FACTORS AFFECTING STOCK PRICE OF LIFE INSURANCE COMPANIES IN NEPAL

A Dissertation submitted to the Office of the Dean, Faculty of Management in Partial Fulfillment of the Requirement for the Master's Degree

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CERTIFICATION OF AUTHORITY

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled **FACTORS AFFECTING STOCK PRICE OF LIFE INSURANCE COMPANIES IN NEPAL.** The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor has it been proposed and presented as part of requirements for any other academic purpose.

The assistance and cooperation that I have received during this research work has been acknowledged. In addition, I declare that all information sources and literature used are cited in the reference section of the dissertation.

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Nabin Dawadi
August, 2024

REPORT OF RESEARCH COMMITTEE

Mr. Nabin Dawadi has defended research dissertation, **FACTORS AFFECTING STOCK PRICE OF LIFE INSURANCE COMPANIES IN NEPAL.** successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestions and guidance of supervisor **Dr. Dhan Raj Chalise** and submit the dissertation for evaluation and viva voce examination.

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Dissertation Proposal Defended Date:

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Dissertation Submitted Date:

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APPROVAL SHEET

We have examined the dissertation entitled **FACTORS AFFECTING STOCK PRICE OF LIFE INSURANCE COMPANIES IN NEPAL.** prepared by Mr. Nabin Dawadi, a candidate for the degree of **Master of Business Studies (MBS semester)** and conducted the viva voce examination of the candidate. We hereby certify that the dissertation is worthy of acceptance.

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Nabin Dawadi
Researcher

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ABBREVIATIONS

ALICL	:	Asian Life Insurance Company
C.V.	:	Coefficient of Variation
D/Y	:	Dividend Yield
DPR	:	Dividend Payout Ratio
DPS	:	Dividend Per Share
EPS	:	Earnings Per Share
IPO	:	Initial Public Offering
MVPS	:	Market Value Per Share
NLICL	:	National Life insurance Company
NEPSE	:	Nepal Stock Exchange
NLIC	:	Nepal Life Insurance Company
NRB	:	Nepal Rastra Bank
P/E	:	Price Earnings
S.D.	:	Standard Deviation
SEBON	:	Security Board of Nepal
SPSS	:	Statistical Package for Social Sciences

ABSTRACT

The study aimed to determine the factors affecting the market share prices of three life insurance companies listed on the Nepal Stock Exchange (NEPSE): Asian Life Insurance Company (ALICL), Nepal Life Insurance Company (NLIC), and Life Insurance Corporation Nepal (LICN). The research used a descriptive analytical design and convenience sampling to select these companies. Five variables were examined: Earnings Per Share (EPS), Price-to-Earnings Ratio (P/E ratio), Dividend Yield Ratio (D/Y ratio), and Book Value Per Share (BVPS) as independent variables, while Market Price Per Share (MPPS) was the dependent variable. The study applied Mean Test, Standard Deviation, T-test, and Regression Test for analysis. The results showed that there were no significant differences in market prices of the insurance companies based on any of the independent variables. Additionally, most independent variables had a strong positive correlation with market share prices, except for the P/E ratio, which had a strong negative relationship with MPPS. Regression analysis indicated that the P/E ratio was the most important predictor and had a significant relationship with the market price per share compared to the other independent variables.

Key words:- Market value per share, Book value per share, Earning per Share, Price earning ratio, Dividend yield ratio

CHAPTER-I
INTRODUCTION

1.1 Background of the study

In the 21st century, marked by modernization and globalization, the world has been filled with risks and uncertainties. In developing countries like Nepal, ensuring safety and security has become one of the most critical challenges. Financial markets were divided into money markets and capital markets. The money market dealt with debt securities that had maturities of less than one year, primarily focusing on the trade of short-term financial instruments. These markets were often divided into organized and unorganized sectors. The organized money market was a formal system where short-term securities were traded, with key participants including commercial banks, finance companies, and other credit unions. In contrast, the unorganized sector was made up of local traders, traditional lenders, and personal networks such as family and friends. A survey conducted by Nepal Rastra Bank in 1992 revealed that the formal financial sector only satisfied 20 percent of the credit demand in rural areas. At the same time, capital markets handled long-term debt and corporate stocks, and were divided into primary and secondary markets. The primary market was created when a company issued its shares to the public, while the secondary market was where these issued securities were traded. The Nepal Stock Exchange (NEPSE) was the sole organized secondary market in Nepal where such securities were traded (Singh, 2009). In the 21st century of modernization and globalization, the world faced numerous risks and uncertainties. In a developing country like Nepal, safety and security were among the key concerns.

The stock market has historically served as a platform through which corporations have raised funds to finance productive projects by issuing securities. It has also offered investors significant investment opportunities while providing liquidity for securities holders. One of the key functions of the securities market has been to facilitate active trading of securities, allowing investors to buy and sell them. Similarly, insurance has been a mechanism designed to provide financial compensation to individuals who have suffered misfortunes. Insurance has historically acted as a protective measure for individuals and their assets against a range of risks. While it is often viewed as an investment, it traditionally offered payouts only when losses arose from specific, covered events. A life insurance industry that performs well and maintains financial stability has, in the past, delivered advantages to consumers, producers, and shareholders. Additionally, life

insurance promotes saving within society, as policyholders receive a lump sum along with a bonus if they survive the policy term. Life insurance companies offered various products designed to provide financial protection in two key situations: living longer than expected or passing away prematurely. These products ensured financial security for individuals, encouraged long-term savings, and contributed to generating funds for developmental activities. The history of insurance in Nepal is relatively recent, with modern insurance companies emerging in 1947 A.D. However, due to a lack of awareness about the importance of insurance, people often experienced significant losses during accidents. In the past decade, the insurance sector has grown in economic importance within the Nepalese economy. Financially robust and stable insurance companies are able to provide services to customers more effectively than those that are financially weaker. Consequently, the performance of insurance companies is a matter of equal concern for policyholders, shareholders, regulatory authorities, the government, and society as a whole. This research focused on analyzing the range of products provided by different insurance companies in Nepal and assessed their role and effectiveness in contributing to the country's economic development (Bikker, 2012).

Securities markets have historically played a pivotal role in the economy by directing investments to where they are needed most and ensuring they are used effectively. These markets have contributed to the growth of industrial and business enterprises. While mobilizing resources for investment is essential for an economy's growth, the quality of how these resources are allocated to different investment projects has also been a significant factor in fostering growth. Securities markets have allowed agents to manage liquidity and productivity risks effectively by reducing the need for premature liquidation of assets, which has contributed to increased productivity in the corporate sector. The price of a security has traditionally been driven by the forces of demand and supply: when demand is high, prices rise, and when demand is low, prices fall (Liberman and Fergusson, 1998).

1.1.1 Profile of Life Insurance Company in Nepal

The history of the insurance industry in Nepal is relatively recent, beginning in the 20th century. The establishment of “Nepal Insurance and Transport Company Ltd” in 1947 marked the formal start of the industry. Before this, Indian insurance companies were operating in Nepal, but their activities were unregulated. Since then, the insurance sector in Nepal has seen significant growth, both in terms of quantity and quality, with an increase in

the number of companies and the variety of services they provide. Currently, there are 40 insurance companies in Nepal, including 19 life insurance companies, 20 non-life insurance companies, and 1 reinsurance company. Between 1990 and 2020, the number of licensed insurance companies increased significantly. These companies offer coverage against various risks, which are classified into life insurance and general insurance. Life insurance refers to a contract that guarantees a specific amount of money to be paid either upon the insured individual's death or after a set period. It primarily addresses risks associated with physical and mental accidents. On the other hand, general insurance encompasses all types of insurance except life insurance. According to the Nepal Insurance Act of 1992 (Section 2-1), life insurance is defined as a contract based on the insured person's age, where a predetermined sum is paid to the insured or their nominee either upon the insured's death or upon the occurrence of a life-related event, in exchange for regular premium payments made by the insured individual (Jyotsna & Niswan, 2007).

1. National life Insurance Company Ltd.
2. Nepal Life Insurance Company Ltd.
3. Asian Life Insurance Company Ltd.

Nepal Life Insurance Company Limited (NLIC)

Nepal Life was established as a public limited company on 21st Baisakh 2058 (4th May 2001) under the Company Act 2053 and Insurance Act 2049. It became the first life insurance company in Nepal founded by private investors. The company's promoters are a group of prominent business figures and business houses in Nepal. Over the course of twenty years, Nepal Life built a strong business record and achieved a solid financial standing. The company had an authorized capital of Rs. 1,000 Crore and a paid-up capital of Rs. 719.99 Crore. By Jestha 2078, Nepal Life had issued 13,97,994 conventional policies, generating a total premium income of Rs. 13,865.22 Crore, along with 15,31,813 foreign expatriate policies that brought in Rs. 414.86 Crore in premiums. Following Bima Samiti's guidelines, the company invested Rs. 11,146.42 Crore of the collected premiums. Nepal Life also reinsured with the well-known Hannover Re Life Reinsurance Company in Germany (www.nepallife.com.np).

Asian Life Insurance Company Limited (ALICL)

Asian Life Insurance Company received its operating license from Beema Samiti, the Insurance Regulatory Authority of Nepal, under the Insurance Act of 2049, on February 27,

2008 (Falgun 15, 2064). The company began its operations on April 3, 2008 (Chaitra 21, 2064). The company had an authorized capital of Rs. 5 billion, with Rs. 2.01 billion already paid up, 70% of which was contributed by the promoters and the remaining 30% by the general public. The company had 93 promoters, including two institutional promoters and 91 individual promoters. The institutional promoters included notable finance and development banks in Nepal. Asian Life was proud to own a corporate office building in Maitidevi, Kathmandu, and a plot of land measuring 2-5-0-0.16 (1176.77 square meters) in Naxal, Kathmandu, intended for a new corporate building.

Asian Life is serving the nation through its 140 branch network across the nation. Asian Life is dedicated to maintain the highest level of professional integrity, regulatory compliance and corporate governance. Since inception, the company has focused on policy- holder's satisfaction (https://www.asianlife.com.np).

National life Insurance Company Limited (NLICL)

National Life Insurance Company Limited, previously known as National Life & General Insurance Co. Ltd., was established in 1988 A.D. under Nepal's Company Act of 1964 and Insurance Act of 1968, with the primary goal of meeting the growing insurance needs of the country. For over three decades, National Life earned a reputation as a company dedicated to providing the highest level of customer service. The company's well-established name and strong reputation were strengthened by its commitment to delivering value and service to all its business partners. As of now, the company had a paid-up capital of approximately Rs. 3082 million. The shareholding structure of National Life included 52.85% Nepalese promoters, 2.15% foreign collaborators, 10% Rastriya Banijya Bank, and 35% public shareholders. The Company's Life Fund amounted to around Rs. 40 billion. It owned prime properties in various cities across the country and planned to construct a modern multi-story commercial complex on its land in Lazimpat, Kathmandu. Additionally, the company had substantial share investments in many financial institutions, the value of which had significantly increased. The annual premium collection was about Rs. 10 billion, and the company provided insurance coverage to more than 900,000 people (www.nationallife.com.np).

1.2 Problem Statement

The Nepalese securities market has been operational for over thirty years. However, it has struggled with inefficiencies due to inadequate supervision and monitoring by relevant

authorities, a lack of professionalism among market participants, a negative attitude from market regulators, and slow fund transfers. Economic imbalances, political instability, and ineffective implementation of liberal economic policies have negatively impacted the economy. Security prices, particularly common stocks, have experienced erratic fluctuations and declines in recent years. Policymakers have faced challenges in developing suitable policies for stock market growth, and there has been minimal government involvement in fostering market development.

Stock prices are primarily determined by the forces of demand and supply. Both qualitative and quantitative factors influence stock prices, but pinpointing the exact factors responsible is often controversial and unpredictable. Stock prices result from a combination of several factors. However, some environmental changes do not affect stock exchanges. Despite the significant role of the banking sector, many investors lack awareness of companies' financial health and often fail to analyze financial indicators before investing, whether in initial public offerings (IPOs) or in the secondary market like the Nepal Stock Exchange (NEPSE). The market price of common stock frequently deviates from key financial indicators such as Net Worth per Share (NWPS), Earnings per Share (EPS), and Dividends per Share (DPS). Instead of reflecting a company's actual financial strength, stock prices are often swayed more by rumors. Furthermore, the overall performance of NEPSE is heavily influenced by the Market Price per Share (MPS) of these companies (Baral & Pradhan, 2018).

The significant fluctuations in share prices may result from the efficient market hypothesis. Many publicly listed companies fail to provide their financial statements or annual reports to investors in a timely manner. This irregular movement of share prices lacks a solid basis in fundamental analysis, including limited dividend yields, net worth, and price multiples. Consequently, investors may suspect insider trading. This suspicion is based on the assumption of strong market efficiency. Although the Securities Exchange Act forbids the misuse of insider information, regulatory authorities often cannot prevent or predict how insider information is being used (Bondt, 2008). This study tries to identify the determinants of stock price and find out the degree of affection of these determinants more. More specifically, this study is stated following research questions:

- How does the Dividend Yield (D/Y) Ratio affect the Market Price per Share (MPPS)?
- What is the relationship between the Price Earnings (P/E) Ratio and the Market Price per Share (MPPS)?

- How does Earning per Share (EPS) influence the Market Price per Share (MPPS)?
- What impact does the Book Value per Share (BVPS) have on the Market Price per Share (MPPS)?

1.3 Objectives of the study

The main objective of this study is to identify the factors affecting stock price of life insurance companies in Nepal. Thus, this study is focused to meet the following objectives:

- To analyze the effect of Dividend Yield (D/Y) Ratio on the Market Price per Share (MPPS).
- To determine the relationship between the Price Earnings (P/E) Ratio and the Market Price per Share (MPPS).
- To evaluate the influence of Earning per Share (EPS) on the Market Price per Share (MPPS).
- To assess the impact of Book Value per Share (BVPS) on the Market Price per Share (MPPS).

1.4 Research Hypothesis

Based on the objectives mentioned above, the following hypotheses have been developed.

H_{01}: There is no significant relationship between the Dividend Yield (D/Y) Ratio and the Market Price per Share (MPPS).

H_{02}: There is no significant relationship between the Price Earnings (P/E) Ratio and the Market Price per Share (MPPS).

H_{03}: There is no significant relationship between Earning per Share (EPS) and the Market Price per Share (MPPS).

H_{04}: There is no significant relationship between the Book Value per Share (BVPS) and the Market Price per Share (MPPS).

H_{05}: The combined effect of D/Y Ratio, P/E Ratio, EPS, and BVPS does not significantly predict the Market Price per Share (MPPS).

