SHARE PRICE BEHAVIOR OF NEPALESE NON-LIFE INSURANCE COMPANIES

A Dissertation submitted to the Office of the Dean, Faculty of Management, in partial fulfilment of the requirements for the Master of Business Studies (MBS)

By

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CERTIFICATION OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of the dissertation entitled "**Share Price Behavior of Nepalese Non-life Insurance Companies.**" The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees, nor has it been proposed and presented as part of requirements for any other academic purposes.

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

Muna Gaire

March 2024

REPORT OF RESEARCH COMMITTEE

Ms. **Muna Gaire** has successfully defended her research proposal entitled 'Share Price Behavior of Nepalese Non-life Insurance Companies'. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestions and guidance of Jhabindra Pokharel, supervisor, and submit the thesis for evaluation and viva voce examination.

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APPROVAL SHEET

We have examined the dissertation entitled '**Share Price Behavior of Nepalese Non-life Insurance Companies'** presented by **Muna Gaire** for the degree of Master of Business of Study (MBS). We hereby certify that the dissertation is acceptable for the award of a degree.

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LIST OF ABBREVIATIONS

APT:	Arbitrage Pricing Theory
CAPM:	Capital Asset Pricing Model
CP:	Claim Payment Ratio
CR:	Current Ratio
DPR:	Dividend Payout Ratio
EMH:	Efficient Market Hypothesis
GDP:	Gross Domestic Product
MPS:	Market Price of Share
NPR:	Nepalese Rupees
PG:	Premium Growth
ROA:	Return on Asset
ROE:	Return on Equity

ABSTRACT

The study investigates the influence of various firm-specific attributes on the stock price of 11 non-life insurance companies in Nepal from 2016 to 2022. Utilizing panel data approach, the research employs Pooled OLS regression analysis fixed and random effect tests to uncover key trends and relationships within the industry. The investigation reveals various trends across non-life insurance companies. The analysis underscores differences in company size, profitability, liquidity management, dividend policies, financial strategies, risk management, market penetration, revenue models, claim payment practices, and investor sentiments. Notably, correlations were found between Market Price per Share (MPS) and several variables, including Current Ratio (CR) and Premium Growth Rate (PG), both exhibiting moderate, statistically significant positive correlations with MPS. Conversely, the Equity to Asset Ratio (EA) presented a strong, negative correlation. The statistical analyses applied, including Pooled OLS regression, Fixed Effects Regression, and Random Effects Regression, identified significant relationships between MPS and various factors, suggesting business strategies to enhance market valuation and emphasizing balanced corporate management. These findings provide valuable guidance for decision-making and strategic planning, offering a robust understanding of Nepal's dynamics and underlying mechanisms affecting non-life insurance companies.

Keywords: *Non-Life Insurance, Stock Price, Current Ratio, Dividend Payout Ratio, Premium Growth, Claim Payment Ratio.*

CHAPTER I
INTRODUCTION

1.1 Background of the Study

A system or marketplace where stocks, shares, and other financial securities are purchased and sold is referred to as the stock market (Mishkin & Eakins, 2018). With the help of this platform, businesses can raise capital by offering investors ownership shares in exchange for cash. Investors buy these shares with the expectation of profiting from an increase in share price or dividend payments (Bodie et al., 2017). The stock market is usually made up of several exchanges and is governed by a number of laws and organizations to maintain stability, fairness, and transparency in trading.

The market value or price at which a single share of a company's stock is currently trading on a stock exchange is referred to as the stock price (Brigham & Ehrhardt, 2016). A number of variables, including the company's financial performance, supply and demand in the market, the state of the economy, industry trends, and investor sentiment as a whole, affect the stock price (Bodie et al., 2017). The stock price is subject to frequent fluctuations, which may be indicative of shifts in investors' perceptions of the company's worth (Ross, 2018). The stock price is significant because it reflects the value that investors place on the business and impacts the latter's capacity to raise funds and draw in new investors (Brigham & Ehrhardt, 2016).

A nation's stock market is vital to its economy in a number of ways. Through the sale of ownership shares to investors, companies can raise capital on the stock market. This aids businesses in raising capital for new ventures, operations, and business expansion. This can, therefore, result in the creation of jobs and economic expansion (Bodie et al., 2017). People and organizations can invest their savings and generate returns on them by taking advantage of the many investments options the stock market provides. This could support the development of an investment and savings culture, which is critical for sustained economic growth (Zhu et al., 2017). Additionally important to improving the economy's liquidity is the share market. The stock market gives investors liquidity, making it simple and quick for them to buy and sell securities. This encourages market efficiency by making sure investors can quickly turn their investments into cash when needed (Pagano, 1993). Investors can

learn about companies' financial standing and future prospects by monitoring the stock market. This data assists investors in making wise resource allocation decisions by focusing funding on businesses that are anticipated to do well and diverting it from those that are not (Ruzgar & Chua-Chow). Because it shows how well businesses and industries are doing, the stock market is frequently used as a gauge of the state of the economy. Stock market fluctuations can shed light on more general economic trends and circumstances, which can assist decision-makers (Masoud, 2013).

The stock market is essential to a nation's economic development because it facilitates capital formation, offers investment opportunities, improves liquidity, allocates resources, and reflects economic conditions. It also gives companies access to capital, makes money for investors, acts as an economic indicator, generates employment opportunities, and encourages the effective use of resources. Additionally, it makes it easier for businesses to raise capital, which supports business expansion and growth and raises national productivity and employment (Chikwira & Mohammed, 2023).

The stock market is a window into a country's economy, and its performance directly impacts the state of the economy. In Nepal's case, more market activity typically results in a stronger economy, boosting the country's general wealth and development (Pagano, 1993). Changes in stock prices can have a significant effect on the economy. In order to make wise decisions, investors, legislators, and consumers must be aware of these changes because they may be indicators of more general economic trends and circumstances (Fama, 1990).

Variations in Nepal's stock market have an impact on the economy as a whole. It describes the ups and downs of a stock's price over time. It is a frequent occurrence in the stock market and can be brought on by a number of things, such as supply and demand, global events, company performance, industry trends, investor sentiment, and economic conditions. Changes in stock prices can have a big effect on businesses, investors, and the overall economy. Price swings in stocks can affect the performance and returns of an investor's portfolio. Variations in stock prices can affect a company's cost of borrowing as well as its capacity to raise capital. Changes in stock prices can have an effect on consumer confidence, spending, and economic growth in the larger economy (Chauvet, 1999).

Investors can control stock price swings using a long-term investment strategy and diversification. Investors can lessen their exposure to the risks associated with specific stocks or sectors by diversifying their investments across a variety of stocks, industries, and asset classes. Furthermore, by adopting a long-term perspective when investing, investors can avoid responding hastily to transient market swings and instead concentrate on the core competencies of the businesses they finance (Brinson et al., 1986). The economy is greatly impacted by changes in non-life insurance companies' stock prices. Investor confidence may be impacted by these swings, which could have an impact on investment levels and economic growth. Variations in these stock prices also affect the cost of capital and the industry's capacity to manage risk. Investors can lessen these effects by focusing on long-term business fundamentals, diversifying their portfolio across different stocks and industries, and taking a long-term approach. For this reason, controlling stock price volatility in the non-life insurance industry is essential to maintaining and expanding the economy.

Numerous factors, both internal and external to the company, can affect stock prices. External variables like inflation, interest rates, and economic growth can also impact stock prices. For instance, low-interest rates may encourage investors to purchase stocks, which could raise stock prices (Roseno, 2023). In contrast, investors may be more inclined to purchase bonds or other assets when interest rates are high, which could result in a decline in stock prices. Internal factors are those that have a direct bearing on the business and have the potential to affect the stock price. A company's stock price can also be impacted by news, management changes to the dividend policy, financial performance, and corporate actions like spinoffs, share buybacks, and mergers and acquisitions. For instance, a merger or acquisition that receives a positive investor reaction may result in higher stock prices, whereas a merger or acquisition that receives a negative investor reaction may result in lower stock prices. Stock prices can be influenced by management changes, dividend policy, company news, and financial performance. Furthermore, the way investors view corporate actions such as spinoffs, mergers, acquisitions, and share buybacks can affect stock prices and result in price increases or decreases. As a result, fluctuations in stock prices are a complex problem driven by a multitude of interrelated factors.

An insurance company is a company that charges regular premiums to its clients in exchange for risk management and financial protection. Insurance companies provide

a wide range of insurance policies, such as liability, property, health, and life insurance, among many others. An insurance company's main goal is to assist people and organizations in managing the risks involved with unanticipated events, such as illnesses, accidents, property damage, and loss. Insurance companies evaluate the risks associated with providing insurance to their clients and use policyholders' premiums to cover losses and pay out compensation as needed (Harrington & Niehaus, 1998).

There are two types of insurance companies in practice in Nepal: life insurance companies and non-life insurance companies. Companies that offer life insurance cover risks associated with human life, such as critical illness, disability, or death. In the case of the insured person's demise or incapacitation, these policies pay out a lump sum or consistent income to the policyholder or beneficiary. The policyholder's premiums are typically determined by their age, health, and lifestyle. Property and casualty (P&C) insurance companies, also called non-life insurance companies, offer coverage for risks associated with property and liability, including property damage or loss, accident-related injury or damage, and liability resulting from legal claims. Travel insurance, home insurance, business liability insurance, and auto insurance are a few types of non-life insurance products. Currently, Nepal is home to 31 insurance companies: 14 of them offer life insurance, 14 offer nonlife insurance, four offer microinsurance, and two offer reinsurance (NIA, 2024).

According to Srinivasan (2013), investors can make more profitable investment decisions if they thoroughly understand how different fundamental variables affect stock price. However, Shiller (2003) discovered that market irrationality is the main cause of excessive fluctuations in stock prices in response to news about fundamentals (such as dividends). The market's stock price fluctuates daily rather than remaining constant. Gompers et al. (2003) state that a variety of microenvironmental factors, including dividend per share, book value (asset value) of the company, earnings per share, price-earnings ratio, dividend ratio, etc., can substantially impact stock price.

This study aims to thoroughly examine the impact of firm-specific factors on stock price fluctuations in Nepali non-life insurance companies. Non-life insurance companies play a crucial role in the economy by providing financial protection to individuals and businesses against property damage, liability, and other types of

losses. These businesses provide risk management and economic stability through their services. According to Nepal Rastra Bank (2023), 68.6% of the stock market capitalization is made up of banks, financial institutions, and insurance companies. This indicates the substantial influence that these businesses' performance can have on the stock market and, by extension, the economy. The importance of this study is underscored by the widespread observation that the insurance industry has a wide range of effects on the economy.

1.2 Problem Statement

The valuation of their shares significantly influences the overall health and operational effectiveness of non-life insurance companies. This measure is useful for assessing how well the business is performing and how much the market values it. The valuation metric encompasses a wide range of factors, including the company's financial performance, the degree of market competition, the current regulatory environment, and broader macroeconomic conditions. In the non-life insurance sector, a company's stock price offers a thorough picture of its present situation and possible future course.

A company's stock price essentially represents the market's appraisal of that company. The price represents the amount of money investors are willing to pay to purchase a portion of the company. A company's valuation is always based on its financial performance, which includes a number of variables like revenue, profit margins, and financial ratios (Velankar, et al., 2017). An increase in a non-life insurance company's stock value is usually correlated with its financial success because it signals positive market reception and investor trust (Siddiqui & Das, 2019.

