

**A Study on**  
**Dividend Practice of Insurance Companies in Nepal**

**By:**

**Kamal Pant**

**Central Department of Management**

**Tribhuvan University, Kirtipur**

**T. U. Regd. No: 7-2-53-586-2006**

**Roll No: 471-2066/68**

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## **RECOMMENDATION**

This is to certify that the thesis

**Submitted by:**

**Kamal Pant**

Entitled

**"A Study on Dividend Practice of Insurance Companies in Nepal"**

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

.....

.....

.....

Dr. Ramji Gautam

Prof. Dr. Sunity Shrestha

Prof. Dr. Bal Krishna

Shrestha

Thesis Supervisor

Chairman Research Committee

Head of the Department

Date:.....

## **VIVA-VOCE SHEET**

We have conducted the Viva-Voce examination of the Thesis

Presented By:

**Kamal Pant**

Entitled:

**"A Study on Dividend Practice of Insurance Companies in Nepal"**

And found the thesis to be the original work of the student and written according to the prescribed format. We recommended the thesis to be accepted as the partial fulfillment of the requirement for Master's degree in Business Studies (M.B.S.)

### **Viva-Voce Committee**

Chairperson, Research Committee.....

Member (Thesis Supervisor).....

Member (External Expert).....

Member (Central Department of Management).....

Date:.....



## DECLARATION

I, hereby declare that thesis entitled "*A Study on Dividend Practice of Insurance Companies in Nepal*" submitted to office of Dean, Management Faculty, Tribhuvan University, is my original work. It is prepared as the partial fulfillment of the requirement for Masters of Business Studies (M. B. S) under the supervision and guidance of **Associate Prof. Dr. Ramji Gautam** , Central Department of Management, Tribhuvan University, Kirtipur.

.....  
**Kamal pant**

Researcher

Central Department of Management

Tribhuvan University, Kirtipur

Campus Roll No: 471-2066/68

Exam Roll No: 280067

T.U. Regd. No.: 7-2-53-586-2006

Date: / / 2070

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Date:

kamal pant

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# CHAPTER I

## INTRODUCTION

### 1.1 General Background

Dividend policy determines the division of earnings between payments to stockholders and reinvestment in the firm. Retained earnings are one of most significant sources of funds for financing corporate growth, but dividends constitute the cash flows that accrue to stockholders. Expected cash dividends are the key return variable from which owners and investors determine share value. They represent a source of cash flow to stockholders and provide information about the firm's current and future performance. Because retained earnings-earnings not distributed as dividend-are a form of internal financing, the dividend decision can significantly affect the firm's external financing requirements. In other words, if the firm needs financing, the larger the cash dividend paid, the greater the amount of financing that must be raised externally through borrowing or through the sale of common stock.

Financial improvement is one of the major sectors for the development of the nation. For economic development, financial sector play foremost role, where they collect idle funds from customer by paying some percent interest & invest it into large industries & other business sector by taking some percent interest. Beside the economic sector, social culture, industrial and technological sector should also be strong for the development of a country. Due to the early stage of economic growth and capital market condition, our country has not been able to establish the desired number of financial institutions. The main objective of such financial institution is to earn profit by proper utilization of funds and resources. There are different types of financial institutions established with the capital of general public in form of equity share capital. Among these, insurance company is

the one, which is purposed for the study of their dividend policy and practices.

Human being always wants his safety and security. But his life is surrounded by risk and uncertainties because of modern mechanical complexities and its development. Thus, the concept of insurance was developed to avoid and reduce those risk and uncertainties. Insurance is defined as a co-operative device to spread the loss caused by the particular risk over a number of persons, who are exposed to it and who agree to ensure themselves against that risk. Risk is the uncertainty of financial loss. Insurance is a social device for elimination or reducing the cost to society to certain type of risk. Insurance business in modern economic age play vital role in different sector of the nation. Insurance provides protection against the loss of goods and properties in exchange for a fixed premium. It is worth noting the premium is a very small amount in comparison to the value of property at risk. Business activities can be carried out without hesitation because insurance provides certainty of payment in case of loss. It ultimately leads to the economic progress in the country. It collects small amount of money in the form of premium from several people and organizations. Insurance company invests this capital and utilizes it in different productive sectors of the country such as funds in the securities issued by government and other non-governmental organizations in the country. It also issues shares and debentures to public with the hope of capital gain and dividend.

Insurance company is an institution, which accepts the premium for specific probable events and pays on the loss. Insurance company is a firm legally registered as per the state rule and regulation (insurance act) and insures the insured to make payment to a specific event or losses. Like the commercial banks, insurance companies are also responsible and contribute for the economic growth to the nation. They attract the people form door to door to insure against the possible loss and invest the fund to the more productive sectors. Insurance companies play vital role for the economic development of the nation as well as for the world's economy. Whether the country is developed or non-developed, it

is very important to mobilize the fund in different investment sectors.

No doubt, one of the most important policies in corporate financing is the dividend policy. This is not only from the viewpoint of the company, but also from that of the shareholders, the consumers, the workers, the regulatory bodies and the government. The relative importance of this policy stems from the fact that it is a pivotal policy around which other financial policies rotate, hence central to the performance and valuation of firms.

The concept of insurance developed in ancient period in Nepal. The system of maintaining '*Guthi*' can be taken as the beginning point for the development of insurance in Nepal. The income from such *Guthi* was used to build buildings and repairing temples and so on. But now they are converted into commercial phenomenon. The history of modern insurance company began since 1947 with the establishment of company named as "MaalChalani Ra Bima Company and was renamed as Nepal Insurance and Transport Company" in 1959 (2016 B.S). At that time, the company conducted the transportation services along with the insurance. The company was renamed as 'Nepal Insurance Company Limited' since 2048 B.S. From its establishment the companies to carry out life insurance business till 2024 B.S. The Government established 'RastriyaBimaSansthan (RBS) Private Limited in 1968 (2024 B.S) under the company act. Later the Government enacted Rastriya Bima Sansthan act 2025 and renamed it in Rastriya Bima Sansthan as government enterprise. In this way, this is the first life insurance company, which is providing life and general insurance services throughout the country. When the government embarked on financial liberalization program with attitude towards liberal entity of private corporate bodies, since then there has been some progress in the establishment of insurance companies in Nepal. At present 25 insurance companies are operating in Nepal. Among them one life and nonlife insurance companies, eight are life insurance companies and sixteen are non-life insurance companies, They operate as per the norms and values of Insurance Act 1992 (Act No.42 of 2049 B.S) and Insurance

Rules 1993 (2049 B.S.). These companies perform the works of fund creation, underwriting insurance of life and non-life property for the best security against the specified or non-specified risk (third party insurance) (Bhandari, 1993).

### **Problem of insurance companies**

Although insurance companies have passed a phase of development they have not still achieved the anticipation and its access is also not available to layman. Nepalese are still unknown about the insurance policies. The time has come for the centralized insurance companies should reach every nook and corners of the country. Insurance companies and government play their parts for the easy access of insurance companies to the general people.

The only governmental insurance company of Nepal “Rastriya Beema Sansthan” is itself inflicted by various illness and need to be insured. It is unable to hold its annual meeting since 2006/2007 neither has it paid out dividends to its shareholders. The insurance field of Nepal is also not untouched by the political instability, nepotism and favoritism. Although there is huge possibility of investment the environment is not still friendly for fruitful outcomes.

The data that only 5% to 6% of the total population of country is covered by insurance companies itself signifies the failure of insurance sector. Nepalese are attracted more towards Indian and other international insurance companies because of their attractive schemes, higher dividend rate and other facilities. There are different premium rates among different insurance companies of Nepal. The internal competition among the insurance companies has also added to the ease of international companies to flourish. This has caused Nepalese insurance companies to compete with not only their fellow companies but with international rivals also.

Insurance companies are in situation of insecurity because of the unstable

government and weak policies. The consumers are still not fully reliable towards the insurance companies because of the lengthy and difficult process of insurance claiming.

To conclude, the future of insurance companies of Nepal is bright. For the insurance companies to abide by the occupational regulations and to make their independent decisions by themselves a joint stand of companies, political parties and government is a must. This will also help people to be aware of the insurance policies, pros and cons of insurance and the economic security of the nation.

### **1.1.1 Introduction of the Study**

Dividend is the earnings or profit distribution to the shareholders by a company upon the orders of its board of directors. The dividend, which is distributed to its shareholders, may be in cash, shares and securities or a combination of these. Dividend paid on equity shares is called equity dividend and on preference shares is called preference dividend. The dividend policy of the company is the division of its profits between dividend and retention in the business. Dividend policy determines the division of earnings between payments to stockholders and reinvestment in the firm. Retained earnings are one of the most significant sources of fund for financing corporate group, but dividends constitute the cash flow that accrues to stockholders.

One of the major decisions of the firms is its dividend policy, the percentage of earnings it pays in cash to its stockholders. Dividend pay-out, of course, reduces the amount of earnings retain in the firm and affect the total amount of internal financing. The dividend pay-out ratio obviously depends on the way earnings are measured for case of exposition; we use account net earning but assume that these earnings can form true economic earnings. In practice net earnings may not confirm and may not be appropriate measure of the ability of firm to pay dividends.

Dividend Policy refers to the issue of how much of the total profit a firm should

pay to its stockholders and how much to retain for investment so that the combined present and future benefits maximize the wealth of stockholders. The dividend policy, however, not only specifies the amount of dividend, but also the form of dividend, payment procedure etc. In general, dividend policy is concerned with the following matters:

- Amount of dividend to be paid- the policy outlines the basis to determine the amount of dividend to be paid. This, itself, decides the proportion of earnings to be retained.
- Form of dividend – Cash dividend and / or stock dividend.
- Payment procedure
- Stock Repurchase and stock splits

All the aspects and questions related to the payment of dividend are contained in a dividend policy. Retention of profit increases the equity capital. Therefore, it affects the financial structure, the flow of funds, corporate liquidity and investors' attitudes.

According to the law, dividend should be declared out of net profit. The net profit for the purpose of dividend = Revenue – (Total expenses + Depreciation on fixed assets and fluctuations of the value of assets + Taxes + Past losses written off + Realized amounts transfer to reserve), (Upadhyaya,1985) on expected profit like non receiving profits on sale of fixed assets or on redemption of long term liabilities should not be distributed as dividends.

There are different forms of dividend i.e. company can distribute the dividend in different forms like cash, stock repurchase and stock split etc. Some of Nepalese companies are paying stock dividend, which is a growing practice. Cash dividend is the most popular and widely used forms of dividend.

### **1.1.2 Profile of the Selected Insurance Companies**

### **1. Premier Insurance Company Limited (PCI)**

Premier Insurance company (Nepal) Limited was established under the company Act 1964 in 1992 (2048 B.S). The major objectives of the company are to carry out life and non-life insurance and re-insurance business in the country and abroad. The shareholding pattern of the company is bifurcated as 60 percent by the promoters and 40 percent by the general public. It was listed on stock exchange in 1995 A.D (2052 BS).

### **2. Himalayan General Insurance Company limited (HGI)**

Himalayan General Insurance Company Limited was established in 1988 under the company Act 1964 with an objective of undertaking non-life and re-insurance business in the country and aboard. The company obtained permission to commence insurance business from insurance board under insurance Act 1992 and stated its business from November 1993. HGIC got listed on stock exchange on 1994 A.D. The shareholding pattern of the company is bifurcated as 60% shares owned by promoters and 40% by general public.

### **3. Sagarmatha Insurance Company Limited (SIC)**

Sagarmatha Insurance Company Limited was incorporated in 1995 A.D (2051 B.S) with an objective of providing non-life insurance services in the field of fire, marine, vehicle and miscellaneous insurance in the country. It was listed in the Nepal stock exchange in the year 2001 A.D (2057/02/11 B.S). The shareholders of the company are 60% from “A” group promoters, 20% from foreign insurance company and 20% form general public.

### **4. Shikhar insurance company Limited (SICL)**

United Insurance Company (Nepal) Limited was established in March 28, 2004. It is an established General Insurance Company promoted by a young team of reputed Industrial and Business Houses involved in various fields like Aviation, Banking, Manufacturing, Trading, Travel Trade, and Media Houses etc. It was listed in the *beemasamiti* (regulatory body) November 11,2004. The shareholding

pattern of the company is 54% from Ka, 26% from Kha public and 20% from Ga.

### **5. Siddhartha Insurance Company Limited (SIL)**

Siddhartha Insurance Company Limited was established in April 5, 2006 under the company Act providing non-life insurance services in the field of fire, household effect, personal accident, marine cargo, cash-in transit/vault, vehicle. Siddhartha aims to effectively leverage the vast experience and visionary leadership of its promoter's to offer its customers a new age insurance solutions. The shareholding pattern of the company is bifurcated as 60%, Siddhartha bank 15% and 25% by the general public.

## **1.2 Focus of the study**

Though a very important financial policy, the dividend policy remains one of the most puzzling issues in corporate finance. According to a major impediment to understanding corporate dividend policy is the availability of multiple plausible explanations for observed behaviour. Among the principal explanations stressed by modern theories include agency and other informational problems between owners and managers. Thus, while the shareholders use dividends to wrest resources from the control of managers, corporate managers on the other hand use dividends to send credible profitability signals to the capital market.

The main focus of the study is to examine the dividend practices of listed insurance companies of Nepal whether there is to examine the dividend behaviour of the company with respect to asymmetric information, agency relationship, and firm characteristics in order to understand how company should determine the dividend policy.

## **1.3 Statement of the Problem**

Dividend policy is the most inspiring factor for investment on shares of the companies. Due to which all the investors invest their funds. But Nepalese commercial banks have no satisfactory result about dividend decision. It is affected by various government rules, liquidity position, profit rate, stability in earnings, and access to the capital market, control position and tax bracket. Therefore dividend payment is one of the one of the major aspects of commercial banks.

Dividends are paid from the net profit. Since profit is also treated as financing sources of the firm, management retains some of the profit as retained earnings for internal financing. The amount paid as dividend indicates the financing soundness of the firm.

Whether the insurance companies of Nepal have satisfactory result about dividend decision or not depends partly on the government rules and regulations acting and reacting in the financing operations. But there is no limit to the identification of the problems about dividend policy and practices that are visible in Nepalese Insurance Companies.

It seems that there isn't any proper relationship between dividend and quoted market price of share. Distribution of the return in terms of dividend of Insurance companies does not seem to reflect in the market price of the shares. This fact inspired the researcher to study the factors that affect the dividend decision and evaluation of shares. However the dividend is the most popular weapon for the attraction of investors and to reflect the firm's healthy position in the capital market. Under the prevalence of these situations this study attempts to deal with the following issues.

- What are the trends in dividend paying pattern of selected firms? Is there any consistency among the firms?
- Is there any effect of dividend decision on the market price of the shares in different insurance companies?

- Dose information asymmetry exists? Are managements using the dividend as a signalling device to future profitability?
- Are firm using dividend policy as a residual or stable policy? Dose the availability of investment opportunities affect the dividend pay-out ratio?
- Whether there exists the relationship between dividend with market price per share, earning per share, book value per share, net worth, net earnings and current ratio of the insurance companies?
- What kind of dividend policy do Nepalese insurance companies follow?

#### **1.4 Objectives of the study**

The main objective of this study is to examine the dividend payment behaviour of the listed companies with respect to asymmetric information, agency relationship, and firm characteristics in order to understand how company should determine the dividend policy.

The specific objectives of the study are as follows.

- To analyse the dividend payment pattern.
- To find the relationship between dividends with market price per share, earning per share book value per share, net worth and net earnings of the insurance companies.
- To point out the problems of the Nepalese Insurance companies.