1.5 Rationale of the study

The life insurance sector in Nepal has been experiencing growth, yet it remains underdeveloped. Factors such as intense competition, inadequate regulatory oversight, limited market opportunities, low per capita income, few profitable investment options, and rising violence and terrorism adversely affect the financial stability of Nepalese insurance

companies. This study highlights these concerns for investors, academics, entrepreneurs, and other interested parties. It is valuable for financial managers to understand how various factors influence stock prices, the price formation process, and their relationship with the company's financial status. This study proved valuable for potential investors interested in understanding the effects on price trends, trading volume, and the impact of signaling factors within the NEPSE index. It provided insights into the financial health of Nepalese life insurance companies and the factors influencing their stock prices. The findings were valuable for insurance companies, customers, researchers, students, and other stakeholders, providing a clearer understanding of the financial condition of these firms. The study shed light on how various financial ratios are applied to assess the financial performance of insurance companies. It also played a vital role in discussing these ratios, identifying the key factors contributing to poor financial performance, and suggesting ways to maintain a strong financial position to remain competitive in the global insurance market. Furthermore, the study was anticipated to be beneficial for future researchers aiming to delve deeper into this subject.

1.5 Limitation of the Study

This study aimed to explore the factors determining stock prices in Nepal, utilizing both primary and secondary data. However, the research has certain limitations, which are outlined as follows:

- The study relied on both primary and secondary data sources. Secondary data were obtained from NEPSE, relevant organizations, and various financial journals; hence, there is a possibility of errors due to the reliability of published data.
- Primary data were derived from respondents' answers, which may vary depending on the respondents' honesty and loyalty.
- The study focused solely on life insurance companies.
- The analysis was based on data from a specific period, covering the fiscal years 2068/069 to 2079/080 (ten years), and the results are limited to this timeframe.
- The study employed only selected statistical and financial tools for analysis.

CHAPTER-II

REVIEW OF LITERATURE

This chapter has been made to review the existing literature pertaining to stock market development and economic growth. The relevant literature and articles are reviewed from international as well as national publication available from different libraries, institutions and websites that have great significance to this study. A few books, articles and research working papers have been reviewed on this subject.

2.1 Conceptual Review

This section delves into the concept, history, and various types of insurance, while reviewing key books to establish a solid conceptual framework. It examines legal documents, previous research by scholars, unpublished dissertations, and related theses focusing on financial performance indicators. Analyzing the insurance industry's performance is essential, given the sector's current challenges, including increased competition, industry consolidation, solvency risks, and changing regulatory standards. Assessing the efficiency of companies in this industry is crucial for understanding how they have adapted to these challenges and which firms are likely to survive (Berger, 1997).

2.1.1 Concept of Insurance

Insurance is a product that provides protection against a range of unforeseen events. An insurance policy assures the insured that a specified amount will be compensated in exchange for a premium payment. In terms of property insurance, various products are available. Property can be insured against risks like fire and natural disasters such as floods and earthquakes. Machinery can be covered for breakdowns, and goods in transit can be protected under a marine cargo insurance policy. Additionally, insurance is available for ships and other vessels, and motor insurance policies cover third-party damages as well as vehicle damage. Insurance can be understood from different perspectives. For example, the Commission on Insurance Terminology of the American Risk and Insurance Association defined insurance as the pooling of unforeseen losses by transferring these risks to insurers, who agree to compensate the insured for such losses, provide financial benefits when these events occur, or offer services related to the risks (Rejda, 2008).

2.1.1.1 Types of Insurance

Insurance companies design policies by categorizing risks based on their specific focus. This classification ensures that the risks covered under each policy type are consistent, allowing insurers to predict potential losses and set appropriate premiums. Insurance can be divided into different categories based on this risk grouping.

Life Insurance: Life insurance, often referred to as social insurance, is a contract where the insurer agrees to pay a specified amount of money either upon the death of the insured or after a set period, in exchange for regular premium payments. Individuals can buy life insurance policies for their own benefit or for the benefit of others. For instance, a person might purchase a policy on their own life to ensure that a third party, such as a spouse or child, receives the benefits upon their death. Life insurance policies are frequently used by spouses to secure financial support for each other or by parents to cover the risk of a child's death. The primary goal of life insurance is to meet both protection and savings needs, offering financial security to dependents in case of unforeseen events (Levine, 1991).

- Whole Life Insurance
- Endowment Life Insurance
- Term Life Insurance

2.1.2 Financial Terminologies

Financial markets are basically similar to other kinds of markets. People buy and sell bargain and haggle, win and lose in this market as well. In financial markets, people buy and sell securities, stock and bonds which are less tangible than hot bracelets or cold gold bar but not less valuable (Levine, 1991).

Financial markets are generally categorized into two main segments: money markets and capital markets. Money markets deal with short-term funds, while capital markets focus on long-term funds. A key element of the capital market is the stock market. The capital market has played a crucial role in the financial system by providing a venue for raising long-term capital. Entrepreneurs with innovative ideas but lacking sufficient funds were able to attract investment by channeling public savings into their projects. They achieved this by issuing tradable securities such as shares and debentures. The segment of the market where these new or additional securities were made available was known as the IPO market (Initial Public Offering) or primary market.

The capital market was crucial to the financial system as it provided a platform for obtaining long-term funding. Entrepreneurs with innovative ideas but lacking sufficient capital were able to secure funds by channeling public savings into their projects. They did this by issuing tradable securities such as shares and debentures. This segment of the market, where new or additional securities were offered, was known as the IPO market (Initial Public Offering) or the primary market. The capital market was crucial to the financial system as it offered a way to raise long-term funds. Entrepreneurs with promising ideas but lacking sufficient capital could raise money by channeling public savings into their ventures. They did this by issuing tradable securities such as shares and debentures.

i) Securities

A company might offer an opportunity to share in its profits in exchange for an investor's funds. There are no guarantees or binding commitments from the company; it only pays out what the directors consider appropriate at any given time. The investor had the right to participate in deciding who would serve on the board of directors, which protected them from major misconduct. The investor's ownership was represented by a share of common stock, which could be sold to someone else. The new owner of the stock then gained the same rights. The holder of common stock was considered an owner of the company and could influence its operations through the board of directors. Essentially, the investor's rights were symbolized by a document that outlined the ownership conditions and how those rights could be exercised. "This piece of paper, serving as evidence of property rights, is called a security. It may be transferred to another investor with all its rights and conditions. Moreover, the security is a legal representation of the right to receive prospective future benefits under stated conditions" (Sharpe et al.,2004).

The securities market can be described as a system that brings together buyers and sellers of financial assets to enable trading. In simpler terms, it is a venue where individuals buy and sell various financial instruments. These instruments might include government bonds, corporate bonds, debentures, ordinary shares, preference shares, and others. As a crucial part of the capital market, the securities market encompasses a broad range of participants and entities that support the buying and selling of corporate securities. While it is confined to specific areas, the primary function of the securities market is to serve as a mechanism for transactions rather than focusing on transaction speed. It can be defined as a system that connects buyers and sellers of financial assets to facilitate trading. For capital to be allocated efficiently and to maintain high liquidity in securities, it is essential that the

market accurately prices shares based on economic factors and the information that is publicly available (Sharpe, Baillie, & Alexander, 2004).

The securities market is categorized based on the duration of the securities being traded, dividing it into the Money Market and the Capital Market. The Money Market deals with short-term securities, while the Capital Market handles long-term securities. Stocks, bonds, and debentures are traded in the Capital Market. These types of securities played a crucial role in financing industrial projects and contributing to the economic development of the country.

Securities markets can be divided into two main types based on their economic functions: the primary market and the secondary market. The primary market facilitates the initial sale of securities, bringing together entities with surplus savings and those with funding needs to support productive activities. Once securities are issued in the primary market, they are traded in the secondary market. The secondary market allows investors to buy and sell existing securities, transferring them from one investor to another. This trading activity in the secondary market is crucial for the primary market, as it provides liquidity to investors who have purchased securities from the primary market (Jones, 1998).

ii) Security Market

The securities market was designed to connect buyers and sellers of financial assets, functioning as a mechanism for trading these assets. This market can be categorized into primary and secondary markets based on whether the securities are newly issued or existing. The primary market itself is further divided into seasoned and unseasoned new issues. A seasoned new issue involves offering additional amounts of an already existing security, while an unseasoned new issue, also known as an initial public offering (IPO), represents the first sale of a security to the public. The primary purpose of these markets was to facilitate the exchange of securities between investors.

Primary Market

Primary market is the place where corporations and government issue new securities. All securities, whether in money or capital markets are initially issued in the primary market. The primary market for securities is the new issue market which brings together the "supply and demand" or "sources and uses" for new capital funds. In this market the principal sources of funds is the domestic savings of individuals and businesses: other suppliers include foreign investors and governments. The principal uses of funds are: the

long term financing of the investment in housing (mortgages), the long term investment of corporations and other business, and the long term borrowing of government. The ultimate suppliers of funds flow to their ultimate users, namely, economic units which issue securities to finance a surplus of expenditures over their current incomes. "Most individual investors are unfamiliar with the new issues in market and its institutions, such as underwriters and selling syndicates which serve as middleman between the corporate demanders of funds and the individual investors and financial institutions which supply the funds. To most investors the term securities market is synonymous with the stock "exchange"(Bodie, et al.2002).

Secondary Market

Secondary market is the market place where second-hand securities are traded. Secondary market comprise stock exchange and over the counter market, popularly known as OTC market. "The purpose of a stock exchange or securities market, like any other organized market, is to enable buyers and sellers to affect their transactions more quickly and cheaply than they could otherwise. However, since a stock exchange typically deals in existing securities rather than in new issues, its economic significance may be misunderstood."(Bodie et al.2002).

iii) Common Stock

Common stock represents an ownership position. The holders of common stock are the owner of the firm, have the voting power that among other things elects the board of directors and have a right to the earnings of the firm after all expenses and obligation have been paid: but they also run the risk of receiving nothing if earnings are insufficient to cover the obligations.

Common stockholders hope to receive a return based on two sources dividends and capital gains. Dividends are received only if the company earns sufficient money and the board of directors deems it proper to declare dividends. Capital gain arises from advancement in the market price of the common stock, which is generally associated with a growth in per share earnings because earnings often grow smoothly over time. This fact points the need for careful analysis in the selection of securities for purchase and sale, as well as in the timing of these investment decisions for common stock has no maturity date at which a fixed value will be realized. When a company needs capital for expansion, it sells shares its

stocks to the public. Most companies issue million numbers of shares so each share represents only a tiny piece of company. These shares are also transferable" (Fisher, 2002).

"The common stockholders of a corporation are its residual owners; their claim to income and assets comes after creditors and preferred stockholder have been paid in full. As a result, stockholder's return on investment is less certain than the return to a lender or to a preferred stockholder is not bounded on the upside as are returns to the others" (Gilbert and Edwin, 2007).

Advantages of Common Stock:

Common stock provided ownership of the firm and granted control and power to shareholders. Purchasing common stock conferred several rights to shareholders, including:

- The right to vote on company matters.
- The right to participate in general meetings.
- The right to receive information about the company.
- The right to elect the board of directors.
- The right to share in the company’s profits and losses.
- The right to transfer shares.
- The right to appoint a proxy to represent their interests.
- However, common stock also had its disadvantages:

It was generally riskier compared to other types of securities.

- Shareholders' rights might not always be exercised in their best interests, as individual investors often held only a small proportion of the total shares.
- In the event of liquidation, common stockholders were last in the priority of claims. Consequently, the capital they contributed served as a cushion for creditors if losses occurred during dissolution.
- As owners of the firm, common stock investors were responsible for legal obligations and could face personal liability.

iv) Preferred Stock

Preferred stocks offered a fixed dividend and had priority in reclaiming the principal before common stocks during liquidation. They were considered "hybrid" securities because they combined characteristics of both common stocks and bonds. Preferred stocks were given precedence over common stocks regarding assets and dividends. In liquidation scenarios, preferred stockholders had a claim on any remaining assets before common stockholders.

Additionally, preferred stockholders received their designated dividends prior to any dividends being distributed to common stockholders (Van Horne, 2000).

Advantages of Preferred Stock:

Preferred stock offered investors a relatively steady income.

- Preferred stockholders enjoyed a preference over common stockholders in the event of liquidation. Numerous instances were documented where this preferential position protected preferred stockholders from losses experienced by common stockholders.
- Many corporations, such as insurance companies, preferred to hold preferred stock as an investment because 70 to 80 percent of the dividends received on these shares were not subject to taxation (Weston and Copeland, 2002).

Disadvantages of Preferred Stock:

- Although holders of preferred stock assumed a significant portion of ownership risk, their returns were limited.
- The price fluctuations of preferred stock could be greater than those of bonds; however, bond yields were sometimes higher than those of preferred stock.
- Preferred stockholders did not possess a legally enforceable right to dividends.
- Accrued dividends were rarely paid in cash equal to the amount of the obligation incurred.

v) Debenture

The term "debenture" typically referred to unsecured bonds issued by a corporation. Investors relied on the corporation's earning power because these general credit bonds were not backed by specific assets. In the event of liquidation, debenture holders became general creditors. Despite being unsecured, debenture holders were protected by restrictions set out in the debenture, such as the negative pledge clause, which prevented the corporation from using its assets as collateral for other creditors (Vane Horne, 2000).

vi) Government Securities

The government issued various types of securities to address and manage development projects within a deficit budget, raising funds from the public. These securities were considered less risky compared to external debt. The government issued securities both internally and externally, with government bonds being the primary source of internal debt. The Nepal Rastra Bank (NRB) actively issued various government securities in the country. This issuance was a crucial tool for the government to maintain a balanced

budgetary system in Nepal. Below is a brief description of the Government Securities issued by the NRB.

Treasury Bills

The short-term government bond, known as a Treasury Bill, was issued to address budgetary deficits in Nepal. It typically had a maturity period of 91 days, while short-term securities had a maturity of up to 365 days. Treasury Bills were used to gather dispersed funds, channel them into productive sectors, and implement fiscal and monetary policies. They were issued through an auction process, allowing both individuals and institutions to invest in them.

Development Bonds

The Nepal Rastra Bank (NRB) issued these bonds in the market, which were long-term government bonds typically with a five-year maturity period. Holders of these securities could use them as collateral if they needed immediate funds. Both institutional and individual investors bought these bonds. They offered a fixed minimum interest rate. Generally, if a bondholder used the bonds as collateral, they could receive up to 90 percent of the bonds' total value. The income earned from these bonds was subject to taxation.

National Saving Bonds

This was a long-term government bond with a typical maturity period of five years. Individuals, organizations, and financial institutions purchased this bond, except for commercial banks. Interest on this bond was paid semi-annually. It could be bought as a promissory note, and the principal was refunded after the maturity period. The bond had a fixed interest rate and could be easily transferred between people in the market. It could also be used as collateral, similar to Development Bonds.

Citizen saving certificate

It is also a long-term government bond. It has normally 5 years maturity period. It has fixed interest rate which is paid on semi-annual basis. It cannot be used as collateral. Individual and institutional companies can buy this bond. It is a taxable bond.