One important factor that affects the value of stocks is the degree of market competition. When there is competition among companies for the same customer base in a market, a company's standing with regard to market share, customer loyalty, and brand reputation can significantly affect the value of its stock (Shrestha & Lamichhane, 2022). A company can increase investor value and raise the value of its stock when it differentiates itself from its rivals through unique offerings or calculated actions.

In the non-life insurance sector, the regulatory environment has a significant effect on stock prices as well. Regulatory policies dictate appropriate actions and limitations for

a company, and they significantly impact the operational landscape (Ruzgar & Chua-Chow, 2023). Tight rules may cause profit margins to shrink, while beneficial policies may encourage growth and progress. Changes to the regulatory environment may cause fluctuations in stock prices as investors reorient their expectations to align with the updated policy regime (Roseno, 2023).

Given their complexity, different stakeholders must understand the factors influencing non-life insurance companies' stock prices. This knowledge can act as a foundational idea for investors to build a well-diversified portfolio and make wise investment decisions. A comprehensive comprehension of these dynamics can aid regulatory authorities in assessing the possible consequences of suggested regulatory adjustments (Roseno, 2023). Understanding the possible effects of their economic policies on the industry and the ensuing effects on these companies can benefit policymakers. Making informed decisions at different stages of the financial landscape requires a thorough understanding of the variables influencing stock prices in the non-life insurance sector (Musah & Aryeetey, 2021). The non-life insurance market in Nepal has been expanding quickly in recent years due to the nation's developing economy and rising awareness of the value of insurance. Fourteen non-life insurance companies were operating in Nepal as of July 2023, offering insurance against liability, property damage, and other risks (Gautam & Bist, 2019). Nevertheless, despite the non-life insurance sector's expansion, little is known about the variables affecting non-life insurance companies' stock prices in Nepal. Therefore, a study that explores the firm-specific of stock prices could provide valuable insights into the performance of these companies and the overall insurance industry in Nepal.

One could investigate firm-specific determinants, such as financial performance indicators like solvency ratios, liquidity, and profitability (Doumpos et al., 2012). It is also possible to look at other elements like corporate governance, management caliber, and market share. This study could offer important insights into the variables influencing the stock price of Nepali non-life insurance companies by looking at firm-specific determinants. The study's conclusions may be useful to Nepalese investors, regulators, and policymakers. They may also add to the body of knowledge already available on the insurance sector in developing nations.

The term "company size" describes the size of a non-life insurance company, which is usually indicated by the amount of its total assets, market capitalization, or workforce. An insurance company's stock price and financial performance are frequently influenced by its size (Datu, 2016). The ability of a non-life insurance company to turn a profit in relation to its equity, assets, and sales is known as profitability. When all expenses, such as operating costs, interest, taxes, and preferred stock dividends, are subtracted from the total revenue of the business, the remaining amount is known as net profit. The ability of the business to pay its short-term obligations, like claim settlements and operational costs, is referred to as liquidity. The term "company size" describes the size of a non-life insurance company, which is usually indicated by the amount of its total assets, market capitalization, or workforce. An insurance company's stock price and financial performance are frequently influenced by its size. The ability of a non-life insurance company to turn a profit in relation to its equity, assets, and sales is known as profitability (Daare, 2016). When all expenses, such as operating costs, interest, taxes, and preferred stock dividends, are subtracted from the total revenue of the business, the remaining amount is known as net profit, or NP (Net Profit). The ability of the business to pay its short-term obligations, like claim settlements and operational costs, is referred to as liquidity. The percentage of claims paid out by the non-life insurance company in relation to the total number of claims received is known as the claim payment ratio. Non-life insurance companies' current stock trading price is called their "market price." It shows how the market currently values the company and could also point to broader market or insurance industry trends.

Hence, this study deals with the following fundamental questions:

1. What is the effect of profitability on the market price of the non-life insurance company?
2. Do Firm-Size and leverage affect the market price of non-life insurance companies in Nepal?
3. What is the effect of premium growth and claim payment ratio on the stock price of the non-life insurance companies in Nepal?
4. What is the effect of dividends on the market price of shares?

1.3 Objective of the Study

Every research has its own objectives, and this study also has various objectives. This study's main objective will be to determine the effect of internal and external factors on the market price of Nepal's non-life insurance sector. The specific objectives of this study are listed below:

1. To examine the pattern of company size, profitability, liquidity dividend payout ratio, leverage premium growth rate, and claim payment ratio of non-life insurance companies in Nepal.
2. To analyze the relationship between MPS and company size, profitability, liquidity dividend payout ratio, leverage premium growth rate, and claim payment ratio of non-life insurance company in Nepal
3. To assess the impact of company size, profitability, liquidity dividend payout ratio, leverage premium growth rate, and claim payment ratio on the market price of shares of non-life insurance companies in Nepal.

1.4 Rational of the Study

The study's findings show how firm-specific factors affect stock price volatility in Nepali non-life insurance companies. The research findings can potentially be highly valuable for non-life insurance companies, given the prominent role that stock prices hold in the current financial environment. These companies could potentially provide greater value to their shareholders by implementing the suggested strategies that came from this investigation. This study aims to shed light on important dividend distribution aspects of non-life insurance companies that may have gone unnoticed by earlier researchers. It aims to clarify different aspects impacting Nepali non-life insurance companies' stock prices, offering a thorough grasp of this field.

Making wise investment choices would also be facilitated by the insightful information this study would provide for further research in this area. A wide range of stakeholders, including investors, management teams, lenders, fund managers, and market analysts worldwide, may benefit from its findings. This study can help investors minimize losses and achieve desired gains by guiding the selection of relevant firm-specific financial variables for stock price prediction. The study may also provide new insights into stock price data for portfolio managers, enabling them

to put strategies into place that improve stock returns and, consequently, their organization's reputation.

1.5 Limitation of the Study

- There are 14 non-life insurance companies in Nepal as of March 2024. Only 11 non-life insurance companies are considered for the study. Therefore, including more companies in this study would have provided more valid results.
- This study is based on non-life companies only. Studies of other financial and non-financial institutions such as commercial banks, finance companies, development banks, economics, finance, and manufacturing companies are not considered.
- This study includes a year from 2015/16 to 2021/22 for 11 non-life insurance companies only, with a tool observation 77. The number of observations could not increase due to the unavailability of consistent data for all the selected non-life insurance companies.
- Only secondary data are considered for the study. This is due to the nature of the study by itself. However, verifying results using primary data also cannot be denied.
- The published data have their limitation regarding reliability and validly. This study is based on secondary data, so it is also not free from those limitations.
- The study is based on some of the selected insurance companies among various insurance companies.

CHAPTER II
LITERATURE REVIEW

A thorough review of the theoretical and empirical literature about the research study is presented in this chapter. This chapter aims to establish a robust theoretical and empirical foundation for the research. It seeks to identify, understand, and critically appraise the variables that determine the stock prices of non-life insurance companies, with the ultimate goal of illuminating the way forward for this study.

The goal is to lay a strong foundation for the current inquiry, pinpoint important variables, and identify gaps in the body of current knowledge to support the necessity of the current study. The three main sections of this chapter are the research gap, the empirical review, and the theoretical review.

The chapter begins with a theoretical review that delves into thoroughly examining and synthesizing numerous theories and concepts relevant to the research. A review of financial theories of stock price determinants and their effects on non-life insurance companies is part of this. The theories are critically examined to offer a conceptual framework for comprehending the factors and dynamics influencing the stock prices of non-life insurance companies. Many subjects are covered, starting with firm-specific elements like size, profitability, liquidity, dividends, leverage, premium growth, and claim payment ratio. A thorough analysis of each idea is conducted to comprehend how each idea affects and shapes the stock prices of non-life insurance companies.

The empirical review, which is the second section, provides a critical analysis of earlier studies done in the field. This entails thoroughly analyzing previous studies' approaches, outcomes, and conclusions and how they relate to ongoing research. This review aims to comprehend the research scope, findings, and methodology used in these studies to address the topic. The studies under analysis are not limited to a particular region; they encompass research conducted worldwide, providing a more all-encompassing comprehension of the topic at hand. This section facilitates comprehension of this field's research direction and areas of agreement and disagreement among academics.

The third and final section identifies the research gap, pointing out the areas that previous studies have not addressed adequately or where conflicting findings necessitate further investigation. This section builds a strong case for the relevance and significance of the present study. It clarifies why the current study is needed and how it can contribute to the existing body of literature by filling the identified gaps. This section justifies the current research and provides a roadmap for the research questions the study seeks to answer.

2.1 Theoretical Review

Efficient Market Hypothesis (EMH) Theory

According to the financial economics theory, the Efficient Market Hypothesis (EMH), asset prices accurately reflect all available information. According to Eugene Fama's theory, which dates back to the 1960s, any new information or development is swiftly factored into the price of an asset. As a result, it is impossible to consistently achieve superior risk-adjusted returns by relying only on publicly available information.

Depending on how much information is reflected in the prices, the EMH can be divided into three forms: weak, semi-strong, and strong. According to the weak form, prices today reflect all previous prices and volumes. Therefore, using technical analysis techniques wouldn't produce better results. According to the semi-strong Efficient Market Hypothesis (EMH) version, neither technical nor fundamental analysis can produce better results than the market because prices react quickly to new information. According to the strong version of the Efficient Market Hypothesis (EMH), prices take into account all available information, including private and public information, implying that no investor would have a clear advantage when predicting returns.

Despite being a pillar of contemporary financial theory, the Efficient Market Hypothesis (EMH) is not without its detractors, as some academics and investors contend that there are market inefficiencies that can be taken advantage of. Eugene Fama developed the Efficient Market Hypothesis (EMH) in the 1960s, and it is a cornerstone of the study of financial economics. According to this theory, stock prices are "efficient" because they represent all available information and are always fairly valued in financial markets (Fama, 1965). This implies that it's impossible to consistently achieve higher-than-average market returns through trading strategies

based on historical price data or publicly available information, as this information is already incorporated into stock prices. The EMH is categorized into three forms: weak, semi-strong, and strong, each implying a different level of market efficiency.

It is suggested by the weak form of EMH that all historical price data, including patterns and trends, is reflected in the current stock prices. As a result, it is unlikely that technical analysis techniques that forecast future prices based on historical price or volume data will produce unusual returns (Fama, 1965; Malkiel, 2003).

According to the semi-strong form, stock prices instantly adapt to new public information and simultaneously reflect all historical data. As a result, abnormal returns cannot be reliably generated by either technical analysis or fundamental analysis, which assesses a company's intrinsic value using financial and economic data (Fama, 1970).

Lastly, according to the strong form of the EMH, stock prices represent all available public and private (or inside information) information. Because of this, even insiders who have access to secret information cannot generate abnormal returns regularly (Fama, 1970).

Regarding firm-specific and macroeconomic factors influencing the stock price of non-life insurance companies, the Efficient Market Hypothesis (EMH) suggests that stock prices already take into account all known firm-specific data (like market competition, financial performance, etc.) and macroeconomic data (like GDP growth, interest rates, and inflation). The Efficient Market Hypothesis (EMH) states that alterations in these factors will promptly impact stock values, precluding any potential profit-making opportunities.

