.

h) Price level change

Generally, a firm is required to maintain the higher amount of working capital if the price level rises, because the same level of current assets needs more funds due to the increasing price. In conclusion, the implications of changing price level of working capital position will vary from firm to firm depending on the nature and other relevant considerations of the operation of the concerned firms.

i) Operating Efficiency

It is also an important factor, which influences the working capital requirement of the firm. It refers to the efficient utilization of available resources at minimum cost. Thus, a financing manager can contribute to a strong working capital position through operating efficiency. Then it needs less amount of working capital otherwise it requires if a firm has strong operating efficiency a large amount of working capital.

j) Level of Taxes

The level of taxes also influences working capital requirement. The amount of taxes to be paid in advance is determined by prevailing tax regulations. But the firm's profit is not constant or can't be pre-determined. Tax liability in a sense of short-term liquidity is payable in cash. Therefore, the provision for tax liability increases, it needs to increase the working capital and vice-versa.

2.6 Financing of working capital

The most important function of financing is to determine the level of working capital and to decide how it is to be financed to meet the organizational goal. Financing of working capital is concerned with two major factors—cost and risk. Therefore, only

appropriate financing of working capital may lead the business firm. Firm can adopt different financing policies among them mainly three are given below:

1. Long term financing

The sources of long term financing refer to the ordinary share capital, preference share capital, debentures and long term debt from financial institutions and retained earning. Long term financing will reduce the cost of business. In short, we can say that this long term financing has high liquidity and low profitability.

2. Short term financing

The sources of short term financing refer to the working capital Funds from bank, public deposits, commercial papers etc. the short term financing is obtained for period less than one year.

3. Spontaneous financing

Spontaneous financing refers to the automatic sources of short-term funds arising in the normal course of a business (pandey; 1999:827). The two major sources of spontaneous financing are trade credit and outstanding expenses. There is no explicit cost of spontaneous financing. Therefore, the financing manager always would like to finance its working capital with spontaneous sources because the real choice of current assets financing of the manager in reality, is in between short term or long term sources of finance.

2.7 Review of Books and Journals

1. Radhe Shyam Pradhan and Kundan Dutta Koirala's study

Pradharan and koirala (1983) has jointly published an article on “some Reflection on Working capital Management in Nepalese corporations.” The article basically aims to find out the difficulty, importance and problem of current assets management and also aims to find out the motive for holding cash and inventory. The study uses only primary data to find out the basic constraints and distributed 200 questionnaires. For the purpose of the study, they use both manufacturing public corporations as a sample

companies. After analyzing the collected data the major finding of the study were as follows:

-) The major reason for holding inventories is to facilitate smooth operation of production and sales.
-) To provide a reserve for routine net outflows of cash is the major motive for holding cash in Nepalese corporations.
-) The major factor affecting the large investment in receivable is found to be the liberal credit policy followed by Nepalese corporations. The late paying practice of customer is also responsible for large investment in receivables. However, corporations are reluctant to take inefficient collection of trade credits as one of the major factors affecting receivables.

2. Manohar K. Shrestha's study

Shrestha (1983) had carried out his article on, "working Capital Management in public enterprises: A study on financial results and constraints. " In this article he had considered ten selected PEs to measure their working capital needs in those PEs. He had mainly focus on the liquidity, turnover and profitability position of that PEs. In the analysis, he has focused that four PEs has maintained adequate liquidity position; two PEs had excessive liquidity position and rest four enterprises had failed to maintain desirable liquidity position. About turnover, two public enterprises had negative working capital turnover; four had sum to achieve satisfactory turnover of net working capital. He had also found that six PEs are operating at losses and four of them are being able to achieve some percentage of profit. After analyzing these constraints, he had bought certain policy issues. They are as follows.

-) There is lack of suitable financial planning for determining their working capital needs in PEs.
-) The managers of PEs were being unable to give attention to working capital management.
-) There exists no proper consistency between liquidity position and turnover of assets.

-) PEs being unable to show positive relationship between turnover and return on net working capital.

He had made some suggestive measures to overcome from the above policy issues i.e. identification of needed funds, regular checks, development of management information system. Positive attitude towards risk and profits and determination of right combination of short term and long term sources of funds to finance working capital needs.

3. Radhe Shyam Pradhan

Radha Shyam Pradhan (1986) has published a book on “Management of Working Capital”, which generally includes short-term borrowing and investment by the selected manufacturing public enterprises (PEs) of Nepal. The research is based on the study of nine manufacturing public enterprises of Nepal for the duration of ten years from 1973 to 1982 A.D. The major objectives of the study are to examine the behavior and management of working capital in manufacturing PEs of Nepal. He has also dealt with another issues viz. liquidity position, structure of working capital, nature of working capital, utilization and demand for working capital and its various components with changing value of sales in that PEs. The study used a variety of financial ratios to accomplish the objectives. His major findings are as follows:

-) The liquidity measures showed a poor liquidity position in majority of public enterprises. It has also been showed that the enterprises either positive cash flow or negative EBT or they have excessive net current debt. The selected PEs have on an average, $\frac{1}{2}$ of the total assets is in the form of current assets.
-) In his study, he reveals that most of selected PEs achieve a trade off between risk and return there by following neither an aggressive nor a conservative approach. Almost all the selected enterprises have a position of net working capital.
-) The share of inventories is the largest followed by receivables and cash in most. Turnover ratio shows that there has been improvement in utilization in the majority of PEs.

) In this study, he has found out that cash followed by inventories. So the inclusion of capacity utilization in the models did not seem to have contributed much to the demand function of working capital and its various components. Further more, the regression result also shows that the level of working capital and its components in enterprises desires to hold depend not only on sales but on holding cost too.

Shyam K. Shrestha (2001) in his article, *Research in Nepalese Finance*, stated that there is a no doubt insurance plays a vital role in the development of economy. It gives security to the insured and collected the resources and mobilizes it. To highlight the importance of insurance business Dr. Shrestha says that insurance plays the important role in trade and commerce. He specially focuses to the role of insurance is more sensitive in export marketing through his article. According to his views the role of insurance is more sensitive in export marketing and international trade to protect the risks and foreign exchange fluctuation risk etc. It is absolutely true that export trade is more risky than domestic trade. Generally as an exporter, he should be familiar with these risks involved in his trade. At last, he states that if the exporters are not aware of their facts they may have to face domestic exporters from exports risks by providing adequate insurance services to them, as they required. This would help a lot in the promotion of the country's export trade and to strengthen the country's balance of payment situation.

The government properties including corporation is insured to Government Company is priority basis. It is difficult to pursuer in such corporation and government offices, and so the environment is not very positive. Only lip service from Government, the economic growth of 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 channeling. One has to create the market, tremendous market potentiality and opportunity is felt due to the unexplored market. Only the clue is to know and click on the right product and place with reasonable price to the right person. After the formation of Nepal Insurers' Association Companies can play their problems jointly to the government and should to forward for the interest and benefit of insures. The platform should be taken as an opportunity.

Raghav D. Pant (1999) in his article, *The flow of funds in Nepal*, has analyzed the flow of funds of Rastriya Beema Sansthan since 1975 to 1991. He found that the small volume of credit transaction of Rastriya Beema Sansthan in areas other than government bonds means that it has influence to determine the structure of demand in the economy. The saving that it has managed to mobilized; especially through life insurance is considerable. It has, however, been used the finance government budget deficit or to further increase fixed Deposit of liability of the commercial bank which is many occasions has excess Liquidity at their disposal. Rasteiya beema sasthan however has no alternative either.

4. N.P Poudel's article (2053)

N.P. Poudel (2053) has written an article on "Financial Statement Analysis: An approach to Evaluate Bank's Performance". His article described the necessity and importance of financial statement analysis to evaluate bank's performance. Analysis of bank financial statement is different from other companies due to special nature of assets and liabilities structure of the banking industry. The bank's balance sheet is composed of financial claims a liability in the form of deposits and as assets in the form of loans but fixed asset account for a small portion of the total assets. The described the major balance sheet characteristics of commercial banks which are as follows:

S.N	Characteristics	Significance	Risk	Return
1	Few Fixed Assets	Low degree of operating leverage	Reduce	Reduce
2	Substantial amount of short -term liabilities (Deposits)	To be liquid	Increase	Increase
3	Substantial amount of financial assets	High degree of operating leverage	Increase	Increase

At last, he added that analysis of financial statements can give a good insight into financial health and performance of a bank.

2.8 Review of previous Thesis

Some reviewed previous dissertations are as follows.

Om Bikram Gurung (2002) has carried out his research on “A study on working capital management of Nepal Lever Limited.” The main objective of his study is to examine the working capital management of Nepal Lever Limited. The major findings of his study are as follows:

-) Inventory holds the major portion of current assets followed by miscellaneous current assets, sundry debtors, cash and bank balance.
-) The liquidity position of NL Ltd. is satisfactory but not perfect though increasing trend implies that liquidity position can be expected to be good in future.
-) There is not trade off between liquidity and profitability; however profitability of NL Ltd. is satisfactory.

Mr Basudev Shrestha (2002) has carried out his research on “ working capital management of Dairy Development Corporation.” The main objective of the study is to analyze the current assets and current liabilities and their impact and relationship to each other. The major findings of his study are as follows.

-) The Corporation’s investment in the form of working capital has been increasing and DDC followed the conservative working capital policy with respect current assets management.
-) The Company has been able to maintain its current ratio in an average 1.78:1 during the study period which is regarding satisfactory level.
-) The average investment in current assets is lower with respect to net fixed assets during this study period and DDC has no clear vision about the investment current assets portion. Cash and bank balance holds the second largest portion of the current assets and has fluctuating trend.
-) Other major components of current assets i.e. inventories and receivables are in fluctuating trend. The company does not follow credit sales policy.
-) The gross and net profit margin in DDC shows that company is suffering from a heavy loss during the study period.

Miss. Rojina Shrestha (2003) has carried out a research on "A study on working capital management with respect to National Trading Limited and Salt Trading Corporation Limited." Her main objective is to present overall picture of working capital of National Trading Limited. The major findings of the study are as follows.

-) The current assets to total assets of NTL and STCL both are in fluctuating trend.
-) The investment in current is high in both of the trading companies with respect to its total assets and net fixed assets.
-) Cash and bank balance holds the highest portion followed by inventor in NTL whereas cash and bank balance holds the least portion in STCL and inventory hold the highest portion.
-) The turnover position of the NTL and STCL are in fluctuating trend.
-) The liquidity position of the STCL is satisfactory and favorable in comparison to the liquidity position of the NTL.

Mr. Kamal Prasad Aryal (2005) has carried out "A case study on working capital management of Bank of Kathmandu Ltd." His main objective is to evaluate the working capital position of bank of Kathmandu Ltd. During his study, he had basically used the secondary data and mainly financial tools are embodied for analyzing the working capital management of BOK. He had derived following major findings form his study.

-) The working capital of BOKL has been increasing trend.
-) The current ratio of the bank was quite fluctuating.
-) The loan and advances to saving deposit ratio of the bank is in satisfactory position over the study period.
-) The interest earned to total assets ratio of BOKL is not so much satisfactory it means the bank could not able to use its total assets properly to earned interest.
-) The net profit to total assets ratio of the bank was fluctuating. It shows that the bank could not able to utilize its total assets to generate profit.

Miss Payal Bansal (2009) had carried out a research entitled "A Study on Working Capital Management of Commercial Bank". During the study, she had used secondary

data & used many financial tools analyzing the working capital management. The major findings of the study are as follows.

-) The net working capital of both banks is positive.
-) In case of profitability position, both banks have constant level of growth in profitability during the study period.
-) The liquidity position of both bank are increasing trend. It shows the satisfactory level of working capital
-) The major components of current assets of both banks are cash and bank balance, loan & advance and government securities.

Ghimire (2003) has done a research on “Working Capital Management of Selected Manufacturing Company-Listed in Nepal Stock Exchange”. The study covers five years historical data from 1997 to 2001 of seven manufacturing companies. This study has focused on the issue of working capital management in relation to selected manufacturing companies. The main objectives of this study are to study working capital practices of listed Nepalese manufacturing companies, to analysis the variable affecting working capital management in Nepalese manufacturing companies and to determine the issue and gaps in working capital management of these companies.

For finding the solution to above problem, the study has employed quantitative and qualitative methods. In quantitative method, this study has used financial tools (ratio analysis, cash conversion cycle, predicting power of ratio of success/failure and DU point) and statistical tool (Karl Pearson’s correlation coefficient and simple linear regression). In the qualitative method, this study has used opinion survey method.

From the comparative analysis, this study has found that:

-) Out of seven, five companies have followed a moderate working capital policy.
-) The overall average inventory, receivable, payable and cash conversion period are high.
-) Correlation coefficients between various components of working capital with sales are moderate
-) Overall profitability of these selected manufacturing companies is positive, on other hand he has found some issues and gaps i.e. inefficient current assets

management, missing working capital policy, high level cost, excessive borrowing, weak liquidity position, high conversion cycle and management inefficiencies.

At last the study has suggested that manufacturing companies should make a quarterly working capital plan with effective working capital management. Further they should improve liquidity position, adopt appropriate financing policy, prepare effective sales plan, develop efficiency of personal and staff, and develop appropriate information system.

Gautam (2004) has conducted the research on “Working Capital Management of Soaltee Crowne Plaza”. This study has covered the period of five years (1998/99 - 2002/2003). For the analysis of working capital this study has used different financial and statistical tools like ratio analysis, trend analysis, standard deviation and regression analysis. The main objective of this study is to examine working capital practices and profitability position of Soaltee Crowne Plaza. The major findings of this study are as given below:

-) The current ratio of Soaltee Crowne Plaza is in very poor condition because the current asset is than the current liabilities in each year of the study period. Comparing with standard ratio the calculated current ratio become too small. Therefore, the liquidity position of the company is not satisfactory. Quick assets are pure liquid in nature, but the calculated ratio shows the liquid is insufficient to pay its current payable as its ratio is below standard.
-) Company is losing its ability in respect with investment policy because in the preceding year it has positive return whereas in the later year it has negative return.
-) The fluctuation cash turnover implies that the Soaltee Crowne Plaza is inefficient in cash management.
-) The proportion of current assets to total assets is nearly consistent. The company has low investment in current assets.
-) Company has followed conservative policy of financing. The receivable turnover is more consistent. The utilization of current assets becomes unsatisfactory.

The study has suggested that the company should make the effective plan, which helps for immediate marketability and certainly decrease the problem of overstocking. Management should set proper credit policy and avoid unnecessary increase in the volume of receivable, determine appropriate sources of financing and give proper attention toward the manpower. Hence, to service in present competitive marketing the industry has to improve overall working capital policy.

This study has taken only one hotel (Soaltee Crowne Plaza) out of four listed hotels. There are various aspects of financial management but this study is concerned with only the working capital aspect of related hotel. This study recommend that government should make sound policy towards tourism but without increasing hotel's capacity and making good plan to attract the tourist, the government alone cannot do anything.

Bhumi ram Sharma (2053) "A study on financial performance of Rastriya bema sasthan and Nepal life and general insurance limited" concluded by has found various financial indicator of these companies from the analysis. He finds the major issues.

Absolute value of premium collection has been increasing but it is in decreasing trend in respected of GDP

Net premium to claim ratio is gradually decreasing, claim outstanding and premium outstanding are increasing year by since the overall liquidity position is weakling.

Most of the part of investment portfolio is composed of bulk fixed deposit account and HMG securities.

Based on the issues he gives various recommendations to companies out of which main are as follows;

-) They should make an effective program to the large share in insurance market
-) They should increase their retention capacity.
-) They should accelerate the outstanding premium collection speed
-) They should improve overall liquidity position.
-) They should make effective investment portfolio.

2.9 Research Gap

All the above studies are conducted with the research title “Working Capital Management”. Some researchers have selected various manufacturing companies for the research and some have concentrated in only one or two companies. As to research gap is concerned, there are many changes taken place in the working capital environment and production process as compared to the last few years. So, fresh study related to working capital management of Nepal life insurance company has been done in this research .During the period of gap, the company has renamed Nepal life insurance company .The most of the studies has been considered many more objectives which made their study more complicated but in this research report only four objectives are taken into study. Some researcher uses both primary and secondary data but only secondary data are considered in this research. Both financial as well as statistical tools like ratio analysis, turnover, cash, mean, standard deviation, coefficient of correlation and probable error are used in this research. Some Of the ratios have been applied to cover the analytical part and fulfill the objective of this study. It involves more recent data of Nepal Life Insurance Company for five years (2061/062-2065/066).

CHAPTER III

RESEARCH METHODOLOGY

3.1 Introduction

This chapter consists of the methodology of studying working capital management of Nepal life insurance Company Limited. The proper analysis of this study can be meaningful only on the right choice of research tools. Hence, the focus has been made on research design, nature and sources of data, sample and population, data processing procedure and tools analysis.

This study has used financial analysis technique as well as statistical tools. It is more analytical and empirical. It is mainly based on secondary data gathered from annual reports of concerned organization and other publication made by them.