Special Bonds

This type of bond is issued on special occasions when government falls short of funds. The government can issue special bonds to those parties to whom government has to make payment. The holder can use it as collateral.

vii) Par Value

When a corporation is first established, it is permitted to issue a specified number of common shares, each of which usually has a designated par value. Legally, a corporation may be restricted from distributing payments to common stockholders if such payments would lower the value of stockholders' equity on the balance sheet below the par value of the outstanding shares. For this reason, the par value is often set low compared to the initial selling price of the stock. The initial offering price of the shares can differ from the par value, as stocks might be issued at a premium or discount.

viii) Net Worth Per Share (NWPS)/ Book Value Per Share (BVPS)

A corporation generates income, which is primarily distributed to creditors as interest payments and to shareholders as dividends. Any remaining income is added to the cumulative retained earnings recorded on the corporation's books. The total of cumulative retained earnings and other components, such as common stock and capital contributed beyond the par value, constitutes the book value of equity. To determine the book value per share, the book value of equity is divided by the number of shares outstanding.

The book value of equity reflects the historical costs of physical assets, like buildings and equipment. A well-managed company with effective operations should have a market value exceeding the historical book value of its physical assets. The book value of equity is calculated as follows: cumulative retained earnings plus capital contributed beyond par plus common stock. The accounting value of a common share is found by dividing the total common equity (common stock plus retained earnings) by the number of shares outstanding. However, book value is generally considered less significant in evaluating a company's value, as it only represents historical investments, which may not accurately reflect the current market price or value (Gautam and Thapa, 2009).

ix) Market Price Per Share (MPS)

The market price of a share reflects both the value of the shares and the value of the organization itself. This price represents the amount that buyers pay to acquire shares from sellers. Share prices differ between companies, and because common stockholders are owners of the company but have the lowest priority in case of liquidation, share prices can be very volatile and sensitive to various factors. An organization operates within two types of environments: internal and external. The internal environment is managed by the

organization itself, which aims to create favorable conditions to enhance its share price in the stock market. Conversely, external environmental factors are beyond the organization's control but significantly impact share prices. Therefore, companies adjust their strategies in response to these external forces, with the goal of maximizing their share price and overall firm value.

x) Earning Per Share (EPS)

Earnings in accounting, which reflect the difference between revenues and expenses—including costs related to non-equity financing, such as interest on debt and dividends on preference shares—are also referred to as total earnings available for common stockholders. When this income is divided by the number of outstanding shares, it results in earnings per share (EPS).

xi) Dividend Per Share (DPS)

The proportion of a company's earnings distributed to shareholders in cash is referred to as dividends. These dividends reduce the retained earnings within the company and impact the amount of internal funding available. Investors purchase shares with the expectation of receiving a portion of the company's profits. The primary goal of stockholders is to earn returns on their investments; they are particularly pleased when the company's profits increase, leading to higher dividends (Gautam and Thapa, 2009).

Forms of dividend

Cash dividends: refer to the payments made directly to shareholders in the form of cash. To issue a cash dividend, a company must have sufficient cash available in its bank account. When a cash dividend is declared, it results in a decrease in both the cash account and the reserves of the company. Consequently, the total assets and the net worth of the firm were reduced due to the distribution of cash dividends.

A bonus share, also known as a stock dividend in the USA, referred to the distribution of additional shares to existing shareholders, beyond the cash dividend. This practice resulted in an increase in the total number of outstanding shares of the company. The additional shares were distributed proportionally to the shareholders' existing ownership in the company.

2.2 Theoretical Review

There are two theories of price behaviour i.e. classical approach and efficient market theory approach. "Classical or conventional approach includes fundamental analysis theory and

technical analysis theory. Under efficient theories, there are three forms of efficient market hypothesis. Classical approach assures market as inefficient whereas the efficient market theory investors were generally divided in to two groups, fundamentalists and technicians" (Reily and Brown, 1996).

2.2.1 Classical approach

The classical or conventional approach includes both fundamental and technical analysis theories. Fundamental analysis forecasts stock prices based on a company's earnings and dividends. This theory asserts that a share's market value is determined by intrinsic factors such as earnings, dividends, growth potential, and the debt-equity ratio. In contrast, technical analysis examines stock prices based on past price behavior. This theory suggests that by plotting a company's share prices over time on a chart, one can identify patterns that help in predicting future price movements (Reily & Brown, 1996).

i) Fundamental Analysis

Fundamental analysis, this approach of security analysis, tries to identify the real or true value of financial assets. The real value of any kind of financial assets is the present value of the future cash flow given by the assets or expected by the holder. The fundamental analyst attempts to forecast the timing and size of this cash flow, and then coverts them into their equivalent present value by using an appropriate discount rate. Once the real value is calculated, it is thereby, compared to the current market price per share to identify where the security is under-priced or over-priced.

An overpriced security's price tends to fall until it aligns with its true value, while an underpriced security's price rises to reach its actual value. The person who uses this technique is known as a fundamental analyst. The fundamental analysis approach involves examining various factors such as economic conditions, industry trends, a company's financial statements, and relevant information like product demand, earnings, dividends, and management quality to determine the intrinsic value of the company's securities. This theory assumes that knowledge about a company's future is not perfect. Some stocks are undervalued, while others are overvalued. The investor's job is to analyze specific fundamental factors that may help them identify undervalued stocks to buy and overvalued stocks to sell. After thorough analysis, the investor estimates the 'intrinsic' value of a security and compares it to its market price. If the intrinsic value is higher than the market

price, the security should be purchased; if it is lower, the security should be sold (Reily & Brown, 1996).

Fundamental analysis theory asserts that each stock has an intrinsic value at any given moment, which is equivalent to the present value of future cash flows from the security, discounted at an appropriate risk-adjusted rate. According to Francis (1996), the value of common stock is simply the present value of all future income that the share owner will receive. Ideally, the actual stock price should reflect this intrinsic value, which involves accurately predicting future cash flows and determining appropriate capitalization rates for future periods. However, in practice, it is difficult to predict a stock's future income and identify the correct discount rate. Therefore, fundamental analysis aims to estimate the intrinsic value of a share by examining various factors such as a company's sales, profits, dividends, management competency, and other economic and industry-related aspects that influence its future earnings and business prospects. "Fundamental analysts believe in companies' earnings, their management, economic outlook, firms' competitor's, market conditions and many other factors" (Francis, 1996).

The fundamental approach relies on rational scientific analysis of data, yet the market often defies rationality. Some limitations of fundamental analysis are as follows:

- The information and analysis might have been inaccurate.
- Numerous companies, using creative and innovative accounting techniques, could have masked their true earnings through accounting cosmetics.
- The fundamental analyst's estimation of intrinsic value might have been incorrect. It was not only possible but also likely that the analyst often forecasted growth, profit, and other factors without fully understanding all the facts.
- The fundamental analyst might not have fully comprehended the economy or the industry, as several external factors could have influenced the outcome. Ideally, revisions in the analysis should have occurred whenever new information that impacted the future benefits to security holders became available.

Thus, fundamental analysis was an ongoing process, as values changed over time. Ideally, revisions in analysis should have been made whenever new information affecting the future benefits to security holders was obtained.

ii) Technical Analysis

Technical analysis involves examining stock market prices to forecast future price movements. Analysts look at historical prices to identify patterns or trends that repeat over time.

Then more recent stock price is analyzed to identify emerging trends or patterns that are similar to past ones. By identifying an emerging trend or pattern, the analyst hopes to predict accurately future price movement for a particular stock" (Sharpe et al., 2004).

"Technical analysis is based on the widely accepted premise that security prices are determined by the supply and the demand for securities. The tools of technical analysis are therefore designed to measure certain aspects of supply and demand"(Francis,1996).

"The technical analyst aimed to forecast short-term price movements and provided recommendations on when to buy or sell specific stocks, groups of stocks, or the stock market as a whole. While fundamental analysis focused on answering the question of 'what,' technical analysis sought to predict 'when' these changes would occur (Fisher, 2002)."

2.2.2 Theories of Dividend

- **The Dow Theory**

The Dow Theory, developed by Charles Dow in the early 1900s while he was at the Dow Jones Company and The Wall Street Journal, is a long-standing and renowned technical analysis tool. This theory helps predict market trends and movements for both the overall market and individual securities. According to Dow, the market exhibits three distinct types of movements simultaneously. The first is the daily fluctuations, the second includes short-term swings lasting from two weeks to several months, and the third is the major trend, which spans at least four years (Baker & Weigand, 2015).

Practitioners of the Dow Theory have traditionally referred to market movements in the following ways:

- Primary Trends: These were often termed as bull or bear markets. The primary objective of Dow theorists was to identify and delineate these long-term trends.
- Secondary Movements: Also known as corrections, these movements typically lasted only a few months.
- Tertiary Movements: These referred to daily price fluctuations. According to the Dow Theory, daily fluctuations were considered insignificant and seen as random noise. However, chartists still plotted the asset's price or market average daily to track the primary and secondary trends (Francis, 1996).

According to Bodie et al. (2002), the Dow Theory uses two key indicators: the Dow Jones Industrial Average (DJIA) and the Dow Jones Transportation Average (DJTA). The DJIA is considered a primary indicator of underlying market trends, while the DJTA is used to confirm or refute the signals given by the DJIA.

Due to its nature, the forecasting ability of the Dow Theory is less accurate and tends to be effective primarily during extended, significant upward movements in the market. It proves to be unreliable as a market predictor when short-term or intermediate-term trends are frequently reversed. The theory does not adequately explain consistent patterns in short-term price movements.

2.2.3 Efficient Market Theory

In the context of financial markets, the term "efficiency" has been used to refer to various concepts, such as exchange efficiency, production efficiency, and information efficiency. However, this study focuses solely on information efficiency regarding stock pricing. When financial literature discusses market efficiency, it specifically refers to information efficiency in stock pricing. A market is considered information efficient if the current market price of a stock instantaneously and accurately reflects all relevant available information. This means that a stock's market value may be overvalued or undervalued at times, but in an efficient market, stocks are always correctly priced, making it impossible to consistently outperform the market. Efficient market theory posits that in a perfectly competitive market, stock prices always incorporate all available information and adjust promptly with each new piece of information. Thus, in an efficient market, price changes occur only in response to new information (Francis, 1996).

The idea of an efficient market was based on the notion that many independent buyers and sellers were focused on maximizing their profits. New information entered the market randomly, prompting investors to swiftly adjust their decisions. Consequently, in an efficient market, all accessible information was reflected in the prices. This concept of market efficiency originated from the theory of perfect competition, which assumed that information was readily and instantly available, and that investors made rational decisions without the influence of taxes or transaction costs.

An efficient securities market was characterized by the existence of numerous rational investors who diligently analyzed, assessed, and traded stocks with the goal of maximizing their profits.

- The availability of information at no cost, accessible to all market participants roughly at the same time.
- The generation of information in a random manner, with announcements being independent of each other.
- The ability of investors to react promptly and accurately to new information, leading to adjustments in stock prices (Jones, 1998).

Efficient market theory focuses on how securities are priced in the market. It has two aspects related to how quickly and accurately security prices adjust to new information. According to this theory, any random influx of information is immediately and accurately reflected in the security prices, meaning there are no delayed reactions or profitable opportunities that arise afterwards.

There are three forms of efficient market theory, each based on the type of information incorporated into stock prices. In a weakly efficient market, stock prices already reflect all past information, making technical analysis ineffective. Since past data is fully accounted for in the prices, it is impossible to achieve excess returns using investment strategies based on historical information. A semi-strong efficient market occurs when current stock prices incorporate all publicly available information, including past prices, trading volumes, and published financial statements. In this scenario, even fundamental analysis of published accounting information becomes useless, as the information has already been priced in by market participants. A strongly efficient market is characterized by stock prices that fully reflect all relevant information, both public and private, affecting future prices. In such a market, insider information cannot provide an advantage because no individual has exclusive access to this kind of information (Reilly, 1996).

One method for evaluating market efficiency involves examining how effectively security prices absorb information. The existing efficient market hypothesis posits that a stock's current price fully reflects all relevant information. This concept of market efficiency is divided into three categories based on the type of information used in making market decisions. These categories are explained below:

i) Weak Form Market Efficiency

The weak form of market efficiency suggests that current security prices already incorporate all the information available from past security prices. This means that

investors cannot achieve higher returns by creating trading strategies based on historical price or return data.

ii) Semi-strong Form Market Efficiency

The efficient market hypothesis suggests that security prices fully reflect all publicly available information. Consequently, investors cannot achieve excess returns by using public resources, such as corporate annual reports, price data, or published investment advice. This information includes earnings reports, dividend announcements, stock splits, new product developments, financial challenges, and changes in accounting practices. A market that rapidly incorporates all such information into prices is described as semi-strong efficient. According to Francis (1996), if the semi-strong form of the hypothesis is accurate, then the returns obtained would be comparable to those achieved through a simple buy-and-hold strategy.

iii) Strong Form Market Efficiency

"The most stringent form of market efficiency is the strong form, which asserts that price fully to reflect all information, public and non public. An extreme version of the strong form holds that all non public information, including information that may be restricted to certain groups such as corporate insiders and specialists on the exchanges, is immediately reflected in prices. In effect, this version refers to monopolistic access to information by certain market participants" (Jones, 1998).

Strong-form efficiency encompasses the weak and semi-strong forms and represents the highest level of market efficiency. It is necessary for the weak form hypothesis to be true in order to the semi-strong and strong form hypothesis to be true.

2.3 Empirical Review

Karki (2023) aimed to investigate the impact of macroeconomic factors on the performance of Nepal's stock market by analyzing annual statistics from 1994 to 2016. The study focused on variables such as real GDP, inflation, money supply, and interest rates. The methodology involved examining the relationships between these macroeconomic factors and stock market performance to determine their influence on stock prices. The findings revealed that real GDP, inflation, and money supply had a positive effect on the stock market, while interest rates had a negative impact. Despite these observations, the study concluded that macroeconomic variables did not have a significant correlation with the

stock market index, indicating a lack of substantial impact on Nepali stock prices. Additionally, the research identified earnings per share and stock dividends per share as the most crucial determinants of commercial bank stock prices in Nepal, with stock dividends being the most influential among the analyzed variables.

Lamichhane and Dhungana (2019) aimed to investigate the relationship between dividend payout, dividend yield, book-to-market ratio, and stock price volatility in the Nepalese stock market. Their study covered data from 2008/09 to 2014/15 and employed quantitative analysis techniques. The methodology included examining the impact of dividend payout and dividend yield on share price volatility, as well as exploring the negative relationship between the book-to-market ratio and stock price volatility. The findings revealed that both dividend payout and dividend yield had a positive association with share price volatility, while the book-to-market ratio demonstrated a negative and significant relationship with stock price volatility. The review of the Nepalese stock market also highlighted its illiquidity, riskiness, and underdevelopment, marked by slow trading activity, high susceptibility to manipulation, and significant effects from political instability. Despite contributing positively to Nepal's economic growth in later stages, the stock market had minimal links to economic growth in its early phases. The study also identified a research gap regarding the impact of global economic conditions on the Nepalese market.

Maskey (2022) conducted a study to explore the factors influencing the share prices of life insurance companies listed on the Nepal Stock Exchange (NEPSE). The research included all listed life insurance companies and analyzed panel data from 2012/13 to 2017/18. The analysis employed both descriptive and inferential statistics, with hypotheses tested through regression coefficients obtained from a multiple regression model. The findings indicated that earnings per share, dividends per share, price-earnings ratio, the age of the company, and dividend yield significantly impacted share prices. The study concluded that dividends are particularly important in guiding the investment decisions of Nepalese investors, emphasizing the importance of company dividend policies in shaping these decisions.