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

The history of insurance companies in Nepal is very short. The first insurance company of Nepal is Rastriya Bima Sansthan, which was established on 15<sup>th</sup> December 1968 A.D. Currently there are 25 listed insurance companies functioning in Nepal. As insurance business is growing in Nepal, People are attracted to invest in such company's shares for the purpose of getting greater returns. Dividend decision is important instrument that helps to decide the investor whether to invest in particular firm or not. So, the dividend policy of the

company has become an efficient way to attract new investors and maintain goodwill of the company. In capital market the return can be earned by means of dividend and capital gain. But due to the lack of enough knowledge investors are investing using trial and error method. So the present study will make the shareholders and investors aware of dividend practices of the insurance companies. Therefore considering all these facts, this attempt of analyzing dividend policy and practices of Insurance companies of Nepal provide some guidelines to investors, insurance companies, policy maker and future researcher as well. Apart from it, this study will be of interest to the researchers and academicians.

### **1.6 Limitation of the study**

Every activity has its own boundary. As in the same way this study also has some boundaries which cannot be ignored are called as limitations of this study. The limitations of the study are:

1. Only secondary data has been used in this study. So, the relevancy of the study Will depend upon the reliability and truthfulness of the secondary data.
2. The study covers a six-year period and five insurance companies.
3. Only cash dividend is considered.
4. Only selected financial and statistical tools are used for analysis.
5. The study is limited to the dividend policy and practices of listed insurance companies. So the study considers only those factors, which are directly related to dividend decision.

### **1.7 Organization to the study**

The whole study is divided into 5 chapters.

Chapter I – General Background

Chapter II – Review of literature

Chapter III – Research Methodology

Chapter IV – Data collection, Presentation and Analysis

## Chapter V – Summary, Conclusion and Recommendation

### **CHAPTER I:**

This chapter includes background, statement of the problem, focus of the study, significance of the study, objective of the study and limitation of the study.

### **CHAPTER II:**

This chapter deals with review of literature. It includes previous activities that are done about the study i.e. review of books, report, journal, previous thesis etc.

### **CHAPTER III:**

This chapter explains the research methodologies used in the study which includes research design, sources of data, population, samples, and methods of data collection and analysis of data.

### **CHAPTER IV:**

This is the most important chapter of the study which includes presentation and analysis of data.

### **CHAPTER V:**

This is the last chapter of the study. It includes summary and finding or conclusion from the overall study and recommendation.

## **CHAPTER II**

### **LITERATURE REVIEW**

This chapter will give some basic definition i.e. conceptual framework of the study for the understanding about the dividend policy and practice. Besides, this chapter is concerned with review of some basic literature on dividend practice of insurance companies that have already been conducted.

#### **2.1 Conceptual Framework**

Dividend is the portion of the net profit distributed to the shareholders. And the policy of the company on the division of its profit between shareholders as a dividend and retention for investment in opportunities is called the dividend policy. Dividend policy determines the division of earnings between payments to stockholders and reinvestment in the firm. Dividend refers to that portion of a firm's net earnings, which are distributed to the shareholders in return of their investments in share capital. In other words, dividend is a periodic payment made to the stockholders to compensate them for the use of and risk to the invested funds.

A major decision of financial management is the dividend decision in the sense that the firm has to choose between distributing the profits to the shareholders and plugging them back into the business. Dividend decision must consider the overall financing decision of the firm.

Expected cash dividends are the key return variable from which owners and investors, determined share prices. So, it is necessary for the firm to adopt an effective and relevant dividend policy. Directors of the firm have to meet periodically to decide whether to pay dividend and to determine the amount and forms of dividend payment. Dividend policy affects the financial structure, the flow of funds, corporate liquidity and investor's attitude. It is related to the overall

financing decision as dividend payout reduces the amount of retained earnings in the firm and affects the total amount of internal financing.

According to one school of thought, dividends are irrelevant so that the amount of dividends paid has no effect on the valuation of a firm. On the other hand, certain theories consider the dividend decision as relevant to the value of the firm measured in terms of the market price of the shares.

Dividend policy is recording evidence of shareholders filing cases against the corporation imposing restriction in dividend payments as matter of nature of separation between ownership and control. Since dividend would be more attractive to stockholders one might think that there would be a tendency for corporation to increase distribution but one might well equally pressure that cash dividend would be reduced somewhat with an increase in net after tax dividends still available to stockholders and as increase in retained earnings for the corporations.(Smith, 1981).

The internal revenue service code has defined dividend as any distribution of property made by a corporation to its shareholders out of its earnings after tax. Most popular form of dividend is cash, which reduces the cash balance of the company.

What and how much it is desirable to pay dividend has always been a controversial topic, because shareholders expect higher dividend from corporation. However corporations ensure towards setting aside funds for maximizing the overall shareholder's wealth.

Therefore, Dividend Policy is wise policy to maintain a balance between shareholders' interest with that the corporation growth from internally generated fund. (Shrestha, 2004).

The fund that could not be used up due to lack of investment opportunities should be better paid off as dividends since shareholders might have investment

opportunities to employ the funds elsewhere. Financial management is, therefore, concerned with the activities of corporation that affect the well-being of Shareholders. That well-being can be partially measured by the dividends received but a more accurate measurement is the market value of stock. (Dean, 1973).

The dividend policy adopted by the firm should be such that strikes a proper balance between the financing decision and wealth maximizing decision. There is a negative relation between retained earnings and cash dividend. When firm retains earnings for providing necessary additional equity capital, the amount of dividend decreases which may affect the market price of share adversely. However, this leads to increase the future earnings per share. Thus, dividend decision is one of the major decisions of managerial finance as it directly or indirectly determines and affects the maximization of the wealth of owners or shareholders.

### **2.1.1 Forms of Dividend**

Depending upon the objectives and policies, corporation needs to follow the various types of dividend to the shareholders. In Nepalese context, the types of dividend that corporations follow is partly a matter of attitude of directors and partly a matter of shareholders preferences and also depending to the various circumstances and financial constraints that bound corporate plan and policies. Dividend is being distributed in several forms viz. cash dividend, stock dividend, scrip dividend, property dividend etc. But in Nepal, only cash and stock dividend are in practice.

#### **Cash Dividend**

In Nepalese context, most business organizations pay dividends in the forms of cash. For the declaration of cash dividends, companies should have enough cash in its bank account or have enough liquidity. Cash dividend is the dividend, which

is distributed to the shareholders in cash out of the earnings of the company. When cash dividend is distributed both the total assets and net worth of the company decreases and the market price of the share drops in most cases by the amount of the cash dividend distributed (Hasting, 1996).

### **Stock Dividend**

A stock dividend is the payment of dividend to existing owners in the forms of stock. It is the distribution of additional shares to the existing shareholders. “The firm pay stock dividend either as replacement for a supplement to the payment of cash dividend.” (Gitman,1988). Under this policy, stockholders receive additional share of company in lieu of cash dividend. But in India, bonus shares can be issued in lieu of cash dividend.”(Pandey,1999). It is the means of re-capitalization of earnings by making shareholders feel that they are getting something of value, yet it keeps funds in the corporation that management cause as it sees fit. By the distribution of stock dividend, the number of shares increases but the proportionate ownership of stockholders remains the same. The stock dividend is also paid by the company in order to increase the paid up capital. On paying stock dividend, the earning per share, dividend per share and market price per share of the company decreases as well. “ A stock dividend has three features (a) the stockholders receive the additional shares of the company paying the dividend, (b) the stockholders do not have to pay for the share received and (c) the distribution of shares accompanied by a reduction in earned surplus.”(Bradley, 1974)

### **Property Dividend**

This involves a payment of assets/property in any form other than cash. This form of dividend may be followed whenever there are assets that are no longer necessary in the operation of the business or in extra ordinary circumstances. Companies own products and the securities of subsidiaries are the examples that have been paid as property dividend.

### **Scrip Dividend**

The company uses this type of dividend when it has earned profit despite the suffering from cash problem. Scrip is a form of promissory note promising to pay the holder at specified later date. Under this type of dividend, company issues and distributes to shareholders, transferable promissory notes which may be interest bearing or non-interest bearing.

### **Bond Dividend**

It is the dividend that is distributed to the shareholders in the form of a bond for the purpose of postponing the payment of cash. Company declares the bond dividend in the form of its own bond with a view to avoid cash out flows.

## **2.1.2 Theory of Dividend**

### **Residual Theory of Dividend**

One school of thought, the residual theory of dividends, suggests that the dividend paid by a firm should be viewed as a residual the amount left after all acceptable investment opportunities have been undertaken. (Lawrence, 7th edition).

It is residual since shareholders get dividends only when there exists balance of earning after paying fixed obligations and investing in profitable sector or expansion. If the firm has retained earning left over after financing all acceptable investment opportunities, these earnings then will be distributed to the stockholders in the form of cash dividends. If not, there will be no cash dividends. Due to the flotation costs and tax saving of shareholders, it assumes that the internally generated funds (R.E) are comparatively cheaper than the funds obtained from external sources i.e. issuing new shares.

Thus, dividend policy is influenced by (1) the availability of acceptable investment opportunities and (2) the availability of internally generated capital; the dividends are paid only after all acceptable investment has been financed.

According to this concept, dividend policy is totally passive in nature. ‘When we treat dividend policy as strictly a financing decision, the payment of cash dividend will be passive residual. (Van Horn, 1981).

### **Stability of Dividend**

Dividend is considered as a desirable policy by the management of the firm regularly even though the amount of dividend fluctuates from year to year. By stability, we mean maintaining a position in relation to a dividend trend line preferably one that is upwards sloping. Stability of dividends sometime means regularity in paying some dividend annually, even though the amount of dividend may fluctuate over years, and may not be related with earnings, (Pandey, 1999). Shareholders generally prefer stability or regularity of dividends because all other things being remain same, the market price of the share of a company may be higher, if it pays stable dividend overtime. Three of the more commonly used dividend policies are established under stability theory.

#### **I. Constant Dividend per Share**

Constant dividend policy is based on the payment of fixed rupees dividend each year. Companies follow this policy of paying dividend without considering the fluctuation in the earnings of the company. This policy does not imply that the dividend per share or dividend rate will never be increased. When the company reaches a new level of earnings and expects to maintain it, the annual dividend per share may be increased. Investors who have dividend as the only sources of their income prefer the constant dividend policy.

#### **II. Constant Payout Ratio**

The ratio of dividend to earnings is known as payout ratio. When fixed percentage of earnings is paid as dividend in every year, the policy is called constant payout ratio. According to this policy, if earnings fluctuates, dividend amount also fluctuates at the same proportion. It ensures that dividends are paid when profits

are earned and avoided when it incurs losses.

### **III. Stable Rupee Dividend plus Extra Dividend**

Under this type of stable policy a sum of amount is paid regularly as dividend. In the boom period extra dividend is paid over and above the regular dividend. And if the normal condition returns the firm cuts extra dividend per share and pays the regular dividend only.

#### **2.1.3 Factors Affecting Dividend Policy**

Dividend decision is the major decision of financial management and the factors affecting dividend decision is one of the main focuses of this study. The firm's dividend policy has the effect of dividing its net earnings into two parts: retained earnings and dividends. Most business companies recognize that the shareholders have a desire to receive dividend, although some of the shareholders are interested in the capital gains. But the company's decision regarding the amount of earnings to be distributed as dividend depend on a number of factors. Such affecting factors are as follows, (Weston and Copeland, 1989).

#### **Legal Restriction**

The dividend policy of the firm has to evolve within the legal framework and restriction. There is on legal compulsion on the part of a company to distribute dividend. However, there are certain conditions imposed by law regarding the way dividend is distributed. Economic factors have a major influence on policy. As per legal rules, cash dividend must be paid from current year's earnings and stock dividend should retained earnings.

#### **Liquidity**

Cash position of the firm is an important consideration in paying dividend greater the cash position and liquidity, the greater will be its ability to pay dividend and vice-versa.

### **Need to Repay Debt**

If the company has to repay the debt in the current year, it needs more fund and retains more profit by paying smaller amounts as dividends.

### **Restriction in Debt Contracts**

The restriction may be employed by the lenders to preserve the firm's ability to service debt; usually it is exposed as a maximum percentage of cumulative earnings. When such restriction is in force; it naturally influences the dividend policy of the firm. Sometimes the management of the firm welcomes the dividend restriction imposed by lenders because then, it does not have to justify to shareholders, the retention of earnings. It needs only point to the restriction.

### **Rate of Asset Expansion**

If the firm is rapidly growing, it needs more funds for financing assets expansion. In this position, it is necessary to retain the firm's whole earning in the business to fulfill its need of funds and cannot be able to pay dividend to its shareholders.

### **Growth prospects**

A rapidly growing firm usually has a substantial need of funds to finance the abundance of attractive investment opportunities. Instead of paying large dividends and then attempting to sell new share to raise the equity investment capital it needs, this types of firm usually retains larger portions of its earnings and avoids the expenses and inconvenience of public stock offerings.

### **Stability of Earning**

A firm that has relatively stable earnings is often stable to predict approximately what its future earnings will be. Such a firm is, therefore, more likely to payout higher percentage of its earnings, than is a firm with fluctuating earnings. The unstable firm is not certain about the realization if expected profit in the subsequent years so, it is likely to retain a high proportion of current earnings. A

lower dividend will be easier to maintain if the earnings fall off in the future.

### **Access to the Capital Markets**

A large, well-established firm can easily enter in the capital market and can collect the capital and other forms of external financing easily. Greater the ability of the firm raise equity or debt funds from capital markets, such firms are likely to pay higher dividends on the contrary. Firm that must retain more earnings to finance its operations are likely to pay small dividend. A well-established firm is, thus, likely to have a higher dividend payout rate than is a new or small firm even if it is not enough liquid.

### **Control**

Dividend policy may also be strongly influenced by promoter shareholder's desire to retain control objective of the firm. As a matter of policy, some corporations expand only to the extent of their internal earnings. This policy is defended on the ground that raising funds by selling additional common stock dilutes the control of such group in the company. At the same time, selling debt increases the risk (financial leverage) to the present owners of the company. Reliance on internal financing reduces the dividend payout.

### **Tax Position of Shareholders**

The tax position of shareholders also affects the dividend policy of the firm. For example, companies owned largely by taxpayers in high income tax brackets tend towards lower dividend payout because they can enjoy tax saving by the retention of earning, which they require to pay when receiving the dividend. Companies owned by small investors tend toward higher dividend payouts; sometimes there may be a conflict between the stockholders in high income tax brackets and those in lower tax brackets.

## 2.1.4 Legal Rules and Restriction on Dividend Policy in Nepal

In Nepal, the Nepal company act-2063(2006) makes some legal provisions for dividend payments. They are explained as below.

### **Section: 179 Bonus share**

- (1) A company may, by adopting a special resolution in the general meeting, issue bonus shares to its shareholders, out of the amount available for the distribution as dividend.
- (2) Where a company is to issue bonus shares pursuant to Subsection (1), the company shall give information thereof to the Office before issuing such shares.

### **Section: 182 Dividends**

- (1) Except in the following circumstance, dividend shall be distributed to the shareholders within forty five days of the decision made to provide dividend:
  - (a) If any law prohibits the distribution of dividend;
  - (b) If the right to receive dividend is subject to any dispute;
  - (c) If, in a circumstance beyond control of the company or for any reason, dividend cannot be distributed within the said time-limit.
- (2) A company fully or partly owned by the Government of Nepal may distribute dividend only after obtain in prior approval of the Government of Nepal; and the Government of Nepal may give necessary directive on the matter of dividend to be distributed by such company.
- (3) In the event of failure to distribute a dividend within the time limit as referred to in Sub section(1), the dividend shall be distributed together with the interest thereon at such rate as may be prescribed.
- (4) The person whose name is maintained in the shareholder register at the time of declaration of a dividend or his legal heir shall be entitled to such dividend.<sup>191</sup>
- (5) A company shall not pay or distribute a dividend in any other manner except out of the amount of profits set aside for the distribution of

dividend.