3.2 Research design

Research Design is a method of defining the research problem. According to C.R. Kothari, "Research design is a plan, structure and strategy of investing conceived so as obtain answer to research question and to control variances". Research design refers to the framework of the study. It is the blue print for any kinds of studies. "Research design is the arrangement of condition and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure.

Research design is plan for collection and analysis of data. The purpose of design is to provide answer to research questions and control variance. For the study of working capital management of Nepal life insurance company Ltd., research design followed is exploratory research approach. This study is based on data from secondary sources. So, in analyzing the data is a descriptive research design has been used to make the study prescriptive to its users.

3.3 Population and Sample

This research work was related with the analysis of working capital management of public enterprises in Nepal. So, the total present number of public enterprises in Nepal was the population of this study. However, due to various constraints of mine like time, resource, etc., selected only one representative public enterprise for my research

work and the representative public enterprise was Nepal Life insurance Company Ltd. This study covered five years period of NLIC from the fiscal year 2061/62 to 2065/66

3.4 Nature and sources of Data

This study is mainly based on secondary data. The required data are collected from concerned Nepal life insurance Company and downloaded from official websites. The Supplementary data and information have been acquired from various sources like newspapers, magazines, brochures, booklets, periodicals and bulletins, published and unpublished reports, related documents and journals available in different libraries, other organization and from official websites of corresponding organizations

3.5 Data Procedure

Since the data have been obtained from secondary sources, after collection of financial statement, balance sheet of financial data have been extracted and tabulated as per the need of this study. In order to process the data, financial statement and other available information were reviewed. These data were grouped in different tables and charts according to their nature. Most of the data have been compiled in one form and processed and interpreted as required.

3.6 Tools and Techniques of Data Analysis

On the basis of historical data financial and statistical tools are used to analysis of different variables.

3.6.1 Financial Tools

Financial tools are those, which are used for the analysis and interpretation of financial data. These tools can be used to get the prescribe knowledge of business which in turn are fruitful in exploring the strength and weakness of the financial policies and strategies. In order to meet the purpose of study, following financial tools have been used.

i) Working capital

Working capital refers to the resources of the firm that are used to conduct day to day operation that makes business successful. Working capital is calculated by subtracting

current liabilities from current assets. Due to differences in businesses and the fact that working capital is not a ratio but an absolute amount, it is difficult to predict what the ideal amount of working capital would be for the business. (www.planeware.org.)

ii) Ratio analysis

Ratio analysis is a technique of analysis and interpretation of financial statement evaluate the performance of an organization by creating the ratio from the figures if different accounts consisting in balance sheet and income statement are known as ratio analysis. It is a powerful tool of financial analysis. This is most frequently used tool to evaluate the financial health, operating result and growth of the insurance under scrutiny. It helps to summarize the large quantities of financial data and to make quantitative judgments about the firm's financial performance. The ratios calculated for the study is described separately under following headings.

A) Liquidity Ratio

This ratio measures the liquidity position and short-term solvency of the firm indicating the company's ability to meet short-term obligation. The current ratio and quick ratio measure the liquidity position of the company. These ratios are calculated to judge the long term as well as short-term financial position of concerned firm. Liquidity of any business organization is directly related to working capital or current assets and current liabilities of that organization. One of the main objectives of working capital management is keeping good liquidity position. Insurance company needs liquidity to meet the insurance claim and investment in financial area. Without good liquidity, insurance company is not able to operate its function. To measure or ability to meet its short-term obligation, various liquidity ratios are calculated.

a) Current Ratio

Current ratio is also known as Working capital ratio. The ratio is to evaluate or indicates the current solvency position of the organization. The current ratio (CR) represents a margin of safety for creditors at bad situation. It is the ratio of total current assets to current liabilities. Financial norms say that 2:1 is the optimal position of liquidity and profitability point of view. If the current ratio of the firm is less than 2:1 the solvency position of the firm is not good .The cash may not be available to pay

current liabilities. If the ratio of the firm is under financial standard, the firms' liquidity position measured as better. Higher ratio of the firm is measured higher liquidity, i.e. meant the firm has excessive investment in current assets that do not produce a return so more than financial standard is poor utilization of assets.. It is calculated by dividing current assets by current liabilities, which is expressed as follows:

$$\text{Current ratio} = \frac{\text{current assets}}{\text{current liabilities}}$$

In which current assets represents those assets which can be converted into cash within an accounting period such as cash balance, bank balance, investment in treasurer bills, money at call, bills purchase, inter branch account, other short terms, receivable, prepaid expenses, etc. Current liabilities refers to short term maturing obligation such as deposits bills payable, tax provisions, dividend payable staff bonus, bank over drafts, accrued expenses and provisions etc.

b) Quick ratio

Quick ratio is used to measure the ability of concerned firms to pay current obligation (short term) without depending on other liquid assets of current ratio. It provides relationship between quick assets with current liabilities. An asset is liquid if it can be converted into cash immediately or reasonably soon without a loss of value. Cash is the most liquid asset. Other assets that are considered to be relatively liquid and included in quick assets are book debts and marketable securities. This quick ratio can be found out by dividing the total quick assets by total liabilities.

$$\text{Quick Ratio (QR)} = \frac{\text{Quick or Liquid Assets (QA)}}{\text{Current Liabilites (CL)}}$$

b) Cash and Bank balance to premium

This ratio shows the ability of insurance immediate funds to cover their premium deposits. It can be calculated by dividing cash and bank balance by premium. The ratio can be expressed a

$$\text{Cash \& bank balance to premium} = \frac{\text{Cash and Bank Balance}}{\text{Total premium}}$$

c) Absolute liquidity ratio

Although current assets like receivable, marketable securities etc. can be changed into cash as required. It takes time to be changed. It means it is not absolute liquid. The absolute liquidity ratio measures the liquidity of a firm in absolute term. It is calculate by dividing cash by current liabilities.

$$\text{Absolute liquid ratio} = \frac{\text{Cash}}{\text{Current liabilities}}$$

B) Activity or turnover ratio

The fund of creditors and owners are invested in various assets to generate sales and profit. Activity ratios are used to evaluate the efficiency with which the firm manages and utilizes its assets. This ratio indicates how quickly certain assets are converted into cash. From this ratio is can be known whether or not the businesses activities are efficient. These ratios are also called turnover ratios because they indicate speed with which assets are converted or turnover into profit generating assets. These ratios, moreover, help in measuring the insurance' ability to utilize their available resources. Following ratios are used under the activity ratio.

a) Loan and advances to total premium (insured) Ratio

This ratio assesses to what extent, the insurance is able to utilize the premium (insured) funds to earn profit by proving loans and advances. It is computed dividing the total amounts of loans and advances by insured funds. Higher ratio indicates higher/proper utilization of funds and low ratio is the signal of inefficiency or remaining idle. The formula used to compute this ratio is as,

$$\text{Loans and Advances to Total premium (insured) Ratio} = \frac{\text{Loans \& Advances}}{\text{Total premium}}$$

b) Profitability Ratio

The profitability ratios are calculated to measure the operating efficiency of the company. Management of the company, creditors and owners are interested in the profitability of the firm. Creditors want to get interest and repayment of principal regularly. Owners want to get a reasonable return from their investment (Pandey, 1994:116) Profitability ratios are calculated to measure the operating efficiency of the company. Various profitability ratios are calculated to measure operating efficiency of business enterprises. Though profitability ratios the lender & investors want to decide whether to invest in particular business or not. To meet the objective of the study, following ratios are calculated in this group.

a) Interest earned to total assets ratio.

This ratio is used to determine total interest earned from investments over the total assets of a firm. High ratio indicates the proper utilization of the insurance company's assets for income generating purpose. Low ratio represents unsatisfactory performance. The ratio is calculated by dividing interest income by total assets of the NLIC.

$$\text{Interest Earned to Total Assets Ratio} = \frac{\text{Interest Earned}}{\text{Total Assets}}$$

b) Net profit to total assets ratio.

Net profit to total assets ratio is useful in measuring the profitability of all financial resources invested compared to total assets of a firm. This ratio is calculated by dividing the amount of net profit by the amount of total assets employed. The ratio can be expressed as:

$$\text{Net Profit to Total Assets Ratio} = \frac{\text{Net Profit}}{\text{Total Assets}}$$

c) Net profit to total premium fund ratio

This ratio measures the percentage of profit earned from the utilization of the total premium. premium is mobilized for investment, loan and advances to the public in

generating revenue. Higher ratio indicates the return from investment on loans and lower ratio indicates that the funds are not properly mobilized.

$$\text{Net Profit to Total premium fund Ratio} = \frac{\text{Net Profit}}{\text{Total premium fund}}$$

d) Total interest expenses to total interest income Ratio

The ratio shows the percentage of interest expenses incurred in relation to the interest income realized. Lower ratio is favorable from profitability point of view. The ratio is obtained by dividing total interest expenses by total interest income.

$$\text{Total Interest Expenses to Total Interest Income Ratio} = \frac{\text{Total Interest Expenses}}{\text{Total Interest Income}}$$

Total interest expenses consist of interest expenses incurred for premium, borrowing and loans taken by the insurance company. Total interest income includes interest income received from loans, advances, cash credit, overdrafts, and Government securities, inter insurance and other investments.

3.6.2 Statistical Tools

Various financial tools mentioned above were used to analyze the working capital management of Nepal life insurance company Ltd. Likewise, the relationship between different various related to the study topics were also drawn out using statistical tools.

a) Trend analysis

Different variants change according to change of time. Variation of such variation of such variants with time can be systematically studied and analyzed. The tools that are used to show grandly increase or decrease of variables over a period of time is known as trend analysis. The financial statement may be analyzed computing trends of series of information. This method determines the action upwards or downwards and involves the computation of the percentage relationship that each statement item has been extracted from the same item in base year. The information for a number of years is taken upward first year; generally the first year is taken as a base year. With the help of trend analysis the tendency of variables over the period can be seen clearly.

This section expresses the trend of same related items, which have effect in working capital.

b) Correlation analysis

The correlation analysis is the technique used to measure the closeness of the relationship between the variables. It helps us in determining the degree of relationship between two or more variables. It describes not only the magnitude of correlation but also its direction. The coefficient of correlation is a number, which indicates to what extent two variables are related with each other and to what extent variations in one leads to the variation in the. It is denoted by 'r'.

The value of coefficient of correlation always lies between ± 1 . A value of -1 indicates a perfect negative relationship between the variables and a value of +1 indicates a perfect positive relationship. A value of zero indicates that there is no relation between the variables. The zero correlation coefficient means the variables are uncorrelated.

The formula for the calculation of coefficient of correlation between X and Y is given below.

$$r = \frac{\sum xy}{\sqrt{\sum x^2 \sum y^2}}$$

Under this study following coefficient of correlation are calculated.

-) Co-efficient of correlation between Investment on Government Security and Total premium fund.
-) Co-efficient of correlation between Loan and Advance and Total premium.
-) Co-efficient of correlation between Cash and Bank Balance and Current Liabilities.
-) Co-efficient of correlation between Loan and Advances and Net Profit.

Probable error of correlation coefficient

Probable error of correlation coefficient is an old measure of testing the reliability of an observed value of correlation coefficient. It is calculated to find the extent to which

correlation coefficient is dependable as it depends upon the condition of random sampling.

Probable error of correlation coefficient denoted by P.E(r) is obtained as;

$$P.E(r) = 0.6745 \left| \frac{1 Z r^2}{\sqrt{n}} \right|$$

Where,

$$\frac{1 Z r^2}{\sqrt{n}} = \text{Standard Error}$$

Reasons for taking 0.6745 is that in a normal distribution 50% of observation lie in the range $\mu \pm 0.6745$ where, μ and σ denoted the populations mean and standard deviation.

P.E(r) is used to test if an observed value of sample correlation coefficient is significant of any correlation in the population. It is used to interpret whether the calculated value of r is significant or not.

If $r > P.E$; correlation is insignificant. So there is no evidence of correlation

If $r > 6P.E$. r is definitely significant.

CHAPTER- IV

DATA PRESENTATION AND ANALYSIS

This chapter presents the analysis and interpretation of various components of working capital of Nepal life insurance company ltd, following the research methodology dealt in third chapter. Relevant data and information of working as well as financial of Nepal life insurance company Ltd are presented and analyzed accordingly. Ratio analysis, trend analysis as well as composition of working capital which means current assets, liquidity, current liabilities, turnover, leverage and profitability of Nepal life insurance company Ltd are analyzed covering the date 061/062 to 065/066 BS. Correlation analysis is used as a statistical tool for further discover the working capital management of Nepal life insurance company Ltd.

4.1 Analysis of composition of working capital

To operate day to day business activities, different kinds of current assets are needed. According to the nature of business and attitude of management towards risk, different organizations use different current assets. Firms having risk adverse management, maintain high liquid assets in its total working capital and vice versa. The success or failure of the organization depends upon the effective composition of the whole working capital management. Excess current assets increase cost and affect on the profitability and low current assets affects the liquidity position of the organization. Therefore, the effective composition of working capital should be made in any organization.

4.1.1 Percentage of current Assets on Total Assets.

Current assets are generally required to meet working capital, which are to fulfill the need of daily business requirement. The ratio can be analyzed to study the composition of working capital of the company. Higher percentage of current assets in total assets shows the greater liquidity position of the firm, the lower risk of technical insolvency and vice- versa. The table below represents the percentage of current assets on total assets of Nepal life insurance company Ltd.

Table no. 1

Percentage of current assets on total assets

Rs in million.

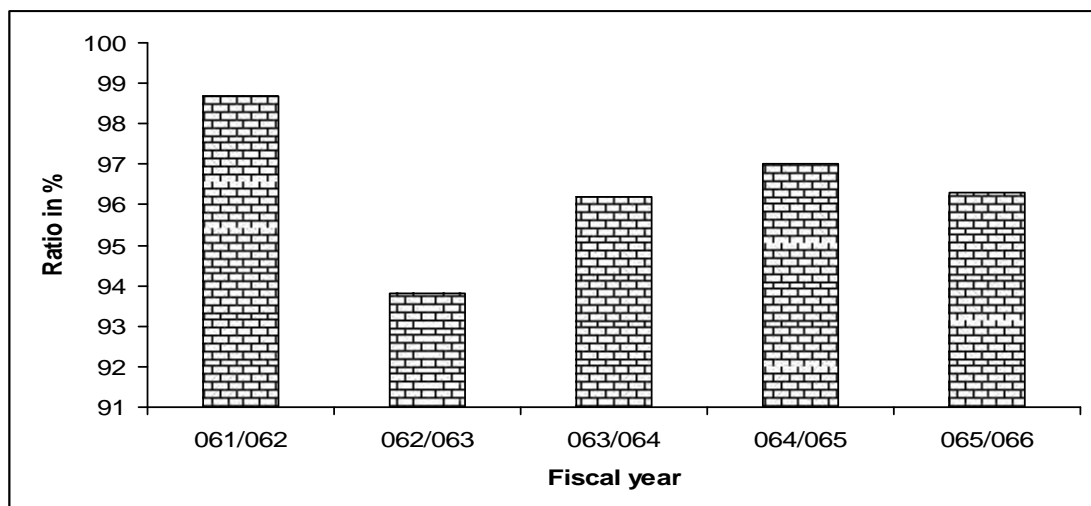
Fiscal year	Current assets	Total assets	% of CA on TA.
061/062	3049.82	3091.10	98.7
062/063	4464.15	4756.94	93.8
063/064	7658.40	7954.66	96.2
064/065	11329.95	11668.35	97
065/066	17226.73	17881.75	96.3
Total			482
Mean			96.4
S.D			1.58
C.V			1.62

Source: Appendix 1

The above table 1 shows that 96.4 % of total assets are held by current assets in all fiscal year during the study period. The proportion of current assets is on fluctuating trend. In the fiscal year 061/062 the volume of current assets is 3049.82 million and it is 98.7 % of total assets, which is the highest percentage proportion in over the study period of time. The proportion of current assets is lowest in the fiscal year 062/063, i.e. 93.8. The standard deviation and coefficient of covariance was 1.58 and 1.62 % respectively. During the study period.

Figure 6

Percentage of current assets on total assets



The above figure shows the relation between current assets and total assets.

4.1.2 Percentage of Cash and Bank balance to Current Assets.

This ratio directly affects the working capital management of the organization. High ratio shows the higher liquidity position of the firm. It is calculated by dividing cash and bank balance by current assets, which is presented in following table.