Pradhan (2022) aimed to explore the relationships between dividend payout and various financial metrics, such as stock earnings, dividend per share (DPS), market price, leverage ratio, interest coverage, turnover ratios, liquidity, and profitability. The study employed a quantitative methodology, analyzing the financial data of listed companies to uncover

patterns and correlations. The findings revealed that higher stock earnings led to increased DPS. Stocks with a higher DPS-to-market price ratio tended to have lower leverage ratios and a positive relationship with interest coverage. Additionally, dividend payout was positively correlated with turnover ratios, liquidity, and profitability. A positive correlation was found between DPS and market price, while liquidity and leverage ratios showed more variability for stocks with lower dividends. Conversely, earnings, asset turnover, and interest coverage demonstrated greater variability for stocks with higher dividends.

Ghimire (2022) aimed to investigate the role of life insurance companies in the economic development of Nepal and to assess how these companies could improve their services based on perspectives from policyholders and experts. The study employed a quantitative approach, analyzing data on the number of life insurance policies enforced, the number of employees, agents, branches, and geographical coverage. The research found a positive relationship between the number of policies enforced and the number of employees, agents, and branches. Conversely, there was a negative relationship between the number of policies enforced and geographical coverage. Additionally, the study observed that the industry average death claims to gross premium ratio was increasing, indicating that life insurance companies had accepted a significant number of sub-standard lives to boost sales volume.

Matthew (2022) aimed to investigate the impact of dividend payments on the market prices of shares in Nigeria, focusing on 17 quoted firms over the period from 2009 to 2019. The study utilized time series data on dividend per share, dividend yield, and dividend payout ratio, and employed ordinary least squares techniques for panel estimation to analyze the data. The findings revealed a positive relationship between market price per share and dividend per share, indicating that increases in dividend per share led to higher market prices for shares of the quoted firms. However, dividend yield did not have a significant positive effect on market prices. Additionally, a direct relationship was found between market prices per share and the dividend payout ratio. The study also uncovered considerable variations in share prices, which were theorized to be influenced by demand and supply forces, and practically affected by external and internal factors such as economic policies, corporate decisions, psycho-social variables, political situations, and institutional parameters.

Masum (2022) aimed to explore the relationship between dividend policy and stock market returns for private commercial banks in Bangladesh, focusing on how effectively dividend policies could explain stock returns. The study employed a panel data approach, analyzing

data from all listed commercial banks on the Dhaka Stock Exchange to ensure a robust sample. The methodology controlled for variables such as Earnings per Share, Return on Equity, and Retention Ratio, all of which were found to positively correlate with stock prices and significantly accounted for variations in market prices. Conversely, Dividend Yield and Profit after Tax demonstrated a negative and insignificant relationship with stock prices. The findings revealed that, overall, dividend policy had a significant positive impact on stock prices, emphasizing the importance of dividend policies in influencing market performance.

Timilsina (2021) aimed to assess the impact of dividend policy on stock prices, explore the potential for enhancing market value through adjustments in dividend policies or payout ratios, and elucidate stock price behavior using a simultaneous equation model. The study employed a quantitative approach, utilizing a simultaneous equation model to analyze the relationship between dividend policy variables and stock prices among a sample of companies. The findings revealed a positive relationship between dividend per share and stock price, although this effect varied across different sectors. The study suggested that altering dividend policies or dividend per share could potentially boost market share prices. However, the analysis found no significant relationship between stock prices and retained earnings per share and identified a negative relationship between stock prices and lagged earnings price ratios.

Al-Hasan et al. (2021) investigated the impact of dividend policy on the market price per share in Bangladesh, a topic that remains highly debated in finance. The study aimed to evaluate how dividend payouts influence share prices compared to retained earnings. Utilizing secondary data, the researchers applied descriptive statistics, correlation, and multiple regression models to analyze the information. Hypothesis testing was conducted using the F test. The study found that dividend payouts had a more substantial effect on market prices than retained earnings, with this relationship being significant at the 1% level. The findings supported the dividend policy theories proposed by Walter’s model and Gordon’s model.

Maharjan and Jha (2021) aimed to analyze the influence of insurance on Nepal's economy, focusing on its effects on GDP and the capital market. The researchers utilized correlation and regression analysis to evaluate the data. The study revealed that insurance significantly contributed to Nepal's economic growth by enhancing GDP and capital market

performance. It also highlighted that microfinances played a crucial role in providing insurance coverage to vulnerable populations, thereby increasing market coverage and facilitating the capitalization of small savings. The findings underscored the positive economic impact of insurance, including improved financial inclusion and market stability.

Budhathoki (2021) aimed to assess the financial health of Nepalese non-life insurance companies, focusing on their capitalization, profitability, and the role of reinsurance in risk management. The study utilized a quantitative methodology, analyzing financial data from these companies to evaluate their ability to meet long-term obligations despite challenges such as political instability and global economic fluctuations. Major findings indicated that the non-life insurance companies in Nepal were adequately capitalized and profitable. The research highlighted the significant influence of factors such as market penetration, management practices, and technological adoption on the industry's performance, underscoring the critical importance of reinsurance in managing risks effectively.

Shrestha (2020) aimed to investigate the relationship between monetary policy and stock prices in Nepal, given the significance of stock price movements for financial stability and their role in monetary transmission. The study utilized time series data to analyze monetary variables, stock prices, and monetary policy goals. Employing the Koyck approach to distributed lags, vector auto regression, and mediation analysis, the research sought to determine the causal links between these variables. The findings revealed mixed evidence of causality between monetary policy and stock prices. Despite inconsistencies across different econometric analyses, factors such as the inter-bank interest rate, narrow money supply, broad money supply, monetary policy announcements, and monetary policy stances were identified as significant in explaining stock prices. Additionally, the study found evidence of causality from stock prices to monetary policy, indicating that monetary authorities consider stock price developments when formulating policies. However, stock prices were not found to mediate the relationship between monetary policy variables and monetary policy goals, raising questions about the role of stock prices as a channel for monetary policy transmission in Nepal.

Chapagain (2020) aimed to understand the premium structures of two Nepalese life insurance companies and their impact on profitability. The research focused on Nepal Life Insurance Company and Life Insurance Corporation Nepal, examining how different premium types influenced net income. The methodology involved analyzing the financial

data of both companies, with a particular emphasis on term and renewal premiums. The findings revealed that Nepal Life Insurance Company experienced a significant positive impact on its net income from certain premium types, particularly term and renewal premiums. In contrast, Life Insurance Corporation Nepal did not show a similar influence of premium types on its profitability. This study highlighted the critical role of specific premium structures in enhancing the profitability of life insurance companies in Nepal.

Shrestha (2020) explored the connection between monetary policy and stock prices in Nepal, investigating whether stock prices function as a channel for transmitting monetary policy. The study analyzed time series data to examine the relationships between monetary variables, stock prices, and monetary policy objectives. Using the Koyck approach to distributed lags, vector auto-regression, and mediation analysis, the research uncovered mixed evidence of causality between monetary policy and stock prices. Key monetary factors such as the inter-bank interest rate, narrow money supply, broad money supply, and monetary policy announcements and stances were found to significantly influence stock price movements. Moreover, the study identified causality from stock prices to monetary policy, suggesting that monetary authorities consider stock price trends when shaping their policies. However, stock prices did not mediate the relationship between monetary policy variables and policy objectives, leading to questions about their effectiveness as a channel for monetary policy transmission in Nepal.

Nepal (2020) conducted in Nepal explored the factors influencing participation in the insurance sector. The research aimed to identify the barriers and catalysts affecting insurance engagement, focusing on educational background, poverty levels, political instability, and advancements in information technology. Methodologically, the study utilized a combination of surveys and secondary data analysis to assess the impact of these factors. It found that poor educational background, high poverty levels, and political instability were significant impediments to insurance sector participation. Conversely, increased awareness due to advancements in information technology positively influenced people’s understanding of insurance's benefits, both personally and professionally. This growing awareness has transformed insurance from a mere savings tool into a vital means of securing one's future against uncertainty. Consequently, these developments have heightened competition within the insurance industry.

Rizal (2019) conducted a study to investigate the factors influencing the profitability of Nepalese non-life insurance companies. The objectives were to examine how company size, leverage, benefits paid, and net premiums impact profitability. The study utilized quantitative methods, analyzing financial data from various non-life insurance companies in Nepal. The major findings revealed that larger company size positively affected profitability, while higher leverage had a negative impact. Additionally, changes in benefits paid and net premiums were found to have no significant effect on profitability.

Bhatta (2019) aimed to compare the premium collection and investment patterns within the Nepalese insurance industry. It sought to understand the variations in these patterns among different insurance companies and recommended strategies for improvement. The research utilized a comparative analysis methodology, examining data on premium collections and investments across various insurance firms. Key findings indicated that the industry heavily invested in government securities and fixed deposits, leading to a recommendation for diversifying investments to include other asset classes. Additionally, the study highlighted the need for consistent premium collection policies across different types of insurance to enhance overall management efficiency.

Shrestha (2019) conducted a study on the revenue collection and investment policy of Rastriya Beema Sansthan (RBS), focusing on the premium collection and investment patterns. The objectives of the study were to analyze the fluctuations in the ratio of first life premium to total life premium collection and to suggest strategies for RBS to enhance its market competitiveness. The methodology involved examining the premium collection data and investment patterns of RBS, with a particular focus on identifying trends and growth rates. The major findings indicated that RBS experienced fluctuations in the ratio of first life premium to total life premium collection, along with negative growth rates in both life insurance premium and net profit. The study recommended that RBS adopt different strategies to address these issues and improve its competitive position in the market.

Thapa (2019) conducted a study with the objective of examining the factors influencing share prices in the Nepalese stock market. The study aimed to explore how different financial indicators impacted share prices. These indicators included earnings per share (EPS), dividend per share (DPS), interest rate (IR), price-to-earnings ratio (PER), effective regulations, market trends and rumors, company profiles, and the notion that success is based on luck. To achieve this, data were collected from questionnaires and financial

statements of relevant organizations. The data were then analyzed using a simple linear regression model. The findings revealed that EPS, DPS, effective rules and regulations, market whims and rumors, company profiles, and the perception that success depends on luck had a significant positive association with share prices. In contrast, IR and PER exhibited a significant inverse relationship with share prices. The study also emphasized that the availability of liquidity, along with the use of fundamental and technical analysis, was crucial in improving the performance of the Nepalese stock market. Notably, the stock market showed a significant response to fluctuations in dividends and interest rates.

Giri (2018) aimed to explore the relationship between dividend per share and stock prices in Nepalese companies to determine if changes in dividend policies or dividend per share could positively influence market share prices. The study utilized a quantitative approach, analyzing data from various Nepalese companies to investigate the correlation between dividend per share and stock prices. The findings revealed a positive relationship, indicating that increases in dividends per share were associated with higher stock prices in the Nepalese market.

Kharel (2018) conducted a study to understand the role of insurance in Nepal's economy. The objectives included evaluating the contribution of insurance to economic growth, risk management, and mobilizing long-term savings. The methodology involved analyzing various data sources, including financial reports from insurance companies and relevant economic indicators, to assess the industry's impact on the economy. Major findings indicated that, while the insurance industry in Nepal has high potential, challenges such as resource shortages and limited investment sectors hinder its success. The study highlighted the significant role of insurance in promoting economic growth and managing risks, suggesting that insurance companies must operate on a financially sound basis to achieve their objectives.

Ghimire and Mishra (2018) conducted a study to explore the factors that impact stock prices, focusing on the relationships between stock prices and several key variables. These variables included Dividend Per Share (DPS), Earnings Per Share (EPS), Price-to-Earnings (P-E) ratio, Book Value (BV), and Market-to-Book Value (Market to BV). Their analysis covered the period from 2012 to 2017. To examine these relationships, they used both simple and multiple regression analyses, along with descriptive statistics. The study analyzed data from a sample of 11 financial and non-financial firms in Nepal. The findings

revealed that Market to BV and P-E ratio were significant determinants of stock prices, having a direct effect on them. Additionally, DPS and BV were found to have a significant positive influence on stock prices, while EPS had a minimal impact.

Pradhan and Dahal (2017) aimed to identify the factors influencing the share prices of Nepalese commercial banks listed on the Nepal Stock Exchange (NEPSE). To achieve this, they examined a sample of 14 banks over the period from 2008/09 to 2017/18. The study utilized a multiple regression model to analyze how various variables affected stock prices. The researchers investigated the impacts of earnings per share, dividends per share, the price-earnings ratio, book value per share, return on assets, and the size of the banks. The findings revealed that all these factors significantly determined the stock prices of Nepalese commercial banks.

Joshi (2016) aimed to explore the impact of dividends per share (DPS) and earnings per share (EPS) on the market price per share (MPS) in the Nepalese financial sector, including both banking and non-banking firms. The study utilized historical data and employed regression analysis to examine the relationships between DPS, EPS, retained earnings, and MPS. The major findings revealed that DPS is a significant motivating factor in increasing MPS, with a more substantial effect compared to EPS. Additionally, lagged MPS was found to accelerate the increase in MPS in subsequent years. The study concluded that dividends and retained earnings significantly explain the variations in share prices, with dividends having a more pronounced impact than retained earnings. The relationship between dividends, retained earnings, and share price was consistently positive across both sectors.

Joshi (2016) aimed to investigate the impact of dividend per share (DPS) and earnings per share (EPS) on the market price per share (MPS) in the Nepalese financial sector, comparing their effects between banking and non-banking firms. The study employed a quantitative methodology, analyzing historical data through regression analysis to determine the relationships between DPS, EPS, retained earnings, and MPS. Major findings revealed that DPS is a significant motivating factor, more influential than EPS, in raising MPS. Furthermore, the study found that lagged MPS accelerates the increase of MPS in subsequent years. Both dividends and retained earnings were significant in explaining the variations in share prices across sectors, with dividends having a more pronounced impact. The relationship between dividends, retained earnings, and share prices was consistently positive.

Hunjara and Muhammad (2014) aimed to examine the impact of dividend yield and dividend payout ratio, as measures of dividend policy, on stock prices. The methodology employed was an ordinary least squares (OLS) regression model to analyze the relationship between these variables. The major findings indicated that dividend yield negatively influenced stock prices, whereas the dividend payout ratio had a positive impact. These results contradicted the dividend irrelevance theory, suggesting that dividend policy significantly affects stock prices.