Though it has been a useful tool in financial economics and influenced many pricing models and investment strategies, the Efficient Market Hypothesis (EMH) has also been criticized and faced difficulties. For example, behavioral finance contends that cognitive biases can result in irrational decisions that cause market prices to diverge from fair values (Shiller, 2003).

CAPM Model

A financial model called the Capital Asset Pricing Model (CAPM) calculates the expected return of an investment based on systemic risk. The concept that the

expected return on investment equals the risk-free return plus a risk premium was first presented individually by Jack Treynor, William F. Sharpe, John Lintner, and Jan Mossin in 1964.

In this model, the risk-free return is the theoretical return of an investment with zero risk, usually associated with the return of government securities like treasury bonds. The risk premium, on the other hand, represents the additional return above the risk-free rate that investors require to hold a risky asset. It is calculated as the product of the asset's beta (a measure of its market risk) and the market portfolio's expected return above the risk-free rate.

Essentially, the CAPM proposes that the systemic risk of an investment determines its expected return (measured by beta). According to CAPM, a security's price should fairly reflect this risk, so investors cannot increase returns without increasing risk. In the finance industry, this model has been widely used to price risky securities, calculate capital costs, and generate expected returns for assets given their level of risk.

The Capital Asset Pricing Model (CAPM) is a foundational concept in finance, proposed by William Sharpe in 1964 and further developed by John Lintner and Jack Treynor. It is an economic model for valuing risky securities and calculating expected returns based on their inherent systematic risk (Sharpe, 1964; Lintner, 1965).

According to the CAPM, the expected return of a security or a portfolio equals the rate on a risk-free security plus a risk premium. The risk premium is the market return above the risk-free rate, which is scaled by beta, a measure of the asset's systematic risk relative to the overall market (Sharpe, 1964). In mathematical terms, the CAPM is expressed as:

$$\mathbf{E(R_i) = R_f + \beta_i[E(R_m) - R_f]}$$

where

$E(R_i)$ is the expected return on the asset i.

R_f is the risk-free rate.

β_i is the beta of the asset i.

$E(R_m)$ is the expected return of the market.

$E(R_m) - R_f$ is the market risk premium.

The beta of an asset reflects its sensitivity to market movements. An asset with a beta greater than 1 is more volatile than the market, while a beta less than 1 indicates an asset less volatile than the market. A beta of 0 suggests that the asset's return is not correlated with the market (Sharpe, 1964).

The CAPM is predicated on many premises (Fama & French, 2004). First of all, it assumes that investors maximize their utility while being logical and risk-averse. Second, it assumes that markets are efficient, meaning that prices fully and instantly reflect all pertinent information. Thirdly, it assumes that everyone can lend and borrow an unlimited amount at a risk-free rate and that everyone has the same expectations about the returns on their future investments. Finally, it assumes that all securities are infinitely divisible and that there are no transaction costs or taxes.

Despite its limitations and criticisms, the CAPM continues to be widely used for its simplicity and usefulness in estimating the cost of equity capital and the appropriate required rate of return on assets, considering their systematic risk (Fama & French, 2004). Various empirical tests have been conducted to validate the CAPM in recent decades. Early tests by Fama and MacBeth (1973) supported the model. However, subsequent studies identified anomalies that the CAPM couldn't explain, leading to its extension and modification (Fama & French, 1992).

For instance, the Fama-French Three Factor Model expanded the CAPM by adding two factors – company size and the book-to-market ratio – to account for the higher expected returns of small-cap and value stocks (Fama & French, 1993). Other models, like the Carhart Four-Factor Model, included momentum as an additional factor (Carhart, 1997).

The CAPM remains a valuable tool in financial decision-making. It has played a significant role in developing modern portfolio theory and asset pricing. Despite its oversimplifications and assumptions, it serves as a starting point for understanding risk and return.

APT Theory

The linear relationship between an asset's expected return and several macroeconomic variables that reflect systematic risk, according to the asset pricing theory known as Arbitrage Pricing Theory (APT), can be used to forecast the asset's returns. It was

introduced by economist Stephen Ross in 1976 as a more flexible option to the Capital Asset Pricing Model (CAPM).

APT allows for multiple sources of systematic risk, in contrast to the CAPM's view that the market's return is the only source of systematic risk. These risk factors could include economic variables that impact the economy, such as shifts in GDP growth, inflation, interest rates, and other variables. APT states that an asset's expected return is a linear function of these macroeconomic variables. In the APT, "arbitrage" refers to purchasing an asset in an underpriced market and selling it in an overpriced market to profit risk-free if the asset's predicted price (as determined by the linear function) and its actual market price differ. This arbitrage activity would continue until the price discrepancy disappears, resulting in an equilibrium where the asset's market price equals its predicted price.

Since its introduction by Ross in 1976, the theory of arbitrage pricing has established a theoretical framework for inking stock returns with multiple variables that can impact the cause of income volatility (Rahman, 2009). Mukherjee and Naka (1995) demonstrated how economic factors affect discount rates and future dividends, affecting stock market returns. Studies on the determinants of the stock market typically use different macroeconomic variables (Rahman, 2009). The most often used variables to explain changes in the stock market are the inflation rate, money growth, interest rates, industrial production, and exchange rates. There are theoretical reasons why these macroeconomic variables were chosen.

Increased interest rates or discount rates would lower the cash flows' present value, lowering investment appeal and, as a result, lowering the value of stock returns (Rahman, 2009). An additional effect may arise from portfolio substitution. An increase in interest rates raises the opportunity cost of holding cash, which in turn causes stocks and other interest-bearing securities, such as bonds, to be substituted for one another (Rahman, 2009). The Treasury Bill rates, as used by Mukherjee and Naka (1995), Ratanapakorn and Sharma (2007), Yusof and Majid (2007), and Jordaan and Eita (2007) are the most widely used interest rate proxies in the literature. Mukherjee and Naka (1995) contend that expansionary monetary policy would boost stock prices if the money supply rises, resulting in economic growth. Another way that an increase in the money supply can benefit the stock market is by making liquidity more readily

available at lower interest rates. Fama and French (1992), on the other hand, contends that a rise in the money supply causes inflation—or anticipated inflation—in the economy, which raises the discount rate and reduces stock market returns.

Furthermore, investors consider the inflation factor before making investment decisions. Asprem (1989) hypothesized that there should be a positive correlation between inflation and stock return if stocks serve as a hedge against inflation. This is based on Fisher's (1930) theory, which holds that inflation expectations do not affect stock markets because stocks are a claim against the company's real assets. However, Fama and French (1992) challenges the generalized Fisher hypothesis, contending that growing inflation diminishes projected economic activity and increases uncertainty, which negatively impacts stock prices.

The exchange rate is another relevant variable that is used in the literature. Particularly in open economies, the exchange rate affects the company's cash flow and the amount of dividend that must be paid (Eita, 2012). A decline in the value of the local currency lowers the cost of exporting goods and could boost demand from overseas markets and exporting companies' sales (Pan et al., 2017). The value of exporting (importing) businesses would rise as a result (decrease).

According to Rehman (2009), the influence of exchange rates on stock prices is contingent upon the significance of international trade within the economy. For several reasons, we do not consider the exchange rate in our situation. First, there are no trading companies on the Nepalese stock exchange; instead, banks and other financial institutions control most of the market. Second, there are no foreign portfolio investments in the stock market because Nepal has not opened a capital account. Third, since Nepal has been using the Indian currency as its benchmark, the exchange rate might not be a significant factor in the stock market.

Aside from the previously mentioned monetary variables, the most significant factor influencing stock market returns is the degree of real economic activity (Rehman, 2009). People agree that higher economic activity leads to higher stock market returns (Eita, 2012). The gross domestic product is the most widely used indicator of actual economic activity (GDP). Regretfully, GDP data is typically only available annually; in certain countries, it may be available every quarter. Some people use the industrial production index as an additional metric for real economic indicators (Rashid, 2008;

Rehman, 2009). Additionally, other variables have been used by researchers to analyze factors influencing the performance of the stock market, including the debt/GDP ratio and yields of alternative financial assets by Hsing (2014), foreign reserves by Rahman (2009), and variables like capital formation and gold price by Jauhari and Yadav (2014), gross capital formation relative to GDP, credit to the private sector to GDP and net remittance relative to GDP by El-Nadar and Alraimony (2013), and federal fund rate by Yusof and Majid (2007).

$$E(r_i) = r_f + \beta_{i1} \times RP_1 + \beta_{i2} \times RP_2 + \ldots + \beta_{in} \times RP_n$$

where $E(r_i)$: This represents the expected return on asset i. It's the return that investors anticipate they will earn from investing in this particular asset based on its historical or predicted performance.

r_f: This stands for the risk-free rate. This is the return that investors could expect to earn from an investment that carries zero risk, such as a government treasury bill. It represents the minimum return an investor requires.

β_{i1}, β_{i2},..., β_{in}: These are the betas for asset i with respect to various risk factors 1, 2,..., n. Each beta measures the sensitivity of the expected excess asset returns to that particular risk factor. For instance, a higher beta indicates that the asset's price will be more volatile than the market.

RP_1, RP_2,..., RP_n: These represent the risk premiums associated with each risk factor 1, 2,..., n. It's the additional return investors expect for taking on that particular risk factor.

According to the formula, the risk-free rate plus the weighted total of the different risk premiums equals the expected return on an asset. The weights, also known as betas, represent the sensitivity of the asset's return to variations in each risk factor.

2.2 Empirical Review

The empirical results of previous studies are explored in this literature review section. At first, international studies on this field are empirically reviewed, followed by national studies. This section has been divided into two parts: international literature and Nepalese literature.

2.2.1 International Literature

A study was carried out by Doumpos (2012) to quantify and elucidate the performance of non-life (property and casualty) insurers. There were two phases to

the analysis. First, the author suggested using a multicriteria approach to evaluate insurers' state and consider a number of competing financial criteria simultaneously. Subsequently, the impact of firm- and country-specific attributes on the aggregate performance measure acquired in the first phase was investigated through regression analysis. The study discovered that macroeconomic factors like inflation, GDP growth, and income inequality are the most reliable performance indicators. However, other country-specific characteristics that relate to the institutional environment and financial or economic freedom do not appear to matter.

Regression modeling is used by Qudah (2012) to examine variables influencing stock returns on the Jordanian Amman Stock Exchange. The study, which focused on 15 listed industrial companies and was conducted over five years (2005–2010), sought to determine the factors influencing high volatility and stock returns. Regression analysis was employed in the study to investigate the relationship between the return on stocks in the Amman Stock Market and many variables, including the interest rate, inflation, balance of payments, workforce size, company size, budget deficits, and gross domestic product. At a 0.05 significance level, the balance of payments, workforce size, and company size were found to have a statistically significant impact on stock returns. On the other hand, it was discovered that variables like the interest rate, budget deficits, GDP, and inflation rate had no significant effect on stock returns at the same significance level. Therefore, this study recommends that investors in the Amman Stock Exchange should consider the balance of payments, company size, and employee count instead of focusing on traditional economic indicators like interest rates and inflation. These results suggest that the Amman Stock Exchange has distinct market dynamics, and they demand more investigation to comprehend these discrepancies fully.