Table 2
Percentage of Cash and Bank balance to Current Assets

Rs in million

Fiscal year	Cash and bank balance	Current Assets	% of cash and bank bal. on CA
061/062	130.73	3049.82	4.29
062/063	115.95	4464.15	2.6
063/064	517.22	7658.40	6.8
064/065	437.43	11329.95	3.9
065/066	1547.68	17226.73	9.1
Total	2749.01	43729.05	26.69
Mean	549.80	8745.81	5.32
S.D			2.32
C.V			43.61

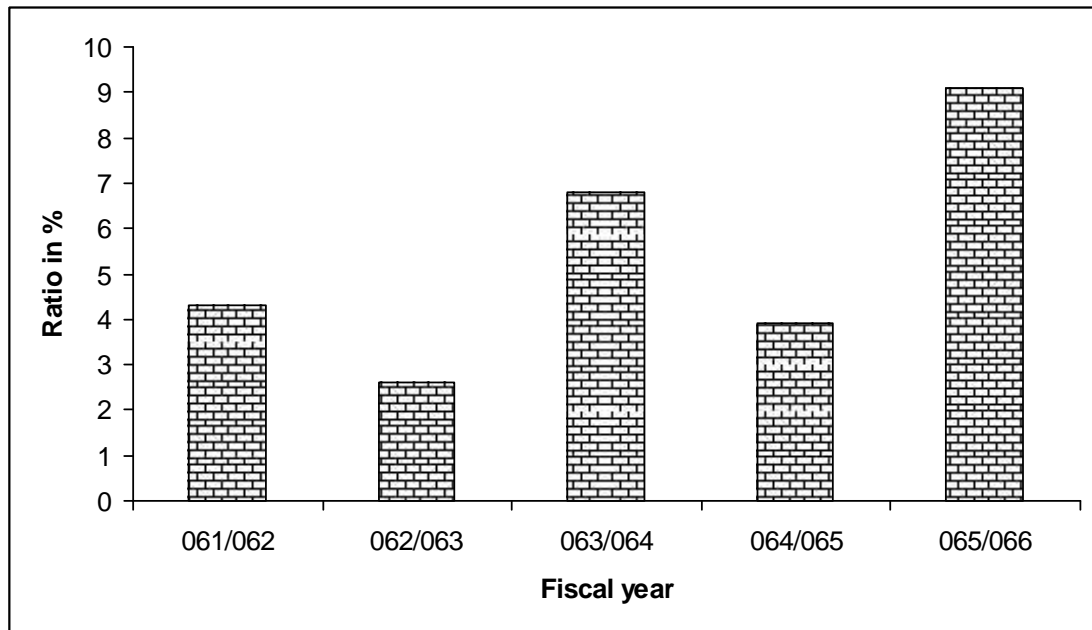
Source Appendix 2

From the above table proportion of cash and bank balance to current assets is in fluctuating trend during the study period. The ratio varies from minimum of 2.6% in the fiscal year 062/063 to maximum of 6.8% in the fiscal year 063/064. The less of current assets is held by cash and bank balance. From the above analysis, in average 5.32 % of current assets is held by cash and bank balance in all fiscal year during the study period. The average cash and bank balance of five fiscal years, 061/062 to 065/066 is 549.8 million. The standard deviation and coefficient of covariance was 2.38 and 43.61 % respectively .During the study period.

The relationship between cash and bank balance to current assets can be shown more effectively with the help of following figure.

Figure no-7

Percentage of Cash and Bank balance to Current Assets



The above figure shows the relation between cash & bank balance and current assets.

4.1.3 Percentage of Net working capital on current assets

Net working capital represents the excess of current assets over current liabilities. If the current liabilities are in excess rather than current assets, the difference is called working capital deficit. It is the rule of finance that the working capital in a business should be sufficient when compared to current liabilities. If a business has low working capital or working capital deficit, a time will come, when it has to find out some new sources for further funds to increase the working capital, otherwise current assets should have to be liquidity to pay off the current liabilities.

The following table shows the relationship between net working capital and current assets of Nepal Life Insurance Company.

Table-3
Percentage of Net working capital on Current Assets

Rs. In million

Fiscal year	NWC	Current assets	% of NWC on CA.
061/062	346.61	3049.82	11.36
062/063	310.35	4464.15	6.95
063/064	497.44	7658.40	6.5
064/065	729.95	11329.95	6.44
065/066	851.49	17226.73	4.64
Total	2735.84	43729.05	35.89
Mean	547.17	8745.81	7.24
S.D			2.24
C.V			30.94

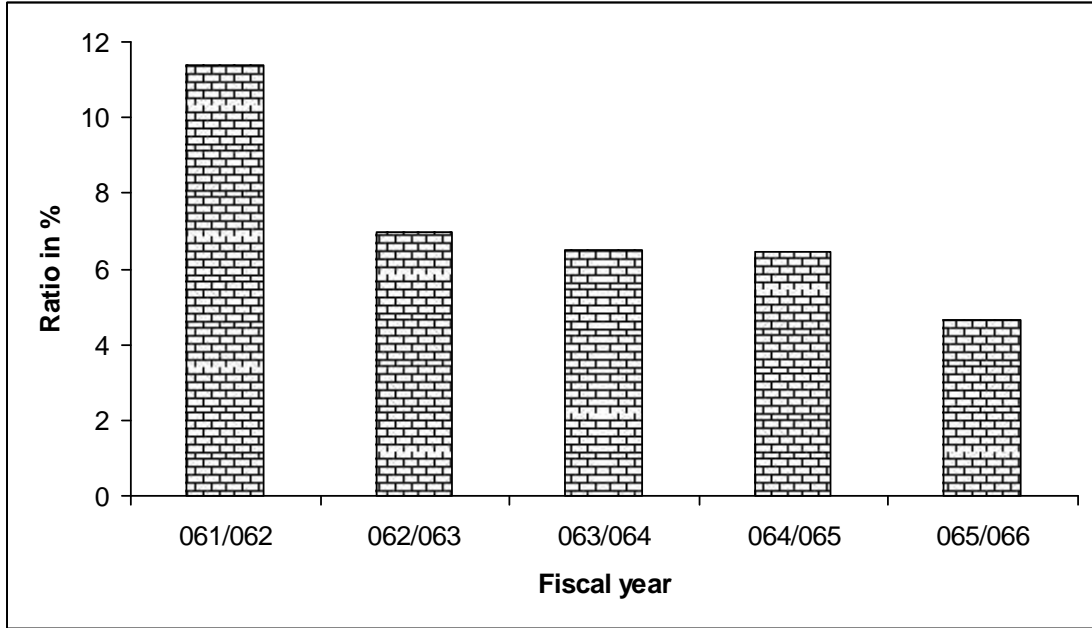
Source appendix 3

From the above table- 3, the relationship between Net working capital and current assets of Nepal life insurance company ltd during the five year period can be seen. It is evident from the table that the current assets are fluctuating during the study period than Net working capital. The ratio of NWC on CA has fluctuated from 4.94 % to 11.36% during the study period. The standard deviation and coefficient of covariance was 2.24 and 30.94 % respectively. During the study period,

The relationship between NWC and CA can be shown more effectively by the help of multiple figures as follows.

Figure no- 8

Percentage of Net working capital on Current assets



The above figure shows the relationship between NWC and Current assets of NLIC.

4.1.4 Composition of Current Assets

For the day to day business operation, different types of current assets are required. The compositions of current assets of NLIC are cash & bank balance, money at call or short notice, loan & advances and government securities. Miscellaneous current assets are also component of current assets. Pre paid expenses, outstanding income like interest receivable and other current assets are included in miscellaneous current assets.

Table 4
Components of Current Assets of NLIC

Rs. In Million

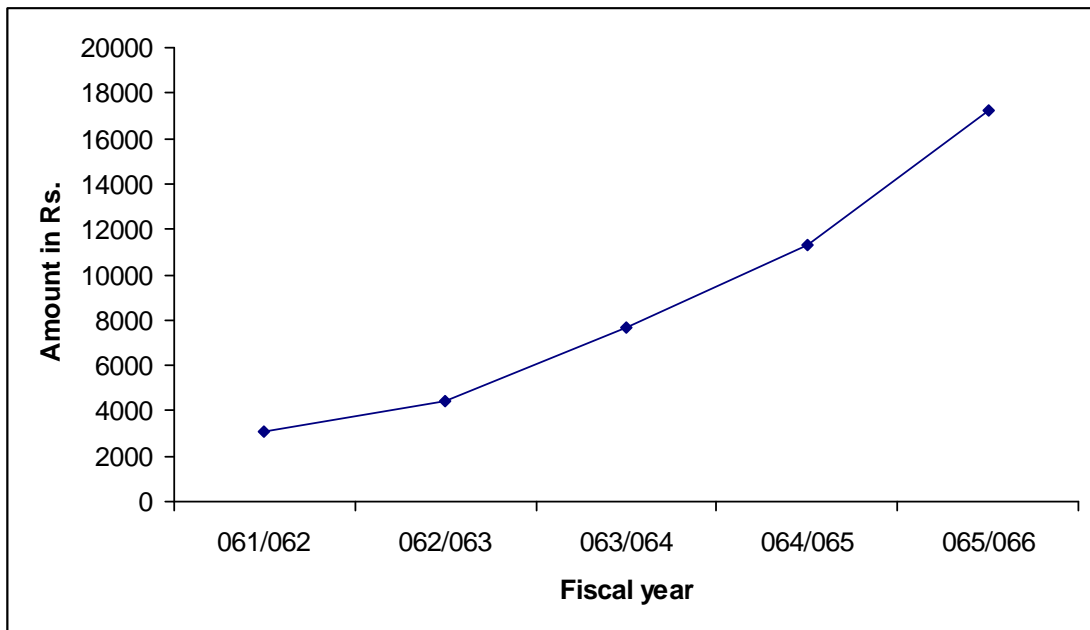
Fiscal Year	C&B Balance	debtors	Loan & Advances	Government Securities	Misc. C.A.	Total CA
061/062	130.73	22.47	2570.78	276.27	49.57	3049.82
062/063	115.95	100.00	3789.12	398.36	60.72	4464.15
063/064	517.23	229.49	6222.59	325.75	63.38	7658.40
064/065	437.43	584.74	9335.60	884.08	88.10	11329.95
065/066	1547.68	484.84	13328.62	1693.57	172.02	17226.73

(Sources: Financial Summary of Nepal life insurance company Ltd.)

In fiscal year 061/062, total current assets of the insurance company was amounted to Rs. 3049.82 million which included Rs. 130.73 million of cash & bank balance, Rs. 22.47 million of debtors or short notice, Rs. 2570.78 million of loan & advances, or investment. Rs. 276.27 million of government securities and Rs. 49.57 million of miscellaneous current assets. The current assets of the insurance company increased in fiscal year 061/062 to 065/066. In the year during the study periods in fiscal year 062/063, 063/064, 064/065 and 065/066 the level of total current assets are Rs. 4464.15 million, Rs. 7658.40 million, Rs. 11329.95 and Rs. 17226.77 million respectively.

Figure 9

Components of Current Assets of NLIC



As stated in above figure 9 the current assets of Nepal life insurance was increasing trend in fiscal year 061/062 to 065/066.

4.1.5 Components of Current Liabilities

Current liabilities is a short term obligation which is payable within a year. The compositions of current liabilities at NLIC are deposit, short-term loans (Borrowings), and bill's payable and miscellaneous current liabilities. Tax provision, staff bonus, divided payable and other current liabilities are included in miscellaneous current liabilities.

Table 5
Components of Current Liabilities of NLIC

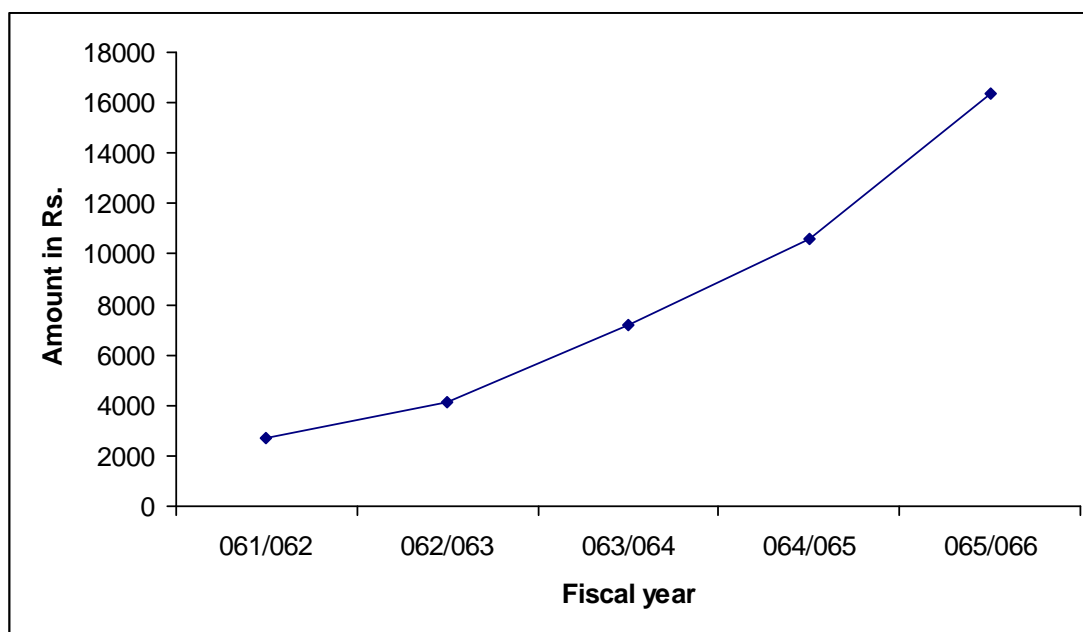
Rs. In Million

Fiscal Year	Premium fund & Other A/C	Short Term Loan	Bills Payable	Misc. CL	Total CL
061/062	2461.92	190	0.43	50.86	2703.21
062/063	3918.08	181.15	-	54.57	4153.80
063/064	6625.08	430	14.24	105.89	7175.21
064/065	10191.44	205.13	15.88	187.55	10600
065/066	15854.54	327.60	17.88	174.96	16375.24

(Sources: Financial Nepal life insurance company Ltd.)

As stated in above table total CL of NLIC was Rs. 2703.21 million in fiscal year 061/062. The current liabilities of NLIC were increasing trend in fiscal year 061/062 to 065/066. At the end of fiscal year 065/066, the current liabilities of NLIC is Rs. 16375.24 million which consist of Rs. 1584.84 million, Rs. 327.60 million, Rs. 17.88 million and Rs. 175.96 million of insurance premium fund & other accounts, short-term loan, bills payable & miscellaneous current liabilities respectively.

Figure 10
Components of Current Liabilities of NLIC



As stated in above figure 4.1 the current assets of NLIC was increasing trend in fiscal year 061/062 to 065/066.

4.1.6 Composition of Net working capital of NLIC

Net working capital is the difference between current assets and current liabilities. Net working capital can be positive or negative. To achieve the goal of overall business, the determinants of working capital management should be as accurate as possible. It means money invested on working capital should be neither more nor less because the position of working capital affects not only liquidity but also profitability of the organization. The investment decision should be made on any type of current assets by considering their role in insurance and determining which one is more beneficial to the insurance and which is not.

The following table shows the amount of Net working capital of Nepal life insurance company Ltd. of the study period.

Table 6
Net Working Capital of NLIC

(Rs. In Million)

Fiscal Year	Current Assets (CA)	Current Liabilities (CL)	Net Working Capital WC = CA-CL
061/062	3049.82	2703.21	346.61
062/063	4464.15	4153.80	310.35
063/064	7658.40	7175.21	483.19
064/065	11329.95	10600.00	729.95
065/066	17226.73	16375.24	851.49

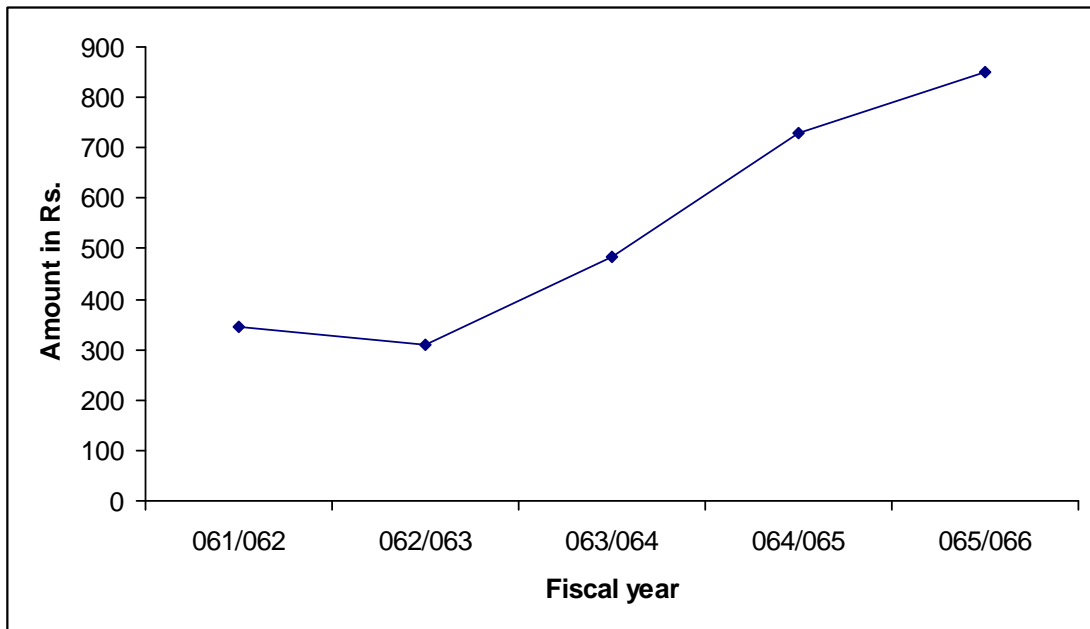
(Sources: Financial Summary of Nepal life insurance company Ltd.)