Table 1

Summaries of Empirical Review

Authors/ year	Titles	Objective	Methodology	Result
Karki (2023)	The Impact of Macroeconomic Factors on Nepal's Stock Market Performance	To investigate the influence of macroeconomic variables—real GDP, inflation, money supply, and interest rates—on the performance of Nepal's stock market.	The study uses time-series data from 1994 to 2016, applying econometric models to analyze the relationship between macroeconomic variables and the stock market index.	The study finds that while real GDP, inflation, and money supply positively influence the stock market, interest rates have a negative impact. However, macroeconomic variables do not significantly impact the stock market index, indicating a weak correlation with Nepali stock prices.
Pradhan (2022)	The Impact of Dividend Payments on Profitability and Market Value of Shares	To examine the relationship between dividend payments, profitability, market value of shares, and the variability in earnings, assets turnover, and interest rates.	The study employs a quantitative approach, analyzing financial data from selected companies to assess the correlation between dividend payments and various financial metrics. Statistical techniques such as correlation and regression analyses were used to explore these relationships.	The study finds that companies paying higher dividends tend to be more profitable and have a higher market value of shares, though they may also experience greater variability in their earnings, assets turnover, and interest rates.
Masum (2022)	The Impact of Dividend Policy and Key Financial Indicators on Stock Prices.	The study aims to examine the influence of dividend policy, Earnings per Share (EPS), Return on Equity (ROE), and the Retention	The research employs a quantitative approach, analyzing the relationship between dividend	The findings indicate that dividend policy has a significant positive impact on stock prices. Additionally, Earnings per Share, Return on Equity, and the Retention

		Ratio on stock prices, with the goal of understanding how these factors contribute to fluctuations in market prices	policy, EPS, ROE, and the Retention Ratio with stock prices. The study uses statistical techniques to assess the impact of these variables on the market prices of shares.	Ratio are positively correlated with stock prices. These variables play a crucial role in explaining the fluctuations in the market prices.
Timilsina (2021)	Impact of Dividend Policy and Financial Metrics on Stock Prices	To evaluate the influence of dividend policy, Earnings per Share (EPS), Return on Equity (ROE), and Retention Ratio on stock prices, examining how these factors contribute to fluctuations in market share prices..	The research employs a quantitative approach, analyzing financial data and stock price movements. It utilizes statistical techniques to assess the relationships between dividend policy, EPS, ROE, and Retention Ratio with stock prices, relying on historical data and regression analysis.	The findings demonstrate that dividend policy positively affects stock prices. Additionally, EPS, ROE, and Retention Ratio exhibit a positive correlation with stock prices. These variables significantly explain the variations in market prices of shares, highlighting their importance in stock price determination.
Maharjan and Jha (2021)	The Impact of Capital and Economic Growth on Liquidity Risk.	To explore how capital levels and economic growth influence liquidity risk.	The research employs a quantitative approach, analyzing financial data from various sectors. Statistical tools are used to examine the relationship between capital, economic growth, and liquidity risk.	The analysis reveals that both capital levels and economic growth positively impact liquidity risk. Higher capital and robust economic growth are associated with reduced liquidity risk, indicating a beneficial effect on financial stability.
Budhathoki (2021)	Impact of Economic Indicators on Bank Liquidity	To examines how financial performance, GDP growth rate, and inflation rate influence bank liquidity.	The research employs quantitative analysis using data from financial statements, economic reports, and statistical tools. Correlation and regression analyses are performed to determine the relationship	The analysis reveals that financial performance, GDP growth rate, and inflation rate significantly affect bank liquidity. Specifically, better financial performance and higher GDP growth rate are positively associated with improved bank liquidity, while inflation rate fluctuations also have a notable impact.

			between economic indicators and bank liquidity.	
Hunjara and Muhammad (2014)	Relationship Between Dividend Yield, Dividend Payout Ratio, and Stock Price.	To examine the relationship between dividend yield and dividend payout ratio with stock prices.	The research utilizes quantitative methods, analyzing financial data to determine the correlation between dividend yield, dividend payout ratio, and stock prices.	The analysis reveals a negative relationship between dividend yield and stock price, indicating that as dividend yield increases, stock price tends to decrease. Conversely, there is a positive relationship between dividend payout ratio and stock price, suggesting that higher dividend payouts are associated with higher stock prices.
Nepal (2020)	Growth Opportunities in Nepal's Insurance Market.	To explore the potential for growth in Nepal's insurance market by examining the impacts of educational advancement, poverty reduction, and political stability on insurance participation and benefits.	The research employs a qualitative approach, analyzing existing literature and data related to education, poverty levels, and political conditions. It includes interviews with industry experts and surveys of insurance providers to understand current challenges and opportunities in the market.	The findings suggest that improving education, reducing poverty, and enhancing political stability can significantly boost insurance market participation in Nepal. These improvements are expected to increase public awareness and accessibility to insurance products, thereby expanding market growth and enhancing the protection that insurance offers.
Joshi (2016)	The Impact of Dividends and Retained Earnings on Share Prices in Nepal’s Financial Sector	To examine the relationship between dividends, retained earnings, and share prices within Nepal’s financial sector, determining how these factors influence stock valuations.	The research employs quantitative analysis using financial data from various companies in Nepal’s financial sector. It involves statistical techniques to assess the correlation between dividends, retained earnings, and share prices.	The findings indicate a positive relationship between dividends, retained earnings, and share prices in all observed cases. This suggests that dividends play a significant role in influencing stock prices, highlighting their importance for investors analyzing the financial sector in Nepal.

Thapa (2019)	Impact of Capital Adequacy and Non-Performing Loans on Liquidity Risk.	To explore the influence of capital adequacy and non-performing loans on liquidity risk within the banking sector.	The study employs quantitative methods to analyze financial data from banks. It uses statistical techniques to assess the relationship between capital adequacy, non-performing loans, and liquidity risk..	Finds that capital adequacy and non-performing loans significantly negatively affect liquidity risk. Specifically, higher capital adequacy and greater non-performing loans lead to increased liquidity risk for banks.
Ghimire and Mishra (2018)	Impact of Economic and Financial Factors on Bank Liquidity	To investigate the influence of non-performing loans, profitability, GDP, and capital adequacy on the liquidity of banks.	The study employs quantitative analysis using data from financial reports and economic indicators. It assesses the relationships between the selected variables and bank liquidity through statistical methods.	The study finds that non-performing loans, profitability, and GDP have a significant positive effect on bank liquidity. Conversely, capital adequacy shows an insignificant negative effect on liquidity.
Matthew (2020)	Impact of Dividend Payments on Share Market Prices in Nigeria	To explore how dividend payments influence the market prices of shares in Nigeria.	This research uses a quantitative approach, analyzing data from Nigerian companies to assess the correlation between dividend payments and share prices. It employs statistical techniques to determine the significance of dividend payments on stock market performance.	The study reveals that there is a notable relationship between dividend payments and the market prices of shares in Nigeria. However, the findings are context-specific and may not be directly applicable to other countries or regions.
Pradhan and Dahal (2017)	Evaluation of Factors Influencing Life insurance company Liquidity	To assess the impact of various factors on bank liquidity, identifying which factors contribute to or mitigate liquidity risks.	The study employs a quantitative research method, They apply statistical methods to determine the significance and impact of these factors on liquidity.	The study finds that while several factors show insignificant relationships with liquidity, they nonetheless exhibit either positive or negative trends. The researchers emphasize the importance for banks to thoroughly evaluate these factors to prevent potential liquidity crises.

Joshi (2016)	Effect of Credit and Liquidity on Bank Performance: A Study of Capital Adequacy	To evaluate the impact of bad credit and liquidity on the performance of banks, with a focus on understanding how capital adequacy influences credit distribution.	The research employs partial least squares structural equation modeling (PLS-SEM) to analyze the data and assess the relationships between the variables of interest.	The study finds that bad credit and liquidity do not have a significant effect on bank performance. However, it reveals that capital adequacy has a strong influence on how credit is distributed by banks.
Maskey (2022)	Determinants of Share Price in Nepalese lice insurance Companies	This study aims to identify the key factors influencing share prices of companies listed on the Nepal Stock Exchange, with a specific focus on how these factors affect investor decisions.	The research utilizes quantitative analysis to examine variables such as earnings per share, dividend per share, price-earnings ratio, company age, and dividend yield. Data is collected from financial statements and investor surveys.	The study finds that earnings per share, dividend per share, price-earnings ratio, company age, and dividend yield are significant determinants of share prices. It reveals that dividends play a crucial role in the investment decisions of Nepalese investors, and that the dividend policies of companies greatly influence investor choices in Nepal.
Ghimire (2022)	Policies and Practices in Nepal's Life Insurance Industry.	To explore the effectiveness of policies and practices within Nepal's life insurance industry, emphasizing their role in economic development and service quality.	The research involves a comprehensive review of industry policies and practices, combined with interviews and surveys from industry professionals and stakeholders. Data analysis focuses on policy impact and service quality assessment.	The study highlights that effective policies and practices are essential for promoting economic growth and maintaining high service standards within the life insurance sector in Nepal. It emphasizes the positive influence of well-structured policies on industry development and service excellence.

2.4 Research Gap

In this context, previous research is essential as it underpins the current study. When evaluating factors that influence the stock prices of banks and financial institutions, investors primarily focus on signal factors rather than the company's dividend policy and its related indicators. The purpose of this study, factors affecting stock price of life insurance companies in Nepal (a comparative study of Nepal Life Insurance, Asian Life Insurance, National Life Insurance) receives some new ideas, knowledge and suggestions

in relation. This study investigated the dividend policies and practices of life insurance companies in Nepal. It explored the relationships among earnings, dividends, retained earnings, and stock prices, as well as the impact of the dividend payout ratio and dividend yield on share prices. Utilizing secondary data, the study assessed how dividend policies affected stock prices. Additionally, it aimed to address the shortcomings and limitations found in previous research on this topic.

CHAPTER-III

RESEARCH METHODOLOGY

Research methodology is the technique to achieve the stated objectives of the study. This chapter studies how research to be conducted, how research is made effective and what are the steps of research so that the study and goal of the related study can be easily achieved. Especially research refers sequential steps to be followed by researcher at the time of solving problem or studying the concerned subject matter in detail that include following steps.

3.1 Research Design

This study applies descriptive as well as inferential statistics design to deal with the factor affecting BVPS, EPS, P/E ratio, D/Y ratio and MPPS. The descriptive and analytical research design has been used for fact findings and search adequate information about life insurance companies in stock price stock market and the financial performance of Nepalese insurance companies, formulating and testing hypotheses to determine the significance and direction of these relationships, and drawing conclusions based on the findings to provide deeper insights into the Nepalese insurance sector's dynamics and challenges.

3.2 Population and Sample

The study considered all life insurance companies listed on the Nepal Stock Exchange as the population. A sample was then drawn from this population for research purposes. The research aimed to determine the factors that influenced the stock prices of these listed life insurance companies in Nepal. It covered all 37 insurance companies operating in the country, which include life insurance, non-life insurance, re-insurance, and micro-insurance firms. According to data from the Nepal Insurance Authority in 2024, these companies are categorized as follows: 14 life insurance companies, 14 non-life insurance companies, 2 re-insurance companies, and 7 micro-insurance companies. By examining the entire population of insurance companies in Nepal, the study sought to provide a thorough overview of the insurance industry's structure and dynamics within the country. The samples for this study have regarded three life insurance companies (Nepal Life Insurance, Asian Life Insurance, and National Life Insurance). Beema Samiti (Insurance Board)

3.3 Nature and Source of Data and the instrument of data collection

The study is completely based on secondary data. The data are compendium from annual report of sampled life insurance companies. The study only focuses on 10 year data for the study because after Nepal insurance authority forces insurance companies to perform merger or acquisition the data of insurance companies are not widely available.

3.4 Method of analysis

The main purpose of data analysis in this study is to analyze the factors affecting stock price of life insurance companies in Nepal. Thus, this section deals with statistical analysis of primary and secondary data. Descriptive, correlation and regression methods of analysis are used in the study. Thus, different financial and tactical tools are used for data analysis where the econometric method of analysis is used. The data are examined by using t-test. The descriptive statistics include mean, standard deviations; values of the variables are used to describe the characteristics of selected life insurance companies during the period 2068/69 to 2079/80. Correlation analysis is used to evaluate the direction of relationship between the dependent and independent variables. Along with this, regression analysis is used to find out the influence of independent variable over dependent variable exclusively and combined with other variables.

Financial Tools

To evaluate the financial and performance of any firm ratio is used as a key tool of financial analysis. Financial analysis is the process of identifying the financial strength and weakness of the firm by properly establishing relationship between the items of the balance sheet and profit and loss account. Financial analysis involves examining financial statements to evaluate a company's financial health and performance. It also helps in predicting future financial outcomes. Various financial tools have been employed to calculate and interpret several ratios, providing insights into the company's financial status.

Earnings per Share (EPS)

The profitability of common shareholders' investments can be assessed through various methods. One way is by looking at Earnings per Share (EPS). EPS provides insight into whether a bank’s earning capacity on a per-share basis has fluctuated over time. This is determined by dividing the net profit after tax by the total number of common shares outstanding. Calculating EPS over several years helps to gauge any changes in the bank's

earning power per share during that period.

$$\text{EPS} = \frac{\text{Net profit after tax}}{\text{No. of stock outstanding}}$$

Dividend Per Share (DPS)

The DPS indicates the part of earning distributed to the shareholders on per share basis. It is calculated by dividing the total dividend to equity shares by the number of ordinary shares.

$$DPS = \frac{Total\ Dividend\ to\ Equity\ Shares}{No.\ of\ ordinary\ shares}$$

Dividend Payout Ratio (D/P Ratio)

D/P ratio is percentage of profit that is distributed as dividend. This ratio reflects percentage of profit distributed as dividend and what percentage of profit is remained as reverse & surplus for the growth of the company. It is calculated by DPS divided by the EPS.

$$\text{D/P Ratio} = \frac{\text{Dividend per share}}{\text{Earning per share}}$$

Market Price Per Share (MPPS)

The Market Price Per Share (MPPS) refers to the value of a company's shares in the market. It is calculated by dividing the company's market value by the total number of shares owned by its shareholders. The market value is essentially the trading price of a share on the stock exchange. Understanding the MPPS, and the overall market value of a company, is important in various scenarios, such as the transfer of shares due to inheritance or divorce.

$$MPPS = \frac{Dividend\ Per\ Share}{Dividend\ Yield\ Ratio}$$

Dividend Yield Ratio (D/Y Ratio)

The Dividend Yield Ratio (D/Y Ratio) reflects the connection between the dividend per share and the market price per share. This ratio is especially valuable for investors. It was determined by dividing the dividend per share by the market price per share.

$$\text{Dividend Yield Ratio} = \frac{\text{Dividend per share(DPS)}}{\text{Market value per share(MVPS)}}$$

Price Earnings Ratio (P/E Ratio)

The Price Earnings Ratio (P/E Ratio) reflects the amount the market previously paid for each rupee of the company's earnings per share (EPS). It was especially useful to prospective investors. This ratio was determined by dividing the market value per share (MVPS) by the earnings per share.

$$\text{P/E Ratio} = \frac{Market\,Value\,per\,Share}{Earning\,Per\,Share}$$

Various statistical tools which have applied for the study are presented in the following manner:

Statistical tools

Mean

Arithmetic mean is the average return over periods. The mean is the figure we get when the total of all the values in a distribution is divided by the number of values in the distribution.