- (6) Before paying or declaring a dividend out of the profits for any financial year, a company shall have fully deducted the pre operation expenses, the amount required to be depreciated in accordance with the accounting standards fixed by the competent authority under the prevailing law, any amount required to be paid or set aside out of the profits under the prevailing law or the amount or accumulated loss in previous financial years. Provided, however, that if the prevailing law requires the establishment of a reserve or consolidated fund of any amount prior to distributing dividend, any company which is required to comply with such legal requirement shall not distribute dividend without establishing such reserve or consolidated fund.
- (7) Subject to the various provisions contained in this Section, the board of directors of any company may, in the following circumstance, distribute interim dividend out of the profits for the previous financial year:
- (a) where the articles of association contain a provision on the distribution of interim dividend;
  - (b) where the annual financial statement for the financial year out of the profits of which year interim dividend is to be distributed has already been certified by the auditor and approved by the board of directors.<sup>192</sup>
- (8) No company shall pay or distribute any amount in cash or kind, chargeable on its funds, to its shareholders, except a dividend approved by the general meeting.
- (9) The amount of dividend not claimed/received by any shareholder even after the expiry of a period of five years after the date of resolution adopted by the company in its general meeting to distribute dividend shall be credited to the investor protection fund to be established under Section 183.

The above rule shows that Nepalese law prohibits repurchase of company's own stock, which is against the theories of finance. Repurchase of stock contributes to maximize the firm's wealth by increasing EPS and stock price. Therefore, it is a form of dividend. If the earning of the firm is used to repurchase the stock, shareholders do not receive cash but, they will be benefited due to appreciation in the price of stock. Similarly this provision is essential for the correction of debt dominated capital structure. However, the reason for this kind of provision is not known yet.

## 2.2 Review of Previous Studies

Due to rapidly increasing aspects of dividends policy, a large number of empirical studies have been conducted about the dividend policy and practice. In this section some of these studies will be reviewed

### 2.2.1 Review of Empirical Studies

**Linter (1956)** made an important study on the behavioral aspects of dividend policy in the American context. In this study he investigated a partial adjustment model as he tested the dividends pattern of 28 companies. According to J. Linters, dividend is the function of earnings of that year, existing dividend are, target payout ratio and speed of adjustment.

He concluded that a major portion of a firm's dividend could be expressed in the following manner.

$$DIV_t^* = PEPS_t \dots \dots \dots (i)$$

$$\text{And } DIV_t - DIV_{t-1} = a + b (DIV_t^* - DIV_{t-1}) + e_t \dots \dots \dots (ii)$$

$$\text{or } DIV_t = a + b DIV_t^* + (1 - b) DIV_{t-1} + e_t \dots \dots \dots (iii)$$

Where,

$DIV_t^*$  = Firm's desired payment

$EPS_t$  = Earnings per Share

P = Target payout ratio

a = Constant relating to growth

b = Adjustment factor relating to previous period's dividend and new desire level of dividends, where  $b < 1$

His findings on dividend policies were as follows:

- Firms generally think in terms of proportion of earnings to pay.
- Modifying the pattern of dividend behavior is not considered with investment requirements. Firms generally have target payout ratios in the view while determining changes in dividend per share.

**Walter (1996)** conducted a study on dividend and stock prices. He proposed a model for share valuation. According to him, the dividend policy of the firm affects the value of the shares. His model supports that dividends are relevant. He argues that the choice of dividend policies almost always affect the value of an enterprise. The investment policy of a firm cannot be separated from its dividend policy; according to him both are interlinked which is just opposite to Modigliani and Miller approach.

Walter's model shows clearly the importance of the relationship between the return on a firm's investment or its internal rate of return ( $r$ ) and its cost of capital or the required rate of return ( $k$ ) in determining the dividend policy. As long as the internal rate is greater than the cost of capital, the share price will be enhanced by retention and will vary inversely with dividend payment. In this way Walter's model is also known as "optimal theory of dividend". The basic assumptions of the Walter's model are as follows.

- The firm finances all investment through retained earnings. The external sources of funds like debt or new equity capital are not used.

- Firm's internal rate of return (r) and cost of capital (k) are constant.
- All earnings are either distributed as dividend or reinvested internally.
- There is no change in value of earning per share (E) and dividend per share (D). The value of 'E' and 'D' remain constant, although there may be changed in the model for determining the result.
- The firm has a perpetual or infinite life.

Based on above assumption, formula determining to find the market price per share is as follows:

$$P = \frac{DPS}{K} + \frac{r(EPS - DPS) / K}{K}$$

$$\text{or, } p = \frac{DPS + r/k(EPS - DPS)}{K}$$

Where,

P = Market price per share

DPS = Dividend per share

r = Firm's internal rate of return

k = Firm's cost of capital or capitalization.

Walter's model shows that there are three probable conditions of the firm for comparing the relationship between 'r' and 'k'

### 1) $r > k$ (Growth Firm)

When internal rate of return is greater than cost of equity ( $r > k$ ), the value of the firm can be maximized when dividend payout ratio decrease to 0%

## **2) $r=k$ (Normal Firm)**

When internal rate of return is equal to cost of equity ( $r=k$ ), the value of the firm is unaffected (irrelevant).

## **3) $r < k$ (Declining Firm)**

When internal rate of return is less than cost of equity ( $r < k$ ), the value of the firm can be maximized when dividend payout ratio decreases 100%.

## **Conclusion**

( $r > k$ ) = Dividends are negatively correlated with stock price.

( $r = k$ ) = Dividend is indifferent to variation in the market price of the share.

( $r < k$ ) = Dividends are positively correlated with stock price.

**Gordon (1962)** in his study concluded that dividend policy of a firm affects its value. In this model, he pleaded that investors are not indifferent between current dividends and retention of earnings. The conclusion of this study is that investors value the present dividend more than future capital gain. His argument insisted that an increase in dividend payout ratio leads to increase in the stock prices for the reason that investors consider the dividend yield ( $D_1/P_0$ ) is less risky than the expected capital gain.

Hence, investors required rate of return increases as the amount of dividend decreases. This means there exist a positive relationship between the amount of dividend and the stock prices.

Gordon's Model is based on the following assumptions:

- The firm is an all equity firm. no external financing is used and investment programs are financed exclusively by retained earnings.

- Internal rate of return, (r) appropriate discount rate (k) are constant.
- The firm and its stream of earnings are perpetual life.
- The corporate taxes do not exist.
- The retention ratio (b) once decided upon is constant. Thus, the growth rate  $g = br$ , is constant forever.
- The discount rate is greater than growth rate,  $k > br = g$ .

Based on the above assumptions, Gordon provided the following formula (which is a simplified version of the original formula) to determine the market value of a share.

$$P = \frac{E(1-b)}{K-br}$$

Where,

P = Price of share

E = Earnings per share

b = Retention ratio or percentage of earnings retained

1-b = Dividend payment ratio i.e. percentage of earnings distributed as dividend.

E (1-b) = Dividend per share

K = Capitalization rate or cost of capital.

$br$  = the rate of return on investment of an all equity firm.

In case of growth firms, firms with  $r > k$ , share price tends to increase with increase in retention ratio (b) or decrease in payout ratio (1-b). So dividends and stocks

prices are negatively correlated in growth in case of normal firm ( $r=k$ ), share price firm remains constant regardless of changes in dividend policies. It means dividend and stock price are free from each other.

In case of declining firms ( $r < k$ ), share price tends to enhance with increase in payout ratio ( $1-b$ ) or decrease in retention ratio ( $b$ ). So dividends and stock prices are positively correlated with each other in declining firm.

**Modigliani and Miller** provide the most comprehensive argument for irrelevance of dividend in 1961. Dividend policy of firm is irrelevant as it does not affect the value of the firm or the value of equity according to M.M. They propounded the "Irrelevance theory of Dividend" which theory argue that the value of firm depends on the earning power of the firm asset or investment policy. Thus when the investment decision of the firm is given, a firm's value is independent of dividend policy. The M.M. approach of irrelevance dividend is based on the following critical assumptions.

- Perfect capital markets in which all investors are rational
- Taxes do not exist.
- The firm has no flotation costs.
- Risk of uncertainty does not exist.
- Information are available at free of cost
- No transaction cost and infinitely divisible securities.

M.M. provides the proof in support to their argument in the following manner.

**Step-1** The market price of share of the firm in the beginning of the period is equal to the present value of dividend paid at the end of the period plus the market price of the share at the end of the period.

Symbolically,

$$P_o = \frac{D_1 + P_1}{1 + ke}$$

Where,

$P_o$  = Current market price of a beginning.

$ke$  = Cost of equity capital (assumed constant).

$D_1$  = The dividend per share to be received at the end of the period 1.

$P_1$  = The market price of the share at the end of the period 1.

**Step-2** Multiply both sides of equation one by the number of shares outstanding to obtain the total value of the firm if no new financing exists.

$$nP_o = \frac{n(D_1 + P_1)}{1 + ke}$$

Where,

$n$  = No. of outstanding shares at zero period.

$nP_o$  = Total value of equity

**Step-3** If the firms internal source of financing, its investment opportunities fall short of funds required and  $\Delta n$  is the number of new share issued at the end of year 1 at price  $P_1$  then,

$$nP_o = \frac{nD_1 + P_1 (n + \Delta n) - \Delta n P_1}{1 + ke}$$

Where,

$\Delta n$  = No. of new share issued at the end of the period.

**Step-4** If the firms were to finance all investment proposals, the total amount of new shares issued will be,

$$\Delta nP_1 = I - (E - nD_1)$$

$$\text{or } \Delta nP_1 = I - E + nD_1$$

Where,

I = Investment needs

E = Earning available

$\Delta nP_1$  = Additional or new equity

$nD_1$  = Total dividend paid during the period

**Step-5** By substituting the value of  $\Delta nP_1$  from the equation of step 4 to equation 3, we get,

$$nP_0 = \frac{nD_1 + P_1 (n + \Delta n) - I + E + nd_1}{1 + ke}$$

$$\text{or } nP_0 = \frac{nd_1 + nP_1 + \Delta nP_1 - I + E + nd_1}{1 + ke}$$

$$nP_0 = \frac{P_1 (n + \Delta n) - I + E}{1 + ke}$$

**Conclusions**

From above, there is no role of dividend in equation, so Modigliani and Miller concluded that dividend policy has no effect on the share price or value of the firm. A firm that pays dividend will have to raise funds externally to finance its investment plans. M.M. holds that when the firm pays dividends, its advantage is offset by external finance. Thus dividend payment is irrelevant regarding the valuation of equity and firm. Hence, it seems that dividend policy may have no influence on the market price of share under several assumptions. Thus, the several assumptions may be the debated issue to apply this model in case of Nepal.

**Van Horne and Mc Donald** conducted a comprehensive study on dividend policy and new equity financing. The basic purpose of this study was to highlight the combined effect of dividend policy and new equity financing decision on the market value of the firm's common stocks. They performed Empirical tests by using a well known valuation model i.e. cross-section regression model for two industries in 1968. For the investigation, the required data were collected from 86 electricity utility firms included on the COMPUSTAT utility data tape and 39 companies in the electronics and electric component industries as listed on the COMPUSTAT industrial tape.

Their empirical for utilities industries using two regression models are

#### **First model**

$$P_0/E_0 = a_0 + a_1(g) + a_2(D_0/E_0) + a_3(\text{Lev}) + u$$

Where,

$P_0/E_0$  = Closing market price in 1968 divided by average EPS for 1967 and 1968.

$g$  = Expected growth rate, measured by the compound annual rate of growth in assets per Share for 1960 through 1968.

Do/Eo = Dividend payout ratio measured by cash dividend in 1968 divided by earning in 1968.

Lev = Financial risk, measured by interest charges divided by difference of operating revenues and operating expenses.

U = Error term

### **Second model**

$$Po/Eo = a_0 + a_1(g) + a_2(Do/Eo) + a_3(lev) + a_4(Fa) + a_5(Fb) + a_6(Fc) + a_7(Fd) + U$$

Where, fa, fb, fc and fd or dummy variables corresponding to "New issue ratio" (NIR) for groups A through D.

It is noted that they had grouped the firms in five categories A, B, C, D, and E by NIR. For each firm, the value of dummy variables representing its NIR group is one and the value of remaining dummy variables is zero. Again, they tested the following regression equation for electronics-electronic components industry.

$$Po/Eo = a_0 + a_1(g) + a_2(Do/Eo) + a_3(lev) + a_4(OR) + U$$

Where, Lev=financial risk, measured by long term debt plus preferred stock divided by net worth as of the end of 1968.

OR=operating risk, measured by standard error for regression of operating earnings per share on time for 1960 through 1968.

In addition, rests are as in first model above.

By using these models they concluded that the share value of electric utility firms in 1968 was not adversely affected by new equity financing in presence new cash dividends, except for those firms in the highest new issue group and it made new equity more costly from financing than the retention of earnings. They also indicated that the payment of dividend through excessive equity financing reduces the share prices.

**Friend and Puckett** (1964) have conducted a study about the relationship between dividends and stock price through the regression analysis on the data of 110 firms from five industries in the year 1956 to 1958. These five industries were chemicals, electric utilities, electronics, food and steel. These industries were selected to permit a distinction made between the result for growth and non growth industries and to prove a basic for comparison with result by other author for earlier years. They also considered cyclical and non-cyclical industries which they covered. The study period covered a boom year for the economy when stock prices leveled off after substantial rise (1956) and some what depressed year for the economy when stock prices, however, rose strongly (1958).

They used dividends, retained earnings and price earning ratio as independent variable in their regression model of price function. They used supply function i.e. dividend function also. In their dividend function, earnings, last year's dividend price earning ratio are independent variables.

Symbolically, their price function and dividend supply function can be written as:

$$\text{Price function: } P_t = a + bD_t + cR_t + d(E/P)_{t-1}$$

Where,

$P_t$  = Per share price at time t.

$D_t$  = Dividends at time t.

$R_t$  = Retained earning at time t.

$(E/P)_{t-1}$  = lagged earnings price ratio.

Dividend supply function:  $D_t = C + FE_t + fD_{t-1} + h(E/P)_{t-1}$

Where,

$E_t$  = Earning per share at time t

$D_{t-1}$  = last year dividend

The study was based on the following assumptions:

- Dividend does not react to year to year fluctuation in earnings.
- Price does not contain speculative in earnings.
- Earnings fluctuations may not sum zero over the sample.

Friend and Puckett concluded that, it is possible that management might be able, at least in some measure, to increase stock prices in non-growth industries by raising dividends and in growth industries by greater retention i.e. low dividends.

**Litzenberger and Ramishwamy** have found positive relationship between expected before tax returns and dividend yields. They have discovered that high dividend stocks providing higher expected before tax return than low dividend stocks to off set the tax effects. However adding default risk premium variable to expended capital assets pricing models shows the dividend co-efficient is not significant different from zero and concludes that the dividend yield measure is likely to be correlated with the number of economics the relationship between dividend yields and stock return by black and scholes, indicates that stock with high pay out ratio did not provide returns significantly different from those with low payout ratios. So they provide the idea that dividend policy does not matter.

Financially, they concluded that the dividend hypothesis holds good in the chemical industry. Both dividend and retained earnings significantly explain the variations in share price in chemical industry. They also stressed that the impact

of dividend is more pronounced than that of the retained earnings but the market has started shifting towards more weight for earnings.

### **2.2.2 Review of Nepalese Studies**

There are some articles relating dividend policy bonus issue and impact on share price are published in Nepal. Which are significant in this study, have drawn in this section.