Malik and Rafique (2013) used regression analysis, correlation, mean, standard deviation, and other statistical methods to examine the factors influencing commercial bank liquidity in Pakistan. The study uses a sample of 26 commercial banks in Pakistan and spans five years (2007–2011), including the Asian Financial Crisis of 2008. Two methods are used to measure liquidity: advances net of provisions to total assets and cash and cash equivalents to total assets (L1) (L2). The findings imply that while inflation has a negative impact on bank liquidity (L1), non-performing loans (NPL), total assets (TOA), and the monetary policy interest rate have a positive

impact. Additionally, as indicated by L1, bank liquidity was significantly negatively impacted by the financial crisis. On the other hand, bank size and the interest rate set by the monetary policy had a significant and positive influence on bank liquidity for L2, and the financial crisis had a positive and noteworthy effect. As demonstrated by the detrimental effects of the financial crisis on L1, Malik and Rafique (2013) highlight the necessity for banks to maintain a high liquidity level to withstand crisis shocks. This implies that to meet the demands of unforeseen events, banks must forecast and anticipate their liquidity requirements. The study also emphasizes central bank regulations' role in controlling liquidity, suggesting that strict monetary policies are required to limit the negative effects of inflation on liquidity.

The study by Kaya (2015) examines the impact of firm-specific factors on the profitability of non-life insurance companies in Turkey from 2006 to 2013. Data from 24 of these businesses were included in the study, yielding 192 panel data observations. The technical and sales profitability ratios were the two distinct variables used in the study to measure profitability. The study's main conclusions showed a strong positive correlation between firm-specific variables like company size and premium growth rate and the profitability of non-life insurance companies. On the other hand, the companies' age, loss ratio, and current ratio had a negative relationship with their profitability. The premium retention ratio and the portfolio share of motor insurance had no appreciable impact on profitability. The study clarifies the significance of underwriting risk and firm size for profitability. The results also highlight the delicate balance managers must maintain between profitability and liquidity risk management. The study provides important insights for managers and academics despite being restricted to Turkey's non-life insurance companies during this period.

Hussain (2015) examined the effects of firm-specific traits and macroeconomic variables on the profitability of insurance companies in Pakistan following the financial crisis. Data from 39 insurance companies that operated in the nation between 2006 and 2011 were used in the study. Overall, the results showed that the macroeconomic climate, the state of the equity market, and inflation all significantly and favorably affect the profitability of insurance firms in Pakistan; similar conclusions applied to non-life insurance companies. Due to the differences in their clientele and insurance policy coverage, life, non-life, and takaful insurance

companies' coefficients of macroeconomic and firm-specific variables varied in significance and sign. The study highlights the importance of growth prospects, diversification, efficient underwriting risk management, and investment portfolio management for corporate managers in the life insurance industry. In order to increase profitability, managers of non-life insurance companies should consider the macroeconomic climate, the state of the equity market, inflation, and firm-specific factors like financial leverage, firm size, financial soundness, growth prospects, underwriting risk, and diversification. In order to manage return on assets, takaful businesses should prioritize working capital management, diversification, and risk underwriting.

Datu (2016) investigates how macroeconomic variables and insurer-specific metrics affected non-life insurance companies' profitability in the Philippines from 2008 to 2012. The operating ratio and return on assets (ROA) were the metrics used to calculate profitability. The researcher found firm size, financial leverage, underwriting risk, reinsurance utilization, and input cost to be important factors influencing profitability in both the ROA and operating ratio models. Interestingly, neither model was found to be significantly impacted by macroeconomic variables like GDP and inflation rate. According to the study, while greater financial leverage may potentially reduce profitability, lower underwriting risk, lower reinsurance utilization, lower input costs, and smaller firm sizes all have a positive impact. These findings underscore the importance of giving insurer-specific indicators due consideration when developing competitive and profit-driven policies, which is relevant to regulators and practitioners in the insurance industry. While macroeconomic variables did not substantially affect profitability in this study, future research might take a closer look at their possible effects in other economic contexts or over longer periods.

Al-Qaisi et al. (2016) investigated the influence of certain factors on the market stock price, including Return on Asset (ROA), Return on Equity (ROE), Debt Ratio, the Age of the Company, and the Size of the Company. The study incorporated data from twenty insurance companies listed on the Amman stock exchange from 2011 to 2015. The study employed simple and multiple linear regression for data analysis. Their findings suggested a significant effect between ROA, Debt Ratio, Company Age, and

Company Size on stock price. However, they found no significant relationship between these insurance companies' ROE and the market stock price.

Kodithuwakku (2016) studies on impact of firm specific factors on the stock prices in Srilanka. In this study, an attempt has been made to identify the impact of firm-specific factors on the share prices of listed manufacturing companies. This study is primarily based on secondary data that were extracted from the annual reports of the 20 manufacturing companies listed in the Colombo Stock Exchange (CSE) from 2010 to 2014. Balanced Panel Data (BPD) of these 20 manufacturing companies were analyzed by using Pearson's Correlation and Multiple Regression Model to identify the relationship between the selected firm-specific factors and the stock prices. Further, primary data were collected from the management of the selected companies through an open-ended questionnaire 19, and the data were analyzed using the descriptive method. The study found a positive relationship between the selected firm-specific factors of dividend per share (DPS), Earnings per share (EPS), net assets value per share (NAVS), and stock price.

Indian life and non-life insurance companies were the subject of a dynamic productivity analysis by Chakraborty and Harper (2017) over an eight-year period that concluded in 2016. Eighteen non-life and fourteen life insurance companies made up the sample. The researchers employed data envelopment analysis (DEA) to calculate Malmquist productivity indexes. Over the course of the study, the total factor productivity decreased by 11.8 percent for life insurers and by 0.4 percent for non-life insurers, according to the results. The Tobit regression analysis revealed that distribution ratio, claims ratio, and input cost ratio substantially influence productivity for both types of firms, although macroeconomic variables significantly affect only life insurance firms. The authors advise Indian insurance companies to improve operational efficiency, lower combined ratios, and rethink how they distribute their goods and services. They also advocate for initiatives to raise consumers' financial literacy. This study has implications for customers, firm managers, and regulatory agencies, assisting them in making well-informed decisions regarding the implementation of policies. It also advances our understanding of the factors influencing the dynamic productivity of insurance firms.

Velankar et al. (2017) studied the impact of EPS and DPS on stock prices in India using all the public sector banks of India as a sample for the 9-year period from 2006-07 to 2014-15. The study used share price as the dependent variable and EPS and DPS as independent variables. A regression test was applied to check the impact of EPS and DPS on stock price. The time series data on different variables, EPS, DPS, and stock price, were taken for carrying out the study mainly from the money control and NSE websites. It has been concluded by testing the hypothesis that EPS and DPS significantly affect the stock price of selected public sector banks in India.

Joub et al. (2017) examined the micro and macroeconomic determinants of stock prices of Turkey. It investigates the relationship between macro and micro variables and stock prices of seven banks listed in the Istanbul Stock Exchange for the period spanning from 1995:Q3 to 2015:Q4. Fixed effect panel estimation results indicate that asset quality, management quality, earnings, size, money supply, interest rate, and global and domestic crisis dummy variables statistically explain stock prices. The result indicates that both micro and macro variables are important factors in determining bank stock price during the tested period. Moreover, bidirectional causality was found between asset quality, bank size, money supply, and stock prices.

Prayogo and Lestari (2018) researched the determinant of stock price at the Banking sub-sector company in Indonesia from 2012 to 2016, and stock prices have experienced a rising trend over the last five years. BRI, Bank Mandiri, BCA, and BNI are among the six largest companies in Indonesia. This explanatory research describes causal relations between one variable and another variable using a hypothesis and quantitative approach. The data analysis technique used in this research is panel data regression. MPS is a dependent variable, whereas ROA, EPS, and P/E ratio are independent variables. This research finds that ROA has a negative influence yet insignificant toward the stock price. This condition is rarely seen but is possible to happen since the condition of the Stock Exchange of Indonesia is in a medium market or emerging market, a condition in which the government gives many interventions. Due to the intervention, many rules on the Stock Exchange are not applied well.

Lee and Chiu (2018) examined how macroeconomic variables and legal stability affected the growth of non-life insurance. Examining how legal stability affects a nation's ability to maintain its financial development is essential, given the importance

of trade and foreign direct investment (FDI) in stimulating the insurance sector and the importance of legal stability in maintaining a nation's legal framework. A panel data analysis covering 20 years was used in this study. The results indicated that the development of non-life insurance would be aided by increased trade, income, stock market trading activity, and credit availability. Improved government integrity and legal stability, such as stronger property rights, will boost the growth of non-life insurance. Development of non-life insurance will be encouraged, and FDI and stock markets will become more favorable when the legal frameworks in emerging nations are more stable. Policymakers should improve legal stability in emerging countries to improve financial development and minimize the gap with developed countries. This study included institutional factors components and macroeconomic factors to provide a complete picture of the improvement of non-life insurance development in emerging and transition countries.

De Sousa et al. (2018) verified the relationship between macroeconomic indicators and stock return (SR) in the finance and insurance sector of public companies from Latin America. Data from 2010 to 2017 were analyzed through dynamic panel analysis via the Generalized Method of Moments (GMM) using two approaches: Arellano-Bond and System. Results pointed out that the Stock Return showed a positive relation with the Exchange Rate but a negative relation with the Gross Domestic Product. The study concluded that macroeconomic variables interfere with the shareholder return of companies in the Finance and Insurance sector.

Siddiqui and Das (2019) researched the variables that affect the life insurance industry's financial performance. Liquidity, net premium, premium growth, underwriting risk, debt to equity, insurance leverage, tangibility, equity capital, capital surplus, GDP, inflation, and market share were possible internal and external factors used to assess their impact. In contrast, sector ROA was used to assess performance. The information was acquired between 2008 and 2017 from nine life insurance firms, including one public and eight private companies. In these observations, two companies only operate in the conventional or both conventional and tactful life insurance. The generalized moment method estimates the findings after regression analysis, which employs an ordinary least squares regression model. According to the findings of this study, the financial performance of Pakistani Life Insurance Company is not significantly or even negatively impacted by tangibility, market share, net

premium, insurance leverage, or GDP. Other independent factors, including liquidity, underwriting risk, debt to equity, equity capital, capital surplus, and inflation, have a positive and significant relationship with life insurance companies. The insurance sector is increasing premium collection efforts and actively participating in the market by educating beneficiaries about the benefits of life insurance. Additionally, this will boost economic activity, and newcomers can use this study as an effective survey for gaining market share. This study is useful for insurers looking to determine the soundness and solvency of their insurance and shareholders and investors interested in investing money in the life insurance business.

Gayol and Gupta (2019) studied to identify the financial determinants of stock prices in India using 30 companies were selected as samples. The annual data of all the variables was collected from Yahoo Finance and Money Control for five years, i.e., 2014 to 2018. MPS is a dependent variable in the study. Independent variables are earnings per share, dividend pay-out ratio, PE Ratio, net margin, return on equity, and return on assets. Panel data least square regression model was applied to analyze the data. The study found out the financial determinants of the stock prices and the process to analyze the variables with the help of the regression method it can be concluded that Earnings per share and price-earnings ratio have a significant positive impact on stock price and net margin and return on assets have a significant negative impact on stock price whereas dividend pay-out ratio and return on equity have no significant impact on stock price.