In above table 6. Shows that the net working capital is decreased in fiscal year 061/062 to 062/063 and then increasing trend in fiscal year 063/064 to 065/066. The highest net working capital is Rs. 851.49 million in fiscal year 065/066 and lowest is Rs. 310.35 million in fiscal year 062/063.

Following figure more clearly shows the trend of Net working capital of Nepal Life Insurance Company

Figure 11

Net Working Capital of NLIC



As stated in above figure 4.3 shows the net working capital of the Nepal decreased in fiscal year 061/062 to 062/063 and then was increasing trend in fiscal year 063/064 to 065/066.

The working capital depicts the liquidity position of any organization i.e, higher the working capital higher the liquidity and vice-versa. Therefore above figure status that the liquidity of the Nepal life insurance was satisfactory position over the study period.

4.2 Ratio and Trend Analysis

Financial tools are an instrument that helps to analyze and interpret the financial performance of an organization. In other words, financial tools help to analyze the strength and weakness of a firm. Ratio analysis is a most important part of financial analysis, which is used in this study that gives us financial performance of selected organization. It helps to show the quantities relationship between two numbers. It may

be expressed in terms of proportion, rates and times or in percentage. It is used to compare a firm's financial performance and status with other firms.

Trends give clue to whether the financial situation is improving or whether it is deteriorating. In other words trend analysis of ratio lies in the fact that the analyst can know the direction of movement, i.e. whether the movement is favorable or not. As mentioned in research methodology, liquidity, turnover and profitability ratio are calculated.

4.2.1 Liquidity Ratio

Liquidity ratios have been employed to test the ability of the insurance company to pay immediate liabilities (i.e. short term liabilities). Liquidity of any business organization is directly related with the working capital or current assets and current liabilities of that organization. In other words, one of the main objectives of working capital management is keeping sound liquidity position. Insurance is different organization which is engaged in mobilization of funds. Therefore, without sound liquidity position, NLIC is not able to operate its function. To measure the NLIC solvency position or ability to meet its short-term obligation, various liquidity ratios are calculated and to know the trend of liquidity, trend analysis of liquidity ratios have been considered.

4.2.1.1 Current Ratio

This ratio indicates the current short-term solvency position of insurance company. Higher current ratio indicates better liquidity position. In other words, current ratio represents a margin of safety, i.e. a cushion of protection for creditors and the higher the current ratio, greater than margin of safety, larger the amount of current assets in relation to current liabilities, more the insurance ability to meet its current obligations. It is calculated as follows:

$$\text{Current Ratio (CR)} = \frac{\text{Current Assets (CA)}}{\text{Current Liabilities (CL)}}$$

The following table shows the current ratio to compare the working capital management of Nepal life insurance company Ltd.

Table 7
Current Ratio of NLIC

Rs. In Million

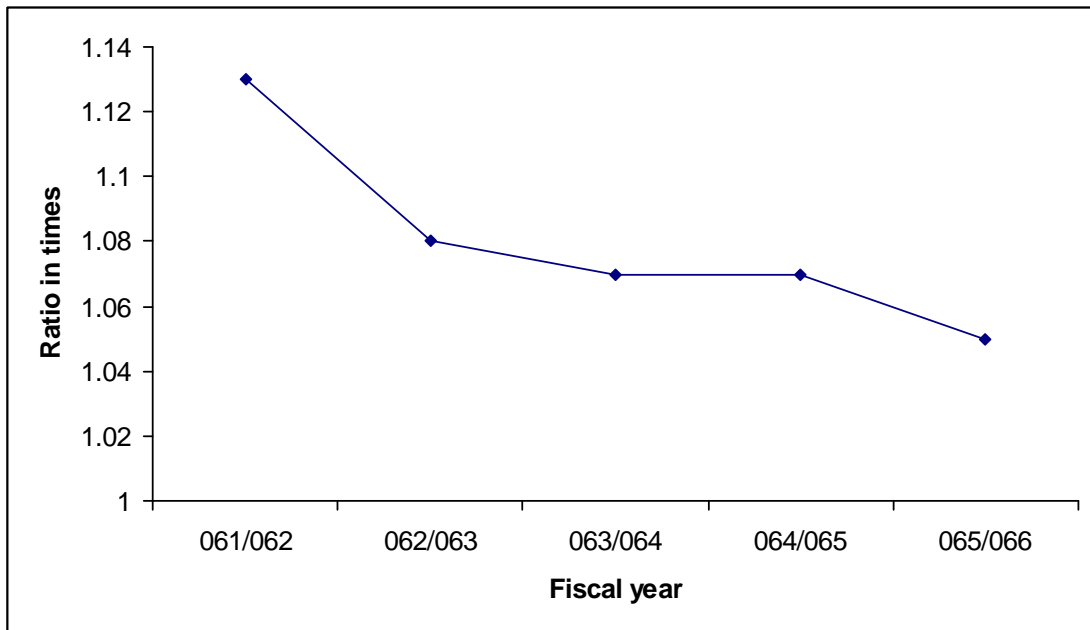
Fiscal Year	Total (CA)	Total (CL)	Current Ratio /times
061/062	3049.82	2703.21	1.13
062/063	4464.15	4153.80	1.08
063/064	7658.40	7175.21	1.07
064/065	11329.95	10600	1.07
065/066	17226.73	16375.24	1.05
Total	43729.05		5.4
Mean	8745.81		1.08
S.D			0.039
C.V			3.61

(Sources: appendix 7)

The above table 4.4 depicts that the current ratio of NLIC which was decreasing. In fiscal year 061/062 to 065/066, the current ratio was decreasing trend in the study period. The highest current ratio is 1.13 in the fiscal year 061/062 and the lowest current ratio is 1.05 in the fiscal year 065/066. In fiscal year 063/064 and 065/066, the current ratio is same at 1.07. The standard deviation and coefficient of covariance was 0.039 and 3.61 % respectively during the study period.

Following figure more clearly shows the trend of current ratio of Nepal life insurance company.io,

Figure 12
Current Ratio of NLIC



The above figure 12 depicts that the trend line of Nepal life insurance company Ltd. which was decreasing in fiscal year 061/062 to 065/066.

The above analysis helps to find out the liquidity position of the insurance. In current ratio, for many types of business 2:1 is considered to be an adequate ratio. It indicates that the bank has sufficient liquidity to remain solvent even at the ratio of 1.05:1 in fiscal year 065/066. It was the minimum ratio during the study period. It is true that the higher the ratio indicates the greater ability of a firm to pay its bills.

4.2.1.2 Quick / Acid test Ratio

Quick Ratio establishes a relationship between quick or liquid assets and current liabilities. An asset is liquid if it can be converted into cash immediately or reasonably soon without a loss of original value. Cash is a most liquid. Other assets which are considered to be relatively liquid and included in quick assets are book debtors or short notice and marketable securities. Under this study cash & bank balance, debtors or short notice and government securities are included in quick assets. This quick ratio is calculated by dividing the quick assets by current liabilities.

$$\text{Quick/Acid Test Ratio} = \frac{\text{Quick Assets (QA)}}{\text{Current Liabilites (CL)}}$$

The following table shows the quick ratio of Nepal life insurance company Limited.

Table 8
Quick Ratio of NLIC

Rs. In Millions

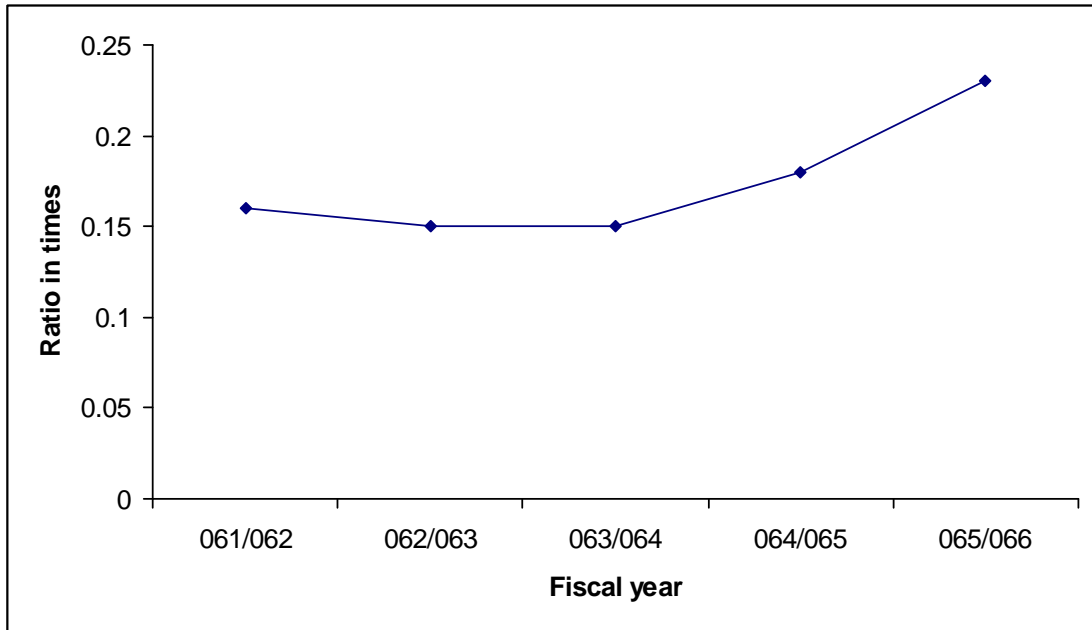
Fiscal Year	Total quick assets (QA)	Total (CL)	Quick Ratio
061/062	429.47	2703.21	0.16
062/063	614.31	4153.80	0.15
063/064	1072.43	7175.21	0.15
064/065	1906.25	10600	0.18
065/066	3726.09	16375.24	0.23
Total			0.87
Mean			0.174
S.D			0.0012
C.V			0.69

(Sources: Financial Summary of NLIC Ltd. & Appendix 8)

The above table depicts that quick ratio of NLIC is 0.16 in fiscal year 061/062 and decreased in fiscal year 061/062 to 062/063. The quick ratio was same in fiscal year 062/063 and 063/064 is 0.15 and then the quick ratio was increasing in fiscal year 064/065 to 065/066. The highest ratio is 0.23 in fiscal year 065/066 and lowest is 0.15 in fiscal year 062/063 and 063/064. The standard deviation and coefficient of covariance was 0.0012 and 0.69 % respectively during the study period.

Following figure more clearly shows the trend of Quick ratio of Nepal Life Insurance Company.

Figure 13
Quick Ratio of NLIC



The above figure 13 depicts that the trend line of quick ratio of NLIC decreased in fiscal year 061/062 to 062/063 and increased in fiscal year 064/065 to 065/066. The above analysis helps to conclude that the quick ratios of NLIC were satisfactory.

4.2.1.3 Cash and Bank balance to Total premium fund Ratio

The ratio shows the ability of insurance's immediate funds to cover its (current, margin, call & saving) premium. It can be calculated by dividing cash and bank balance by total premium.

$$\text{Cash and Bank Balance to Total premium fund Ratio} = \frac{\text{Cash and Bank Balance}}{\text{Total premium fund}}$$

The following table and figure shows the cash & Bank balance to total premium fund ratio of the Nepal life insurance Ltd. over the study period.

Table 9
Cash and Bank Balance to Total premium fund Ratio of NLIC

Rs. In Million

Fiscal Year	Cash & Bank Balance	Total premium fund	Ratio
061/062	130.75	1265.42	0.10
062/063	115.95	2285.99	0.05
063/064	517.23	3602.52	0.14
064/065	437.43	5628.72	0.08
065/066	1547.68	8696.60	0.12
Total			.049
Mean			0.098
S.D			0.0099
C.V			10.1

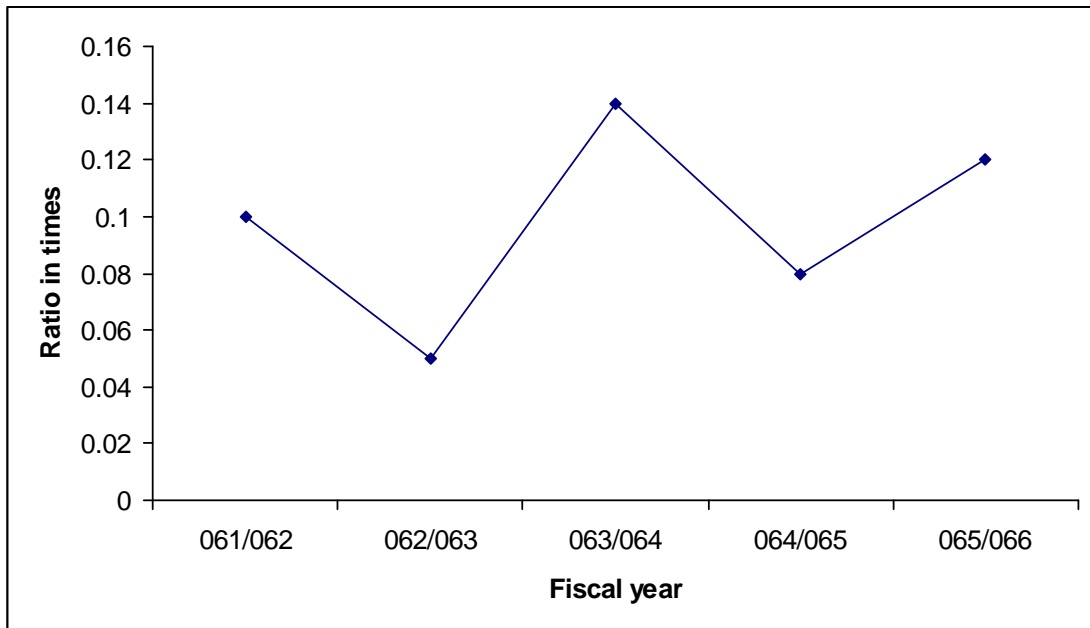
(Sources: Financial Summary NLIC Ltd., Appendix 9.)

The above Table 4.6 depicts that the cash & bank balance to total premium of NLIC was fluctuating over the study period. The highest ratio is 0.14 in the fiscal year 063/064 and lowest is 0.05 in the fiscal year 062/063. The relation between cash at bank to total premium implies good. Because C.V is 10.1%. The standard deviation and coefficient of covariance was 0.0099 and 10.1 % respectively during the study period.

Following figure more clearly shows the trend of cash and bank balance to total premium ratio of Nepal Life Insurance Company.

Figure 14

Cash and Bank Balance to Total premium fund Ratio of NLIC



The above figure also depicts that the cash and bank balance to total premium ratio was fluctuating trend up to fiscal year 061/062 to 065/066.

The above analysis helps to find out the ability of insurance immediate fund to cover its current margin, call & insurance claim of the insurance or liquidity position of the bank. But the large amount of idle cash & bank balance badly affect the profit ability of the insurance. So, the position of Nepal life insurance seems as satisfactory level over the study period.

4.2.1.4 Absolute liquidity Ratio

Absolute liquidity ratio measures the capacity of a firm to pay its short term obligations in absolute liquidity assets of the firm i.e. cash. Quick assets include the account receivables which is less liquid form of assets. It cannot be pay the short term obligations easily as cash. Therefore, absolute liquidity ratio is calculated here to find out the short-term solvency of NLIC in terms of cash. The absolute liquidity ratio is computed by dividing cash and bank balance by current liabilities.

The following table shows the absolute liquid ratio of NLIC.