Shrestha (1992) found that the cost-push inflation at exorbitant rate has made the shareholders to expect higher return from their investment. Multiple decrease in the purchasing power of the Nepalese currency to the extent that higher return by way of dividend is just a natural economic consequences of it. Erosion in the purchasing power of the income has made it that dividend payment must be directed to enhance shareholders purchasing power by raising dividend payout ratio on the basis of both earning and cost theory. Indo-Nepal trade and transit deadlock has become a sort of economic welfare, putting rise in the cost of living index to a considerable extent. This is one of the reasons, which made shareholders to expect higher demand for satisfactory dividend. The waiting of five years with peanut dividend in previous year is equally a strong enforceable reason of the bank's shareholders to expect handsome dividend already assured and committed in various reports of the earlier annual general meetings. One way to encourage risk taking ability and preference is to have proper risk return trade off by bank's management board in a way that higher return must be the investment rule for higher risk-takers that comprises bank's shareholders. Regarding these difficulties he requests the bank management board to rethink the about the payment of dividend. At the close of paper, Shrestha opinions that the bank is trying its best to satisfy both the shareholders and employees.

Aryal (1997) the study of "Dividend practices of Joint Venture Banks" which has made comparative study of dividend policy between NADIL and NGDBL. Found that the relationship between both DPS with EPS, NP, NW and stock prices are

positive. A change in DPS affects the market price per share. There isn't any uniform dividend policy of both the banks. Limitations of studies, Number of samples selected for the study are small i.e. only two joint venture banks are selected as sample, that's why it does not represent the exact practice of dividend policy in commercial banks.

Rajbhandari (2001) her findings are: Average earning per share seems satisfactory to all the sample companies. The positive relationship between dividend per share and earnings per share. The coefficient of correlation between earning per share and market per share is negative. The relationship between market price per share and dividend per share is positive. Dividend payment is not consistent for all the sample companies. It is necessary to do comparative study and analysis of dividend policy in micro level for the joint venture Banks and Insurance Companies. She has not performed the test of hypothesis, especially ANOVA test. Therefore, the financial indicator such as EPS, DPS and DPR results obtained value is significant or not to clarify in her study.

Pradhan (2003) a study conducted by "dividend Policy and practices, a comparative study between banks and insurance companies in Nepal. "on a study on stock market behavior in a small capital market found that, higher the earnings on stocks, the larger the ratio of dividend per share to market price per share. Positive correlation between dividend per share and market price per share. Positive relationship between the ratio of dividend per share to market price per share and interest coverage. Positive relationship between dividend payout and profitability. Positive relationship between dividend payout and liquidity. Positive relationship between dividend payout and interest coverage. Positive relationship between dividend payout and turnover ratios. Earnings assets turnover and interest coverage are more variable for the stock paying higher dividends.

Thapa (2003) among the major decision of finance, the majority of respondent gave the first importance to investing decision, second to financing and finally

gave least importance to dividend decision. With respect to factors affecting dividend policy of banks and insurance companies. Most of the respondents gave first priority to current earning, second priority to liquidity and last priority to past dividend. Not a fixed and single policy is being adopted by the banks and insurance companies. Majority of the companies paid the cash dividend.

Shrestha (2004) conducted a study titled on “Dividend Policy and its impact on Stock price, an Empirical analysis on Joint Venture Banks of Nepal.” found that no consistency in dividend policy in the sample banks. The MPS is affected by the financial position and the dividend paid by the bank. In this regards, the MPS of the sample banks seen to be fluctuated. Most of the Nepalese banks from the very past have not done profit planning and investment strategy which have imbalanced the whole position of the banks. All the D/P ratio of the sample banks in many years are found more than the popular practice.

Guragain (2005) research entitled “A study of Dividend and its impact on stock price of Nepalese selected commercial banks.” found that there is high degree positive relationship between DPS and EPS in most of the banks and they are statistically significant as well. Relationship between MPS and DPS is found to be low degree positive in most of the banks, but these are statistically insignificant. Level of consistency in dividend policy of the banks is very low. There is higher role of earning per share to change the dividend per share in most of the banks.

Shrestha (2005) has conducted a study on “An overview of financial and insurance companies in Nepal” in 2005. He has taken the data of 8 years for the study. In his study he stated the following objectives: To find out the current trend of the dividend practices in Nepal. Determine the current factor that affects the dividend. Find out the current market scenario of the dividend practices and the current stock market fluctuation in the insurance company’s stock. The findings drawn by the study are; No clearly defined dividend policy is found followed by the sample banks. The market price of the shares does not seem to be more or less dependent on the EPS or DPS. Dividend per share affects the share prices.

Change in dividend policy or DPS might help to increase the market prices of shares.

Dongol (2006) conducted a study titled “Impact of Dividend Policy on Market Price of Stock.” found EPS of all the sample banks are fluctuating from year to year. None of the sample firms has exactly increasing or decreasing trend of MPS throughout the study period. The concern about maintaining or increasing the stock price level also influences the dividend policy of the firm and hence that may make impact upon market price of stock.

Pyakurel (2006) has conducted the research study on “Financial analysis of insurance companies in Nepal” in 2006. He has taken 5 years of secondary data to analyze his topic. According to him the dividend distributed by most of the companies are fluctuating but some of them are also paying at a constant rate among the sample of the companies he took for the study. According to him the dividend distributed by most of the companies are fluctuating but some of them are also paying at a constant rate among the sample of the companies he took for the study. Through his study he concluded that there doesn’t exist any uniformity in the dividend policy adopted by the insurance companies in Nepal. In his study he also analyzed the trend of the stock market in relation with the insurance companies. The behavior and the subsequent effect of the companies are also taken into consideration.

Shrestha (2007) research work entitled “An analytical Study of Dividend Policy and practices of major Joint Venture Banks in Nepal”. Concluded no individual relationship exists between dividends per share to stock price. The correlation between them is also weak and dividend does not directly influence the market price. It is expected that the performance of the banking sector will grow further due to low interest on the deposits.

Dahal (2008) conducted the research on the titled of “Dividend Policy of Commercial Banks in Nepal”. Main conclusions were dividend practices of the sample companies show that there isn’t a stable dividend policy adopted by any of

the companies. According to this study, some banks do not pay dividend in many years. Therefore, the price of shares on which the dividend is not paid is on upward trend. There are no legal rules binding those companies to pay dividend when they are running at profit. Companies do not have any clear policy towards dividend decision and there is no provision in company act as well. These banks follow no specific dividend payment strategy. Payment of cash and stock dividends are made without managerial decision. The distribution of dividend has a positive impact on the market price of shares for all three commercial banks. More than one economic parameter determines the economic indicators such as DPS and MPS. For example DPS is affected by EPS and NP.

Dangol (2009) he prepared the thesis in the topic of “Cash Dividend Policy of Joint Venture Commercial Banks in Nepal”. arrived to the following conclusions: Dividend payment is not regular and attractive phenomenon in Nepalese commercial Banks. There is no uniformity in dividend distribution policy of joint venture banks in Nepal. Change in dividend per share and dividend payout ratio affects the market price per share. The relationship between dividend per share and earnings per share is positive in all joint venture banks however the relationship between dividend per share with net profit and net worth is found varying in different banks.

Shrestha (2010), in her study “Comparative study of insurance company” found there is no uniformity in dividend distribution policy. DPS and EPS are positively correlated in all companies, which means higher the EPS, higher will be the DPS. dividend is not only a factor that affects the market price of share. There are other factors as well to affect the market price of share.

Rajbanshi (2011) in his study “Dividend analysis; a comparative study of joint venture banks and insurance companies of Nepal” found the correlation between DPS and MVPS of sample banks and insurance companies are found positive except. It implies that DPS affect MVPS. On the basis of hypothesis test there is significance difference between mean of DPS, EPS, MPS and DPR among the

sample commercial banks and the insurance companies.

### **2.3 Research Gap**

Although there are various studies related to dividend practice but there are few studies related to dividend practice of insurance companies. But all these studies are done in the previous time periods which are now out of date. So the recent study will help to assess the recent situation of dividend practice in the insurance companies. The data used in the previous study is few years but this study covers the data of six years from the F/Y 2006/07 to 2011/12. For analyzing the dividend practice, the procedure and methodology used in this study is different from the previous studies.

The main focus of the studies is to analyze the dividend practice in insurance companies of Nepal. This would analyze the recent situation and performance of the insurance companies of Nepal which has not done by the previous studies. This study has found the problem of insurance companies which the previous study had not found. Thus, to fill the gap, this study has been conducted.

## **CHAPTER III**

### **RESEARCH METHODOLOGY**

Research methodology is a way of solving a research problem systematically (Kothari, 1990). In other words, research methodology describes the methods and process applied in the entire aspects of the study. It refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view. Thus, this chapter focuses the research methodology used for the study of dividend policy and practices of selected insurance companies of Nepal. This chapter tries to find out the relationship between dividend and earning per share, net worth, and market price of share and net profit of Insurance companies. Among the twenty five insurance companies in Nepal, the study covers only five insurance companies as sample.

#### **3.1 Research Design**

Research design is the conceptual structure within which research is conducted. Before carrying out a research, the researcher needs to plan which acts as a path in order to achieve the goal. Research design helps researcher to keep track of his action and to know whether he is moving in the right direction to achieve his goal. Research design is the plan, structure and strategy of investigation concerned so as to obtain answers to research questions and to control variance, (Kerlinger, 2002).

In other words, research design is the framework for a study that helps the analysis of data related to study topic. It is a controlling media for collection of data and it helps to collect the accurate information, which is related to dividend policy and practices of selected insurance company in Nepal.

Descriptive research design has been adopted for doing research in the field of dividend practice of insurance companies of Nepal.

### **3.2 Population and Sample**

The large group, about which the generalization is made, is called the population under study or the universe. Because of the large group size, it is fairly difficult to collect detailed information from each member of population. Rather than collecting detailed information from each member, the small portion is chosen as representation of the population which is called the sample. The procedure of selection of sample from the population is known as the sampling method.

Since, the government has adopted liberal economic policy a number of insurance companies have been established after restoration of democracy. There are twenty five insurance companies providing their service in the life and non-life sector in Nepal, at present.

Due to the time and resource factor, it is not possible to study all the companies. Thus sampling technique is used for selecting the sample insurance companies from population. Out of the 21 company transacted in Nepal stock exchange, 5 companies are selected for the study. The selected companies are as follows:

- Premier Insurance Company Ltd.
- Himalayan General Insurance Company Ltd.
- Sagarmatha Insurance Company Ltd.
- Shikhar Insurance Company Ltd.
- Siddhartha Insurance Company Ltd.

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

This study is mainly based on secondary data. The data are used to analyze the dividend policy and practices of insurance companies. The data of the different financial and statistical variables related in this topic have been collected basically from annual report and financial statement of concerned companies. Besides this, other supplementary data and information are obtained from the following:

- Annual reports
- Publications of the concerned companies
- Nepal Stock Exchange Limited
- Nepal stock. Com
- Sebon.com
- Security Board Nepal
- *Beema Samiti* (Insurance Board)

### **3.4 Period Covered**

Single research can't cover total period and subject matter in one shot. Hence, it is to be limited due to various factors i.e. time and cost. Hence, for conducting this study, total 6 years' time is covered for analysis and interpretation. Fiscal years 2006/07 to 2011/12 are the basic time period under study for the study.

### **3.5 Method of Analysis**

For the proposed of analysis, data are tabulated according to the nature of data and requirement of the study. Statistical and financial tools like ratio analysis, standard deviation, co-relation, regression and ANOVA Test are used for analysis. The relationship between different variable of dividend policy are analyzed and interpreted.

#### **3.5.1 Financial Tools Used**

Under the financial tools, the following ratios have been calculated and interpreted.

##### **Earnings per Share (EPS)**

It measures the return of each equity shareholder. It can be calculated by dividing the net profit after tax by the total number of the common shares outstanding. It reveals the earning power of each share over the period (i.e. one year). It is calculated as under.

$$\text{EPS} = \frac{\text{Net profit after tax}}{\text{Number of common shares outstanding}}$$

### **Dividend per Share (DPS)**

DPS is defined as the ratio of net profit after interest and preference dividend paid to ordinary shareholder to number of common share outstanding. It shows the portion of earning distributed to shareholders on per share basis. It is calculated by dividing the total amount declared as dividend for equity shareholders by the total number of share outstanding.

$$\text{DPS} = \frac{\text{Net profit after Interest and Preference dividend}}{\text{Number of ordinary share outstanding}}$$

### **Dividend Payout Ratio (DPR)**

It reflects the percentage of profit distributed as dividend and remaining portion of profit is retained as reserve for the growth of the company. It is calculated by dividing DPS by EPS.

$$\text{DPR} = \frac{\text{Dividend Per share}}{\text{Earning per share}}$$

### **Price Earnings Ratio (P/E Ratio)**

Price earnings ratio reflects the price, which is currently paid by the market for each rupees of earning, which is currently reported earning per share. The P/E ratio can be calculated by dividing the market value per share by earning per share.

$$\text{P/E Ratio} = \frac{\text{Market Price Per Share}}{\text{Earning Per Share}}$$

### **Dividend Yield Ratio (DYR)**

Market price per share is highly influenced by the dividend yield ratio, because a change in DPS usually brings effective change in the MPS. It is calculated by dividing dividend per share by market price per share.

$$\text{DYR} = \frac{\text{Dividend per share}}{\text{Market Price Per Share}}$$

### **Market Price per Share to Book Value per Share Ratio (MPPS/ BVPS)**

This ratio indicates such types of price, which the market is paying for the value that is reported from the net worth of insurance companies. In other words, we can say that it is the price that the outsiders are paying for each rupee shown to the balance sheet of the insurance companies. This ratio is calculated by dividing the market value per share by the book value per share.

$$\text{MPPS/BVPS} = \frac{\text{Market price per share}}{\text{Book Value per share}}$$

## **3.5.2 Statistical Tools Used**

### **Mean**

An average is the statistical measure of central tendency; it represents the entire series by a single value, which can be substituted for each and every value in the series without causing any change in the total magnitude of the series. So, mean is known as a set of observation that is the sum of all the observations divided by the total number of observations, (Gupta, 5<sup>th</sup> edition).

In such a case of all items are equally important.

$$\text{Mean (x)} = \frac{\text{Sum of observation ( } \Sigma x)}{\text{No. of observation (n)}}$$

### **Standard Deviation**

Standard deviation, usually denoted by the letter  $\sigma$  (Small sigma) of the Greek alphabet was first suggested by (Pearson, 1893). It is the absolute measures of dispersion of a distribution. It is an improvement over the mean deviation and is free for the defects of other measures of dispersion. The standard deviation is defined as the positive square root of the arithmetic mean of the squared deviation from their arithmetic mean of a set of values.

The greater the amount of dispersion, the greater is the standard deviation. A small standard deviation means high degree of uniformity of the observation as well as homogeneity of a series and vice versa. It is calculated as:

$$\text{S.D } (\sigma) = \sqrt{\frac{\sum x^2}{N} - (\frac{\sum x}{N})^2}$$

### **Coefficient of Variation (C.V)**

Standard deviation is only an absolute measure of dispersion. The relative measure of dispersion based on the standard deviation is known as the coefficient of standard deviation. The coefficient of dispersion based on standard deviation multiplied by 100 is known as the coefficient of variation (C.V). It is suitable for comparing the variability, homogeneity or uniformity of two or more distributions.