Chowdhury et al. (2019) examined the determinants of the stock price of the financial sector in Bangladesh using 30 banks and 18 non-bank financial institutions listed on Bangladesh's Dhaka Stock Exchange (DSE). Secondary data was collected from these companies from 2011 to 2015. The dependent variable is the market price, and the independent variable is DPS (dividend per share), EPS (earning per share), NAV (net asset value), DPR (dividend payout ratio), Price earnings ratio (P/E ratio), and Size (total assets). This study uses multiple regression analysis through SPSS 20. The findings demonstrate that the impact of the variables varies among companies. For the banks, factors comprised of dividend, P/E, NAV, EPS, Dividend Payout Ratio, and size are primary factors that significantly affect the stock prices of financial sectors in Bangladesh. At the same time, non-bank financial institutions are only affected by dividends, P/E, Dividend Payout Ratio, and NAV.

Sukesti et al. (2020) studied factors affecting the stock price in Indonesia using 136 manufacturing companies listed as sample companies in the 2014-2018 period. The study used dependent variables such as stock price and independent variables such as debt-equity ratio (DER), Net profit margin (NPM), and size. The mediating variable is ROA. The research was tested using a Warp PLS statistical test tool to prove the proposed hypothesis. The results showed that DER has a significant negative effect on ROA and a significant positive effect on Stock Price. NPM has a significant positive effect on ROA as well as a significant positive effect on Stock Price. While Size has a significant positive effect on ROA, it does not affect Stock Price. ROA has a significant positive effect on Stock Prices. ROA does not act as a mediating variable in the relationship between Size and Stock Price; however, ROA acts as a mediating variable in the DER and Stock Price relationship and the relationship between NPM and Stock Price.

Raza et al. (2020) studied firm-specific factors of share prices in Pakistan using 15 listed firms on PSX in the automobile sector from 2004 to 2017 as a sample. The study used share price as a dependent variable and earning per share (EPS), price-earnings ratio (P/E ratio), dividend payout ratio (DPR), and firm size as independent variables. Descriptive statistics, correlation matrix, and ordinary least squares (OLS) regression were used. The study found a positive and significant association between explanatory variables (EPS and P/E ratio) and share price (dependent variable), suggesting that these two variables are the major factors of firms listed in automobile sectors on the Pakistan stock exchange.

Killins (2020) examined the role of firm-specific, industry-specific, and macroeconomic factors on the performance of Canadian life insurance firms. Canada's life insurance sector, being the second largest and oldest financial service sector in the country, served as the backdrop for this research. After accounting for possible endogeneity concerns with both fixed and dynamic panel models, the study found that life insurers' risk exposure, size, and liquidity had a major impact on their profitability. In contrast to predictions derived from the structure-conduct-performance (SCP) theory, the static panel models did not demonstrate any discernible impact of industry concentration on profitability. Higher industry concentration, however, was found to have a detrimental effect on profitability in the dynamic models. The study also found that macroeconomic factors, particularly real

GDP growth and equity market returns, played significant roles in determining insurers' profitability. The study finally suggested that the persistence of profitability for life insurers appeared to lag behind that of other financial services institutions, such as banks.

Ambaw and LiJuan (2021) looked at important firm-level or microeconomic factors like market share, firm size, tangibility of assets, company age, premium growth, leverage, liquidity, and loss ratio. For macroeconomic variables, the researchers used the World Bank Data Center; for microeconomic (Firm-Level) variables, they used the National Bank of Ethiopia's audited financial statements. Econometric panel data was used for 16 years to analyze insurance companies, based on a sample of 17 insurance companies in Ethiopia from 2005 to 2020. The firm's size (insurance firm), leverage ratio, liquidity ratio, market share premium growth, asset tangibility, and age were all found to be significant in the regression analysis results. However, liquidity ratio and insurance dependency significantly impacted insurance companies' profitability. Finally, the study recommended that insurance company executives and policymakers in the nation take critical steps by developing policies and strategies to enhance insurers' overall profitability.

A study by Moradi et al. (2021) tested hypothesized factors that could influence how the insurance industry develops. The study identified a set of macro-financial factors that are the most reliable indicators of growth in gross premiums in the life and non-life insurance sectors using a rich dataset covering 24 European countries over a two-decade period. Panel data and an OLS estimator with one-way fixed effects were used in the methodology to account for unobserved country-specific effects. In order to permit within-country correlation of the residuals, the authors also employed a cluster-robust estimator and checked the stationarity of the variables in their estimations. The results demonstrated that life and non-life insurance premiums move in tandem with the business cycle and positively correlate with greater savings and an advanced financial system. The study also offered fresh information on the significance of price effects and market concentration. It was discovered that price channel only mattered for non-life insurance, while market concentration only mattered for life insurance.

Salamat et al. (2021) studied Firm-specific macroeconomic factors and stock price risk in Jordan using 13 commercial banks as samples for 2010-2019 using OLS multiple regressions. The study used Dependent variables such as Stock price and independent variables (firm-specific) variables are Dividend yield, Dividend payout ratio (DPR), Return on assets (ROA), Prices earnings ratio (P/E Ratio), Trading volume, and (macroeconomics variables GDP growth rate (GDPR) money supply (MS). The Study found that trading volume (TV), dividend yield (DY), and Gross Domestic Product (GDP) have a positive effect on stock price volatility, while stock price volatility is statistically negatively affected by return on assets (ROA), dividend payout ratio (DPR), and price-earnings ratio (PE). On the other hand, money supply (MS) does not affect stock price volatility. Paying more dividends can reduce stock risk and, in turn, reduce stock price volatility. The findings can benefit current and potential investors, firm managers, brokers, dealers, portfolio managers, regulatory bodies, policymakers, and researchers.

Musah and Aryeetey (2021) studied the determinants of the share price of listed firms in Ghana using the study sampled 21 firms over ten years, from 2009 to 2018. The study used dependent variables such as share price, and independent variables (firm-specific) variables are Earning per share (EPS), Debt ratio, return on assets (ROA), Return on Equity (ROE), Dividend per share (DPS), and (macroeconomics variables) are Economic growth, Interest. The study used descriptive statistics, correlation analysis, and panel regression analysis to achieve its objectives. The study results show that firm-specific variables such as firm size and the firm being a financial institution were positive and statistically significant determinants of the share price of listed firms in Ghana. The book ratios of debt to asset ratio, return on asset, and return on equity were statistically insignificant associations with the share price of firms listed on the Ghana Stock Exchange. Other book ratios, such as earnings per share and dividend per share, were positively associated and statistically significant with the share price of the sampled firms listed on the Ghana Stock Exchange. On the macroeconomic variables, only economic growth was positively associated with share price and statistically significant at a 10% significance level. The other variables – inflation and interest rate – were statistically insignificant. The results show that book or investment ratios are the main determinants of share price for firms listed on the Ghana Stock Exchange.

Msomi (2023) examined how firm-specific and macroeconomic variables affected Africa's non-life insurance industry's financial performance. The study included 121 publicly traded non-life insurance companies from 48 African nations, offering a large dataset of 1452 observations from 2008 to 2019. The study found that lagged return on assets, equity capital, operational efficiency, leverage, investment capability, and gross domestic product influence financial performance. This was determined by applying both ordinary least squares and the two-step System Generalized Method of Moments estimators. On the other hand, leverage, operational effectiveness, and equity capital showed inverse significance. In order to achieve the best possible balance between debt and equity, the study suggests restructuring the industry's capital structure. Additionally, it promotes using automated systems to lower operating expenses and improve financial results. The insurance industry, governments, investors, and policymakers can all benefit from the important insights from Msomi's research when making decisions and developing performance-enhancing strategies.

Table 2.1

Summary of International Empirical Review

Author(s), Year	Finding
Qudah (2012)	The study results show that the following factors (Balance of payments, number of employees, and company size) are significant at 0.05 levels, which means that each of these three variables affects the stock return. The rest of the variables (interest rate, budget deficits, gross domestic, and inflation rate) are insignificant at 0.05 levels, meaning that each does not affect the stock return.
Gaganis and Pasiouras (2012)	Macroeconomic conditions such as GDP growth, inflation, and income inequality are the most robust predictors of performance.
Malik & Rafique (2013)	The bank size and monetary policy interest rate positively and significantly determine the bank's liquidity.
Kaya (2015)	The firm-specific factors affecting the profitability of Turkish non-life insurance companies are the size and age of the company, loss ratio, current ratio, and premium growth rate.
Datu (2016)	The empirical underpinning revealed that underwriting risk, reinsurance utilization, firm size, financial leverage, and input cost significantly affect ROA and operating ratio profitability. However, no evidence is found in the Gross Domestic Product (GDP) and inflation rate on profitability in both ROA and operating ratio.
Qaisi et al. (2016)	There is no effect between ROE and market stock price in these insurance companies.
Kodithuwakku (2016)	The study found a positive relationship between the selected firm-specific factors of dividend per share (DPS), Earnings per share (EPS), net assets value per share (NAVS), and stock price.
Velankar et al.	The study obtained a significant effect of EPS and DPS on the Stock price of

Author(s), Year	Finding
(2017)	selected public sector banks in India.
Joub et al. (2017)	The result indicates that micro and macro variables are important factors in determining bank stock price during the tested period. Moreover, bidirectional causality was found between asset quality, bank size, money supply, and bank stock prices.
Chakraborty and Harper (2017)	The study found that distribution ratio, claims ratio, and input cost ratio have generally similar effects for life and non-life firms regarding their significance and direction of change. Macroeconomic variables have the expected sign and significant effect for life insurance firms but no effect for non-life firms.
Lee & Chiu (2018)	Higher trade, higher income, higher stock market trading activities, and higher availability of finance credit will enhance the development of non-life insurance. Legal stability, such as the enhancement of property rights and government integrity, will improve the development of non-life insurance.
Allison et al. (2018)	Stock Return showed a positive relation with Exchange Rate but a negative relation with Gross Domestic Product. Macroeconomic variables interfere with the shareholder return of companies in the Finance and Insurance sector.
Prayogo & Lestari (2018)	This research finds that ROA has a negative influence yet insignificant toward the stock price. This condition is rarely seen but is possible to happen since the condition of the Stock Exchange of Indonesia is in a medium market or emerging market, a condition in which the government gives many interventions.
Gayol and Gupta (2019)	Earnings per share and price-earnings ratio have a significant positive impact on stock price, and net margin and return on assets have a significant negative impact on stock price. In contrast, the dividend payout ratio and return on equity do not significantly impact stock price.
Chowdhury et al. (2019)	For the banks, factors comprised of dividend, P/E, NAV, EPS, Dividend Payout Ratio, and size are primary factors that significantly affect the stock prices of financial sectors in Bangladesh. At the same time, non-bank financial institutions are only affected by dividends, P/E, Dividend Payout Ratio, and NAV.
Siddiqui & Das (2019)	The financial performance of Pakistani Life Insurance Company is not significantly or even negatively impacted by tangibility, market share, net premium, insurance leverage, or GDP. Other independent factors, including liquidity, underwriting risk, debt to equity, equity capital, capital surplus, and inflation, have a positive and significant relationship with life insurance companies.
Killins (2020)	Life insurers' size, liquidity, and risk exposure are significant factors in their profitability. Industry concentration (e.g., HHI) fails to provide meaningful evidence to support the static panel models' structure-conduct-performance (SCP) theory. Still, in the dynamic models, industry concentration tends to impact profitability negatively. Macroeconomic factors such as real GDP growth and equity market returns significantly determine insurers' profitability. The persistence of profits for life insurers seems to lag that of their financial services counterparts (e.g., banks).
Sukesti et al. (2020)	The results showed that DER has a significant negative effect on ROA and a significant positive effect on Stock Price. NPM has a significant positive effect on ROA as well as a significant positive effect on Stock Price. While Size has a significant positive effect on ROA, it does not affect Stock Price. ROA has a significant positive effect on Stock Prices. ROA does not act as a mediating variable in the relationship between Size and Stock Price; however, ROA acts as a mediating variable in the DER and Stock Price relationship and the relationship between NPM and Stock Price.
Raza et al. (2020)	The study found a positive and significant association between explanatory variables (EPS and P/E ratio) and share price (dependent variable), suggesting