Table- 10

Absolute liquid ratio of NLIC

Rs in million

Fiscal year	Cash & Bank bal.	Current Liabilities	Absolute liquid ratio (times)
061/062	130.7	2703.2	0.048
062/063	116	4153.8	0.028
063/064	517.2	7175.21	0.072
064/065	437.4	10600	0.041
065/066	1547.7	16375.2	0.095
Total			0.284
Mean			0.057
S.D			0.016
C.V			28.07

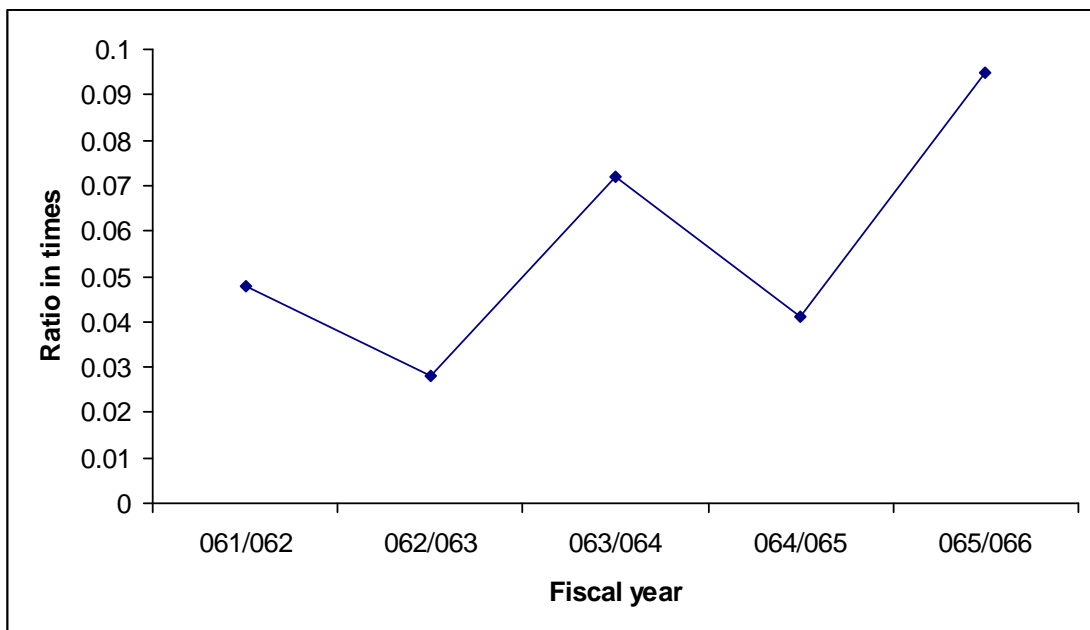
Source :- (Appendix, 10 and financial summary of NLIC)

The above table shows the fluctuating trend of absolute liquid ratio during the study period. It is fluctuated from 0.028 in the FY 062/062 to 0.095 in the FY 065/066. The average absolute liquid is 0.057. In FY 065/066 there is strongest absolute liquidity position and in FY 062/063 there is lowest liquidity position among the study period data. The standard deviation and coefficient of covariance was 0.016 and 28.07 % respectively during the study period

The following figure shows more clearly the absolute liquidity position of NLIC.

Figure 15

Absolute liquidity ratio of NLIC



Above figure shows that absolute liquidity position of Nepal life insurance Company limited was in the fluctuating trend during the study period.

4.3 Activity or turnover ratio

It is also known as activity, efficiency or assets utilization ratio. This ratio shows efficiency of assets management, i.e. how efficient the assets management is. It means how efficiently and rapidly, firm can convert its assets. The greater turnover ratio indicates higher utilization of assets. Thus, it measures the degree of effectiveness in use of resources or fund by a firm. There are following turnover ratios that can be calculated.

4.3.1 Investment to total premium fund Ratio

This ratio shows how efficiently the major sources of insurance have been mobilized. It is calculated dividing total investment by total premium. Total investment includes government Treasury bill, development bonds, other company's share and other type of investment.

The following table shows the effectiveness in utilization of total premium.

Table 11
Investment to total premium fund ratio

Rs in million

Fiscal year	Investment	Total premium fund	Ratio
061/062	286.6	2461.9	0.12
062/063	651.0	3918	0.17
063/064	865.2	6625	0.13
064/065	1150.1	10191.4	0.11
065/066	2176.4	15854.8	0.14
Total			0.67
Mean			0.134
S.D			0.02
C.V			14.92

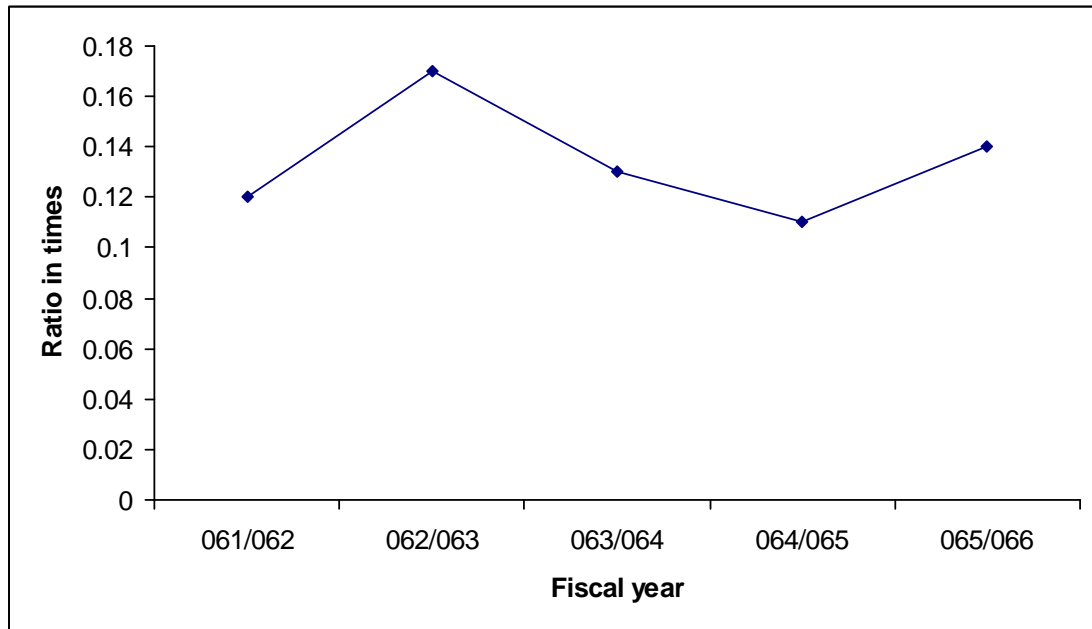
Source: financial summary of NLIC & Appendix 11.

From the above table and figure there is fluctuating trend of investment from the total deposit. It is fluctuated 11% in FY 064/065 to 17% in FY 062/063. The highest ratio 17% in FY 062/063 indicates the higher utilization of premium fund in the investment. In average there is 13.4% investment from premium fund during the study period. High ratio indicates management efficiency regarding the utilization of deposits and low ratio is result of less efficiency in use of fund. The standard deviation and coefficient of covariance was 0.02 and 14.92 % respectively during the study period

Following figure more clearly shows the trend of investment to total premium ratio of Nepal Life Insurance Company.

Figure 16

Investment to total premium fund Ratio of NLIC



4.3.2 Loan and Advances to total premium fund Ratio

This ratio is calculated to find out how the insurance are successful utilizing the outsiders' fund i.e. total premium for profit generating purpose in the form of extending loan and advances. It is calculated as;

$$\text{Loans and Advances to Total premium fund Ratio} = \frac{\text{Loans \& Advances}}{\text{Total premium}}$$

The following table and figure shows the effectiveness in utilization of total premium fund of ratio of Nepal Life Insurance Company.

Table 12
Loan & Advances to Total premium fund Ratio of NLIC

Rs. In Million

Fiscal Year	Loan and advances	Total premium fund	Ratio
061/062	2570.78	2461.92	1.04
062/063	3789.12	3918.08	0.97
063/064	6222.59	6625.08	0.94
064/065	9335.60	10191.44	0.92
065/066	13328.62	15854.80	0.84
Total			4.71
Mean			0.942
S.D			0.076
C.V			8.07

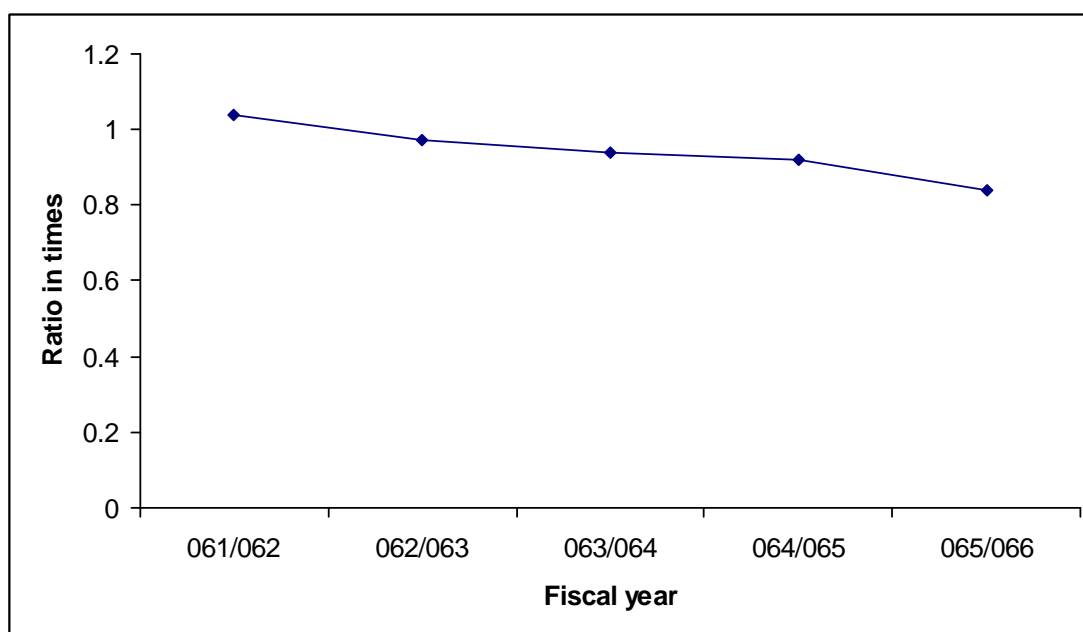
(Sources: Financial Summary of NLIC Ltd. & Appendix 12)

The above table 12 shows the position and ratio of loan and advances to total premium of NLIC in fiscal year 061/062 to 065/066. The amount of loan & advances of the insurance has been increasing over the study period. Similarly, the amount of total premium of the insurance has been also increasing over the study period. Likewise, the loan and advances to total premium ratio was decreasing in fiscal year 061/062 to 065/066. The highest ratio is 1.04 in fiscal year 061/062 and lowest is 0.84 in fiscal year 065/066. The Standard Deviation is 0.076 and C.V is 8.07%. During the study period.

Following figure more clearly shows the trend of loan and Advance to total premium ratio of Nepal Life Insurance Company.

Figure 17

Loan & Advances to Total premium fund Raito of NLIC



4.4 Profitability Ratio

Profit is an important factor that determines the firm’s expansion & diversification. A required level of profit is necessary for the firm’s growth and survives in the competitive environment. Profitability ratios have been employed to measure the operating efficiency of the sampled insurance company. Through profitability ratio the lender and investor want to decide whether to invest in a particular business or not. Various profitability ratios are calculated as follows:

4.4.1 Interest earned to total Assets Ratio

This ratio shows percentage of interest income as compared to the assets of Nepal Life Insurance Company. It indicates how properly utilize the insurance assets for income generating purpose. It is computed as;

$$\text{Interest Earned to Total Assets Ratio} = \frac{\text{Interest Earned}}{\text{Total Assets}} \times 100\%$$

The following table and figure shows the interest earned to total assets ratio of the NLIC.

Table 14
Interest Earned to Total Assets Ratio of NLIC

Rs. In Million

Fiscal Year	Interest Earned	Total Assets	Ratio (in %)
061/062	198.18	3091.10	6.41
062/063	305.56	4756.94	6.42
063/064	481.52	7954.66	6.05
064/065	729.87	11668.35	6.26
065/066	1265.58	17881.75	7.08
Total			32.21
Mean			6.44
S,D			0.332
C.V			5.15

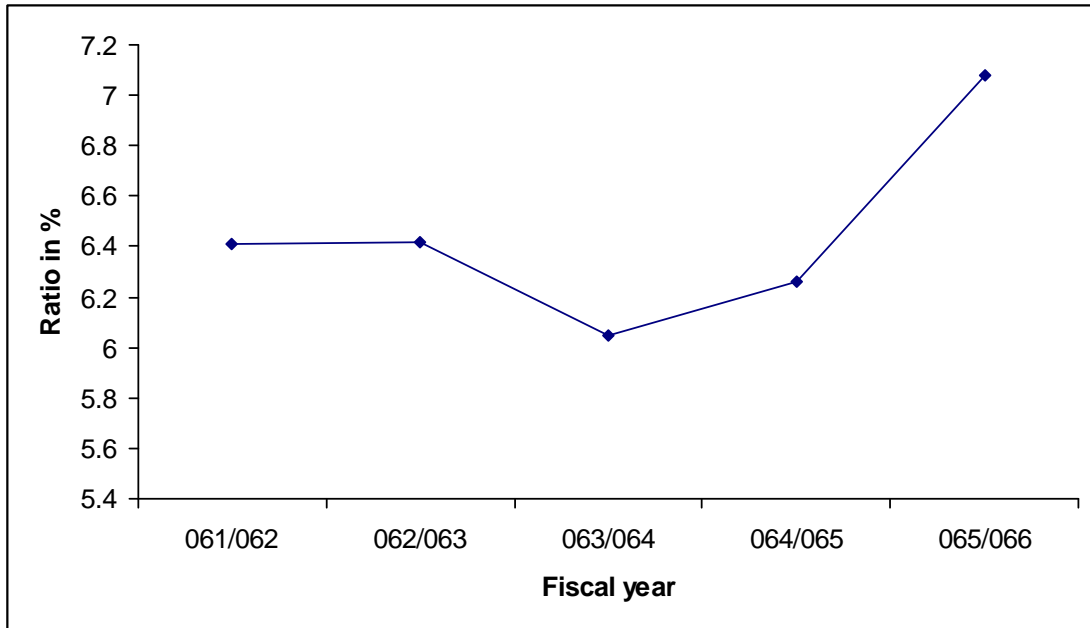
(Sources: Financial Summary of NLIC Ltd & Appendix 13.)

The above table 14 shows that the amount of interest earned has been increasing trend of NLIC over the study period. Similarly, the amount of total assets of the NLIC has been increasing over the study period. The interest earned to total assets ratio of the insurance was little bit fluctuating. It was stands at 6.41% in fiscal year 061/062. It was slightly increase in fiscal year 062/063 and fiscal year 063/064 was decreased than increasing trend in fiscal year 064/065 and 065/066. The standard deviation and coefficient of covariance was 0.332 and 5.15 % respectively during the study period

The following figure shows the ratio of interest earned to total assets of the Nepal life insurance company.

Figure 19

Interest Earned to Total Assets Ratio of NLIC



The above figure depicts that the interest earned to total assets ratio of NLIC seem quite fluctuating over the study period. From fiscal year 061/062 to 062/063 the trend line of the insurance was increasing position and then decreasing trend line of fiscal year from 062/063 to 065/064. From fiscal year 063/064 to 065/066 the trend line of the insurance was increasing.

From the above analysis we can conclude that the interest earned to total assets of the NLIC is not so much satisfactory, it is quite ok. It implies that the insurance might not able to use its total assets of funds to earn interest.

4.4.2 Net profit to total assets ratio (ROA)

The ratio is useful in measuring the profitability of all financial resources invested in the firm's assets. It is also called net profit or loss to total assets or working fund ratio and denoted by ROA. It is calculated as;

$$\text{Net Profit to Total Assets Ratio} = \frac{\text{Net Profit After Tax}}{\text{Total Assets}} \times 100\%$$

The following table and figure shows the net profit to total assets ratio of NLIC.

Table 15
Net Profit to Total Assets Ratio of NLIC

Rs. In Million

Fiscal Year	Net Profit	Total Assets	Ratio (%)
061/062	70.28	3091.10	2.27
062/063	65.25	4756.94	1.37
063/064	95.31	7954.66	1.20
064/065	143.17	11668.35	1.23
065/066	217.92	17881.75	1.22
Total			7.29
Mean			4.16
S.D			0.412
C.V			28.22

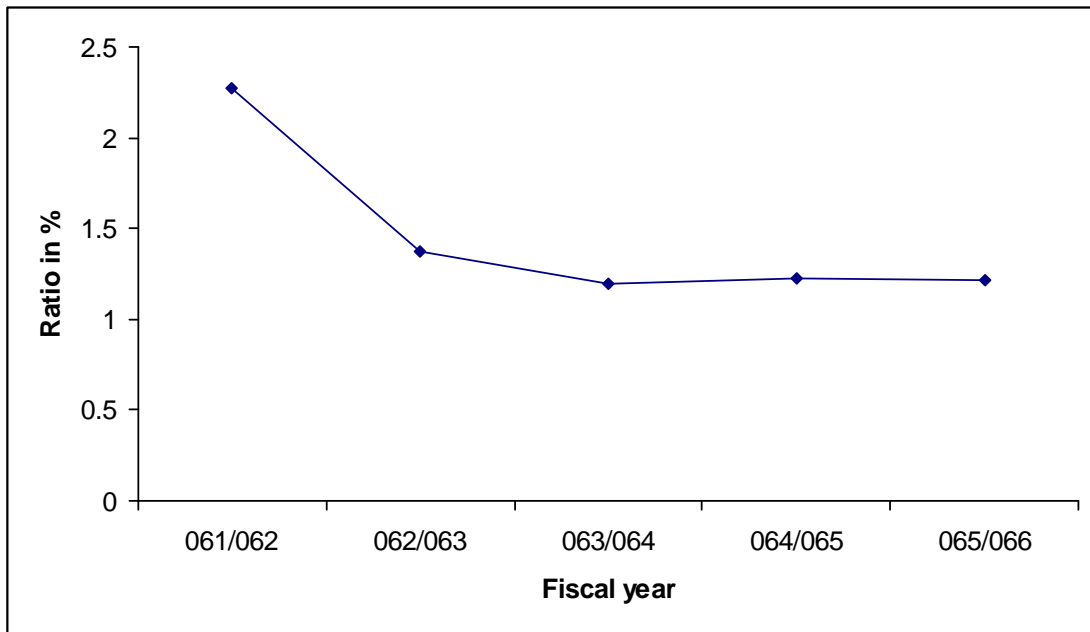
(Sources: Financial Summary of NLIC Ltd& Appendix 15.)