A distribution having less C.V. is said to be less variability or more uniformity homogeneity, consistency etc. And a distribution having more C.V. is said to be more variability or more heterogeneous or less uniformity, consistency etc. Coefficient of variation (C.V.) is calculated by dividing standard deviation by the mean and multiplied by hundred.

$$\text{C.V.} = \frac{\text{Standard Deviations}}{\text{Mean}} \times 100$$

### **Coefficient of Correlation (r)**

The correlation is a statistical tool, which studies the degree of relationship between two variables and correlation analysis involves various methods and techniques used for studying and measuring the extent of the relationship between two variables. Two variables are said to be correlated if the change in one variable results in a corresponding change in the other variable. It measures the direction of relationships between two sets of figures. The correlation coefficient can be either in positive or negative and can have the value between -1 to + 1. If both the variables are changing in the same direction, then positive correlation exists,

whereas if the variation in two variables takes place in opposite direction, the correlation is said to be negative. In this study the correlation is calculated to examine the positive or negative degree relationship between earning per share and dividend, net worth and dividend, total earning and dividend, market price of stock and dividend and earning per share and market price per share. It is calculated by following formula:

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

### **Coefficient of Determination (R<sup>2</sup>)**

Coefficient of Determination is much useful and better measure for interpreting the value of r. It measures the percentage of total variation on dependent variable explained by independent variables. In other words, the coefficient of determination gives the ratio of the explained variance to the total variance. Its' value can range from 0 to 1. The coefficient of determination is given by the square of the correlation coefficient. Thus,

$$\text{Coefficient of determination (r}^2\text{)} = \frac{\text{Explained Variance}}{\text{Total Variance}}$$

### **Regression Analysis**

Literal meaning of regression is stepping or returning back to the original position. Sir F. Galton first developed the theory of regression analysis. Regression analysis is used as a tool of determining the strength of relationship between two variables. Thus, it is a statistical device, with the help of which we can estimate or predict the value of one variable when the value of other variable is known. The unknown variable whose value is known is to be determined is known as dependent variable whereas the variable whose value is known is said to be independent variable. Here, unknown variable will be MPS and DPS and known Variables will be other financial indicators. The analysis used to describe the average relationship between two variables is known as simple linear regression analysis, (Bajrachary, 2056). Simple regression analysis has been used

in this study to determine the effects of aforementioned independent variable on dependent variable, i.e. dividend, market price of stock and net worth.

Regression lines expressed in terms of algebraic relations are known as regression equations. There are two lines of regression so there are two equations of regression.

- The regression equations of y on x which is used to describe the variation in the value of y for a given change in the value of x.

The regression equation of y on x be

$$y = a + bx$$

Where,

- y = Dependent variable (DPS)
- a = regression constant
- x = independent variable (EPS)
- b = slope of regression liner or regression coefficient of y on x

This model has been applied for analyzing the six years data form 1997/98 to 2002/03. Similarly the following regression model has been used to find out whether the variable of earning per share, market price per share and net worth of the insurance companies is related to dividend per share of the companies.

The regression equation of y on x be

$$y = a + bx$$

Where,

- y = market price per share
- a = regression constant
- x = Regression coefficient
- b = Dividend per share

The regression equation of y on x be

$$y = a + bx$$

Where,

- y = Dependent variable (DPS)
- a = regression constant
- x = regression coefficient
- b = Earning per share

The regression equation of y on x be

Where,

- y = Net worth of Insurance companies
- a = Regression constant
- x = Regression coefficient
- b = Dividend per share

- The regression equation of x on y, which is used to describe the variation in the value of x for a given change in the value of y. such line is drawing to find out the value of socks by using two normal equations which are as follows:

$$\Sigma y = Na + b \Sigma x \quad \dots (i)$$

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

Where,

a and b are unknown

N = Number of observation in the sample.

### **Probable Error**

Probable error is correlation coefficient usually denoted by P.E(r) and is an old measure of test. The reliability of an observed value of correlation coefficient so far as depends upon the conditions of random sampling.

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

### **Test of Hypothesis**

A hypothesis is a logically expressed in the forms of testable statements. The test of hypothesis discloses the fact whether the difference between the computed statistics and hypothetical parameters is significant. Hypothesis is thus a statement about the relationship between two or more variables, which needs to be investigated for its truth.

#### **(a) Analysis of Variance (ANOVA)**

T = test is suitable, when we have to test the significance difference between two sample means. But F-distribution is suitable technique, called analysis of variance when we need to test the significance of the difference between more than two sample means. Thus F-test is used to examine the significance of differences between more than two sample means at once and simultaneously. From this technique, we will be able to make inferences about whether the samples drawn from populations have the same mean. Due to the more than two samples, f-test is done to find the uniformity of DPS, EPS and MPS. The F-test calculated form following way.

$$f = \frac{MSB}{MSW}$$

Where,

f	=	F ratio
MSB	=	Variance between samples
MSW	=	Variance within samples

## **CHAPTER IV**

### **PRESENTATION AND ANALYSIS OF DATA**

This chapter is the heart of this study that is fully related to analysis and interprets various outcomes. Thus in this context, this section analyzes the relevant secondary data and information, regarding dividend policy of the selected insurance companies which are presented along with the comparisons. This analysis includes financial and statistical indicators, in order to achieve the objectives, which are set in introduction chapter. To begin with the descriptive analysis of Earning per share, Dividend per share, Market price per share, Dividend payout ratio, Dividend yield ratio and Market price per share to Book value per share of the respectively sample insurance companies is done in the first part. Similarly, analysis of dividend payment practices of insurance companies along with the financial variables are presented company wise in the second part and the explanatory and hypothetical analysis with comparison of financial indicators of the concerned companies is done with the help of statistical tools in the third part as is mentioned in chapter III. This analysis of data consists of organizing, tabulating and performing the dividend practices of sample insurance companies, which are listed in NEPSE.

#### **4.1 ANALYSIS OF FINANCIAL INDICATORS**

##### **4.1.1 Earning Per Share (EPS)**

The performance of the business organizations depend upon their earning capacity. Higher EPS of the company shows higher strength and better position is seen in the stock market. EPS is the ratio of net profit after taxes to number of common stocks outstanding. It reveals the earning power of each share over the period by the insurance companies.

Table -I

**Earning Per Share of Respective insurance Companies**

Companies /Yrs.	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	Average	S.D	C.V
PIC	18.43	16.51	13.37	16.34	18.50	22.45	17.61	3.05	0.17
HGI	39.90	10.61	24.23	31.71	11.26	(54.26)	10.41	33.67	3.23
SIC	14.72	15.09	41.80	49.86	70.33	106.39	49.69	34.99	0.70
SICL	9.99	10.15	20.40	26.35	44.99	46.01	26.31	16.12	0.61
SIL	1.67	4.91	6.55	15.29	28.46	40.10	16.16	15.19	0.93

Source: - Annual Report

The above table represents the amount of earning per share of concerned insurance companies for six consecutive years (2006/07 to 2011/12).

The table shows that average earning per share of Premier Insurance Company is Rs.17.61, which is the third highest company. The EPS ranges between Rs.13.37 to Rs.22.45. The company's EPS of 2006/07, 2010/11 and 2011/12 are above the yearly average. The standard deviation of the EPS under the period of study is 3.05 and its C.V is 17%. It indicates that there is a moderate fluctuation of 17% in the EPS of PIC during the period of study.

During the study period the average EPS of Himalayan General Insurance is Rs.10.41. The highest EPS of the company during the study period is 39.90. During five year period the EPS of HGI is being up and down. The EPS of 2011/12 is negative that means in this year the Net Worth is negative. The standard deviation is 33.67 and C.V is 3.23%. It means that there is a fluctuation of only 3.23% in EPS of HGI.

Sagarmatha Insurance Company Ltd. has the EPS ranging from Rs.14.72 to Rs.106.39. In the latest Fiscal year 2011/12 the EPS is 106.39 is as a whole highest EPS of selected insurance companies during the study period. The average EPS is Rs.49.69 with a standard deviation of 34.99. The co-efficient of variation

which is 70% indicates that there is a fluctuation of 70% in the EPS of SIC during the study period. From the table it can be seen that the EPS of SIC is increasing from the fiscal year 2006/07 to 2011/12, which is a good symptom.

During the study period the average EPS of Sikhar Insurance Company Ltd. is 26.31. It has not maintained average EPS through the first 3 year in the whole study period. During the study period, the average EPS can be seen in increasing order and it has been above the yearly average in the years 2009/10, 2010/11 and 2011/12. The standard deviation of EPS is 16.12 whereas the coefficient of variation is 61%. It indicates that there is a fluctuation of 61% in the EPS of SICL during the period of study.

SIL has the EPS ranging from Rs. 1.67 to Rs. 40.10. The average EPS is 16.16. The company has not maintained the average EPS in the first three F/Y during the study period even the EPS is increasing from year by year till now. The S.D of the company is 15.19 and C.V is 93% which indicate that there is a fluctuation of 93% in EPS of SIL.

#### 4.1.2 Dividend per Share (DPS)

DPS is defined as the ratio of net profit after interest and preference dividend paid to ordinary shareholders to number of common stocks outstanding. In other words it is the part of earning distributed to shareholder on per share basis. In this part, only cash dividends between the years 2006/07 to 2011/12 has been analyzed.

*Table -II*

#### **Dividend per Share of Respective insurance Companies**

Companies /Yrs.	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	Average	S.D	C.V
PIC	5.79	0.00	10.53	8.00	0.00	0.79	4.18	4.55	1.08
HGI	0.00	5.26	10.00	12.50	0.00	0.00	4.62	5.56	1.20
SIC	0.00	10.68	10.53	11.32	0.00	0.00	5.42	5.94	1.09
SICL	7.50	0.00	13.50	12.63	0.00	42.10	12.62	15.58	1.23

SIL	0.00	0.00	5.26	7.368	0.00	0.00	2.10	3.32	1.58
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*Source: - Annual report*

The above table shows that the average dividend per share paid by PICL is Rs.4.18 and it ranges between Rs.0.00 to Rs.10.53 during the period of study. The company has not paid cash dividend in the year 2007/08 and 2010/11 although it had sufficient profit as per its annual report.

During the study period, HGI has not paid any cash dividend in the F/Y 2006/07, 2010/11 and 2011/12. It has average DPS of Rs.4.62, which is almost similar to the industry average. The highest DPS in the study period is Rs. 12.50 in the F/Y 2009/10.

Sagarmatha Insurance Company limited has average EPS of Rs. 5.42 and it ranges between Rs.0 to Rs.11.32. It has maintained the average DPS in the F/Y 2007/08 2008/09 and 2009/19 but it has not paid the dividend in the F/Y 2006/07, 2010/11 and 2011/12.

The SICL paid the average dividend of Rs. 12.62 which is the highest average DPS among the selected insurance company in the whole study period. The highest DPS is Rs. 42.10 in the F/Y 2011/12 which is the highest DPS among the selected company during the whole study period but it has not paid the dividend in the F/Y 2007/08 and 2010/11. It has the standard deviation of 15.8 and the coefficient of deviation of 21.91%.

The SIL has not paid the dividend in the four F/Y 2006/07, 2007/08, 2010/11 and 2011/12. The highest DPS during the study period is Rs.7.368 in the F/Y 2000/10. The average DPS is Rs. 2.10 which is the lowest average among the selected insurance companies during the study period. S.D of the SIL is 3.32 and C.V is 1.5.

Besides considering the average DPS of insurance companies, it is to state the range of fluctuation in the dividend payment with the help of coefficient of variation (CV). Greater the C.V. Greater will be the variation. Over the six-year

study period, all have not distributed regular cash dividend and the paying dividend have been fluctuating. Due to the lack of sustainable strategic dividend policy, the dividend payments of the most companies are fluctuating. This has been due to the fact that the dividends of other insurance companies are fluctuating resulting out of the fluctuations in the earnings.

**From the above analysis, it is seen that the average dividend per share of SICL is highest of all sampled insurance companies. SIC stands in the second position and HGI stand in the third position. PIC and SIL stand in the fourth and fifth position.**

### 4.1.3 Dividend Payout Ratio (DPR)

The ratio of dividend per share and earning per share is known as dividend payout ratio. It reveals the percentage of profit distributed as dividend and percentage of retained as reserve for the expansion of the company. The following Table III shows the dividend payout ratio of selected five insurance companies of Nepal.

*Table-III*

#### **Dividend Payout Ratio of the Respective Insurance Companies**

Companies /Yrs.	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	Average	S.D	C.V
PIC	31.42	0.00	78.75	63.29	0.00	3.52	29.49	34.60	1.17
HGI	0.00	49.58	41.28	39.42	0.00	0.00	21.71	24.03	1.10
SIC	0.00	70.78	25.20	22.71	0.00	0.00	19.78	27.61	1.39
SICL	75.07	0.00	66.18	47.94	0.00	91.50	31.53	35.63	1.13
SIL	0.00	0.00	80.30	48.19	0.00	0.00	21.41	34.69	1.62

*Sources : Annual Report*

PIC has an average payout ratio of 29.49%. The company has not paid any dividend in the year 2007/08 and 2010/11; therefore the payout ratio in the year is zero. It means that the company has retained the profit for the future proposes. During the study period, the company has maintained the average payout ratio except in the year 2011/12. The highest DPR is 78.75% in the F/Y 2008/09.

Dividend payout ratio of HGI is in the range between 0 to 49.58% and average DPR is 21.71%. During the study period in the F/Y year 2006/07, 2010/11 and 2011/12, the company has not paid any dividend so its DPR in this year is zero. In the paying year, company has maintained the average payout ratio. S.D of DPR of the HGI is 24.03 and C.V is 110% which means there is 110% fluctuation in DPR.

SIC has an average payout ratio of 19.78% which has been maintained by the company in three F/Y 2007/08, 2009/09 and 2010/11. In the F/Y 2006/07, 2010/11 and 2011/12 the company has not paid the dividend. The highest DPR is

70.78% in the F/Y 2007/08. The S.D is 27.61 and C.V is 139%. That means there is 139% fluctuation in DPR.

There is a fluctuation in DPR in the SICL. It has not paid the dividend in the F/Y 2007/08 and 2010/11 but in the other four F/Y it has maintained the average DPR which is 31.53%. The highest DPR during the study period is 91.50% which is the highest DPR among the selected insurance companies during the whole study period. There is a 113% fluctuation in DPR that indicates the 1.13 C.V.

The average dividend payout ratio of SIL is 21.41%. It has paid the dividend only in two F/Y 2008/09 and 2009/10 during the study period. In the remaining four F/Y the DPR is zero. So, there is 162% fluctuation in DPR that can be known from the 1.62 C.V.

By the DPR analysis of above all insurance companies, the SICL has the highest level of dividend payout ratio and the company having lowest DPR is SIL.

#### 4.1.4 Dividend Yield Ratio (DYR)

Dividend yield ratio relates annual dividend to market price per share. Therefore, it highly influences the market value per share. Company should always consider the impact of market scenario before the allocation of dividend to shareholders. The following Table-IV shows the percentage of dividend yield of five insurance companies for the study period from 2006/07 to 2011/12.

*Table- IV*

#### **Dividend Yield Ratio of Respective insurance Companies**

Companies /Yrs.	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	Average	S.D	C.V
PIC	2.22	0.00	5.55	6.55	0.00	0.58	2.48	2.89	1.16
HGI	0.00	1.49	3.51	5.34	0.00	0.00	1.72	2.24	1.30
SIC	0.00	3.50	4.17	3.63	0.00	0.00	1.88	2.07	1.10
SICL	2.59	0.00	4.07	3.86	0.00	14.47	4.16	5.35	1.28
SIL	0.00	0.00	2.73	5.54	0.00	0.00	1.37	2.31	1.68

*Source: Annual Report*

The above table shows that, average DYR of PIC is 2.48%. Dividend yield in the year 2007/08 and 2010/11 is zero because the company has not paid any dividend

in this year. During the study period, maximum dividend yield is 6.55%. The company has not maintained average DYR in the year 2007/07 and 2011/12 but the average DYR is above the industry average.

The average dividend yield ratio of HGI is 1.72%. In the year 2008/09 and 2009/10 its DYR is more than its own average DYR. And in the year 2006/07, 2010/11 and in the year 2011/12, the company has not paid any cash dividend. Thus, DYR has remained zero in these years. During the study period, the highest DYR is 5.34 in the year 2009/10.

The dividend yield of SIC ranges between 0.00 to 4.17% in the years of study period. The average ratio is 1.88% which has been maintained by the company in three F/Y years during the study period but in the remaining three F/Y the company has not paid the cash dividend.

The average DYR of SICL is 4.16%, which stands in the first position among all the sample insurance companies. The highest DYR is 14.47 in the F/Y 2011/12 which is the highest DYR among the selected company during the study period. It is above the industry average. The S.D is 5.35 and the C.V is 1.28 that indicates there is 128% fluctuation in DYR.