Standard Deviation

Standard deviation is a crucial and widely utilized measure for studying dispersion. Dispersion refers to the extent to which a set of figures in a series deviates from an average. Standard deviation quantifies the absolute dispersion. A higher dispersion results in a larger standard deviation, while a smaller standard deviation indicates a greater uniformity and homogeneity of the observations within a series. It reflects how much the data varies from the mean. The more the data is spread out, the higher the deviation. Standard deviation is derived as the square root of variance.

We have,

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{\Sigma\,(x - \bar{x})}{n}}$$

Karl Pearson's Correlation Coefficient

The correlation is quantified as the correlation coefficient, which lies between -1 and +1. A perfect positive correlation (a correlation coefficient of +1) indicated that as one security moved, either up or down, the other security would move in tandem, in the same direction. Conversely, a perfect negative correlation meant that if one security moved in either

direction, the security that was perfectly negatively correlated would move in the opposite direction. If the correlation was 0, the movements of the securities were considered to have no correlation; they were completely random.

$$r = \frac{N\sum XY - \sum X \sum Y}{\sqrt{N\sum X^2 - (\sum X)^2}\ \sqrt{N\sum Y^2 - (\sum Y)^2}}$$

Where,

N = no of observation in series X and Y

$\sum X$ = Sum of observation in series X

$\sum Y$ = Sum of observation in series Y

$\sum X^2$ = Sum of square observation in series X

$\sum Y^2$ = Sum of square observation in series Y

$\sum XY$ = Sum of the product of observation in series X and Y

Regression Analysis

It is a statistical measure that attempts to determine the strength of the relationship between one dependent variable (usually denoted by Y) and a series of other changing variables (known as independent variables). The two basic types of regression are linear regression and multiple regression. Linear regression uses one independent variable to explain and/or predict the outcome of Y, while multiple regression uses two or more independent variables to predict the outcome.

$Y= b_0 + b_1BVPS+b_2\ EPS+b_3\ P/E+b_4\ D/Y\ldots\ldots\ldots\ldots\ldots+ e$

b_1, b_2, b_3 and b_4 are the beta coefficient of respective independent variable

Where,

BVPS = Book value per Share

EPS = Earnings per Share

P/E = Price Earnings Ratio

D/Y = Dividend Yield Ratio

Y = Market Price per Share (MPPS) Dependent variable

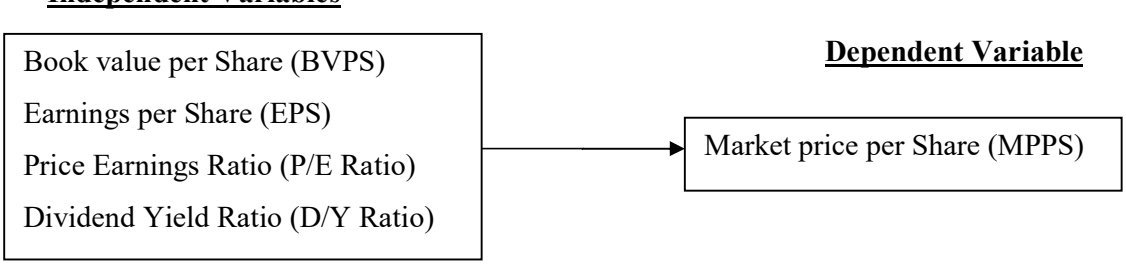
3.5 Research Framework and Definition of Variables

This research is mainly concerned with financial analysis of commercial banks. Research has been conducted through analysis of secondary data available due to previous research

and the data published by the banks under study. Therefore, many variables affecting banks financial situation of banks financial statements are described as follows:

Figure 1

Research framework of the study



Sources: - (Dutta, Saha and Das, 2018)

Independent

1) Book Value Per Share (BVPS)

Book Value Per Share (BVPS) is a measure used in finance to determine the per-share value of a company's equity. It is calculated by taking the company's total equity, which is the difference between its total assets and total liabilities, and dividing it by the number of outstanding shares (Saputro, 2019). This metric is useful for investors to assess whether a stock is overvalued or undervalued by comparing it to the market price per share. It is calculated as:

BVPS = Number of Outstanding Shares / Total Equity

2) Earnings Per Share (EPS)

EPS serves as an indicator of a company's profitability. The increasing earnings per share generally results in high market price. According to (Kumar, 2017) the earning per share has a positive relationship with market price, i.e., higher the earning per share, higher will the market price be. The ratio represents the profit that remains after a company has paid its taxes and the dividends owed to preference shareholders for a given financial year. Once these obligations are met, the remaining earnings belong exclusively to the equity shareholders. This ratio is calculated by dividing the profit after tax, minus the preference dividend, by the number of equity shares.

EPS = Net profit after tax-Preferred dividend/Number of outstanding shares

3) Price Earnings Ratio (P/E ratio)

P/E indicates the extent to which the earnings of each share are covered by its price. It tells whether the share price of a company is fairly valued, undervalued, or overvalued. In general, a high P/E suggests that investors are expecting higher earnings growth in the future compared to companies with a lower P/E. According to (Afza and Tahir, 2012) the Price-to-earnings ratio has gained enormous popularity for evaluating individual stocks, sectors, and stock markets as potential investments. P/E ratio expresses the relationship between the market price of a company's share and its earning per share. It indicates the extent to which the earning of each share is covered by its price. It is calculated as:

P/E Ratio= MP/EPS

4) Dividend Yield Ratio (D/Y Ratio)

The Dividend Yield Ratio (D/Y Ratio) represents the relationship between the dividend paid per share and the market value per share. This ratio was particularly useful for investors. It was calculated by dividing the dividend per share by the market value per share (Jitmaneeroj, 2017)

Dependent Variables

Market Price per Share (MPPS)

Market Price per Share (MPPS) represents the evaluation of a company's shares in the market. The Market Value per Share (MVPS) is calculated by dividing the company's assessed market value by the total number of shares owned by its stockholders. Essentially, the market value refers to the trading price of a share on the stock exchange (Almumani, 2014).

CHAPTER IV
RESULTS AND DISCUSSION

This chapter includes descriptive presentation of data of sampled insurance companies. The data are collected from annual report of sampled insurance companies and calculated the data from MS excel. Similarly, after analysis of data finding and discussion are also included in this chapter.

4.1 Descriptive analysis of data

Descriptive analysis of data involves summarizing and interpreting key characteristics of a dataset to provide a clear understanding of its fundamental aspects. This process includes calculating summary statistics such as mean, median, and standard deviation, organizing data into frequency distributions, and using visual tools like graphs and charts to highlight trends and patterns.

In this study, Mean and standard deviation is analyzed under descriptive technique.

4.1.1 Descriptive presentation of Asian Life Insurance Company

Table 2 presents financial ratios including Book Value per Share (BVPS), Earnings per Share (EPS), Dividend Payout Yield (DPY), Price to Earnings Ratio (PER), and Market Price per Share (MPPS) of ALICL from FY 2068/69 to 2079/80.

According to the table, Book Value per Share (BVPS) started at 174 in FY 68/69 and saw fluctuations, peaking at 204 in FY 69/70 before generally declining, ending at 117 in FY 79/80. The average BVPS over the period was 146.8, with a standard deviation of 25.7, indicating variability in the company's equity value per share. Earnings per Share (EPS) displayed notable variability, starting at 32 in FY 68/69, decreasing significantly in FY 70/71, and then fluctuating around lower values, ending at 11.49 in FY 79/80. The average EPS over the period was 15.6 with a standard deviation of 7.5, suggesting significant year-to-year changes in profitability.

Similarly, Dividend Payout Yield (DPY) was highly variable, with an average of 113.5 and a substantial standard deviation of 105.6, reflecting the company's inconsistent dividend payments. The yield ranged from a low of 0.00 in FY 74/75 to a high of 375.00 in FY 71/72, indicating periods of both high and low returns to shareholders. Price to Earnings Ratio (PER), which measures the market's valuation of the company's earnings, exhibited

substantial fluctuations. The PER started at 6 in FY 68/69 and peaked at 178.7 in FY 77/78, indicating significant changes in market perception. The average PER was 71.1 with a standard deviation of 52.3, underscoring the high variability in how the market valued the company's earnings.

Table 2

Analysis of variables of Asian Life Insurance Company

Fiscal Year	BVPS	EPS	DPY	PER	MPPS
68/69	174	32	28.13	6	168
69/70	204	25	113.68	10	250
70/71	158	14	59.21	86	1250
71/72	132	8	375.00	124	1013
72/73	147	15	140.33	116	1710
73/74	128	17	24.76	80.23	1348
74/75	117	13	0.00	45.36	607
75/76	128	15	180.00	25.11	383
76/77	147	7	218.00	93.95	683
77/78	167	8	111.25	178.7	1485
78/79	142	22	40.68	26	574
79/80	117	11.49	71.02	62.39	745
AVG	146.8	15.6	113.5	71.1	851.3
S.D	25.7	7.5	105.6	52.3	504.0

Source: Annual report

Market Price per Share (MPPS) also showed considerable volatility, beginning at 168 in FY 68/69 and reaching a high of 1710 in FY 72/73, before settling at 745 in FY 79/80. The average MPPS was 851.3 with a standard deviation of 504.0, reflecting the substantial fluctuations in market price.

4.1.2 Descriptive presentation of National life insurance Company limited

Table 3 depicts the data of Nepal Insurance Company Limited which illustrates the financial performance across multiple fiscal years starting from FY 2068/69 to 2079/80, focusing on key metrics such as Book Value per Share (BVPS), Earnings per Share (EPS),

Dividend Payout Yield (DPY), Price to Earnings Ratio (PER), and Market Price per Share (MPPS).

Table 3

Analysis of variables of Nepal insurance company limited

Fiscal Year	BVPS	EPS	DPY	PE	MPPS
68/69	195.93	121.51	103.96	4.7	785
69/70	208.14	121.51	81.06	11.73	1425
70/71	171.14	56.67	119.99	76.78	4351
71/72	136.04	30.42	86.52	98.47	2886
72/73	149.16	41.83	71.91	95.77	4006
73/74	250.83	32.44	217.42	66.21	2148
74/75	220	20	242.50	53	1050
75/76	166	24	212.50	37	901
76/77	128	15	98.20	82	1260
77/78	135	24	65.75	80	1919
78/79	118	2	0.00	39.3	744
79/80	144	25	0.00	30.36	747
AVG	168.5	42.9	108.3	56.3	1851.8
S.D	41.7	39.1	79.1	31.7	1269.0

Source: Annual report

According to the table, Book Value per Share (BVP**S)** shows a general trend of fluctuation, starting at 195.93 in FY 68/69, peaking at 250.83 in FY 73/74, and ending at 144 in FY 79/80. The average BVPS over the period was 168.5 with a standard deviation of 41.7, indicating a moderate degree of variation in the company's equity value per share. Earnings per Share (EPS) began high at 121.51 in FY 68/69, saw a sharp decline to 2 in FY 78/79, and then slightly recovered to 25 in FY 79/80. The average EPS over the period was 42.9 with a standard deviation of 39.1, showing substantial variability in the company's profitability year over year. Dividend Payout Yield (DPY) also exhibited significant variability, ranging from 0.00 in FY 78/79 and FY 79/80 to a high of 242.50 in FY 74/75. The average DPY was 108.3 with a standard deviation of 79.1, reflecting considerable inconsistencies in dividend distributions. Price to Earnings Ratio (PER)**,** a key indicator of market valuation, displayed substantial fluctuations, starting at 4.7 in FY 68/69 and reaching a high of 98.47 in FY 71/72. The average PER was 56.3 with a standard deviation of 31.7, underscoring the high variability in how the market valued the company's earnings. For instance, the PER of 4.7 in FY 68/69 suggests that the market had a relatively low valuation of the company's earnings at that time, while a PER of 98.47 in FY 71/72 indicates a significantly higher valuation, potentially due to market optimism or improved

company performance. Market Price per Share (MPPS) started at 785 in FY 68/69, saw dramatic increases to 4351 in FY 70/71 and 4006 in FY 72/73, and ended at 747 in FY 79/80. The average MPPS was 1851.8 with a standard deviation of 1269.0, indicating high volatility in the stock price over the analyzed period.

4.1.3 Descriptive presentation of National life insurance Company limited

Table 4 depicts the data of National Insurance Company Limited which illustrates the financial performance across multiple fiscal years starting from FY 2068/69 to 2079/80, focusing on key metrics such as Book Value per Share (BVPS), Earnings per Share (EPS), Dividend Payout Yield (DPY), Price to Earnings Ratio (PER), and Market Price per Share (MPPS).

According to the table, Book Value per Share (BVPS**)** shows a declining trend from 172.3 in FY 69/70 to 136.88 in FY 78/79, with the lowest value being 125.57 in FY 75/76. The average BVPS over the period was 143.3, with a standard deviation of 13.3, indicating relatively stable equity values with some fluctuations.

On the other hand, Earnings per Share (EPS) began at a high of 88.32 in FY 69/70 but saw a significant decline over the years, reaching a low of 11.67 in FY 75/76 and ending at 18.32 in FY 78/79. The average EPS was 29.9 with a standard deviation of 21.3, reflecting considerable variability in the company's profitability over the years.

Table 4

Analysis of variables of National insurance company limited

Fiscal Year	BVPS	EPS	DPY	PE	MPPS
69/70	172.3	88.32	82.65	6.75	596
70/71	154.58	32.21	117.98	79.17	2550
71/72	143.38	25.88	123.65	71.11	1840
72/73	135	26.4	98.48	125.05	3300
73/74	131.99	24.71	57.51	93.09	2300
74/75	138.65	28.64	92.77	27.9	799
75/76	125.57	11.67	92.46	50.11	585
76/77	144.37	22.96	95.82	28.83	662
77/78	150.56	20.25	92.79	56.84	1151
78/79	136.88	18.32	93.67	31.49	577
AVG	143.3	29.9	94.8	57.0	1436.0
S.D	13.3	21.3	18.1	35.7	993.3

Source: Annual report

Similarly, Dividend Payout Yield (DPY) exhibited moderate fluctuation, starting at 82.65 in FY 69/70, peaking at 123.65 in FY 71/72, and ending at 93.67 in FY 78/79. The average DPY was 94.8, with a standard deviation of 18.1, indicating some inconsistencies in dividend payments but overall relatively stable returns to shareholders. Price to Earnings Ratio (PER), a crucial indicator of market valuation, showed substantial fluctuations. It started at 6.75 in FY 69/70, indicating a low market valuation of the company's earnings, and peaked at 125.05 in FY 72/73, suggesting a significantly higher market valuation. The average PER over the period was 57.0, with a standard deviation of 35.7, underscoring the high variability in how the market valued the company's earnings. For example, the PER of 79.17 in FY 70/71 and 93.09 in FY 73/74 indicates that the market had a relatively high valuation of the company's earnings during those years. Market Price per Share (MPPS) displayed significant volatility, starting at 596 in FY 69/70, peaking at 3300 in FY 72/73, and ending at 577 in FY 78/79. The average MPPS was 1436.0, with a standard deviation of 993.3, reflecting considerable fluctuations in the company's stock price over the analyzed period.