The above table depicts that amount of net profit was decreased in fiscal year 061/062 to 062/063 and, then it was increasing in fiscal year 063/064 to 065/066. The amount of total assets was increasing over all period during the study. Likewise, the ratio of net profit of total assets stands at 2.27% in fiscal year 061/062. It was decreasing in fiscal year 062/063 and 063/064 then increased in fiscal year 064/065 the highest ratio is 2.27 in fiscal year 061/062 and lowest is 1.20 in fiscal year 063/064. The standard deviation and coefficient of covariance was 0.412 and 28.22 % respectively during the study period

Following figure more clearly shows the trend of net profit to total assets ratio of Nepal Life Insurance Company.

Figure 20

Net Profit to Total Assets Ratio of NLIC



The above figure implies that the fluctuating net profit to total assets ratio in percentage of NLIC.

Above analysis help to find out whether the insurance efficiently used it working funds or total assets to earned higher rate of profit or not. The ratio of net profit to total assets of NLIC implies that the insurance company could not able to use its available working funds affectively over the study period.

4.4.3 Net Profit to Total premium fund Ratio

The ratio shows the relation of net profit earned by firm with the total premium accomplished. It is used to measuring the internal rate of return form premium. It is computed dividing the net profit by total premium. Higher ratio indicates the return form investment on loans and advances are desirable and lower ratio indicates the funds are not properly mobilizing. The following formula is used as:

$$\text{Net Profit to Total premium fund Ratio} = \frac{\text{Net Profit After Tax}}{\text{Total premium fund}} \times 100\%$$

The following table and figure shows the net profit to total premium ratio.

Table 16
Net Profit to Total premium fund Ratio of NLIC

Rs. In Million

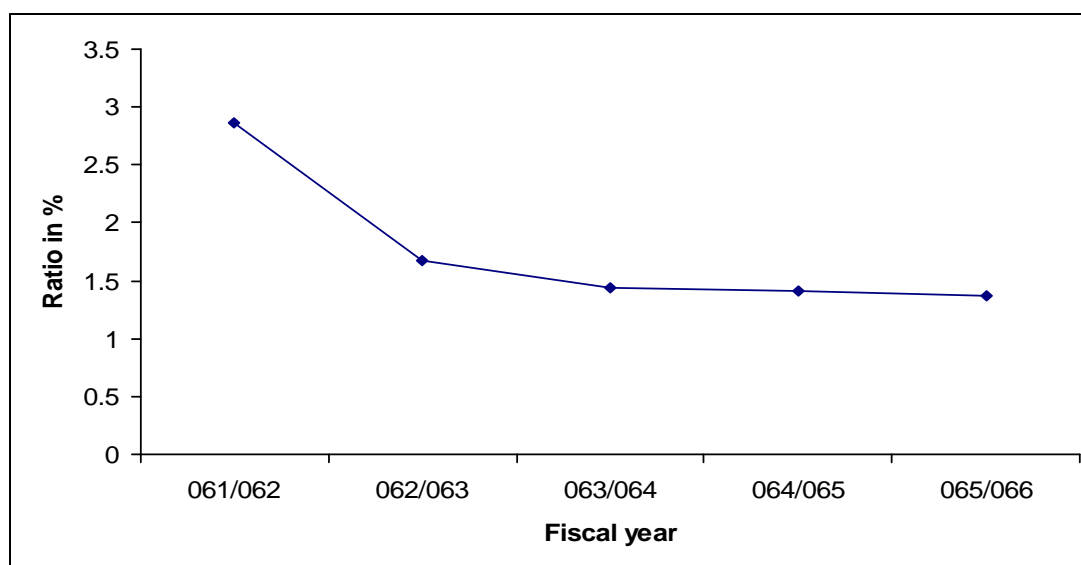
Fiscal Year	Net Profit	Total premium fund	Ratio (%)
061/062	70.28	2461.92	2.86
062/063	65.25	3918.08	1.67
063/064	95.31	6625.08	1.44
064/065	143.17	10191.44	1.41
065/066	217.92	15854.80	1.37
Total			8.75
Mean			1.75
S.D			0.26
C.V			15.38

(Sources: Financial Summary of NLIC Ltd. & Appendix 16)

Above table 18 depicts that the ratio of net profit to total premium ratio was decreasing over the study period. Highest ratio is 2.86 in fiscal year 061/062 and lowest is 1.37 in fiscal year 065/066. The standard deviation and coefficient of covariance was 0.26 and 15.38 % respectively during the study period

Following figure more clearly shows the trend of total premium to ratio of Nepal life insurance company.

Figure 21
Net Profit to Total premium fund Ratio of NLIC



The above Figure 23 depicts that the ratio net profit to total premium of NLIC was decreasing trend in over the study period.

The above analysis helps to find out whether the Insurance Company could able to mobilize of outsiders funds properly or not. The mobilization of outsiders fund is very important to earn profit for a insurance company. The efficient mobilization of total premium indicates the better performance of the insurance. Therefore, the insurance mobilized its premium as efficiently as possible. As shown in table we can easily conclude that the insurance could not able to mobilized its premium outside efficiently. The insurance should mobilize its premium properly to increase profit.

4.4.4 Total interest expenses to total interest income ratio.

The ratio shows the percentage of interest expenses incurred in relation to the interest income incurred. In other words, it indicates the how much percent of interest income is used as interest paid. Low ratio is favorable from profitability point of view and expressed as;

$$\text{Total Interest Expenses to Total Interest Income Ratio} = \frac{\text{Total Interest Expenses}}{\text{Total Interest Income}}$$

Following table and figure shows Total interest expenses to total interest income ratio.

Table 17
Total interest expenses to total interest income.

Rs in million

Fiscal year	Total interest expenses.	Total interest income.	Ratio %.
061/062	91.98	198.18	46.41
062/063	153.71	305.56	50.3
063/064	271.71	481.52	56.4
064/065	408.19	729.87	55.9
065/066	813.62	1265.35	64.3
Total			273.31
Mean			54.66
S.D			6.12
C.V			47.78

Source: - Financial summary of NLIC& Appendix 17

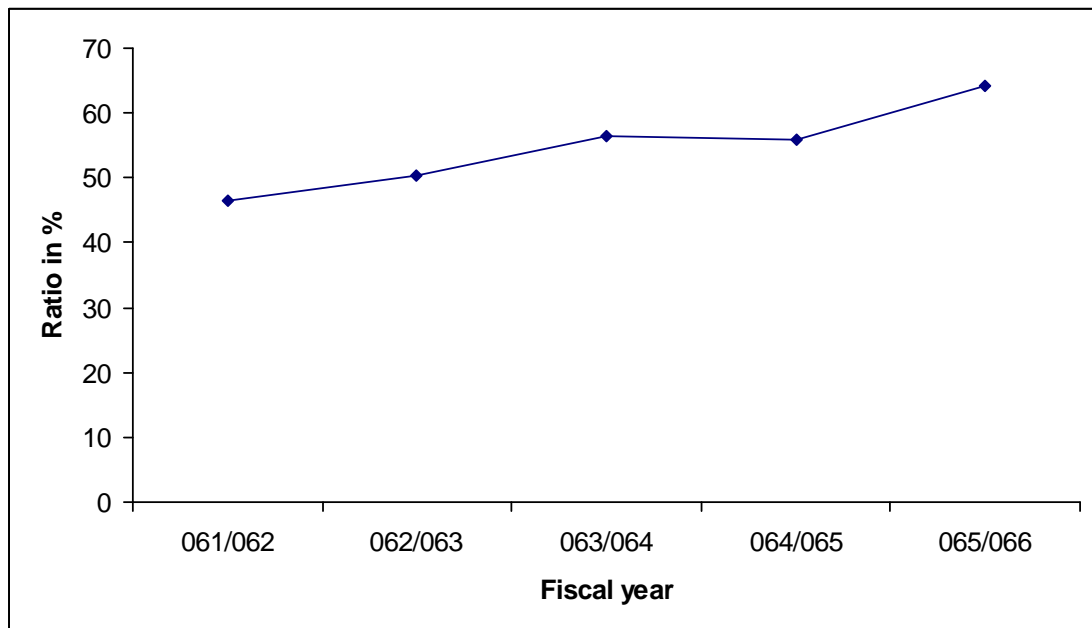
The above table shows the fluctuating trend in the ratio of total interest expenses to total interest income. From the FY 061/062 to 063/064 there was increasing trend but in FY 064/065 the ratio was decreasing & again in FY 065/066 the ratio was increasing. The ratio was highest at FY 065/066, i.e. 64.3% and lowest at 061/062, i.e. 46.41%. The standard deviation and coefficient of covariance was 6.12 and 47.78 % respectively during the study period.

From the above analysis we can conclude that from the interest income, interest expense is increasing year to year except in FY 064/065, which also indicates that the profitability position of NLIC is decreasing due to increase in interest expenses than increase in interest income, which may be harmful for the insurance company.

Following figure more clearly shows the trend of interest expenses to interest income ratio,

Figure 22

Interest expenses to interest income ratio of NLIC



The above figure more clearly shows the increasing interest expenses than interest income of NLIC. Thus NLIC should try to decrease its interest expenses as compared to interest income.

4.5 Correlation Analysis

Correlation Analysis is used to measure the degree of association between two or more variables such that changes in one variable are accompanied by systematic changes in the other. In other words, correlation is the statistical tool that we can use to describe the degree to which one variable is linearly related to another. So for the researcher, correlation analysis is a useful tool in many ways such that,

-) To determine whether the relationship exist or not.
-) Weather the relationship significant or not.
-) Establish cause and effect relationship if any.

Under this analysis Karl Pearson's method of coefficient of correlation is applied. The coefficient of correlation measures the degree of relation of correlation is always between +1 and – 1, when r is +1 it means there is perfect relationship between two variables and vice-versa. When r is 0, it means there is no relationship between two variables.

4.5.1 Correlation between Net profit and Net working capital

The coefficient of correlation between net working capital and net profits is to measure the degree of relationships between net working capital and net profit. In correlation analysis, net profit is independent variable (y) and net working capital is the dependent variable (x). The purpose of computing co-efficient of correlations is to find out whether the changes in working capital affects the profitability of the insurance or not and weather there is any relationship between these two variables. The correlation coefficient between NP and NWC is as follows;

Table- 18
Correlation between Net profit and Net working capital

Firm	r	Relationship	Per	6 PEr	Significant/ Insignificant
NLIC	0.9263	positive	0.043	0.2568	Significant

Source:- (Appendix 18.)

The above table shows the relationship between NWC and NP of NLIC during the 5 year study period from 061/062 to 065/066. Coefficient of correlation between NWC and NP of NLIC is 0.9263, which shows that there is positive correlation between NWC and NP. By considering the probable error, since the value of 'r' is more than six times of Per (6PEr) then we can say that the value of 'r' is significant and vice-versa.

Hence from the above analysis, it can be concluded that there is significant relationship between NWC and NP of the Insurance over the study period.

4.5.2 Correlation between Loan & Advance and Total premium fund

The coefficient of correlation between loan and advances and total premium is to measure the degree of relationship between major components of current assets i.e. loan and advances and major sources of fund on insurance i.e. total premium. In correlation analysis total premium is independent variable (Y) and loan & advances is dependent variable (X). The purpose of computing coefficient of correlation is to justify whether the premium are significant used in loan and advances or not and whether there is any relationship between these two variables. The following table shows the coefficient of correlation (r) between loan and advances and total premium, i.e. r, PE, 6PEr.

Table 19

Coefficient of Correlation between Loan and Advances and Total premium fund

Firm	r	Relationship	PEr	6 PEr	Significant/ Insignificant
NLIC	0.1002	positive	0.2714	1.6284	Insignificant

Source: - (Appendix 19.)

From the above table 21 shows that the coefficient of correlation between loan and advances and total premium value 'r' is 0.1002. It shows positive relationship between two variables loan and advances and total premium of NLIC. By considering the probable error, since the value of 'r' i.e. 0.1002 less than six times of probable error i.e. 1.6284, we can say that the value of 'r' is insignificant. Thus from the above analysis; it can be conclude that there is not significant relationship between loan &

advances and total premium thus change in any variable can not affect the value of other variables.

4.5.3 Coefficient of correlation between Cash & Bank balance and current liabilities

Cash is required to meet the unexpected short-term obligation i.e. current liabilities. The coefficient of correlation between cash & bank balance and current liabilities is to measure the degree of relationship between cash & bank balance and current liabilities. In correlation analysis, cash & bank balance is dependent variables (X) and current liabilities are independent variable (Y).

The following table shows the coefficient of correlation between cash & bank balance and current liabilities i.e. 'r', PEr, 6PEr of Nepal life insurance company Ltd.

Table 20
Coefficient of Correlation between Cash & Bank Balance and Current Liabilities

Bank	r	Relationship	PEr	6PEr	Significant /Insignificant
NLIC	0.9292	Positive	0.0412	0.2471	Significant

(Sources: Appendix-20)

From the above table 22, we can find that coefficient of correlation between cash & bank balance and current liabilities of NLIC is 0.9292 which shows the positive relationship between two variables cash & bank balance and current liabilities. By considering the probable error, since the value of 'r' i.e. 0.9292 is greater than six times of PEr i.e. 0.2471, we can say that the value of 'r' is significant.

From the above analysis, it can be concluded that there is significant relationship between cash & bank balance and current liabilities.

4.5.4 Coefficient of Correlation between Loan & advance and Net Profit.

The coefficient of correlation between loan & advances and net profit is to measure the degree of relationship between loan & advances and net profit. In correlation analysis, loan and advances independent variable (Y) and net profit is dependent

variable (X). The purpose of computing the correlation of the coefficient is to justify whether the loan and advances are significantly generate profit or not and whether there is any relationship between these two variables. The following table shows the coefficient of correlation between loan and advances and net profit i.e. 'r', PEr and 6PEr of Nepal life insurance company Ltd.

Table 21
Coefficient of Correlation between Loan & Advances and Net Profit

Bank	r	Relationship	PEr	6PEr	Significant /Insignificant
NLIC	0.9819	Positive	0.0108	0.0649	Significant

Source:- (Appendix 21)

As stated in above table 23, the coefficient of correlation between loan & advances and net profit of NLIC over the study period is 0.9819. It shows the positive relationship between two variables loan & advances and net profit. By considering the value of probable error and six times of probable error which value are 0.0108 and 0.0649 respectively, these values are lesser than coefficient of correlation, so the relationship between Loan & advances and Net profit is obviously significant and there is no doubt that if one increase, the another one will also increase and vice-versa.

4.5.5 Coefficient of Correlation between Total Premium fund and Net profit

Coefficient of correlation between total premium and net profit measures the degree of relationship between total premium and net profit. In correlation analysis total premium is the independent variable (Y) and net profit is dependent variable (X). The purpose of computing the coefficient of correlation is to justify whether the insurance company significantly utilization of premium for income generating purpose or not and whether there is any relationship between these two variables. To find out the correlation (r) various calculation are done. The following table shows the correlation coefficient between total premium and Net profit.

Table- 22

The correlation coefficient between Total premium fund and Net profit.

NLIC	r	Relationship	PEr	6PEr	Significant /Insignificant
SBL	0.98779	Positive	0.007321	0.04392	Significant

Source:- (Appendix 22)

From the above table 24, we find coefficient of correlation between Total premium and Net profit of NLIC is 0.98779, which shows the near the perfectly positive correlation between two variables, total premium and net profit. By considering the probable error, since value of 'r' i.e. 0.98779 is greater than 6 times of PEr i.e. 0.04392, we can say that the value of 'r' is significant.

From the above analysis, it can be concluded that there is significant relationship between Total premium and Net profit. Thus change in any variable adversely affects the value of other variables.

4.6 Major findings of the study

-) The composition of current assets on total assets of NLIC was fluctuating trend over the study. In average 96.4 % of total assets is held by current assets during the study period. In FY 061/062 the volume of current assets was 3049.82 million which was 98.7 % of Total assets, which is the highest percentage over the study period. All the ratios over the study period are above 93.8 %, which indicates that NLIC has high level of working capital in its daily business activities and also it indicates that the insurance followed aggressive financing policy.
-) The composition of cash & bank balance to current assets of NLIC is in fluctuating trend. The ratio varies from minimum of 2.6 % in the FY 062/063 to maximum of 6.8 % in the FY 063/064. In average there is 5.32 % of current assets is held by cash and bank balance during the study period.
-) The composition of NWC on Current assets of NLIC during the 5 year study period was in decreasing trend. The % of NWC on TA was 11.36 % in FY 061/062 & it was 4.94 % in FY 065/066. In average there was 7.24 % of NWC

on current assets during the study period. Average NWC is 547.17 million with coefficient of variation 30.3 %. Also NWC is less variable than Current assets being lower CV.