SIL has average DYR of 1.37% over the study period, which has been maintained by the company only in the two F/Y 2008/09 and 2009/10, in which years it has paid the cash dividend. In the remaining four F/Y the DYR is zero. So it has the greater C.V among all company, which indicates there is 168% fluctuation in DYR.

The above analysis shows that the DYR of SICL is highest among all. PIC, SIC, HGI and SIL come in second, third, fourth and fifth position respectively. Finally, dividend yield of above insurance companies do not show any encouraging figure. The data shows that investors have not realized the reasonable return on their market value per share.

#### 4.1.5 Price Earning Ratio (P/E Ratio)

Price earning ratio indicates the price currently paid by the market for one rupee of currently reported earning per share. It shows the market appraisal of the companies. Sound price earning ratio protects the interest of shareholders. It is calculated by dividing the market price per share by earning per share.

Table- V

##### Price Earning Ratio of Respective insurance Companies

Companies /Yrs.	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	Average	S.D	C.V
PIC	14.10	18.17	14.21	9.57	8.49	6.15	11.78	4.46	0.37
HGI	5.39	32.51	11.76	7.38	17.76	(3.63)	11.86	12.35	1.04
SIC	15.42	20.28	6.03	6.24	4.32	3.26	9.25	6.91	0.74
SICL	29.03	45.49	16.22	12.41	6.76	6.32	19.37	15.25	0.78
SIL	0.00	51.50	29.46	8.70	3.69	2.64	15.99	20.39	1.27

Source: Annual Report

The above table shows that the P/E ratio of five sampled insurance companies under the study period. All companies can be seen in the position of fluctuating trend of price earning ratio.

During the study period, PICL has average P/E ratio of 11.78 times, which is maintained by the company in first three F/Y during the study period. In the F/Y 2009/10, 2010/11 and 2011/12 the P/E ratio is below its own average. The highest P/E ration is 18.17 times in the F/Y 2007/08. The S.D of P/E ratio is 4.46 and the C.V is 0.37 which indicates that there is 37% fluctuation in P/E ratio during the study period.

The average P/E ratio of HGI is 11.86 times, which the company maintains only in the F/Y 2010/11. HGI has highest P/E ratio in the year 2010/11 i.e. 17.76 times during the study period. The average P/E ratio is below the industry average.

SIC's P/E ratio ranges from 3.26 to 20.28 times. The average P/E ratio is 99.25 times, which is not maintained by the company only in the first two F/Y 2006/07 and 2007/8. The average P/E ratio is above the industry average.

Average P/E ratio of SICL is 19.37 times which is above the industry average and is the highest average among the whole selected insurance companies during the study period. The company has maintained average ratio only in the year 2006/07 and 2007/08. The highest P/E ratio is 45.49 times, which the highest P/E ratio among all companies.

The average P/E ratio of SIL is 15.99 times, which is second highest average among selected insurance companies. It has maintained the average P/E ratio only in the year 2007/08 and 2008/09. In the year 2006/07 the P/E ratio is zero in which year EPS has also zero.

#### **4.1.6 Market Price per Share to Book Value per Share Ratio (MPS /BVPS)**

MPS to BVPS ratio is one of the major financial tools to evaluate the worth of the share in the market. The following Table-VI shows the MPS to BVPS ratio of selected sampled insurance companies.

*Table –VI*

#### **MPS to BVPS ratio of Respective insurance Companies**

Companies /Yrs.	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	Average	S.D	C.V
PIC	0.83	1.80	1.32	1.05	0.93	0.74	1.11	0.39	0.35
HGI	0.70	2.15	1.90	1.38	1.10	1.65	1.48	0.53	0.35
SIC	1.62	1.93	1.33	1.48	1.20	1.50	1.51	0.25	0.16
SICL	2.75	4.00	2.70	2.39	1.68	1.30	2.47	0.94	0.38
SIL	0.00	2.44	1.82	1.15	0.73	0.58	1.12	0.88	0.78

*Source: Annual Report*

The above MPS to BVPS ratio of PIC is the lowest among all i.e. 1.11 times, which indicates one rupee book value of this company is equal to Rs.1.11 of MPS. The ratio of PIC is highest in the years 2007/08, but it shows fluctuating ratios during the period of study.

The average MPS/ BVPS ratio of HGI stands in the third position with figures

indicating 1.48 times. S.D is 0.53 and C.V. is 0.35 which indicates there is a fluctuation of 35% in MPS to BVPS ratio.

The SIC stands in the second position with figure 1.51 times. During the study period the MPS to BVPS ratio is being up and down. S.D is 0.25 and C.V is 0.16 and it indicates there is a fluctuation of 16% in MPS to BVPS.

SICL is in the first position having highest average i.e. 2.47 times. S.D is 0.94 and C.V is 0.38 which indicates there is a fluctuation of 38% in MPS to BVPS ratio.

For considering the fluctuation in MPS/BVPS ratio, the analysis is made with the help of CV. SIL has the highest fluctuation in ratio due to the highest CV among all the sample insurance companies. The C.V is 0.78.

## 4.2 ANALYSIS OF COMPANY WISE FINANCIAL VARIABLES

In this section, company wise analysis has been presented.

### 4.2.1 Financial variable of Premier Insurance Company (Nepal) Limited

*Table VII*

#### Financial variable of PIC

Variables	No. of cases	Min	Max	Mean	S.D	C.V
EPS	6	13.37	22.45	17.61	3.05	0.17
DPS	6	0.00	10.53	4.18	4.55	1.08
DPR	6	0.00	78.75	29.49	34.60	1.17
DYR	6	0.00	6.55	2.48	2.89	1.16
P/E Ratio	6	6.15	18.17	11.78	4.46	0.37
MPS/BVPS	6	0.74	1.80	1.11	0.39	0.35

By company wise analysis, the EPS of PICL has ranged from Rs.13.37 to Rs.22.45 and its mean EPS is Rs.17.61. Its standard deviation is Rs.3.05 and coefficient of variation is 17 percent, which indicates a moderate fluctuation in the EPS of the company. The company's average DPS is Rs.4.18, its standard

deviation is Rs.4.55 and C.V is 108 percent. It means that there is 108 percent fluctuation in DPS. Its average DPR is 29.49, which shows that the company has distributed 29.49 percent of its profit as dividend and remaining portion of profit is retained by the company. The standard deviation is 34.60 percent and the coefficient of variation is 117 percent indicating the fluctuation in DPR. Average dividend yield of the company is 2.48 percent, which can be considered low and the greater fluctuation of 116 percent. S.D of P/E ratio and MPS/ NVPS is 4.46 times and 0.39 times respectively and their C.V are 37 percent and 35 percent respectively.

#### 4.2.2 Financial Variable of Himalayan General Insurance Company Limited

*Table VIII*

##### **Financial Variable of HGI**

Variables	No. of cases	Min	Max	Mean	S.D	C.V
EPS	6	-54.26	39.90	10.41	33.67	3.23
DPS	6	0.00	12.50	4.62	5.56	1.20
DPR	6	0.00	49.58	21.71	24.03	1.10
DYR	6	0.00	5.34	1.48	2.24	1.03
P/E Ratio	6	-3.63	32.51	11.86	12.35	1.04
MPS/BVPS	6	0.70	2.15	1.48	0.53	0.35

The above table shows that the average EPS and DPS of HGICL is Rs.10.41 and Rs.4.62 respectively. EPS and DPS ranges from Rs.(54.26) to Rs.39.90 and rs.0.00 to Rs.12.50 respectively. The company has not been able to maintain regular and constant dividend. Therefore there is relatively high variation, which shows its C.V as 120 percent. The average DPR is 21.71 percent and its S.D and C.V are 24.03 and 110 percent respectively. The coefficient of variation is high because the DPR ranges from 0.00 percent to 49.58 percent. The average DYR of the company is 2.24 percent, which can be considered as low and it has greater fluctuation of 103 percent. The average of P/E ratio and MPS to BVPS ratio is 11.86 times and 1.48 times respectively. Similarly, their S.D is 12.35 and 0.53 and C.V is 104 and 35 percent respectively.

### 4.2.3 Financial Variable of Sagarmatha Insurance Company Limited

Table – IX

#### Financial variable of SIC

Variables	No. of cases	Min	Max	Mean	S.D	C.V
EPS	6	14.72	106.39	49.69	34.99	0.70
DPS	6	0.00	11.32	5.42	5.94	1.09
DPR	6	0.00	70.78	19.78	27.61	1.39
DYR	6	0.00	4.17	1.88	2.07	1.10
P/E Ratio	6	3.26	20.28	9.25	6.91	0.74
MPS/BVPS	6	1.20	1.93	1.51	0.25	0.16

The indicators of EPS and DPS of SIC ranged from Rs.14.72 to Rs.106.39 and Rs.0 to Rs.11.32 respectively. The mean of EPS and DPS are Rs.49.69 and Rs.5.42, S.D is 34.99 and 5.94 and C.V is 70 percent and 109 percent respectively. The average DPR of this company is 19.78 percent of its profits to the shareholders on an average over the study period and rest portion of profit is remained in the company to meet their capital requirements. Its S.D and C.V are 227.61 and 139 percent respectively. The average DYR is 1.88, its S.D is 2.07 and C.V is 110 percent. The average P/E ratio and MPS to BVPS are 9.25 and 1.51 respectively and their S.D is 6.91 and 0.25. Similarly, C.V is 74 percent and 16 percent respectively with their ratios.

### 4.2.5 Financial Variable of Shikhar insurance company

Table X

#### Financial variable of SICL

Variables	No. of cases	Min	Max	Mean	S.D	C.V
EPS	6	9.99	46.01	26.31	16.12	0.61
DPS	6	0.00	42.10	12.62	15.58	1.23
DPR	6	0.00	91.50	31.53	35.63	1.13
DYR	6	0.00	14.47	4.16	5.35	1.28
P/E Ratio	6	6.32	45.49	19.37	15.25	0.78
MPS/BVPS	6	1.30	4	2.47	0.94	0.38

EPS of SICL has ranged between Rs. 9.99 to Rs.46.01. Its mean is Rs.26.31 and standard deviation is Rs.16.12. It has 61 percent C.V, which shows that there is 61 percent fluctuation in EPS. The average DPS of the company is Rs.12.62 and its S.D and C.V are 15.58 and 123 percent respectively. The C.V is 123 percent which indicates that there more fluctuation in DPS. Average DPR, DYR, P/E ratio and MPS/BVPS are 31.53, 4.16, 19.37 and 2.47 times respectively. Its DPR shows that the company has distributed 31.53 percent of its profit to the shareholders on an average over the period of study and the remaining is retained. S.D of DPR, DYR, P/E ratio and MPS/ BVPS is 35.63, 5.35, 15.25 and respectively and their C.V are 113, 128, 78 and 38 percent respectively.

#### **4.2.6 Financial Variable of Siddhartha Insurance Company Limited.**

*Table-XI*

**Financial variables of SIL**

Variables	No. of cases	Min	Max	Mean	S.D	C.V
EPS	6	1.67	40.10	16.16	15.19	0.93
DPS	6	0.00	7.368	2.10	3.32	1.58
DPR	6	0.00	80.30	21.41	34.69	1.62
DYR	6	0.00	5.54	1.37	2.31	1.62
P/E Ratio	6	0.00	51.50	19.37	15.25	0.78
MPS/BVPS	6	0.00	2.44	1.12	0.88	0.78

The EPS and DPS of SIL ranged from Rs.1.67 to Rs.40.10 and Rs.0 to Rs 7.368 respectively. The mean of EPS and DPS are Rs.16.16 and Rs.2.10, S.D is 15.19 and 3.31 and C.V is 93 percent and 158 percent respectively. The average DPR of the company is 21.41 percent, which shows that the company has distributed 21.41 percent of its profit to the shareholders. Likewise the average dividend yield of the company is 1.31 percent, which does not seem an encouraging figure. The C.V indicates that there is 34.47 percent fluctuation on dividend yield. The average P/E ratio and MPPS/BVPS are 19.37 times and 1.12 times respectively.

Similarly, their S.D is 15.25 and 0.88 and C.V is 78 percent of both.

### **4.3 Correlation Analysis**

Correlation analysis is defined as the statistical technique, which measure the degree and direction of relationship between two or more variables. It does not tell anything about cause and effect relationship of variables but it helps to determine whether a high, moderate or a low degree of positive or negative relation exists. Here correlation analysis is used to determine the relationship between two factors i.e. dividend and other variables.

### 4.3.1 Relationship between Dividend per Share and Earning per Share

Table XII

Correlation analysis of DPS and EPS

Companies	CORR (r)	Relationship	r <sup>2</sup>	PE	Significant test
PIC	-0.667	Negative	0.44	0.15	Not Significant
HGI	0.426	Positive	0.18	0.226	Not Significant
SIC	-0.145	Negative	0.021	0.27	Not significant
SICL	0.499	Positive	0.24	0.15	Not Significant
SIL	-0.225	Negative	0.05	0.209	Not Significant

The above table shows that the relationship between EPS and DPS of five selected insurance companies for the study. It is observed that the coefficient of correlation (r) of PIC is negative and lowest among all, and it indicates the high degree of negative correlation. Coefficient of correlation of DPS and EPS among HGI and SICL is moderate with positive degree of correlation and SIC and SIL have low degree of negative correlation. It indicates that there is inverse relationship between EPS and DPS for these companies. These companies have paid fixed dividend per share during the period of study.

Besides considering the correlation, the significant test of the relationship between EPS and DPS is measured by calculating the probable error of correlation coefficient. The coefficient of correlation (r) appears to be greater than 6 P.E in case of significant result between EPS and DPS. But the relationship between EPS and DPS is not significant in case of all above companies because the correlation is less than 6 P.E.

Thus we can conclude that DPS of all companies do not seem to be dependent on EPS. It means if EPS increases the dividend will decrease and vice versa.

### 4.3.2 Relationship between Dividend per Share and Market Price per Share

*Table XIII*

**Correlation analysis of DPS and MPS**

Companies	CORR (r)	Relationship	r <sup>2</sup>	PE	Significant test
PIC	-0.098	Negative	0.009	0.273	Not Significant
HGI	0.469	Positive	0.21	0.218	Not Significant
SIC	-0.035	Negative	0.12	0.242	Not significant
SICL	-0.452	Negative	0.20	0.22	Not Significant
SIL	0.232	Positive	0.053	0.26	Not Significant

The above table represents the relationship between DPS and MPS of sample insurance companies. From the outcome of above analysis, it is revealed that HGI has high degree of positive correlation between DPS and MPS; SIL have moderate degree of positive correlation between DPS and MPS and PIC, SIC and SICL have negative correlation. It indicates that there is inverse relationship between EPS and MPS for these companies.

UICL have low degree of positive correlation between DPS and MPS. It implies that market price per share affects the dividend per share. PICL being the highest, it has the highest degree of positive correlation between DPS and MPS and EICL has the lowest degree of positive relationship between DPS and MPS.

The coefficient of correlation (r) emerges to be greater than P.E. and less than 6 P.E. so it is difficult to conclude that the relationship between DPS and MPS is significant or not in all the cases of the above listed companies. The correlation coefficient is less than 6 P.E in case of all company therefore the relationship between DPS and MPS is not significant. This means that the increase or decrease in price of stock does not depend upon the amount of payment of dividend

### 4.3.3 Relationship between Earning per Share and Market Price per Share

*Table XIV*

#### Correlation analysis of EPS and MPS

Companies	CORR (r)	Relationship	r <sup>2</sup>	PE	Significant test
PIC	-0.314	Negative	0.098	0.249	Not Significant
HGI	0.256	Positive	0.065	0.31	Not Significant
SIC	0.721	Positive	0.51	0.257	Not Significant
SICL	-0.524	Negative	0.27	0.20	Not Significant
SIL	-0.151	Negative	0.022	0.269	Not Significant

Above table illustrate the relationship between EPS and MPS. From the correlation analysis of EPS and MPS, it is noticed that the relationship between earning per share and market price per share is positive in HGI and SIC. The correlation coefficient of SIC, has higher degree of positive relation between EPS and MPS and HGI has lower degree of positive correlation.