Author(s), Year	Finding
	that these two variables are the major factors of firms listed in automobile sectors on the Pakistan stock exchange.
Salamat et al. (2021)	The Study found that trading volume (TV), dividend yield (DY), and Gross Domestic Product (GDP) have a positive effect on stock price volatility, while stock price volatility is statistically negatively affected by return on assets (ROA), dividend payout ratio (DPR), and price-earnings ratio (PE).
Musah & Aryeetey (2021)	The book ratios of debt to asset ratio, return on asset, and return on equity were statistically insignificant associations with the share price of firms listed on the Ghana Stock Exchange. Other book ratios, such as earnings per share and dividend per share, were positively associated and statistically significant with the share price of the sampled firms listed on the Ghana Stock Exchange.
Ambaw and LiJuan (2021)	The firm's size (insurance firm), leverage ratio, liquidity ratio, market share premium growth, the tangibility of assets, and company age were significant. However, liquidity ratio and insurance dependency insignificantly impact insurance company profitability.
Moradi et al. (2021)	There is a positive association between the inflation and unemployment rates and stock price crash risk, whereas the GDP and exchange rates are correlated negatively with crash risk. Larger firms and those with higher Return on Assets (ROA) are more sensitive to crash risk.
Msomi (2023)	The findings show that lagged return on assets, equity capital, operational efficiency and leverage, investment capability, and gross domestic product are statistically significant determinants of financial performance in African non-life insurance companies, even though equity capital, operational efficiency, and leverage are inversely significant.

2.2.2 Nepalese Literature

Pradhan (1993) researched stock market behavior in a small capital market in Nepal. It looked at liquidity, leverage, profitability, asset turnover, and interest coverages related to market equity, market value to book value, price-earning, and dividends. The findings showed that larger stocks had lower liquidity, lower profitability, smaller dividends, larger price-earnings ratios, and larger market value-to-book value of equity ratios. While market value to book value of equity was more variable for larger stocks, price-earnings, and dividend ratios were more variable for smaller stocks. In addition, larger stocks had lower interest coverages, lower asset turnover, and higher leverage; however, these factors were more erratic for smaller stocks. Stocks with larger market value to book value of equity had larger price-earnings ratios and lower dividends. These stocks also had lower liquidity, higher leverage, lower earnings, lower turnover, and lower interest coverages.

Shrestha and Subedi (2014) examined what influences Nepal's stock index, or NEPSE. The study employs regression and correlation analysis methodologies and is based on monthly data collected between mid-August 2000 and mid-July 2014. In

order to account for notable changes in political trends and Nepal Rastra Bank's (NRB) lending practices concerning shares as collateral, the study also includes two dummy variables. Their study's correlation analysis shows a strong correlation between the NEPSE index and some macro variables, including the Treasury Bill Rate, Broad Money, and the Consumer Price Index. The study results show that the NEPSE index responds adversely to the treasury bill rate and positively to inflation and growth in broad money. This implies that stock is an alternative financial instrument, and Nepalese share investors see equities as a hedge against inflation. Reducing borrowing costs encourages investment in Nepal's stock market as well. The stock market is also greatly impacted by shifts in NRB policy and the political climate.

Pradhan and Dahal (2016) studies on factors affecting the share price of Nepalese banks. Based on data from 14 commercial banks over the period 2002-2014. The study used market price per share as the dependent variable and independent variables (firm-specific): Return on assets (ROA), earnings per shares (EPS), dividend per shares (DPS), BVPS, size, and macroeconomics variables are money supply (MS), inflation rate (IR) and GDP growth rate (GDPR) have been taken as independent variables. The multiple regression models were estimated to test the impact of firm-specific and macroeconomic factors on the share price of Nepalese commercial banks. It concluded that variables like earnings per share, book value per share, and return on assets have very weak effects in determining market price per share. It identified that the market price per share of the banks is mostly affected by dividends per share, the size of the firm, and the money supply. They suggested a rational investor needs to consider dividend per share, firm size, and money supply before making an investment decision, along with signaling and asymmetric information in the context of an imperfect stock market like Nepal's.

Poudel (2016) analyzed determinants of the stock price of selected banks in Nepal using eight sample organizations representing private commercial banks from 2011 to 2015 for five years. MPS is a dependent variable, whereas BVPS, EPS, and DPS are independent variables. Different statistical and financial tools have been used. Arithmetic mean, correlation and regression analysis, and t-tests are the major statistical tools used for the study. A descriptive research design has been adopted to conduct this study. For the purpose of analysis of the data, the data collected from the

survey were coded for statistical analysis. SPSS tool was used to organize the data, determine significant relationships, and identify differences or similarities with & between different variables under study. The findings from the Z test show that there is a statistically significant relationship between the variables. Even though DPS, BVPS, and EPS affect the MPS positively, several other factors, i.e., internal and external environment, affect the market price of stock. Theoretically, when earnings, dividends, and book value per share increase, the market price increases and vice versa.

Gautam (2017) investigated the impact of bank-specific variables on stock price volatility and stock return from 2008/09 to 2015/16. The variables examined were the variables of the leverage ratio, market capitalization, asset growth, earnings price ratio, dividend yield, and book-to-market ratio. Leverage, market capitalization, dividend payout, and dividend yield were found to correlate positively with stock returns in the study, which used a causal-comparative research design. This implies that a higher stock return results from increased market capitalization, leverage, dividend payout, and dividend yield. On the other hand, the book-to-market ratio, asset growth, and earning price ratio all negatively correlated with stock returns, suggesting that higher rates of these factors would result in lower stock returns. According to the study, share price volatility is positively correlated with leverage, dividend payout, and dividend yield – that is, increases in these variables would result in higher share price volatility. On the other hand, a negative correlation was found between share price volatility and market capitalization, book-to-market ratio, asset growth, and earning price ratio; this suggests that higher values of these variables would lead to lower share price volatility. The study's regression results also showed that, in terms of their influence on stock returns, the dividend payout ratio, asset growth, and book-to-market ratio were statistically significant at the 1 percent level. In comparison, the earnings-price ratio was significant at the 5 percent level. Similarly, dividend yield, dividend payout ratio, asset growth, and earning price ratio had a significant impact on stock price volatility at the 1 percent level, while leverage and book-to-market ratio had a significant impact at the 5 percent level. The study determined that the growth of assets, book-to-market ratio, and earnings price ratio are the major determinants of the stock return of Nepalese commercial banks. Similarly, growth of assets, leverage, dividend payout ratio, book-to-market ratio, and

dividend yield were identified as the key determinants of the share price volatility of Nepalese commercial banks.

Pradhan and Paudel (2017) conducted studies on the Impact of Fundamental Factors on Stock Prices in Nepal using 13 commercial banks consisting of 104 observations from 2007 to 2014 in Nepal. The study used stock price as the dependent variable and ROE, ROA, NPM, DPS, and EPS as the independent variable. It has been found that ROA, EPS, and DPS have a positive relationship with the market price per share of banks. The beta coefficients are significant for DPS and EPS at a 5 percent significance level. This indicates that an increase in ROA, EPS, and DPS leads to an increase in the market price per share of the banks. The major conclusion of this study is that return on assets (ROA), Earnings per share (EPS), and dividends per share (DPS) are the major factors affecting market price per share in Nepalese commercial banks.

Bhattarai (2018) seeks to investigate how macroeconomic and firm-specific factors affect the share prices of seven banks and six insurance companies in Nepal between 2009/10 and 2014/15. Using multiple regression analysis, the study discovered that there is a positive correlation between market price per share (MPS) and variables like dividend payout ratio (DPR), earnings per share (EPS), and dividend per share (DPS). This suggests that an increase in these factors would increase MPS. Conversely, return on equity (ROE), return on assets (ROA), money supply (MS), and inflation rate (IR) were negatively correlated with MPS, suggesting that an increase in these variables would result in a lower MPS. Importantly, the study revealed that the firm's size, EPS, DPS, price-earnings ratio, GDP growth rate, and exchange rate have a statistically significant positive impact on MPS. In contrast, ROE, ROA, MS, and IR were negatively related but statistically significant. These findings provide valuable insights into the key drivers of share prices in the Nepalese banking and insurance sector context.

Ghimire and Mishra (2018) studied the determinants of Stock Price in the Nepalese Market using the sample size of 11 financial and nonfinancial firms in Nepal from 2012 to 2017. This study uses simple and multiple regression analysis and descriptive statistics to investigate the factors affecting stock prices. MPS is a dependent variable, and DPS, EPS, P/E ratio, Book values, and Market to book values are independent

variables. The result indicates that the Market-to-book value and the P-E ratio are the significant determinants of stock price which directly affect the stock price. Likewise, DPS and BV also have a significant positive influence on stock price, whereas EPS has a minimal influence on stock price.

Gautam and Bista (2019) investigate the determinants influencing the share price of 15 non-life insurance companies in Nepal over the fiscal period 2011/12 to 2017/18. The results highlight that firm size is positively associated with market share price and price-earnings ratio, suggesting a larger firm size positively impacts share price. Conversely, the study found inflation to have a negative relationship with the market share price and the price-earnings ratio. The research also indicates that dividend per share, return on assets, and earnings per share are negatively related to market share price and price-earnings ratio. Contrary to expectations, the study found that an increase in return on assets and earnings per share does not necessarily lead to an increase in stock price. As a result, three of the five proposed hypotheses which included the idea that dividends per share, return on assets, earnings per share, and share price are positively correlated were disproved. The results suggest that numerous factors affect share price rather than just one. The study concludes that, especially for Nepalese non-life insurance companies, return on assets has the greatest impact on share price, followed by earnings per share. This research is useful because it helps prospective investors make investment decisions by outlining important variables that affect share prices.

Thapa (2019) conducted a study to examine the relationship between selected macroeconomic variables and the stock market price of Nepalese insurance companies listed on the Nepal Stock Exchange (NEPSE) from July 2003 to June 2018. The monthly stock market index of Nepalese insurance companies of NEPSE was taken as a proxy for the stock market price of insurance companies, and interest rate, gold price, money supply, and equity market capitalization were taken as proxies for macroeconomic variables. The methodology used a cointegration test to investigate the long-term relationship between variables and Nepalese insurance companies' stock market prices. The Phillips Perron (PP) and Augmented Dickey Fuller (ADF) tests were used to assess the stationarity of the variables. A cointegration test was employed to ascertain the long-term relationship when variables were discovered to have the same order of integration. The study also

followed a vector error correction model to capture the short-run dynamics. The findings showed a long-run equilibrium among the macroeconomic variables and stock market prices of Nepalese insurance companies listed on NEPSE.