- J The net working capital of NLIC has been increasing trend over the study period (061/062 to 065/066). The working capital depicts the liquidity position of any organization. It means higher the working capital higher the liquidity of the firm and vice-versa. Total net working capital of the insurance company was to Rs. 346.61 million, Rs. 310.35 million, Rs. 497.44 million, Rs. 729.49 million, and Rs. 851.49 million at the end of fiscal year 061/062, 062/063, 063/064, 065/065 and 065/066 respectively.
- J The current ratio of the insurance was decreasing trend, which stands 1.13 of F/Y 061/062, 1.05 at F/Y 062/063, 1.07 at F/Y 063/064, 1.07 at F/Y 064/065 and 1.06 at F/Y 065/066 respectively. As stated by the result, the insurance company has enough liquidity to remain solvent at the ratio 1.05:1, which is minimum in F/Y 065/066. As depicted by the study, NLIC has satisfactory liquidity.
- J The quick ratio of the insurance is also representing by the current ratio the quick ratio of the insurance was quite. Fluctuating, which stands 0.16 at F/Y 061/062, 0.15 at F/.y 062/063 & 063/064, 0.18 at F/Y 064/065 and 0.23 at F/Y 065.066.
- J The cash and bank balance to total premium ratio of the insurance was quite fluctuating which stands 0.10 at F/Y 061/062, 0.05 at F/Y 062/063, 0.14 at F/Y 063/064, 0.08 at F/Y 064/065 and 0.12 at F/Y 065/066. It indicates that how much fund available with the insurance company to cover its current margin, call and saving of the insurance immediately. But the large amount of idle cash and bank balance affects profitability of the insurance. As per the study, the insurance is in satisfactory position.
- J The absolute liquid ratio during the study period was quite fluctuating. It was fluctuated from 0.028 in the FY 062/063 to 0.095 in the FY 065/066. The average absolute liquid ratio is 0.057. In FY 065/066 there is strong absolute

liquidity position and in FY 062/063 there is lowest absolute liquidity position among the study period. As stated by the study NLIC position seems to not satisfactory level over the study period. So management should give extra emphasis over it.

- J Investment to total premium fund ratio of the insurance was fluctuating trend during the study. It is fluctuated 11% in FY 064/065 to 17% in FY 062/063. The highest ratio 17% in FY 062/063 indicates the higher utilization of total premium in the investment. In average there is 13.4 % investment from total premium. As stated by the study, the investment from the total premium of the insurance is not satisfactory level over the study period.
- J The loan and advances to total premium ratio of NLIC was decreasing trend over the study period. The ratio stands 1.04 at F/Y 061/062, 0.97 at F/Y 062/063, 0.94 at F/Y 063/064, 0.92 at F/Y 064/065 and 0.84 at F/Y 065/066. The ratio indicates the capacity of the insurance to mobilization its premium. As stated by the study, the mobilization of premium of the insurance is not satisfactory level over the study period.
- J Interest earned to total assets ratio of any organizations indicates the profitability ratio. The ratio stands 6.41% at F/Y 061/062, 6.42% at F/Y 062/063, 6.05% at F/Y 063/064, 6.26% at F/Y 064/065 and 7.08% at F/Y 065/066, which 7.08% is maximum and 6.05 is minimum over the study period. Form the study, it is concluded that the interest earned to total assets ratio of NLIC is not so much satisfactory. It means, the insurance company could not able to use its total assets properly to earned interest.
- J The net profit to total assets ratio of the insurance company was quite fluctuating. The ratio stands 2.27% at F/Y 061/062, 1.37% at F/Y 062/063, 1.20% at F/Y 063/064, 1.23% of F/Y 064/065 and 1.22% at F/Y 065/066, ratio 2.27% is maximum and 1.20% is minimum over the study period. The study depicts that the insurance could not able to utilize its total assets to generate profit.

-) The net profit to total premium ratio of the insurance was decreasing trend. The ratio stands 2.86% at F/Y 061/062, 1.67% at F/Y 062/063, 1.44% at F/Y 063/064, 1.41% at F/Y 064/065 and 1.37% at F/Y 065/066, which 2.86% is maximum and 1.37% is minimum over the study period. This ratio is used to find out whether the insurance could able to mobilize outsider's funds properly or not. The efficient mobilization of premium indicates the better performance of the insurance. But at stated above the study, we can found that the insurance could not able to mobilize its total premium efficiently.
-) Total interest expenses to total interest income ratio of NLIC during the study period is increasing trend except in FY 064/065, which indicates the decreasing profitability position due to increase in interest expenses than increase in interest income. It was 46.41 % in 061/062 & in 065/066 it become the highest i.e. 64.3 %, which indicates the increasing interest expenses than interest income. From the stated above, management of NLIC is not able to decrease the ratio of interest expenses to total interest income and which can't be regarded as a satisfactory position.
-) The coefficient of correlation between Net profit and Net working capital was 0.9263 it means high degree of correlation, which is significant. It means there is positive relationship between Net profit and NWC over the study period.
-) The coefficient of correlation between loan and advances and total premium fund was 0.1002. It means low degree of correlation, which is insignificant over the study period.
-) The coefficient of correlation between cash & bank balance and current liabilities was 0.9711. It means high degree of correlation, which is significant.
-) The coefficient of correlation between loan & advances and net profit is 0.9819. It means high degree of correlation, which is significant.
-) The coefficient of correlation between total premium and Net profit is 0.98779, it mean high degree of correlation, which is significant.

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMENDATIONS

This chapter is the important chapter for the research because this chapter extracts of all the previously discussed chapters. This chapter consists of mainly three parts: Summary, conclusion and Recommendation. In summary part, revision or summary of all four chapters is made. In conclusion part, the result from the research is summed up and in recommendation part, suggestion and recommendation is made based on the result and experience of thesis. Recommendation is made for improving the present situation to the concerned parties as well as for further research.

5.1 Summary

Establishment of insurance company especially life and non life insurances, has economic liberalization policies of the government. As a result, in Nepal there are almost twenty five insurance companies which are life and non life insurance at present competing with each others in their business. These insurance companies have concentrated themselves on financing foreign trade, commerce and industry.

In competitive financial market, performances of insurance companies are very good. The main objective of the study was to evaluate the working capital management as well as financial performance of life insurance company Ltd. Insurance company are income oriented, thus proper financial decision making is more important in insurance transaction for its efficiency and profitability.

Most of the financial decisions of a insurance are concerned with current assets and current liabilities. Working capital management is concerned with current assets and current liabilities. Generally, working capital refers to the difference between current assets and current liabilities. Thus working capital management has been regarded as one of the conditioning factor in the decision making issue of insurance companies. The term working capital management closely relates with short term financing: it is concerned with collection and allocation of resources. Working capital management relates to problems that arise in attempting to manage the current assets, current liabilities and interrelationship that exist between them.

The main objective of this study is to evaluate the working capital management of Nepal life insurance company Ltd. The specific objective of the study as:

-) To examine and critically analyze the working capital management of Nepal life insurance company.
-) To examine liquidity position and profitability position of Nepal Life Insurance Company.
-) To assess the size and growth of working capital, and
-) To recommend viable suggestions to cope up with working capital management shortcomings in Nepal life insurance company.

To fulfill the objective, an appropriate research methodology has been developed, which includes ratio analysis as financial tool and trend analysis and correlation coefficient as statistical tools. The major ratio analysis consists of the composition of working capital, liquidity position, turnover position and profitability position. Under these, main ratios and their trend position are studied in the chapter four. In order to test the relationship between the various components of working capital, Karl Pearson's correlation coefficient 'r' is calculated and analyzed.

The following are the major necessary data derived from the balance sheet and profit & loss account of NLIC for the period of five years from fiscal year 061/062 to 065/066. In this chapter an attempt has been made to present conclusion and some suggestions and recommendations. The following are the major findings of the study.

-) Composition of current & total assets percentage were on fluctuating trend over the study period. In average 96.4 % of total assets were held by current assets during the study period. Composition of cash and bank balance with current assets ratios were also in fluctuating trend. In average 5.32 % of current assets were held by cash and bank balance during the study period but composition percentage of NWC on current assets were on decreasing trend over the study period. In average 7.24 % of current assets were held by Net working capital during the study period.
-) The net working capital of NLIC has been increasing trend over the study period.

- J) The liquidity positions of insurance are analyzed with the current ratio, quick ratio, cash & bank balance to total premium fund ratio, and absolute liquidity ratio. The current ratio of the insurance was decreasing trend over the study period. The quick ratio of the insurance was fluctuating trend. The cash & bank balance to total premium ratio of insurance was also fluctuating trend over the study period. The quick ratio was in fluctuating trend.
- J) The activity of turnover positions of insurance are analyzed with the investment to total premium ratio, loan & advances to total premium ratio, loan. The investment to total premium ratio was in fluctuating trend, the loan & advances to total premium ratio of the insurance was decreasing trend over the study period.
- J) The profitability position of the insurance are analyzed with interest earned to total assets ratio, Net profit to total assets ratio, Net profit to total premium ratio and total interest expenses to total interest earned ratio. Interest earned to total assets ratio was in fluctuating trend, Net profit to total assets ratio was also in fluctuating trend, Net profit to total premium ratio was in decreasing trend and total interest expenses to total interest earned ratio was in increasing trend except in FY 064/065 during the study period.
- J) The coefficient of correlation between Net profit and Net working capital was 0.9263 it means high degree of correlation, which is significant. The coefficient of correlation between cash & bank balance and current liabilities was 0.9711 it means high degree of correlation, which is significant. The coefficient of correlation between loan & advances and net profit was 0.9819. It means high degree of correlation, which is significant. The correlation between total premium and net profit was 0.98779. It means high degree of correlation, which is significant.

5.2 Conclusion

In liquidity position, the net working capital of the insurance company was increasing trend during the study period & the current ratio of insurance company was decreasing trend during the study period. It seems to be satisfactory position of

liquidity. The cash & bank balance to total premium ratio of NLIC was fluctuating during the study period. But it seems to be satisfactory level.

In activity or turnover position the loan & advances to total premium ratio of the bank was decreasing trend during the study period. It shows the low capital of the insurance to mobilize its premium.

In profitability position, the interest earned to total assets ratio of the insurance was fluctuating trend over the study period. The net profit to total assets ratio was also fluctuating trend during the study period. The net profit to total premium ratio was decreasing trend during the study period. It seems not to satisfactory level.

In correlation analysis, the coefficient of correlation between loan & advances and total premium is insignificant over the study period. The coefficient of correlation between loan & advances and net profit, net profit and net working capital, cash & bank balance and current liabilities are significant over the study period.

5.3 Recommendation

On the basis of analysis and finding of this study, some recommendations have made so as to overcome some shortfalls regarding the issue of working capital management of the insurance.

-) Working capital is essential to meet short-term obligations. But high level of working capital increased idle fund which affects the profitability of the insurance. Therefore, the insurance should maintain sound working capital position. It means neither more nor loss. The working capital of NLIC has been increasing trend. Thus, the insurance should try to maintain sound working capital.
-) The current ratio of the insurance is more than one. it means, the insurance has sufficient liquidity to remain solvent even at the ratio of 1.05:1 in fiscal year 065.066, which was minimum ratio during the study period. It is true that such higher ratio supposed by the greater ability of insurance to pay its bills. But if a insurance has more than sufficient current assets is indication of unfavorable of distribution of current assets then current liabilities. Therefore, there is quite

higher idle fund. This may result unproductive for insurance. Thus, the insurance should try to reduce its current assets to increase its profitability.

-) The loan and advances to total premium ratio indicates the capacity of insurance to mobilize, its premium into loan and advances. It also majors the efficiency of management to utilize their available resources. As found in the above study, the loan and advances to total premium ratio of NLIC was decreasing trend over the study period. The insurance could not able to mobilize its total premium through loan and advances. Therefore, the insurance should disburse its total premium as much as possible by means of loan and advances.
-) The interest earned to total assets ratio is not satisfactory so far. It indicates the insurance could not able to utilize its total assets to earned interest. Therefore, the insurance should utilize its available assets as properly as possible to earned interest. For this the insurance should lend only in performing loan which makes sure the recovery of principle as well as interest. Therefore, the insurance should utilize its available assets as properly as possible to earned interest. For this insurance should lend only in performing loan which makes sure the recovery of principle as well as interest.
-) From the above study, we can found that the insurance net profit to total assets ratio of the insurance is not also satisfactory. The insurance could not able to utilize its available sources properly to earned profit. Therefore, the insurance should utilize its total assets as possible as properly.
-) Net profit to total premium ratio measures the internal rate of return from the premium but the above study of NLIC shows that insurance couldn't able to mobilize the outsiders fund properly because the ratio is in decreasing trend over the study period. Therefore the insurance should mobilize its premium as efficiently as possible.

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Appendix-1

Standard Deviation and CV CA to TA Ratio

Fiscal Year	Ratio =X	(X- \bar{X})	(X- \bar{X}) ²
061/062	98.7	2.3	5.29
062/063	93.8	-2.6	6.76
063/064	96.2	-0.2	0.04
064/065	97	0.6	0.36
065/066	96.3	-0.1	0.01
Total	482		12.46
Mean	96.4		

$$= \sqrt{\frac{(X - \bar{X})^2}{N}} = \sqrt{\frac{12.46}{5}} = 1.58$$

$$C.V = \frac{\sigma}{\bar{X}} | 100\% = \frac{1.58}{96.4} | 100\% = 1.62\%$$

Appendix-2

Standard Deviation of Cash and Bank balance to Current Assets.

Fiscal Year	Ratio =X	(X- \bar{X})	(X- \bar{X}) ²
061/062	4.29	-1.03	1.06
062/063	2.6	-2.72	7.39
063/064	6.8	1.48	2.19
064/065	3.9	-1.42	2.02
065/066	9.1	3.78	14.29
Total	26.69		26.95
Mean	5.32		

$$= \sqrt{\frac{(X - \bar{X})^2}{N}} = \sqrt{\frac{26.95}{5}} = 2.32$$

$$C.V = \frac{\sigma}{\bar{X}} | 100\% = \frac{2.32}{5.32} | 100\% = 43.61\%$$

Appendix-3

Standard Deviation of Net working capital on Current Assets

Fiscal Year	Ratio =X	(X- \bar{X})	(X- \bar{X}) ²
061/062	11.36	4.12	16.97
062/063	6.95	-0.29	0.084
063/064	6.5	-0.74	0.55
064/065	6.44	-0.8	0.64
065/066	4.64	-2.6	6.76
Total	35.89		25.004
Mean	7.24		

$$= \sqrt{\frac{(X - \bar{X})^2}{N}} = \sqrt{\frac{25.004}{5}} = 2.24$$

$$C.V = \frac{2.24}{7.24} | 100\% = 30.94\%$$

APPENDIX-4

Calculation of current assets and current liabilities.

a) Components of Current Assets of NLIC

(Rs. In Million)

Fiscal Year	Cash & Bank Balance	Money at Call or debtors	Loan & Advances	Govt. Securities	Misc. C.A.	Total CA
061/062	130.73	22.47	2570.78	276.27	49.57	3049.82
062/063	115.95	100.00	3789.12	398.36	60.72	4464.15
063/064	517.23	229.49	6222.59	325.75	63.38	7658.40
064/065	437.43	584.74	9335.60	884.08	88.10	11329.95
065/066	1547.68	484.84	13328.62	1693.57	172.02	17226.73

b) Components of Current Liabilities of NLIC

(Rs. In Million)

Fiscal Year	Deposit & Other A/C	Short Term Loan	Bills Payable	Misc. CL	Total CL
061/062	2461.92	190	0.43	50.86	2703.21
062/063	3918.08	181.15	-	54.57	4153.80
063/064	6625.08	430	14.24	105.89	7175.21
064/065	10191.44	205.13	15.88	187.55	10600
065/066	15854.54	327.60	17.88	174.96	16375.24

APPENDIX-5

Calculation of Net working capital (NWC) of NLIC

(Rs. In Million)

Fiscal Year	Current Assets (CA)	Current Liabilities (CL)	Net Working Capital WC = CA-CL
061/062	3049.82	2703.21	346.61
062/063	4464.15	4153.80	310.35
063/064	7658.40	7175.21	483.19
064/065	11329.95	10600.00	729.95
065/066	17226.73	16375.24	851.49