The coefficient of correlation (r) reveals not to be greater than 6 PE in case of all company. Thus the relationship between EPS and MPS is not significant. It indicates that the increase or decrease in the price of stock doesn't depend upon the EPS because the correlation coefficient is less than 6 PE.

### 4.3.4 Relationship between Dividend per Share and Net Worth

*Table XV*

#### Correlation analysis of DPS and NW

Companies	CORR (r)	Relationship	r <sup>2</sup>	PE	Significant test
PIC	-0.156	Negative	0.02	0.27	Not Significant
HGI	0.381	Positive	0.14	0.237	Not Significant
SIC	-0.478	Negative	0.22	0.21	Not Significant
SICL	0.679	Positive	0.46	0.149	Not Significant
SIL	-0.195	Negative	0.03	0.267	Not Significant

The above table represents the relationship between DPS and NW of concerned five insurance companies. From the correlation analysis of DPS and NW it can be observed that SICL has highest positive correlation and HGI has lowest positive correlation between DPS and NW but PIC, SIC and SIL has the negative relationship between DPS and NW. Positive correlation means that DPS leads to change in NW, negative correlation means DPS does not lead to change in NW. But no correlation means that DPS does not affect to the NW.

Now, comparing probable error (PE) with correlation (r), the correlation coefficient of is not greater than 6 PE in any of the above sampled companies, so the relationship between DPS and NW is not significant. Hence this relationship for all the companies is not significant because coefficient of correlation is less than 6 PE. It means that the net worth of the companies does not affect to the declaration of dividend amount

#### 4.3.5 Relationship between Dividend per Share and Net Profit

*Table XVI*

##### **Correlation analysis of DPS and NP**

Companies	CORR (r)	Relationship	r <sup>2</sup>	PE	Significant test
PIC	-0.283	Negative	0.08	0.25	Not Significant
HGI	0.612	Positive	0.37	0.17	Not Significant
SIC	-0.469	Negative	0.21	0.22	Not Significant
SICL	0.497	Positive	0.24	0.21	Not Significant
SIL	-0.221	Negative	0.04	0.26	Not significant

Above table shows the correlation analysis of DPS and NP. From the analysis of correlation coefficient, it is seen that the relationship between dividend per share and net profit is positive in two company HGI and SICL but in the company PIC, SIC and SIL has the negative correlation between DPS and NP. Positive correlation means increased dividend with the increment in net profit and negative

correlation means DPS is not affected by increase in net profit in the situation of all above companies.

As like in the case of correlation between DPS and NW here also it can be seen that the correlation coefficient of above all companies is not greater than 6 PE, so the relationship between DPS and NP is not significant for all selected companies. That means the net profit of the companies does not affect to the declaration of dividend.

#### **4.4 REGRESSION ANALYSIS**

The regression analysis is a statistical tool, which is commonly used to determine the statistical relationship between two or more variables and to make prediction of one variable on the basis of the other variables. The regression analysis can either be simple regression or multiple regressions. When we take only one independent variable and forecast the value of the dependent variable, such type of analysis is known as simple regression analysis. If the analysis is performed by using two or more independent variables, it is known as multiple regression analysis. The simple regression analysis is performed for individual sample companies. Here the relevant data is used to predict how one variable is related to other variable to know the impact of the dividend practices, which is followed by the insurance companies. This analysis measures the effect of change in independent variable to dependent variable. Here in case of DPS on EPS, DPS is dependent variable and EPS is independent variable but in case of MPS on DPS, NW on DPS, MPS and NW are dependent variables respectively and DPS is independent variable. In case of MPS on EPS, MPS is dependent and EPS is independent variable in this study, the multiple regression analysis is presented to search for suitable result as MPS depends upon more than two variables, especially EPS, DPS and NW of five sample insurance companies. There must be either positive or negative relationship between dependent or independent variable.

#### 4.4.1 Simple Regression analysis of DPS on EPS

Table XVII

##### Simple Regression analysis of DPS on EPS

Regression equation:  $Y = a + bx$

Insurance Companies	Constant (a)	Regression Coefficient (b)	Standard Error	R <sup>2</sup>	SEE	t' Value
PIC	21.69	-0.99	0.55	0.44	3.80	-1.78
HGI	3.90	0.70	0.75	0.17	5.65	0.92
SIC	9.08	-0.074	0.77	0.18	5.98	-0.96
SICL	-0.08	0.48	0.41	0.62	15.09	1.15
SIL	2.90	-0.04	0.10	0.52	3.62	-0.46

Note:  $x$  and  $y$  represent EPS and DPS respectively.

The above table illustrates the output of simple regression analysis between dividend per share and earning per share of selected insurance companies. The simple regression result represented in table clearly shows that the regression coefficient (b) is positive in the company HGI and SICL (0.70 and 0.48) but in the company PIC, SIC and SIL the regression coefficient is negative (-0.99, -0.074 and -0.04). The positive coefficient indicates that one rupee increase in EPS leads to average increase of Rs. 0.70 and 0.48 in dividend per share of HGI and SICL.

From the regression analysis, the positive constant (a) means that if EPS is zero then the companies expected dividend will be equal to constant value and the negative constant (a) indicates that if EPS is zero than the companies will not be able to pay dividend to its shareholders. Thus the constant (a) of selected insurance companies shows that DPS will not fall below -0.99, 0.70, -0.074 and -0.04 respectively expect for SICL as its constant (a) is negative.

The coefficients of determination (R<sup>2</sup>) of all insurance companies are 0.44, 0.17, 0.18, 0.62 and 0.52 respectively. This means that 44%, 17%, 18%, 62% and 52% variation in DPS is explained by variation in EPS in case of PIC, HGI, SIC, SICL

and SIL respectively. The result of t-test is not statistically significant at 5% level of significance for any of the sampled companies. It means that the EPS is not only the major factor in determining the DPS of insurance companies of Nepal.

#### 4.4.2 Simple Regression analysis of MPS on DPS

*Table XVIII*

##### Simple Regression Analysis of MPS on DPS

*Regression equation:  $Y = a + bx$*

Insurance Companies	Constant (a)	Regression Coefficient (b)	Standard Error	R <sup>2</sup>	SEE	t' Value
PIC	206.79	-1.38	7.05	0.10	71.95	-2.96
HGI	223.30	4.893	4.66	0.22	57.49	1.06
SICL	293.07	-0.25	3.68	0.00	49.03	-0.70
SICL	355.79	-1.08	1.78	0.20	62.08	-1.01
SIL	119.03	6.03	12.78	0.05	93.80	0.47

*Note: x and y represent DPS and MPS respectively.*

The above table shows the result of simple regression analysis between MPS and DPS. The regression coefficient (b) of HGI and SIL has is positive and the company PCI, SICL and SICL has negative regression coefficient. The above table indicates that one rupee increase in dividend leads to average increase of Rs. 4.898 and 6.03 in market price of share of HGI and SIL. The analysis shows that the regression coefficient of HGI is the highest in comparison to other companies.

The positive constant (a) means that if EPS is zero then the companies expected dividend will be equal to constant value and the negative constant (a) indicates that if EPS is zero than the companies will not be able to pay dividend to its shareholders. Since the entire companies show positive constant (a) the companies are in a position to pay dividend to its shareholders.

The coefficient of determination ( $R^2$ ) of the companies are 0.10, 0.22, 0.00, 0.20 and 0.05 respectively which indicate that 10%, 22%, 0%, 20% and 5% variation in MPS is explained by variation in DPS in case of PIC, HGI, SIC, SICL and SIL respectively.

Tabulated value ( $t_{0.05}$ ) at 5 degree of freedom for two tailed is 2.571. Since the calculated t values of all sampled insurance companies are less than tabulated t value. Thus, the result of the study is not statistically significant at 5% levels of significance for any of the companies.

#### 4.4.3 Simple Regression analysis of MPS on EPS

*Table XIX*

##### Simple Regression Analysis of MPS on EPS

*Regression equation:  $Y = a + bx$*

Insurance Companies	Constant (a)	Regression Coefficient (b)	Standard Error	$R^2$	SEE	t' Value
PIC	319.32	-6.71	10.04	0.10	68.56	-0.66
HGI	241.44	0.43	0.83	0.64	62.96	0.52
SIC	246.73	0.90	0.43	0.52	34.01	2.08
SICL	386.20	-2.02	1.64	0.27	59.30	-1.22
SIL	145.53	-0.85	2.80	0.02	95.31	-0.30

*Note: x and y represent EPS and MPS respectively.*

The above table describes output of simple regression analysis between MPS and EPS of sample insurance companies. The regression coefficient (b) of HGI and SIC is positive which represents that one rupee increase in EPS leads to an average increases of MPS or Rs.0.43 and 0.90

Selected all companies have positive constant. The positive constant (a) means that if EPS is zero then the companies expected MPS will be equal to constant value. The positive constant (a) of sampled insurance companies are Rs. 319.32, 241.44, 246.73, 386.20 and 145.53 of PIC, HGI, SIC, SUCK and SIL respectively. Which means is EPS is zero than the companies market price of stock will be 319.32, 241.44, 246.73, 386.20 and 145.53 of PIC, HGI, SIC, SUCK

and SIL respectively.

The  $R^2$  of PIC, HGI, SI, SICL and SIL are 0.10, 0.64, 0.52, 0.27 and 0.02 respectively. The coefficient of determination of HGI is 0.64 which is higher than the rest of the companies. This indicates that 10%, 64%, 52%, 27% and 2% variation in MPS is explained by variation in EPS in case of PIC, HGI, SIC, SICL and SIL respectively.

Tabulated value ( $t_{0.05}$ ) at 5 degree of freedom two tailed is 2.571. Since the calculated t values of all sampled insurance companies are less than tabulated t value. Thus, the result of the study is not statistically significant at 5% levels of significance for any of the companies

#### 4.4.4 Simple Regression analysis of NW on DPS

Table XX

##### Simple Regression Analysis of NW on DPS

Regression equation:  $Y = a + bx$

Insurance Companies	Constant (a)	Regression Coefficient (b)	Standard Error	$R^2$	SEE	t' Value
PICL	150.12	-1.29	4.120	0.024	4.201	-0.31
HGI	125	2.54	3.091	0.145	3.091	0.823
SIC	295.5	-8.92	8.204	0.228	1.090	-1.088
SICL	152.34	2.53	1.372	0.461	4.781	1.850
SIL	125.98	-2.178	5.49	0.038	4.085	-0.397

Note: x and y represent dividend per share and net worth per share.

Above table shows the simple regression analysis of NW on DPS is of. GHI and SICL has positive regression coefficient and HGI have the highest i.e. Rs. 2.54 million. Assuming other variable constant indicates that the net worth is increased by Rs.1.117 if the DPS increases by Rs.1.00 per share. In case of PIC, SIC and SIL, the regression coefficient is negative which implies inverse impact on net worth i.e. one rupee increase in dividend leads to decrease of Rs. 1.29 million, 8.92 million and 2.178 million respectively.

The constant (a) of all selected company have positive figure i.e. PIC, HGI, SIC, SICL and SIC are 150.12, 125, 295.5, 152.34 and 125.98 respectively. Since the entire companies show positive constant (a) the companies are in a position to pay dividend to its shareholders.

The tabulated value 't' is 2.571 at  $t_{(0.005)}$  of 5 degree of freedom. So the calculated 't' is less than the tabulated 't' The result of this study is not statistically significant in all insurance companies at 5% level of significance. It means that the dividend amount is not only a major factor to determine the net worth of insurance companies.

#### **4.4 TEST OF HYPOTHESIS**

A hypothesis is a logically conjectured relationship between two or more variables expressed in the forms of testable statements. The test of hypothesis discloses the fact whether the difference between the computed statistics and hypothetical parameters is significant. Due to the more than two samples F test called "analysis of variance" is done here to find the uniformity of DPS, EPS and MPS.

##### **4.4.1 First hypothesis Test**

Null Hypothesis

$$H_0: \mu_1 = \mu_2 = \mu_3 = \mu_4 = \mu_5 = \mu_6$$

There is no significant difference in DPS of insurance companies.

Alternative Hypothesis:

$$H_1: \mu_1 \neq \mu_2 \neq \mu_3 \neq \mu_4 \neq \mu_5 \neq \mu_6$$

There is significant difference in DPS of insurance companies.

Table XXI

One way ANOVA table

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	385.910	4	96.478	1.414	.258
Within Groups	1706.109	25	68.244		
Total	2092.020	29			

Decision,

At 5% level of significant, calculated 'f' value is less than tabulated 'f' value. Thus, we may conclude that Null hypothesis is acceptable. It means that there is No significant difference in dividend per share (DPS) of insurance companies of Nepal. In other words there is uniformity in paying dividend by the insurance companies of Nepal.

#### 4.4.2 Second Hypothesis Test

Null Hypothesis

$$H_0: \mu_1 = \mu_2 = \mu_3 = \mu_4 = \mu_5 = \mu_6$$

That is population mean EPS of insurance companies are homogeneous.

Alternative Hypothesis:

$$H_1: \mu_1 \neq \mu_2 \neq \mu_3 \neq \mu_4 \neq \mu_5 \neq \mu_6$$

That is population mean EPS of insurance companies are not homogeneous.

*Table XXII*  
**One way ANOVA table**

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	5715.751	4	1428.938	2.499	.068
Within Groups	14294.236	25	571.769		
Total	20009.987	29			

Decision,

Since calculated F value i.e. 2.499 is less than tabulated F value at 5% level of significance. Thus we may conclude that Null hypothesis is acceptable. It means that there is no significant difference in earning per share (EPS) of insurance companies of Nepal. In other words there is uniformity in EPS of insurance companies of Nepal.

#### 4.4.3 Third Hypothesis Test

Null Hypothesis

$$H_0: \mu_1 = \mu_2 = \mu_3 = \mu_4 = \mu_5 = \mu_6 = \mu_7 = \mu_8$$

There is no significant difference in MPS of insurance companies.

Alternative Hypothesis:

$$H_1: \mu_1 \neq \mu_2 \neq \mu_3 \neq \mu_4 \neq \mu_5 \neq \mu_6 \neq \mu_7 \neq \mu_8$$

There is significant difference in MPS of insurance companies.

*Table XXIII*  
**One way ANOVA table**

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	147656.000	4	36914.000	8.869	.000
Within Groups	104052.667	25	4162.107		
Total	251708.667	29			



Decision,

Table value of F, at 5% level of significance with  $v_1 = 4$  and  $v_2 = 25$  is 2.76. Since calculated value 'f' is greater than tabulated value 'f', the alternative hypothesis is acceptable. It means that there is significant difference in market price of share (MPS) of insurance companies of Nepal. In other words there is no uniformity in MPS of insurance companies of Nepal.

#### **4.5 MAJOR FINDINGS**

By analyzing the secondary data the major findings of this study can be summarized as follows.

1. By analyzing the EPS of the selected company, the highest average EPS is 49.69 which belongs to SIC and is comparatively satisfactory during the period of study. But others do not have satisfactory EPS. HGI has the lowest average EPS of Rs 10.41. There is the highest 323% C.V of HGI and PIC has the lowest C.V of 17%. It shows that HGI has the greater variability in its EPS but PIC has greater consistency in its earning. Thus the coefficient of variation (C.V) indicates that the EPS of insurance companies are not stable.
2. The average DPS indicates that the most of the companies are not paying dividend regularly during the study period. The highest average DPS is Rs.12.61 of SICL and is the highest dividend paying company among the selected company. SIC has lowest DPS of Rs.2.10 and also has a greater fluctuation in DPS. The C.V of DPS of selected insurance companies ranges from 109% to 158% during the period of study. It means that there is high variation in DPS of insurance companies. It is not good news to the investor of insurance companies because it increases the risk for them.
3. Similarly the analysis of DPR indicates that the insurance companies of Nepal are not following stable dividend Policy. All companies did not adopt fixed dividend payout ratio. The C.V of sample insurance

companies ranges from 110% to 162%, such a great variation. The average DPR of SICL is the highest among all i.e. 31.53% and SIL has the lowest DPR of 21.41% with greater variability.