4.2 Inferential analysis

4.2.1 Correlation analysis

A correlation test measures the strength and direction of the relationship between two variables. In this study, correlation test is done under panel data analysis, which test the how strongly pairs of variables are related across time and entities.

The correlation analysis results for the financial variables of Insurance Companies are presented in Table 4. This table shows the Pearson correlation coefficients and their significance levels, highlighting the relationships between Book Value per Share (BVPS), Earnings per Share (EPS), Price to Earnings Ratio (PER), Dividend Payout Yield (DPY), and Market Price per Share (MPPS).

Table 5

Result of correlation analysis

		BVPS	EPS	PE	DPY	MPPS
BVPS	Pearson Correlation	1				
	Sig. (2-tailed)					
EPS	Pearson Correlation	.508**	1			
	Sig. (2-tailed)	.002				
PE	Pearson Correlation	-.232	-.425*	1		
	Sig. (2-tailed)	.186	.012			
DPY	Pearson Correlation	.323	-.092	.268	1	
	Sig. (2-tailed)	.062	.606	.125		
MPPS	Pearson Correlation	.051	.138	.549**	.022	1
	Sig. (2-tailed)	.775	.437	.001	.901	

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

Source: SPSS

Book Value per Share (BVPS) is significantly positively correlated with EPS ($r = .508$, $p < .01$), indicating that as the book value per share increases, earnings per share also tend to increase. There is no significant correlation between BVPS and PER ($r = -.232$, $p = .186$), DPY ($r = .323$, $p = .062$), or MPPS ($r = .051$, $p = .775$). Earnings per Share (EPS) shows a significant negative correlation with PER ($r = -.425$, $p < .05$), suggesting that higher earnings per share are associated with a lower price to earnings ratio. EPS is not significantly correlated with DPY ($r = -.092$, $p = .606$) or MPPS ($r = .138$, $p = .437$). Price to Earnings Ratio (PER), also known as the price-earnings ratio, measures the market's valuation of a company's earnings. PER is significantly positively correlated with MPPS ($r = .549$, $p < .01$), indicating that higher price to earnings ratios are associated with higher market prices per share. However, PER is not significantly correlated with DPY ($r = .268$, $p = .125$). Dividend Payout Yield (DPY) does not show significant correlations with any of the other variables, including BVPS ($r = .323$, $p = .062$), EPS ($r = -.092$, $p = .606$), PER ($r = .268$, $p = .125$), or MPPS ($r = .022$, $p = .901$). Market Price per Share (MPPS**)** is significantly positively correlated with PER ($r = .549$, $p < .01$), suggesting that higher market prices per share are associated with higher price to earnings ratios. MPPS does not have significant correlations with BVPS ($r = .051$, $p = .775$), EPS ($r = .138$, $p = .437$), or DPY ($r = .022$, $p = .901$).

In summary, the correlation analysis reveals that EPS is positively correlated with BVPS and negatively correlated with PER, while MPPS is positively correlated with PER. These relationships highlight the interconnectedness of these financial variables within the panel data analysis of Insurance Companies, providing insights into how changes in one variable might relate to changes in another.

4.2.2 Regression analysis result

Table 5 shows the OLS regression result of insurance companies under panel data analysis. According to the table, the model summary provides an overview of the regression model used to predict the Market Price per Share (MPPS) based on four predictors: Book Value per Share (BVPS), Earnings per Share (EPS), Price to Earnings Ratio (PER), and Dividend Payout Yield (DPY). The coefficient of determination (R^2) is .493, indicating that approximately 49.3% of the variance in MPPS can be explained by these predictors. The adjusted R^2 is slightly lower at .423, which accounts for the number of predictors in the model and adjusts for the sample size. The standard error of the estimate is 787.17, indicating the average distance that the observed values fall from the regression line.

Furthermore, the ANOVA table (Analysis of Variance) assesses the overall significance of the regression model. The F-statistic is 7.050, with a significance level (p-value) of .000, indicating that the regression model significantly predicts the dependent variable MPPS.

Finally, the coefficient table provides detailed information about the regression coefficients for each predictor. On the basis of the table, The intercept of the regression line is -486.056 with a standard error of 815.105. The t-value is -.596 with a p-value of .556, indicating that the intercept is not statistically significant. The coefficient for BVPS is 2.690 with a standard error of 5.704. The standardized coefficient (Beta) is .081, and the t-value is .472 with a p-value of .641, indicating that BVPS is not a significant predictor of MPPS. The unstandardized coefficient for EPS is 15.396 with a standard error of 6.225. The standardized coefficient (Beta) is .417, and the t-value is 2.473 with a p-value of .019. This indicates that EPS is a significant predictor of MPPS, suggesting that higher earnings per share are associated with higher market prices per share.

Table 6

Regression analysis

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.702[a]	.493	.423	787.17717

a. Predictors: (Constant), DPY , EPS , PE , BVPS

The analysis shows a moderate to strong positive correlation (R = 0.702) between the Market Price Per Share (MPPS) and the independent variables (Dividend Per Share, Earnings Per Share, Price-Earnings Ratio, and Book Value Per Share). This implies that changes in these independent variables are moderately to strongly associated with changes in MPPS. The R Square value of 0.493 indicates that about 49.3% of the variance in MPPS is explained by the model, demonstrating a good fit. The Adjusted R Square value of 0.423, which accounts for the number of predictors, shows a slightly reduced but still good explanatory power. The standard error of the estimate is 787.17717, reflecting the average deviation of the observed values from the regression line, suggesting some dispersion but overall a reasonable model fit.

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	17473753.151	4	4368438.288	7.050	.000[b]
	Residual	17969789.084	29	619647.899		
	Total	35443542.235	33			

a. Dependent Variable: MPPS

b. Predictors: (Constant), DPY , EPS , PE , BVPS

The regression analysis results indicate that the model explains a portion of the variance in Market Price Per Share (MPPS). The regression sum of squares (SS) is 17,473,753.151, showing the variance in MPPS explained by the model. The residual sum of squares is 17,969,789.084, representing the unexplained variance. The total sum of squares is 35,443,542.235, reflecting the total variance in MPPS. The degrees of freedom for the regression model are 4, while the residual degrees of freedom are 29, calculated as the number of observations minus the number of predictors minus one. The mean square for regression is 4,368,438.288, obtained by dividing the regression SS by its degrees of freedom. The mean square for residuals is 619,647.899, calculated by dividing the residual

SS by its degrees of freedom. The F-statistic of 7.050 with a p-value of 0.000 suggests that the overall model is statistically significant, meaning that at least one predictor significantly impacts MPPS.

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Result of null hypothesis (0.05)
		B	Std. Error	Beta			
1	(Constant)	-486.056	815.105		-.596	.556	Accepted
	BVPS	2.690	5.704	.081	.472	.641	Accepted
	EPS	15.396	6.225	.417	2.473	.019	Rejected
	PE	20.261	3.903	.793	5.191	.000	Rejected
	DPY	-2.399	2.068	-.179	-1.160	.255	Accepted

a. Dependent Variable: MPPS

Source: SPSS

Similarly, The unstandardized coefficient for PER is 20.261 with a standard error of 3.903. The standardized coefficient (Beta) is .793, and the t-value is 5.191 with a p-value of .000. This indicates that PER is a highly significant predictor of MPPS, suggesting that higher price to earnings ratios are associated with higher market prices per share. Finally, The unstandardized coefficient for DPY is -2.399 with a standard error of 2.068. The standardized coefficient (Beta) is -.179, and the t-value is -1.160 with a p-value of .255, indicating that DPY is not a significant predictor of MPPS.

In summary, the regression analysis shows that BVPS and DPY rejects alternative hypothesis which mean there is no significant impact on independent variables on dependent variables, on the other hand EPS and PER accepted alternative hypothesis which reveal that dependent variables has significant impacted by independent variables.

In the regression analysis, the Market Price Per Share (MPPS) is the dependent variable. The results show that Earnings Per Share (EPS) and Price-Earnings Ratio (PE) are significant predictors of MPPS, with EPS having a positive effect and PE demonstrating a substantial positive impact. Specifically, EPS has a t-value of 2.473 and a significance level of 0.019, while PE has a t-value of 5.191 and a significance level of 0.000. In contrast, Book Value Per Share (BVPS) and Dividend Per Share (DPY) do not significantly affect MPPS, as indicated by their higher significance levels of 0.641 and 0.255, respectively.

This suggests that EPS and PE are the key financial metrics influencing MPPS, providing valuable insights for investment decisions.

4.2 Discussion

The study major finding is based on two major statistical tools employed in this study. Initially the descriptive analysis is conducted which deployed mean and correlation analysis, while inferential analysis is reveals the result of correlation and regression test.

Over the fiscal years 68/69 to 79/80, the Asian Life Insurance Company demonstrated significant variability in its financial metrics. Book Value Per Share (BVPS) showed moderate stability, while Earnings Per Share (EPS) fluctuated more markedly. The Dividend Payout Yield (DPY) and Price-Earnings Ratio (PER) experienced substantial volatility, indicating inconsistent dividend payouts and changes in market perceptions of the company's earnings. The Market Price Per Share (MPPS) was particularly erratic, reflecting shifts in investor confidence and overall company performance. Overall, the trends highlight periods of both stability and significant changes in financial performance.

The financial metrics for the Asian Life Insurance Company reveal significant volatility across all indicators. Book Value per Share (BVPS) and Earnings per Share (EPS) showed considerable fluctuation over the period. Dividend Payout Yield (DPY) and Price to Earnings Ratio (PER) exhibited substantial variability, reflecting inconsistencies in dividend distributions and market valuation of earnings. Market Price per Share (MPPS) experienced dramatic changes, indicating high volatility in the company's stock price. Overall, these trends point to notable instability in the company's financial performance and market perception over time.

National Insurance Company Limited's financial performance from FY 2068/69 to 2079/80 reveals several key trends. The Book Value per Share (BVPS) generally declined over the years, indicating a decrease in equity values with some fluctuations. Earnings per Share (EPS) showed a significant decline, highlighting variability in profitability. The Dividend Payout Yield (DPY) experienced moderate fluctuation, reflecting some inconsistencies in dividend payments but overall relatively stable returns to shareholders. The Price to Earnings Ratio (PER) exhibited substantial variability, indicating fluctuating market valuations of the company's earnings. Finally, the Market Price per Share (MPPS) was highly volatile, with dramatic changes in stock price throughout the period. Overall, these trends suggest considerable instability and variability in the company’s financial metrics.

The analysis reveals that Book Value per Share (BVPS) is positively correlated with Earnings per Share (EPS), indicating that as BVPS increases, EPS also tends to increase. Earnings per Share (EPS) is negatively correlated with the Price to Earnings Ratio (PER), suggesting that higher EPS is associated with a lower PER. The Price to Earnings Ratio (PER) is positively correlated with Market Price per Share (MPPS), meaning higher PER values are linked to higher MPPS. Dividend Payout Yield (DPY) shows no significant correlations with the other variables.

The regression analysis indicates that the model explains approximately 49.3% of the variance in Market Price per Share (MPPS). Among the predictors, Earnings per Share (EPS) and Price to Earnings Ratio (PER) significantly impact MPPS, with higher EPS and PER values associated with higher MPPS. Conversely, Book Value per Share (BVPS) and Dividend Payout Yield (DPY) do not significantly influence MPPS, suggesting they do not have a meaningful effect on the market price per share. Thus, while EPS and PER are key determinants of MPPS, BVPS and DPY are not significant predictors.

This study shows significant volatility in the financial metrics of Asian Life Insurance Company, Nepal life insurance company limited and National Insurance Company Limited over their respective periods. The findings align with empirical studies highlighting the volatile nature of stock prices and financial performance in Nepal's insurance sector. For instance, Maskey (2022) and Ghimire (2022) both noted substantial fluctuations in earnings and stock prices in different contexts, underscoring a common theme of instability within the Nepalese financial sector.

The regression analysis in our study indicates that Earnings per Share (EPS) and Price to Earnings Ratio (PER) significantly impact MPPS, aligning with the findings of Pradhan (2022), Timilsina (2021), and Joshi (2016). These studies consistently identify EPS and PER as critical factors influencing stock prices, reinforcing the notion that higher earnings and favorable valuation ratios lead to higher market prices. Conversely, our study found that Book Value per Share (BVPS) and Dividend Payout Yield (DPY) are not significant predictors of MPPS. This is consistent with findings by Ghimire and Mishra (2018) and Shrestha (2019), who also reported limited impact of these variables on stock prices.

Similarly this results highlight that dividend policies, while significant in some studies like those of Timilsina (2021) and Al-Hasan et al. (2021), do not show a significant influence on MPPS in our sample. This contrasts with studies such as Hunjara and Muhammad

(2014) and Matthew (2022), which emphasize the importance of dividend yield and payout ratio in affecting market prices. The discrepancy suggests that while dividend policies may influence stock prices in other contexts, their effect might be less pronounced in the Nepalese life insurance sector.

The positive correlation between BVPS and EPS, and the negative correlation between EPS and PER, observed in our study, reflects a nuanced understanding of financial metrics. This observation supports findings from Pradhan and Dahal (2017) and Kharel (2018), who also reported interrelationships among financial ratios. However, the lack of significant correlation between DPY and other variables indicates that dividend policies might not align with market expectations as strongly as other factors do.

CHAPTER-V
SUMMARY AND CONCLUSION

In this chapter, the summary of the study, along with conclusions based on the analysis of data and findings, is presented.

5.1 Summary

In the context of Nepal, factors such as dividend streams and stock price appreciation play a significant role in investors' decisions when purchasing shares. Along with dividend yield (DY) and price appreciation, other key factors include earnings per share (EPS), market price per share (MPPS), market rumors, and the political and economic environment. These elements ultimately influence investors' buying and selling behavior. The stock exchange, which serves as a trading platform, reports the daily closing prices of stocks. In Nepal, the Nepal Stock Exchange (NEPSE) fulfills this role. However, it is crucial to assess an organization's financial health before investing. If the organization is financially unstable, there is a high risk of losing the investment. The main objectives of this study were to analyze the factors that determine stock prices in the market and to examine the relationships between earnings and dividends, stock prices and dividend payout ratios, stock prices and earnings, and earnings and dividend yield. This study focused on three insurance companies: NLIC, ALICL, and NLICL.

This study relies on secondary data from selected insurance companies, supplemented by some primary data collected through questionnaires. The data sources include the annual reports published by these insurance companies over various fiscal years and information available on the Nepal Stock Exchange website. The EPS of NLIC has shown a declining trend, while other sampled insurance companies have exhibited fluctuating trends. Overall, the table illustrates significant variability in insurance coverage across different years and types of risks. NLIC has a higher mean value compared to NLICL and ALICL, suggesting that more people have insurance coverage for non-life risks than for life risks and agriculture. Additionally, the data shows higher variability for ALICL compared to NLIC and NLICL.