The relationship between stock market prices (measured by the NEPSE index) and five macroeconomic variables–real GDP, broad money supply, interest rate, inflation, and exchange rate is analyzed by Panta (2020). An autoregressive distributed lag (ARDL) model is employed in this analysis, which covers 25 years from 1994 to 2019, to comprehend the dynamics of the Nepal Stock Exchange Index. The study employs an error correction model (ECM) that is sourced from the ARDL model to integrate short-term modifications effectively with long-term equilibrium while preserving long-term details. The results suggest a strong long-term association between the NEPSE Index's fluctuation and broad money supply, interest rate, inflation, and exchange rate. In the short term, GDP, money supply, and exchange rate positively influence the index, whereas only money supply retains a positive relationship in the long run. Despite the Nepalese stock market not being fully matured or developed, the study concludes that the broad money supply, interest rate, inflation, and exchange rate are significant determinants of stock market prices in Nepal, emphasizing the need for policies and strategies that reflect these variables.

Wagle (2021) examined the empirical factors that impact the price of commercial banks' stock from 2015–16 to 2019–20. A descriptive and causal-comparative research design was used to analyze 130 observations using secondary data from the annual reports of 26 commercial banks in Nepal. Regression analysis, mean, standard deviation, and correlation were used. The study primarily focused on internal factors, including Market Book ratio (M/B), Price-earnings ratio (P/E), Earning Yield ratio (E/Y), and Dividend Yield ratio (D/Y), as critical determinants of stock market prices. Wagle found that M/B, P/E, and E/Y ratios positively correlate with the stock market price, while D/Y exhibited a significant negative relationship. The D/Y ratio did not significantly affect stock market price, although it was positively correlated. This study sheds light on Nepal's stock market returns dynamics and future prospects for investors, bankers, academics, and government officials. It also clarifies the critical role that internal factors play in determining stock market prices.

Shrestha and Lamichhane (2022) explored the impact of firm-specific variables on the stock returns of Nepalese commercial banks. The researchers employed multivariate regression analysis, with stock return as the dependent variable and firm-specific variables, such as size (lnME), book-to-market equity (BE/ME), earnings yield (E/P), dividend yield (D/P), return on assets (ROA), earning per share (EPS), and sales per share to stock price (S/P) ratio as explanatory variables. The study, based on these internal factors, concluded that dividend yield (D/P) and earning per share (EPS) have a positive effect, while earnings yield (E/P), return on assets (ROA), and sales per share to stock price (S/P) ratio have a negative impact on the stock returns of Nepalese commercial banks. Thus, it suggests that Nepalese commercial banks need to enhance D/P and EPS and lower E/P, ROA, and S/P ratios to increase common stock returns. This research provides critical insight to investors for investment decisions and bank management for enhancing the stock returns of Nepalese commercial banks.

Table 2.2

Summary of Nepalese Empirical Review

Author(s), Year	**Finding**
Pradhan (1993)	The study finds that larger stocks exhibit lower liquidity and profitability, while smaller stocks show greater volatility in financial ratios. Stocks with higher market-to-book values and high price-earnings ratios generally have weaker financial metrics. Dividend-paying stocks generally outperform, but the dividend size impacts financial ratios' volatility.
Shrestha and Subedi (2014)	The stock market tends to be highly sensitive and volatile; we examine the determinants of the stock market index on monthly data. We have found the Nepalese 27stock market has been behaving as we expected theoretically.
Pradhan & Dahal (2016)	The study concluded that variables like earnings per share, book value per share, and return on assets have very weak effects in determining market price per share. It identified that the market price per share of the banks is mostly affected by dividends per share, the size of the firm, and the money supply.
Poudel (2016)	The findings from the Z test show that there is a statistically significant relationship between the variables. Even though DPS, BVPS, and EPS affect the MPS positively, several other factors, i.e., internal and external environment, affect the stock market price. Theoretically, when earnings, dividends, and book value per share increase, the market price increases and vice versa.
Gautam (2017)	Market capitalization, leverage, dividend payout ratio, and dividend yield ratio are positively related to stock returns, which indicates that the higher the market capitalization, leverage, dividend payout, and dividend yield ratio, the higher the stock return.
Pradhan & Paudel (2017)	The study found that ROA, EPS, and DPS have a positive relationship with banks' market price per share. The beta coefficients are significant for DPS and EPS at a 5 percent significance level. This indicates that an increase in ROA, EPS, and DPS leads to an increase in the market price per share of the banks. The major conclusion of this study is that return on assets (ROA),

Author(s), Year	Finding
	Earnings per share (EPS), and dividends per share (DPS) are the major factors affecting market price per share in Nepalese commercial banks.
Bhattarai (2018)	The study concludes that the major factors of specific ROE, ROA, EPS, DPS, P/E Ratio, size, and macroeconomic: MS, GDPR, ER, and IR affect the share prices of banks and insurance companies in the Nepalese context.
Ghimire & Mishra (2018)	The result indicates that the variables Market-to-BV and P-E ratio are significant determinants of stock price, directly affecting the stock price. Likewise, DPS and BV also have a significant positive influence on stock price, whereas EPS has a minimal influence on stock price.
Gautam and Bista (2019)	The result shows that firm size positively relates to the market share price and price-earnings ratio. It indicates that a larger firm size increases the market price of share and price-earnings ratio. However, the study shows that inflation is negatively related to the market price of shares and the price-earnings ratio. The study also shows that dividend per share and return on assets are negatively related to the market share price and price-earnings ratio. Similarly, earnings per share have a negative relationship with the market price of the share and the price-earnings ratio. Companies
Thapa (2019)	Earnings per share (EPS), dividend per share (DPS), effective rules and regulations, market whims and rumors, company profiles, and success, depending upon luck, have a significant positive association with the share price. In contrast, interest rate (IR) and price-to-earnings ratio (PER) showed a significant inverse association with the share price. More importantly, the stock market has been found to respond significantly to changes in dividend and interest rates.
Panta (2020)	The result indicates that the fluctuation of the NEPSE Index in the long run is strongly associated with broad money supply, interest rate, inflation, and exchange rate. The GDP, money supply, and exchange rate can be positively defined in the short run, while only the money supply holds a positive relationship in the long run.
Wagle (2021)	Market-to-book proportion (M/B), Price-earnings proportion (P/E), and Earning Yield proportion (E/Y) have a significant positive association with the stock market price. In contrast, the Dividend Yield proportion (D/Y) has a positive but insignificant impact on the stock market price.
Shrestha and Lamichhane (2022)	The positive impact of D/P and EPS and the negative effect of E/P, ROA, and S/P ratio on the stock return of Nepalese commercial banks.

2.3 Research Gap

Despite its unique attributes and substantial role in the financial market, there is a noticeable lack of research focusing specifically on the non-life insurance sector. Many existing studies have examined the determinants of stock prices, but the emphasis on non-life insurance companies has been relatively minimal. While other studies have explored what affects stock prices more generally, this study targets non-life insurance companies. This sector has unique characteristics that haven't been extensively explored in previous research. Many existing studies overlook Nepal's particular economic, regulatory, and market conditions. This study recognizes that these contextual factors in Nepal can significantly influence stock prices and tailors

the investigation accordingly. Unlike previous research, this study includes the latest updated data up to 2022, considering the changing scenarios of mergers and acquisitions. This helps to provide a more current and relevant analysis. This study considers the profound effects of the COVID-19 pandemic, a factor that may have been absent or underemphasized in previous research. The pandemic has caused significant shifts in the economic landscape, and this study aims to understand how those changes have influenced the non-life insurance sector. There is a lack of studies that track these determinants over extended periods. This study's longitudinal approach can offer valuable insights into how different factors change in importance over time, especially in a rapidly evolving economic environment.

This study distinguishes itself from previous research by its specific focus, up-to-date data inclusion, consideration of recent world events like the COVID-19 pandemic, a comprehensive examination of influencing factors, and an aim to predict future trends. It's a more tailored and nuanced exploration that could offer richer and more practical insights, especially in the context of Nepal.

CHAPTER III
RESEARCH METHODOLOGY

This chapter outlines the methodology that was employed in this research. It provides an overview of the research design, the population and sample, the data collection methods, the data analysis techniques, and the ethical considerations that guided the study.

3.1 Research Design

The study looked at what affects the stock prices of non-life insurance companies. It used a quantitative research method, focusing on numbers and facts that can be measured. This approach fits well with the study's goal, as it helps to see clear connections between different factors.

This study used two main designs to understand these connections: descriptive and causal-comparative research. The descriptive part helped to get a clear picture of what was happening by looking closely at all the details. The comparative part, on the other hand, helped to compare these details to one another to see how they relate and their effect on stock prices. By using both of these designs together, the study was able to get a complete and detailed understanding of what influences the stock prices in these specific insurance companies.

3.2 Population and Sample

This study's target population comprises 19 non-life insurance companies operating in Nepal as of mid-July 2022. However, only a subset of this population, i.e., a sample, is selected for the study due to practical constraints such as time, cost, and data availability. For this research, the sample comprised 11 of the country's 19 active non-life insurance companies in 2022. The selection of these 11 companies is based on a convenience sampling strategy representing 57.89% and thought to be sufficient to be generalizable result. Convenience sampling, as the name suggests, is a type of non-probability sampling where the subjects are chosen due to their convenient accessibility of data and proximity.

Data availability primarily drives the use of convenience sampling in this study. As such, companies were included in the sample based on the accessibility and comprehensiveness of their financial and operational data. This ensured that the study was conducted with sufficient and appropriate data, enhancing the findings' reliability

and validity. It is worth noting that while convenience sampling offers several practical advantages, it may not provide a fully representative sample of the population. However, given the relatively small size of the population (i.e., 19 companies), the sample of 11 companies is expected to provide valuable insights into the determinants of stock prices in the non-life insurance sector. In 2023, some insurance companies in Nepal merged, and the number decreased to 14 as of March 2024. Therefore, some sample companies included in this study do not exist now. For this research, companies existing up to 2022 are also taken as samples, even if they merged afterward. The names of non-life insurance companies (sample) that are analyzed in this study are:

Table 3.1

Name of Sample Non-life Insurance Companies

SN	Non-Life Insurance Company	Abbreviations
1	Nepal Insurance Company Limited	NICL
2	Sagarmatha General Insurance Company	SGIC
3	Everest Insurance Company Limited	EICL
4	United Insurance Company Limited	UICL
5	Neco Insurance Limited	NECO
6	Lumbini Insurance Company Limited	LICL
7	Prabhu Insurance Company Limited	PICL
8	Sanima General Insurance Company Limited	SGICL
9	Shikhar Insurance Company Limited	SICL
10	NLG Insurance Limited	NLGIL
11	Premier Insurance Company Limited	PRICL

3.3 Data source

The study primarily utilizes secondary data, which refers to pre-existing data collected by others for various research or administrative purposes. This secondary data is drawn from two main sources: the annual reports of the non-life insurance companies analyzed in the study and the financial databases maintained by the Nepalese Stock Exchange. Annual reports are a rich and reliable source of information, particularly for financial research, as they offer comprehensive data on a company's financial performance, encompassing aspects like profitability, liquidity, solvency, and other key financial indicators. Additionally, annual reports often include insightful

discussions and analyses by management on financial results and influencing factors, providing valuable perspectives on the company's performance and future prospects.