4. The average dividend yield of the SICL is the highest in comparison to the other insurance companies i.e. 4.16%, where as SIL has lowest DYR of 1.37%. This is negligible in comparison with the market price of share. Beside the dividend yield ratio being very low, the C.V of SICL is 168%. It indicates that there is highest fluctuation in DYR. SIC has the lowest C.V in comparison to other i.e.110% but not so much lowest
5. The average P/E ratio ranges from 9.25 to 19.37 times during the period of study. SICL has highest P/E ratio of 19.37 and SIC has lowest average P/E ratio of 9.25 times. SIL comes in the second position having higher P/E ratio but its C.V. is the highest among all i.e. 127%.
6. The average ratio from MPS and BVPS is ranging between 1.11 to 2.47 times. The MPS to BVPS ratio it shows that the MPS has been higher most of the times than the BVPS. SICL has the highest average MPS to BVPS ratio and PICL has the lowest ratio. SIL has the greater C.V which indicates that there is greater variation in MPS to BVPS ratio in SIL.
7. The correlation between DPS and EPS , EPS and MPS, DPS and MPS, DPS and NW, DPS and NP shows mixed result i.e. some insurance companies have positive correlation and some have negative correlation, which indicates that there is no specific trend for all insurance companies.
8. The relationship between DPS and EPS is positive in case of HGI and SICL is positive which means that higher the EPS higher will be the DPS. On the other hand, PIC, SIC and SIL have negative relationship between EPS and DPS. It shows that EPS does not affect to determine the DPS. No

one company has significant relationship that means all company has not significant relation. It implies that DPS is not affected in case all selected companies. That means it can be said that there may be other factors which affects the dividend of the company.

9. Similarly, the relationship between DPS and MPS is positive in case of HGI and SIL but the company PIC, SIC and SIL have negative relationship. By testing the significance between DPS and MPS, all insurance companies have found in not significant relationship. It indicates that DPS is not a major factor to affect the MPS of insurance company of Nepal.
10. The correlation between EPS and MPS is positive in case of HGI and SIC but in the company PIC, SICL and SIL there is negative relationship. By testing the significance between EPS and MPS, all insurance have found in not significance relationship except SIC.
11. The relationship between DPS and NW is positively correlated in case of HGI and SICL. The higher positive relationship is found in case of SICL but still has insignificant relationship at 5% level of significance. All the selected company has insignificant relationship. The insignificant relationship in all indicates that NW does not at all affect DPS of the company in consideration to the sample of the study.
12. There is positive correlation between DPS and NP in case of HGI and SICL but PIC, SIC and SIL has the negative correlation. By testing the significance between DPS and NP, all insurance companies have found in not significant relationship. It indicates that DPS is not a major factor to affect the NP.
13. In case of simple regression analysis, it is observed from the equation of DPS on EPS that the positive regression coefficient (b) existed in case of

HGI and SICL among the selected companies that imply the positive relation. In case of HGI where the regression coefficient is the highest, it indicates that Rs.1 increases in EPS leads to increase on an average of Rs. 0.70 in DPS. The relation is statistically insignificant at 5% level of significance in case of all the sample insurance companies. It shows that the EPS is a minor factor for DPS in case of all companies.

14. In simple regression analysis of DPS on MPS, HGI and SIL has the positive regression coefficient (b). Here in case of HGI having highest regression coefficient, that indicates Rs.1 increases in MPS leads to increase on an average of Rs. 04.893 in DPS. The relation is statistically insignificant at 5% level of significance in case of all the sample insurance companies. It shows that the MPS is a minor factor for DPS in case of all companies.
15. The regression analysis between MPS on EPS implies that the regression coefficient (b) is positive in HGI and SIC. By comparing the 't' value the relation is insignificant at 5% level of significance in case of all companies.
16. In simple regression analysis of NW on DPS, here also mix result is found in all sample insurance companies. HGI and SICL are found with positive results while PIC, SIC and SIL have found negative regression coefficient. The result is statistically insignificant in all at 5% level of significance. It indicates that dividend amount is not a major factor to determine the net worth (NW) of insurance companies.
17. From the test of hypothesis (ANOVA), it is found that there is uniformity in paying dividend by the insurance companies and there is uniformity in EPS in the selected insurance companies. But MPS of the sample companies do not have uniformity at 5% level of significance on the basis of f-test.

# **CHAPTER V**

## **SUMMARY, CONCLUSIONS AND RECOMMENDATION**

### **5.1 Summary**

Dividend refers to the portion of net income paid out to shareholders. It is paid in cash and/or stock for making investment and bearish risk. Dividend decision of the firm is yet another crucial area of financial management as it affects shareholders wealth and volume of the firm. Paying dividend to the shareholders is an effective way to attract new investor and maintain present investors.

The main objectives of investors investing in stocks are to earn dividend or capital gain. The earnings of shareholders can be divided as dividend gain and capital gain. High payout satisfies the dividend need whereas increase in market price of stock increases capital gain. Therefore, it is important to make a wide policy that should maintain a proper balance between growths of insurance companies through retained earnings and fulfill the shareholders' expectations.

The dividend may be affected by different factors like earning of the firm, liquidity position of the firm, net worth etc. These factors indicate the financial position of the company. If the company has good financial position, it will be able to provide return in the form of dividend.

This study is based on the secondary data of five insurance companies (PIC, HGI, SIC, SICL and SIL) listed in Nepal Stock Exchange covering 6 years i.e. from 2006/07 to 2011/12. The available data have been analyzed by using mean, standard deviation; coefficient of variation (CV), correlation coefficient (r) simple regression analysis, Mean, standard deviation and coefficient of variation (CV) are used to determine the financial strength of the sample insurance companies.

Correlation analysis is used to calculate the degree of relationship between EPS and DPS, DPS and MPS, EPS and MPS, DPS and NW and DPS and NP. Simple regression analysis is used to know the dependency of DPS on EPS, MPS on DPS, MPS on EPS and NW on DPS. And the test of hypothesis is used to analysis the uniformity of DPS, EPS and MPS.

## **5.2 Conclusion**

By analyzing the secondary data of the selected insurance companies the following conclusion have been made.

- Most of the insurance companies of Nepal give first priority to earnings to get into the decision of dividend and the next priority is given to the past dividend. Besides that, concern about change in the stock price, priority also influences the dividend policy of the insurance companies of Nepal.
- The correlation between DPS and EPS , EPS and MPS, DPS and MPS, DPS and NW, DPS and NP shows mixed result i.e. some insurance companies have positive correlation and some have negative correlation, which indicates that there is no specific trend for all insurance companies. There is no uniformity in dividend distribution policy adopted by insurance companies in Nepal.
- Most companies are not paying regular cash dividend.
- The insignificant relationship between DPS and other financial variables (i.e. EPS, MPS, NW and NP) indicate that the dividend policy of most of the companies is not good. It seems that the sample insurance companies are not adopting any particular dividend policy; they are adopting the dividend policy according to their requirement with the change in time.
- More or less earning per share, retention ratio, net profit and net worth per share in different insurance companies affect the dividend per share.
- Change in DPS affects the market price per share differently for different companies.
- For all companies, dividend is not only a factor that affects the market price of share. There are other factors as well to affect the market price of share.

- Although insurance companies are making profit regularly, there is fluctuation in the dividend payment. The dividend payout ratio does not indicate any stability.
- P/E ratio and DYR are not similar among insurance companies in Nepal.
- From the test of hypothesis (ANOVA), there is uniformity in DPS and EPS in the selected companies but there is no uniformity in MPS of the insurance companies.

### **5.3 Recommendation**

This study is concerned with dividend policy and practices of insurance companies and it may be suitable to provide some recommendations in the light of major findings and conclusions. The recommendations are,

- Dividend decision is one of the major decisions of managerial finance as it directly or indirectly determines and affects the maximization of the wealth of shareholders. Therefore, every company needs to define, develop and follow up proper dividend policy, payment procedures and strategy. They need to adopt optional and long-term dividend policy in order to meet the shareholders' expectations.
- Government is the main body to regulate the all sector of the country. There is lack of rules binding companies to pay dividend. So the Government of Nepal, SEBON, and NEPSE should act in favor of the investor and should bind through such legal provision so that the profit earning companies should distribute certain of their earning as dividend.
- Most of the companies have great fluctuation on dividend per share, Earning per share, dividend yield and dividend payout ratio and share price in terms of coefficient of variation. Such fluctuation increases in risk position of investors. Therefore, company should stabilize these variables.
- In the context of Nepalese insurance companies of Nepal, DPS seems least

affecting in the market price per share. It may be due to the lack of knowledge in the past of investors and unavailability of sufficient information. Therefore, investors must be made aware of stock market along with supplying sufficient information required for investment.

- From the correlation analysis clearly shows the insignificant relationship between market price and other influencing variables. It means that the shareholders are making investment without considering the company's financial performance and positions. It shows that the investors are not rational. Thus, it is better for the investors to understand the market and study the financial position and performance of the insurance companies before making investment.
- The financial executives and shareholders of the concerned institutions should organize and conduct different awareness programs regarding dividends and investment.
- Each and every company should provide the information regarding their activities and performance, so that investors can analyze the situation and invest their money in the best company.
- The insurance companies are suggested not to limit their activities in urban areas only. So, it is advised to diversify their services by spraying branches all over the country as per the directives of insurance companies. They are also advised to introduce new product and system and improve their services which would help in generating more and more wealth for the stockholders.

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Siddarth Insurance Company: 2006/2007 to 2011/2012

## APPENDIX

### Premier Insurance Company

	2006/2007	2007/2008	2008/2009	2009/2010	2010/2011	2011/2012
Net worth	94831	105295	147181	155910	172223	192731
No of shares	300000	630000	1020000	1020000	1020000	102000
Net profit	5530	10404	13645	16976	18867	22902

### Himalayan General Insurance Company

	2006/2007	2007/2008	2008/2009	2009/2010	2010/2011	2011/2012
Net worth	98565984	100984223	151967109	171331633	182514476	120542149
No of shares	300000	630000	100800	100800	100800	100800
Net profit	7537616	6684858	24419629	319645307	11354307	54695119

### Sagarmatha Insurance Company

	2006/2007	2007/2008	2008/2009	2009/2010	2010/2011	2011/2012
Net worth	13491784	162502375	19394354	236998268	327835727	426999067
No of shares	785400	1021020	1021020	1123122	1291590	1291590
Net profit	11561097	15405472	42675724	56002012	90837459	137418547

### **Shikhar Insurance Company**

	2006/2007	2007/2008	2008/2009	2009/2010	2010/2011	2011/2012
Net worth	130925225	142861004	152591574	171437229	227231922	281216351
No of shares	1250000	1250000	1250000	1250000	1250000	1250000
Net profit	11235779	12691556	25501305	32935951	56234765	57515539

### **Siddhartha Insurance Company**

	2006/2007	2007/2008	2008/2009	2009/2010	2010/2011	2011/2012
Net worth	75333782	103986369	106344970	115666950	144126894	182540859
No of shares	750000	1000000	1000000	1000000	1000000	1000000
Net profit	1248896	4912834	6550475	15285196	28459944	40098176

### List of Insurance Companies

<b>Life Insurance Company</b>	<b>Non-Life Insurance Company</b>
1. Rastriya Beema Samsthan <a href="mailto:bema@wlink.com.np">bema@wlink.com.np</a> <a href="http://www.beema.com.np">www.beema.com.np</a>	1. Nepal Insurance Company Ltd. <a href="mailto:nic@wlink.com.np">nic@wlink.com.np</a> <a href="http://www.nepalinsurance.com">www.nepalinsurance.com</a>
2. National Life Insurance Company Ltd. <a href="mailto:nlgi@mail.com.np">nlgi@mail.com.np</a>	2. The Oriental Insurance Company Ltd. <a href="mailto:oriental@wlink.com.np">oriental@wlink.com.np</a> <a href="http://www.orientalinsurance.com.np">www.orientalinsurance.com.np</a>
3. Nepal Life insurance Company Ltd. <a href="mailto:nlic@mos.com.np">nlic@mos.com.np</a> <a href="http://www.nlic.com.np">www.nlic.com.np</a>	3. National Insurance Company Ltd. <a href="mailto:info@nationalinsurancenepl.com">info@nationalinsurancenepl.com</a> <a href="http://www.nationalinsurancenepl.com">www.nationalinsurancenepl.com</a>
4. American Life Insurance Company Ltd. <a href="mailto:American.life@alico.com.np">American.life@alico.com.np</a> <a href="http://www.alico.com.np">www.alico.com.np</a>	4. Himalayan General Insurance Company Ltd. <a href="mailto:Ktm@hgi.com.np">Ktm@hgi.com.np</a> <a href="http://www.hgi.com.np">www.hgi.com.np</a>
5. Life Insurance Corporation (Nepal) Ltd. <a href="mailto:lic@mos.com.np">lic@mos.com.np</a>	5. United Insurance Company (Nepal) Ltd. <a href="mailto:uic@mail.com.np">uic@mail.com.np</a> <a href="http://www.unitedinsurance.com.np">www.unitedinsurance.com.np</a>
6. Asian Life Insurance Company Ltd. <a href="mailto:asianlife@asianlife.com.np">asianlife@asianlife.com.np</a> <a href="http://www.asianlife.com.np">www.asianlife.com.np</a>	6. Premier Insurance Company Ltd. <a href="mailto:premier@picl.com.np">premier@picl.com.np</a> <a href="http://www.premier-insurance.com.np">www.premier-insurance.com.np</a>
7. Gurans Life Insurance Company Ltd. <a href="mailto:guranslife@wlink.com.np">guranslife@wlink.com.np</a> <a href="http://www.guranslife.com">www.guranslife.com</a>	7. Everest Insurance Company Ltd. <a href="mailto:evinsco@mos.com.np">evinsco@mos.com.np</a> <a href="http://www.everestinsurance.com">www.everestinsurance.com</a>
8. Prime Life insurance Company Ltd. <a href="mailto:info@primelifenepal.com">info@primelifenepal.com</a> <a href="http://www.primelifenepal.com">www.primelifenepal.com</a>	8. NECO Insurance Ltd. <a href="http://www.necoins.com.np">www.necoins.com.np</a>
9. Surya Life Insurance Company Ltd. <a href="mailto:info@suryalife.com.np">info@suryalife.com.np</a> <a href="http://www.suryalife.com">www.suryalife.com</a>	9. Sagarmatha Insurance Company Ltd. <a href="http://www.sagarmathainsurance.com.np">www.sagarmathainsurance.com.np</a>
	10. Alliance Insurance Company Ltd. <a href="mailto:Aic_ktm@ntc.net.np">Aic_ktm@ntc.net.np</a> <a href="http://www.allianceinsurance.com.np">www.allianceinsurance.com.np</a>
	11. NB Insurance Company Ltd. <a href="http://www.nbinsurance.com.np">www.nbinsurance.com.np</a>
	12. Prudential Insurance Company Ltd. <a href="http://www.prudential.com.np">www.prudential.com.np</a>
	13. Shikhar Insurance Company Ltd. <a href="mailto:shikharins@mos.com.np">shikharins@mos.com.np</a> <a href="http://www.shikharinsurance.com">www.shikharinsurance.com</a>
	14. Lumbini General Insurance Company Ltd. <a href="http://www.lumbinigeneralinsurance.com">www.lumbinigeneralinsurance.com</a>
	15. NLG Insurance Company Ltd.
	16. Siddhartha Insurance Ltd.