The average of BVPS of NLIC, ALIC and NLICL is 249.31%, 77.24% and 88.93% respectively. By measuring the coefficient of variation analysis, NLICL is less fluctuating than NLIC and ALICL since it's CV is lower i.e.18.24%. Similarly, the average MVPS of NLIC is higher i.e. Rs. 1873 than ALICL i.e. Rs. 968 and NLICL i.e. Rs. 1529. By

measuring the coefficient of variation, CV of ALICL is lower i.e. 53.51% than NLIC and NLICL i.e. 61.39% and 71.03%. Most of the investors (43.33%) preferred cash dividend, while 40% of them preferred stock dividend and 16.67% preferred both. Most of the respondents (50%) considered the past dividend record, while 33.33% of them considered the market price and 16.67% of them considered the soundness of the insurance company. Most of the respondents (58.33%) considered legal restrictions, while 30% of them considered the liquidity position and 11.67% of them considered the borrowing capacity of the firm. Most of the respondents (43.33%) considered utilizing surplus money, while 40% of them considered receiving dividend and 16.67% of them considered share capital as the best method to invest.

Most respondents (53.33%) believed that the main reason life insurance companies issue cash dividends is to increase the value of their shares. Meanwhile, 33.33% thought it was to retain customers, and 13.33% believed it was to improve the company's liquidity. In the case of ALICL, the correlation coefficient was significant because the calculated 't' value was higher than the tabulated value at the 5% significance level with 3 degrees of freedom. However, the relationship between Dividend Per Share (DPS) and Earnings Per Share (EPS) for NLIC and NLICL was not significant, as the calculated 't' value was lower than the tabulated value at the same significance level.

When comparing the relationships between Book Value Per Share (BVPS) and Market Price Per Share (MPPS) for the sample companies, the coefficient of determination between DPS and Market Value Per Share (MVPS) for NLIC was 0.2540, indicating that DPS explained 25.40% of the variation in MPPS. For ALICL, DPS accounted for 27.36% of the variation in MVPS. Similarly, DPS explained 12.72% of the variation in MPPS for NLICL. The t-test results showed that the correlation coefficients between DPS and MVPS for these sample companies were not significant, as the calculated 't' values were lower than the tabulated values at the 5% significance level with 3 degrees of freedom.

In the primary analysis, the majority of investors showed a preference for either stock dividends or cash dividends. According to the primary questionnaire responses, 43.33% of investors favored cash dividends, while 40% preferred stock dividends. Additionally, 18% of investors liked both cash and stock dividends. When making investment decisions, half of the investors considered the company’s past dividend record, whereas fewer looked at the company’s financial position. Furthermore, 58.33% of investors took into account the

firm's legal restrictions, 30% considered its liquidity position, and only 11.67% evaluated the company's borrowing capacity. The results indicated that most investors sought to use surplus funds and earn dividends. Finally, many respondents believed that brokers and the government were responsible for increasing stock prices, with the fewest attributing this to individual investors.

5.2 Conclusion

The major factor affecting the determents of stock price of Life Insurance Company are EPS, DY, BVPS and P/E ratio. As per the secondary data the price of stock is affected by different factors which are collected through the questionnaire and analyze with the help of different research methodology.

Variation in P/E Ratio: There is a significant variation in the P/E Ratio of the three insurance companies over the years, indicating differences in their market valuation and investor sentiment.

Highest P/E Ratio: ALICL has the highest P/E Ratio among the three insurance companies, with a mean of 101.02 times and a standard deviation of 86.42 times, indicating that investors are willing to pay a higher price for its earnings compared to the other two companies. Lowest P/E Ratio: NLIC has the lowest P/E Ratio among the three insurance companies, with a mean of 61.108 times and a standard deviation of 32.94 times, indicating that investors are not willing to pay a higher price for its earnings compared to the other two companies.

The researcher also studies about the relationship between the variables EPS & DPS they got NLIC is highly correlated. Whereas on the relationship between the variables EPS & MVPS NLICL is highly correlated. And similarly, the relationship between the Variables DY & MPPS ALICL is highly correlated. The researcher also collected some primary data form the investors on the base of five questions.

As per the results most of peoples prefer the cash dividend and make study on the dividend history that is why investors will definitely choose NLIC on the three companies. As per every condition Legal Restriction, Utilize Surplus money, to draw attention from invest community, overall performance NLIC is the best on these companies. And investors also claim that brokers and government are responsible for hiking stock price.

5.3 Implications

The study revealed that during the analysis period, the Earnings per Share (EPS) of NLIC and NLICL were higher than those of ALICL. As a result, it was recommended that investors consider NLIC and NLICL as preferable options for investment decisions. The average dividend yield ratio during the analysis period was below 3.5 percent. This indicated that shareholders purchasing shares from the market could expect a return of less than 3.50 percent on their investment. Given that deposit interest rates were above 5 percent at that time, insurance companies were encouraged to enhance their performance and increase dividend amounts to sustain the market price of their shares.

The market value per share of the sample insurance companies exhibited high volatility. However, NLIC demonstrated more consistency compared to the others. Consequently, risk-averse investors might have selected NLIC, while risk-seeking investors could have opted for NLICL and ALICL when making investment decisions.

Most investors in Nepal based their investment decisions on external factors. It was recommended that investors consider the past performance and financial strength of firms when investing in the securities market.

The sample companies did not follow specific dividend practices such as stable dividends, constant payout ratios, low regular dividends, or extra policies. The absence of a defined dividend policy created uncertainty about dividend distributions to general shareholders. To reduce this uncertainty and stabilize the market value per share, it was recommended that insurance companies formulate clear dividend payout policies for both the short and long term.

The stock market often fluctuated due to external signals rather than the financial performance of companies. In light of this, it was recommended that the Government of Nepal, Nepal Stock Exchange (NEPSE), Securities Board of Nepal (SEBON), Nepal Rastra Bank (NRB), and other relevant parties work together to regulate the securities market more effectively.

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Appendices

ASIAN Life Insurance Company

सबैका लागि सदैका लागि सुरक्षा

Notes forming part of the Consolidated Financial Statements

ASIAN LIFE INSURANCE COMPANY LIMITED

Major Financial Indicators

S.N	Particular	Indicators	Fiscal Year				
			2079/80	2078/79	2077/78	2076/77	2075/76
	Equity:						
1	Net worth	NPR	3,675,940,919	3,611,364,723	3,383,018,385	2,841,077,010	2,580,583,453
2	Number of Shares	No.s	31,553,005	25,398,350	20,107,607	20,107,607	20,107,607
3	Book value per shares	NPR	117	142	168	147	128
4	Net Profit	NPR	376769045.4	403,428,595	337,839,720	269,098,690	230,063,196
5	Earning per Shares (EPS)	NPR	11.94	22	17	13	15
6	Dividend per Shares (DPS)	NPR	8.16	8.95	15	27	-
7	Market Price per Shares (MPPS)	NPR	745	574	1,348	607	383
8	Price Earning Ratio (PE Ratio)	Ratio	62.39	26	80	45	25
9	Change in Equity	%	2%	8%	18%	14%	84%
10	Return on Equity	%	10%	11%	10%	9%	9%
11	Capital to Total Net Assets Ratio	%	7.38%	6.78%	9.98%	10.91%	12.30%
12	Capital to Technical Reserve Ratio	%	9%	10.40%	11.40%	12.57%	14.60%
13	Affiliate Ratio	%	-	-	-	-	-

एशियन लाईफ इन्स्योरेन्स कम्पनी लिमिटेड

श्रावण १ २०७५ देखि असार ३१ २०७६ सम्मको

प्रमुख सूचकाङ्क

अनुसूची ३०

क्र.सं.	विवरण	सूचकाङ्क	आ.व.				
			२०७५/७६	२०७४/७५	२०७३/७४	२०७२/७३	२०७१/७२
१	नेट वर्थ	रु.	२,४९७,१९६,००५	१,४६६,९६८,१९१	१,०३२,६९३,०७६	९८४,४९२,६४७	८८५,५८९,१७६
२	शेयर संख्या	संख्या	२०,१०७,६०७	१२,५६७,२५५	८,०५५,९३२	६,७१३,२७७	६,७१३,२७७
३	प्रति शेयर किताबी मूल्य	रु.	१२४	११७	१२८	१४७	१३२
४	खुद नाफा	रु.	२१९,४०१,१२६	(३०,८७७,७०८)	५०,६४४,३९८	९९,१६६,२६४	५४,६७३,७७१
५	प्रति शेयर आय (EPS)	रु.	११	(२)	६	१४	८
६	प्रति शेयर लाभांश (DPS)	रु.	-	-	-	-	-
७	प्रति शेयर बजार मूल्य (MPS)	रु.	३८३	६८३	१,४५८	१,७१०	१,०१३
८	मूल्य आम्दानी अनुपात	अनुपात	३५.१०	२७८	२३१	१९६	१२४
९	प्रथम वर्ष बीमा शुल्क	रु.	१,७१२,७२५,९१३	१,००४,०३४,७१८	५५९,६१५,७२७	६०१,३८२,९०२	४६०,६६९,५५५
१०	कुल बीमा शुल्क	रु.	४,२२०,१६६,९१२	३,०१९,११३,००९	२,२९३,९५३,४९१	२,००३,३६३,८०७	१,६५१,३०९,४६४
११	खुद बीमा शुल्क/कुल बीमाशुल्क	प्रतिशत	९८.९५	९९.२३	९९.३३	१.००	१
१२	खुद नाफा/कुल बीमाशुल्क	प्रतिशत	५	(१)	२	५	३
१३	कुल बीमा शुल्क/कुल सम्पत्ती	प्रतिशत	२१	२०	२०	२२	२४
१४	लगानी र कर्जाबाट आय/कुल लगानी र कर्जा	प्रतिशत	८	८	८	८	६
१५	कुल लगानी र कर्जा/जीवन बीमाकोष	प्रतिशत	१०८	१०४	९६	९९	१००
१६	पुनर्बीमा कमिशन आय/पुनर्बीमा शुल्क	प्रतिशत	१	१	१	१	१
१७	व्यवस्थापन खर्च/कुल बीमा	प्रतिशत	१४.२८	१४.०३	१२.९४	१२.९०	१४.८७
१८	बीमा अभिकर्ता सम्बन्धी खर्च/कुल बीमाशुल्क	प्रतिशत	११	९६	१४.९८	९६	१५

अनुसूची ३०

प्रमुख सूचकाङ्कहरू

क्र.सं.	विवरण	२०७१/७२	२०७२/७३	२०७३/७४	२०७४/७५	२०७५/७६
१	नेट वर्थ	१,४६१,२०९,०३५	१,७९४,४७६,८६५	२,१८५,७८४,५८८	२,२९६,१५४,५१६	३,७७६,४६५,१५९
२	शेयर संख्या	१०,१९१,२५९	१३,२४८,६३७	१६,५६०,७९६	१६,५६०,७९६	३०,०७४,४०५
३	प्रति शेयर किताबी मूल्य	१४३.८	१३५.४५	१३१.९९	१३८.६५	१२५.५७
४	खुद नाफा	२६३,७०७,६८६	३४९,७१९,३०४	४०९,१५३,७९०	४७४,२३९,००८	३५१,०९१,०९५
५	प्रति शेयर आय (EPS)	२५.८८	२६.४०	२४.७१	२८.६४	११.६७
६	प्रति शेयर लाभांश (DPS)	३१.५८	२६.००	१४.२१	२६.५७	१०.७९
७	प्रति शेयर बजार मूल्य (MPPS)	१,८४०	३,३००	२,३००	७९९	५८५
८	मूल्य आम्दानी अनुपात (PE Ratio)	७१.११	१२.०५	९.३०९	२७.९०	५०.११
९	प्रथम वर्षको बीमाशुल्क	१,१७९,६८३,०१३	१,४७७,८३२,५३४	१,९२९,४७८,२०८	२,३२३,८०३,५२२	३,०२०,११५,८५९
१०	कुल बीमाशुल्क	३,१७१,४७५,९४४	३,८४८,८५६,२४२	५,०६०,१२८,२६१	६,४४७,६३५,०१९	८,०५०,५२३,५४०
११	खुद बीमाशुल्क/कुल बीमाशुल्क	९१.०३	९.३५५	९५.३६	९५.८४	९७.६४
१२	खुद नाफा/कुल बीमाशुल्क	८.२१	९.०९	८.०९	७.३६	४.३६
१३	कुल बीमाशुल्क/कुल सम्पत्ति	२२.३५	२२.५९	२४.३२	२४.८१	२४.०२
१४	लगानी र कर्जाबाट आय/कुल लगानी र कर्जा	६.२०	६.०५	६.४१	८.४२	८.६९
१५	कुल लगानी र कर्जा/जीवन बीमाकोष	९६.९२	९९.२१	९८.०८	९७.५९	९९.५७
१६	पुनर्बीमा कमिशन आय/कुल	४६.४६	३७.०७	१०.१४	१००९	१८.२१

Annexure III

Nepal Life Insurance Company Limited

MAJOR FINANCIAL INDICATOR

S. N.	Particular	Indicators	Fiscal Year				
			2079/80	2078/79	2077/78	2076/77	2075/76
	Equity:						
1	Net worth	NPR	11,795,059,734	9,701,369,764	11,041,485,154	9,225,337,123	9,144,232,023
2	Number of Shares	No.s	82,079,666	82,079,665	71,999,707	71,999,707	54,961,608
3	Book value per shares	NPR	144	118	135	128	166
4	Net Profit	NPR	2,011,223,910	156,061,777	1,964,067,798	1,108,130,708	1,336,303,963
5	Earning per Shares (EPS)	NPR	25	2	24	15	24
6	Dividend per Shares (DPS)	NPR		-	15.79	14.74	51.00
7	Market Price per Shares (MPPS)	NPR	744	747	1,919	1,260	901
8	Price Earning Ratio (PE Ratio)	Ratio	30.36	393	80	82	37
9	Change in Equity	%	21.58%	-11.60%	19.69%	0.89%	-5.64%
10	Return on Equity	%	17.05%	1.60%	17.79%	12.01%	14.61%
11	Capital to Total Net Assets Ratio	%	69.59%	84.61%	64.96%	77.70%	59.37%
12	Capital to Technical Reserve Ratio	%	5.10%	6.13%			
13	Affiliate Ratio	%					
	Business:						

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ABSTRACT The study aimed to determine the factors affecting the market share prices of three life insurance companies listed on the Nepal Stock Exchange (NEPSE): Asian Life Insurance Company (ALICL), Nepal Life Insurance Company (NLIC), and Life Insurance Corporation Nepal (LICN). The research used a descriptive analytical design and convenience sampling to select these companies. Five variables were examined: Earnings Per Share (EPS), Price-to-Earnings Ratio (P/E ratio), Dividend Yield Ratio (D/Y ratio), and Book Value Per Share (BVPS) as independent variables, while Market Price Per Share (MPPS) was the dependent variable. The study applied Mean Test, Standard Deviation, T- test, and Regression Test for analysis. The results showed that there were no significant differences in market prices of the insurance companies based on any of the independent variables. Additionally, most independent variables had a strong positive correlation with market share prices, except for the P/E ratio, which had a strong negative relationship with MPPS. Regression analysis indicated that