Appendix-6

Standard Deviation of Current Ratio of NLIC

Fiscal Year	Ratio =X	(X- \bar{X})	(X- \bar{X}) ²
061/062	1.13	0.05	0.005
062/063	1.08	0	0
063/064	1.07	-0.01	0.001
064/065	1.07	-0.01	0.001
065/066	1.05	-0.03	0.0009
Total	5.4		0.0079
Mean	1.08		

$$= \sqrt{\frac{(X - \bar{X})^2}{N}} = \sqrt{\frac{0.0079}{5}} = 0.039$$

$$C.V = \frac{0.039}{1.08} \times 100\% = 3.61\%$$

Appendix-7

Standard Deviation of Quick Ratio of NLIC

Fiscal Year	Ratio =X	(X- \bar{X})	(X- \bar{X}) ²
061/062	0.16	-0.014	0.00019
062/063	0.15	-0.024	0.00058
063/064	0.15	-0.024	0.00058
064/065	0.18	0.006	0.000
065/066	0.23	0.066	0.0044
Total	0.87		0.0058
Mean	0.174		

$$= \sqrt{\frac{(X - \bar{X})^2}{N}} = \sqrt{\frac{0.0058}{5}} = 0.0012$$

$$C.V = \frac{0.0012}{0.174} | 100\% = 0.69$$

Appendix-8

Standard Deviation Cash and Bank Balance to Total premium Ratio of NLIC

Fiscal Year	Ratio =X	(X- \bar{X})	(X- \bar{X}) ²
061/062	0.10	0.002	0.000004
062/063	0.05	-0.048	0.0023
063/064	0.14	0.042	0.0018
064/065	0.08	-0.018	0.0003
065/066	0.12	0.022	0.00048
Total	.049		0.00049
Mean	0.098		

$$= \sqrt{\frac{(X - \bar{X})^2}{N}} = \sqrt{\frac{0.00049}{5}} = 0.0099$$

$$C.V = \frac{0.0099}{0.098} | 100\% = 10.1\%$$

Appendix-9

Standard Deviation Absolute liquid ratio of NLIC

Fiscal Year	Ratio =X	(X- \bar{X})	(X- \bar{X}) ²
061/062	0.048	-0.009	0.0000
062/063	0.028	-0.029	0.0008
063/064	0.072	0.015	0.0002
064/065	0.041	-0.016	0.00026
065/066	0.095	0.038	0.00014
Total	0.284		0.0014
Mean	0.057		

$$= \sqrt{\frac{(X - \bar{X})^2}{N}} = \sqrt{\frac{0.0014}{5}} = 0.016$$

$$\text{C.V} = \frac{\sigma}{\bar{X}} | 100\% = \frac{0.016}{0.057} | 100\% = 28.07\%$$

Appendix-10

Standard Deviation Investment to total premium ratio

Fiscal Year	Ratio =X	(X- \bar{X})	(X- \bar{X}) ²
061/062	0.12	-0.014	0.00019
062/063	0.17	0.036	0.0013
063/064	0.13	-0.004	0000
064/065	0.11	-0.024	0.0006
065/066	0.14	0.006	0000
Total	0.67		0.00209
Mean	0.134		

$$= \sqrt{\frac{(X - \bar{X})^2}{N}} = \sqrt{\frac{0.00209}{5}} = 0.02$$

$$C.V = \frac{0.02}{0.134} | 100\% = 14.92\%$$

Appendix-11

Standard Deviation Loan & Advances to Total premium Ratio of NLIC

Fiscal Year	Ratio =X	(X- \bar{X})	(X- \bar{X}) ²
061/062	1.04	0.098	0.0096
062/063	0.97	0.028	0.008
063/064	0.94	-0.002	0000
064/065	0.92	-0.022	0.0005
065/066	0.84	-0.102	0.0104
Total	4.71		0.029
Mean	0.942		

$$= \sqrt{\frac{(X - \bar{X})^2}{N}} = \sqrt{\frac{0.029}{5}} = 0.076$$

$$C.V = \frac{0.076}{0.942} | 100\% = 8.07\%$$

Appendix-12

Standard Deviation Interest Earned to Total Assets Ratio of NLIC

Fiscal Year	Ratio =X	(X- \bar{X})	(X- \bar{X}) ²
061/062	6.41	-0.03	0.009
062/063	6.42	-0.02	0.0004
063/064	6.05	-0.39	0.15
064/065	6.26	-0.18	0.032
065/066	7.08	0.64	0.4096
Total	32.21		0.551
Mean	6.44		

$$= \sqrt{\frac{(X - \bar{X})^2}{N}} = \sqrt{\frac{0.551}{5}} = 0.332$$

$$C.V = \frac{0.332}{6.44} | 100\% = 5.15\%$$

Appendix-13

Standard Deviation Net Profit to Total Assets Ratio of NLIC

Fiscal Year	Ratio =X	(X- \bar{X})	(X- \bar{X}) ²
061/062	2.27	0.81	0.66
062/063	1.37	-0.09	0.0081
063/064	1.20	-0.26	0.068
064/065	1.23	-0.23	0.053
065/066	1.22	-0.24	0.058
Total	7.29		0.847
Mean	1.46		

$$= \sqrt{\frac{(X - \bar{X})^2}{N}} = \sqrt{\frac{0.847}{5}} = 0.412$$

$$C.V = \frac{\sigma}{\bar{X}} | 100\% = \frac{0.412}{1.46} | 100\% = 28.22\%$$

Appendix-14

Standard Deviation Net Profit to Total premium Ratio of NLIC

Fiscal Year	Ratio =X	(X- \bar{X})	(X- \bar{X}) ²
061/062	2.86	1.11	1.23
062/063	1.67	-0.08	0.0064
063/064	1.44	-0.31	0.096
064/065	1.41	-0.34	0.1156
065/066	1.37	-0.38	0.144
Total	8.75		0.362
Mean	1.75		

$$= \sqrt{\frac{(X - \bar{X})^2}{N}} = \sqrt{\frac{0.362}{5}} = 0.269$$

$$C.V = \frac{\sigma}{\bar{X}} | 100\% = \frac{0.269}{1.75} | 100\% = 15.37\%$$

Appendix-15

Standard Deviation Total interest expenses to total interest income

Fiscal Year	Ratio =X	(X- \bar{X})	(X- \bar{X}) ²
061/062	46.41	-8.25	68.06
062/063	50.3	-4.66	21.72
063/064	56.4	1.74	3.03
064/065	55.9	1.24	1.54
065/066	64.3	9.64	92.92
Total	273.31		187.27
Mean	54.66		

$$= \sqrt{\frac{(X - \bar{X})^2}{N}} = \sqrt{\frac{187.27}{5}} = 6.12$$

$$C.V = \frac{6.12}{54.66} | 100\% = \frac{26.12}{54.66} | 100\% = 47.78\%$$

APPENDIX-16

Calculation of Correlation Coefficient between Current Assets and Total Assets

(Rs. in Million)

Year	CA(X)	$x(X - \bar{X})$	x^2	TA (Y)	y^2	xy
061/062	3049.82	-5696	32444416	3091.10	35754420.25	34059232
062/063	4446.15	-4281.7	18332954.9	4756.94	18607662.6	18469969.3
063/064	7658.40	-1087.4	1182438.8	7954.66	1245322	1213429.7
064/065	11329.95	2584.1	6677831.2	11668.35	6748305	6712975
065/066	17226.73	8480.9	71926173.7	17881.78	77636364.3	77726906
Total	dx = 43729		1dx² = 130563814.6	1dy = 45352.8	1dy² = 139992074.2	1dxy = 138182512

A) Current Assets

i) Mean (\bar{X}) $X \frac{\sum X}{N} X \frac{43729}{5} X 8745.8$

ii) $\dagger_x X \sqrt{\frac{\sum X^2}{N}} X \sqrt{\frac{130563814.6}{5}} X 5110$

iii) $CV_x X \frac{\dagger_x}{\bar{X}} X \frac{5110}{8745.8} X 58.4\%$

B) Total Assets

i) Mean (\bar{Y}) $X \frac{\sum Y}{N} X \frac{45352.8}{5} X 9070.6$

ii) $r X \frac{\phi_{xy}}{\sqrt{\phi X^2} \sqrt{\phi Y^2}} X \frac{138182512}{\sqrt{130563814.6} \sqrt{139992074.2}} X 1$

APPENDIX-17

Calculation of Coefficient Correlation between Net working Capital and Net Profit of NLIC.

FY	NWC (X)	NP (Y)	X=(X- \bar{X})	X ²	Y=(Y- \bar{Y})	Y ²	XY
061/062	346.6	70.3	-260.4	67808.2	-47.7	2275.3	12421
062/063	310.4	65.3	-296.6	87971.6	-52.7	2777.3	15630.8
063/064	497.4	95.3	-109.6	12012.2	-22.7	515.30	2487.9
064/065	730	143.2	123	15129	25.2	635	3099.6
065/066	851.5	218	244.5	59780.3	100	10000	24450
	dX= 3036	dY= 592		dX²= 242701.3		dY²= 16202.9	dXY= 58089.3

a) $\bar{X} = \frac{\phi X}{N} = \frac{3036}{5} = 607.2$

b) $\bar{Y} = \frac{\phi Y}{N} = \frac{592}{5} = 118.4$

c) $r = \frac{\phi XY}{\sqrt{\phi X^2} \sqrt{\phi Y^2}} = \frac{58089.3}{\sqrt{242701.3} \sqrt{16202.9}} = 0.9263$

d) $P_{E_r} = 0.6745 \times \frac{1-r^2}{\sqrt{N}} = 0.6745 \times \frac{1-0.8581}{\sqrt{5}} = 0.043$

e) $6P_{E_r} = 6 \times 0.043 = 0.256$

APPENDIX-18

Calculation of Correlation Coefficient between Cash & Bank Balance (C&B) and current Liabilities (CL) of NLIC

(Rs. in Million)

C& B(X)	CL(Y)	x(X Z \bar{X})	x ²	y(Y Z \bar{Y})	y ²	xy
130.73	2703.21	-419.07	175619.66	-5498.29	30231192.92	2304168.39
115.95	4153.80	-423.85	188225.82	-4047.70	16383875.29	1715617.64
517.23	7175.21	-32.57	1060.81	-1026.29	1053271.16	33426.26
437.43	10600	-112.37	12627.02	2398.50	5752802.25	-269519.44
1547.68	16375.24	997.88	995764.49	8173.74	66810025.59	8156411.67
1dx = 2749.02	1dy = 41007.46		1dx² = 1373297.80		1dy² = 120231167.2	1dxy = 11940104.52

$$a) \quad \bar{X} = \frac{\phi X}{N} = \frac{2749.02}{5} = 549.80$$

$$b) \quad \bar{Y} = \frac{\phi Y}{N} = \frac{41007.46}{5} = 8201.5$$

$$c) \quad r = \frac{\phi XY}{\sqrt{\phi X^2} \sqrt{\phi Y^2}} = \frac{11940104.52}{\sqrt{1373297.80} \sqrt{120231167.2}} = 0.9292$$

$$d) \quad P_{E_r} = 0.6745 \times \frac{1-r^2}{\sqrt{N}}$$

$$= 0.0412$$

$$e) \quad 6P_{E_r} = 6 \times 0.0412 = 0.2471$$

APPENDIX-19

Calculation of Correlation Coefficient between Loan & Advances and Net Profit

(Rs. in Million)

NP(X)	L&A(Y)	x(X Z \bar{X})	x ²	y(Y Z \bar{Y})	y ²	xy
70.28	2570.78	-48.11	2314.57	-4478.56	20057499.67	215463.52
65.25	3789.12	-53.14	2823.86	-3260.22	10629034.45	173248.09
95.31	6222.59	-23.08	532.69	-826.75	683515.56	19081.39
143.17	9335.60	24.78	614.05	2286.26	5226984.79	56653.52
217.92	13328.62	99.53	9906.22	6279.28	39429357.32	624976.74
1dx = 591.93	1dy = 35246.71		1dx² = 16191.39		1dy² = 76026391.79	1dxy = 1089423.26

$$a) \quad \bar{X} = \frac{\phi X}{N} = \frac{591.93}{5} = 118.39$$

$$b) \quad \bar{Y} = \frac{\phi Y}{N} = \frac{35246.71}{5} = 7049.34$$

$$c) \quad r = \frac{\phi XY}{\sqrt{\phi X^2} \sqrt{\phi Y^2}} = \frac{1089423.26}{\sqrt{16191.39} \sqrt{76026391.79}} = 0.9819$$

$$d) \quad PE_r \times 0.6745 \frac{1 - r^2}{\sqrt{N}} = 0.0108$$

$$e) \quad 6PE_r = 6 \times 0.0108 \\ = 0.0649$$

APPENDIX-20

Calculation of Correlation Coefficient between Total Premium and Net Profit.

FY	NP (X)	Total Deposit (Y)	X = ($\bar{X} - \bar{X}$)	X ²	Y = ($\bar{Y} - \bar{Y}$)	Y ²	XY
061/062	70.28	2461.92	-48.12	2315.5	-5348.4	28605168.6	257365
062/063	65.25	3918.08	-53.15	2825	-3892.2	15149376.5	206870.4
063/064	95.31	6625.08	-23.09	533.1	-1185.2	1404746.4	27366.27
064/065	143.17	10191.44	24.8	613.6	2381.1	5669827.7	59051.28
065/066	217.92	15854.8	99.5	9904.2	8044.5	64713980.3	800427.8
	dX = 591.93	dY = 39051.3		dX² = 16191.4		dY² = 115543099.5	dXY = 1351080.75

$$a) \quad \bar{X} = \frac{\phi X}{N} = \frac{591.93}{5} = 118.4$$

$$b) \quad \bar{Y} = \frac{\phi Y}{N} = \frac{39051.3}{5} = 7810.3$$

$$c) \quad r = \frac{\phi XY}{\sqrt{\phi X^2} \sqrt{\phi Y^2}} = \frac{1351080.75}{\sqrt{16191.4} \sqrt{115543099.5}} = 0.98779$$

$$= 0.007321 \quad d) \quad PE_r = 0.6745 \times \frac{1 - r^2}{\sqrt{N}}$$

$$= \frac{0.6745 \times 0.023856}{\sqrt{5}}$$

$$e) 6^{PE}_r = 6 \times 0.007321 = 0.04392$$

Financial Summary of Nepal life insurance company ltd.

Balance Sheet of NLIC at F/Y 061/062 to 065/066

(Rs. in Million)

Capital & Liabilities	061/062	062/063	063/064	064/065	065/066
Share Capital	350	500	600	828	952.20
Research and Surplus	37.89	103.14	193.70	240.35	326.54
Debenture and bonds	-	-	-	-	227.77
Borrowings	190	181.15	430	205.13	327.60
premium Liabilities	2461.92	3918.08	6625.08	10191.44	15854.80
Bills Payable	0.43	-	-	15.88	17.88
Proposed Dividend	-	-	4.75	6.54	7.52
Income Tax Liabilities	17.08	1.11	5.20	11.15	4.84
Other Liabilities	33.78	53.46	95.94	169.86	162.60
Total Liabilities	3091.10	4756.94	7954.66	11668.35	17881.75

Assets	061/062	062/063	063/064	064/065	065/066
Cash Balance	33.46	64.98	130.44	149.01	270.94
Balance with NRB	45.64	48.83	380.56	270.22	984.98
Balance with Banks & Financial Institutions	51.63	2.14	6.22	18.20	291.76
Money at Call & short	22.47	100	229.45	584.73	484.84

Notice(debtors)					
Investment	286.62	650.98	865.19	1150.10	2176.43
Loan, Advances & Bill Purchased	2570.78	3789.12	6222.59	9335.60	13328.62
Fixed Assets	30.21	39.69	46.66	72.39	13328.16
Non-Banking Assets	0.072	0.48	10.17	-	-
Other Assets	49.57	60.72	63.380	88.10	172.02
Total Assets	3091.10	4756.94	7954.66	11668.35	17881.75

Profit& Loss A/C of NLIC at F/Y 061/062 to 065/066

(Rs. In Million)

Particular	061/062	062/063	063/064	064/065	065/066
Interest Income	198.18	305.56	481.52	729.87	1265.358
Interest Expenses	91.98	153.71	271.71	408.19	813.62
Net Interest Income	106.20	151.85	209.81	321.19	451.96
Commission & Discount	7.55	13.77	20.18	21.45	32.55
Other Operating Income	7.98	9.70	18.66	31.29	46.35
Exchange Fluctuating Gain	7.17	12.05	14.24	27.49	38.68
Total Operating Income	128.90	187.37	262.89	401.91	569.54
Employees Expenses	20.31	26.09	33.62	48.24	79.38
Other Operating Expenses	30.90	44.12	55.72	71.48	114.81
Exchange Fluctuation Loss	-	-	-	-	-
Operating Profit Before Provision for Possible Loan Loss	77.70	117.16	173.55	282.19	375.35
Provisions for Possible Losses	-	16.47	20.54	48.05	39.84
Operating Profit	77.70	100.69	153.01	234.14	335.51
Non-Operating Income/Loss	-	-	0.04	0.51	-
Possible Loss Provision	19.37	-	-	4.03	8.85

written Back					
Profit from Regular Activities	97.07	100.69	153.05	238.68	344.36
P/L from Extraordinary activities	-	-	-	-	8.85
Net Profit after Extraordinary Items	97.07	100.69	153.05	238.68	335.51
Provision for staff Bonus	9.71	9.15	13.91	21.70	30.50
Provision for Income Tax	17.08	26.25	43.83	73.81	87.09
a. This year provision	17.08	26.25	43.83	73.81	87.09
b. Provision up to last year	-	-	-	-	-
Net Profit/loss	70.28	65.25	95.31	143.17	217.92