The data collection period for this study spans seven fiscal years, from 2016 to 2022. This timeframe was chosen to allow for a comprehensive review of the trends and patterns in the stock prices of non-life insurance companies and the factors influencing them. With this extensive time range, the study could capture the fluctuations and changes in the stock prices and the impacting variables, thereby offering a more thorough and profound understanding of the research topic.

3.4 Data Analysis Tools

The data for this study is analyzed using a range of analytical tools, each selected for its specific advantages and its appropriateness in examining the type of data collected. The chosen data analysis methods are descriptive statistics (including mean and standard deviation), correlation, and regression analysis. Descriptive statistics offer a simple summary and provide an overview of the data collected. They offer basic yet critical insights that pave the way for more advanced analysis. Two fundamental measures used in this study are mean and standard deviation. In addition to descriptive statistics, correlation and regression analysis are utilized. Both are inferential statistical techniques used to analyze relationships between variables.

Mean: The Mean is the average of a set of values and measures central tendency. This is particularly useful for knowing a dataset's 'typical' value. It helps to describe the data set in a single number representing a 'center' or 'middle' of the data distribution. This will help to understand the average stock prices of non-life insurance companies and other key variables in the study. The formula for mean is given as:

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

Standard Deviation: This measures the amount of variability or dispersion in a dataset. A low standard deviation indicates that values tend to be close to the mean, while a high standard deviation signifies that the values spread out over a wider range. It is useful in understanding the volatility of stock prices and other variables in this study. The following formula is used to calculate the standard deviation.

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{\Sigma(X - \mu)^2}{N}}$$

Correlation: This analysis helps to understand the strength and direction of the relationship between two variables. This study provides initial evidence of relationships between stock prices and firm-specific and macroeconomic variables. The correlation coefficient is calculated using the following formula:

$$\text{Correlation } (r) = \frac{\Sigma(Xi - \bar{X})(Yi - \bar{Y})}{\sqrt{\Sigma(Xi - \bar{X})^2 \times \Sigma(Yi - \bar{Y})^2}}$$

Regression: This is an advanced analytical tool that allows for the prediction and influence of one variable on another. It helps to quantify the relationship between a dependent variable (in this case, stock prices) and one or more independent variables (firm-specific and macroeconomic factors). Multiple regression analysis, used in this study, is particularly useful as it allows for the simultaneous examination of the effects of multiple variables on stock prices. The regression model is specified as follows:

$$MPS_{it} = a + \beta_1 CS_{it} + \beta_2 NI_{it} + \beta_3 CR_{it} + \beta_4 DPR_{it} + \beta_5 EA_{it} + \beta_6 PG_{it} + \beta_7 CP_{it} + \varepsilon_{it}$$

where MPS_{it} is the market price per share of the company i in year t

CS_{it} is the size of sample company i in year t

NI_{it} is the net income of company i in year t

CR_{it} is the current ratio of company i in year t

DPR_{it} is the dividend payout ratio of the company i in year t

EA_{it} is the ratio of equity to total assets of the company i in year t

PG_{it} is the growth rate in a premium collection of the company i in year t

CP_{it} is the claim payout ratio of company i in year t

ε_{it} is the random error term

3.5 Research Framework and Definition of Variables

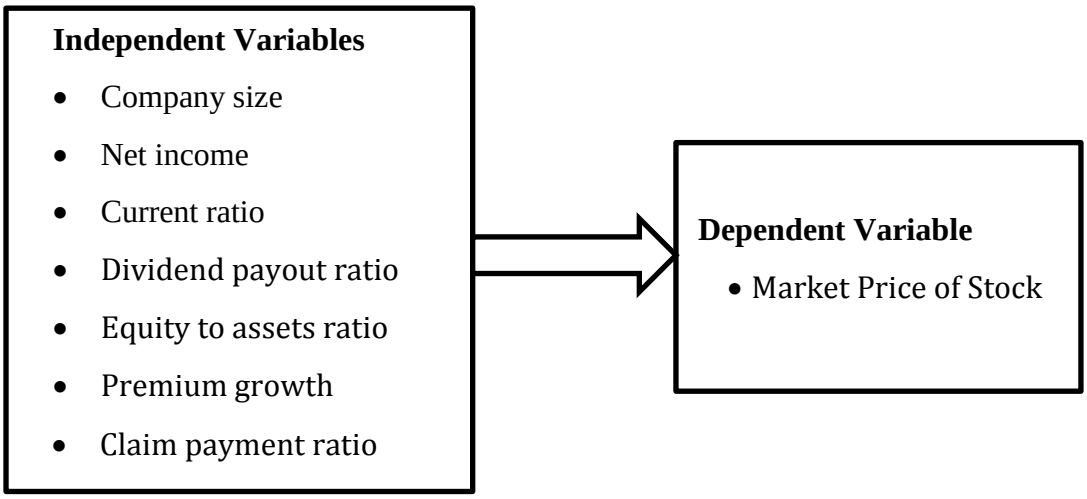
Based on the literature review presented in chapter two of this report, certain dependent and independent variables have been selected to be included in this study. These variables have been presented in Figure 1, and the description follows the Figure 1.

Company Size: Firm size is one of the factors that can impact a company's share price. The size of a firm is typically measured by its market capitalization, which is the total value of a company's outstanding shares of stock. Larger firms generally

have higher total assets, which can lead to greater liquidity and lower volatility in their share price. According to Gautam and Bista (2009), there is a positive relationship between the market price of shares and firm size, which reveals that the larger the firm size, the higher the market price of shares. Total assets measure firm size for the purpose of this study.

Figure 3.1

Research Framework



(Source: Moradi et al., 2021; Lee & Chiu, 2018; Lalon, 2021)

Net Income: Profitability refers to the ability of a business or organization to generate profit or financial gain relative to its expenses and investments. It is a measure of a company's financial performance and indicates how effectively the company is using its resources to generate profits. The net income of the company is an indicator of the profitability of the company.

However, it is important to note that profitability should not be the only factor considered when evaluating a company's financial performance. Other factors, such as liquidity, solvency, and operational efficiency, should also be considered to get a complete picture of the company's financial health (Bhattarai, 2018). The result shows that NI is negatively correlated with MPS, which indicates that a higher NI would lower the market price per share. Net income is used as the proxy of profitability in this study.

Current Ratio: The ability of a company to satisfy its short-term obligations with its available assets is determined by the liquidity ratio in non-life insurance companies. The Current Measure, determined by dividing current assets by current liabilities, is

the liquidity ratio most frequently employed in the insurance industry. The higher the ratio, the better the company's liquidity position. However, it's important to note that insurance companies may also use other liquidity ratios, such as the Quick Ratio, to provide a more comprehensive view of their financial position.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current liabilities}}$$

Dividend Payout Ratio: A dividend is a distribution of a company's profits to its shareholders. A company's board of directors makes the decision to pay dividends based on factors such as profitability, cash flow, and investment opportunities. In the case of non-life insurance companies, dividends can play an important role in attracting and retaining investors. Investors are generally attracted to companies that pay regular and increasing dividends as it indicates that the company is profitable and committed to returning value to its shareholders. The impact of dividends on the stock price of non-life insurance companies can be significant. When a company announces a dividend, it signals to investors that it is financially stable and has confidence in its future prospects. This can increase demand for the company's stock, increasing the stock price. According to Aveh and Vitor (2017), DPS has a significant positive relationship with the stock market price.

$$\text{Dividend payout ratio (DPR)} = \frac{\text{Dividend Per Share}}{\text{Earnings Per Share}}$$

Equity to Assets Ratio: The equity to assets ratio measures the percentage of a company's total assets that are financed by equity. In the case of non-life insurance companies, a higher equity-to-assets ratio is generally viewed as positive because it suggests a stronger financial position and lower risk. A healthy non-life insurance company may have an equity-to-assets ratio of around 20% to 30%. However, this ratio can vary from company to company and should be considered alongside other financial metrics when evaluating an insurance company's financial health.

$$\text{Equity to Assets Ratio} = \frac{\text{Equity}}{\text{Total Assets}}$$

Premium Growth: Lack of stability in the insurer's operations is indicated by a significant increase or decrease in the volume of net premium written. Furthermore, a significant premium rise can indicate that the insurer uses cash flow underwriting to pay the claim. This ratio is calculated as the difference between the current year's net premium and the previous year's net premium.

$$\text{Premium Growth} = \frac{\text{Current premium - Previous premium}}{\text{Previous premium}}$$

Claim Payment Ratio: The claim ratio of a non-life insurance company is a financial metric used to measure the efficiency of an insurance company in settling claims. It is calculated as the ratio of total claims incurred during a given period to the total premium earned during that period. The claim ratio indicates how much an insurance company can cover its policyholder claims through the premiums it collects. A lower claim ratio indicates that the company is more efficient in settling claims and can retain more of its premium income. A higher claim ratio may indicate that the company faces challenges in settling claims or that its pricing policies are too low. The claim ratio is a useful metric for regulators and investors to assess a non-life insurance company's financial performance and stability.

$$\text{Claim Ratio} = \frac{\text{Net claim}}{\text{Net premium earned}}$$

CHAPTER IV
RESULTS AND DISCUSSION

This chapter, which illustrates the interdependencies between the various facets of Nepal's non-life insurance industry, is the most significant portion of the study. It begins with an explanation of the information gathered. Subsequently, a comprehensive examination and evaluation of these numerical metrics is conducted through the utilization of both fixed and random effects regression models. These models illustrate the relationships and reciprocal effects between the variables. This provides a thorough understanding of the variables influencing market price per share.

4.1 Result

Each variable is subjected to an initial single-variable analysis as part of an organized process. This provides you with a general understanding of the data's trends, ranges, and central tendencies, among other things. Regression models are then used to perform dependable multivariate analysis, considering the intricate nature of real-world factor interactions.

The expected change in the market price for each unit change in each independent variable is then displayed by reading the regression model coefficients. P-values are then used to quantify the statistical significance of these relationships, which facilitates comprehension of their significance.

4.1.1 Company Size

Upon examination of company size Table 4.1, we find that performance varies from 2016 to 2022. Over the years, SICL has remained the largest company, consistently outperforming its rivals. This company's size peaked in 2021, solidifying its position as the top company in this dataset about scale. Conversely, over the specified period, SGICL consistently ranks as the smallest company; its size peaked in 2016.

Regarding stability, NECO is notable for having stayed comparatively constant in size over the seven years. This suggests a balanced growth strategy that steers clear of both significant contractions and unsustainable expansions. Trends show that most businesses, including SGIC, have grown over time. This can be inferred from the size of SGIC in 2016 concerning the years that followed up until 2022. To sum up, the

biggest, smallest, and most stable companies are SICL, SGICL, and NECO, in that order. In the meantime, SGIC is a prime example of the overall pattern of the studied companies' size growth. These observations demonstrate the diverse ways in which non-life insurance companies have developed and handled their growth over time.

Table 4.1

Company Size

	2016	2017	2018	2019	2020	2021	2022	Mean	SD
NICL	1.95	2.15	3.23	43.15	4.74	47.97	5.19	15.48	20.63
EICL	6.95	6.41	4.38	47.18	4.91	37.34	4.94	16.02	18.17
UICL	1.40	1.75	1.29	14.56	2.52	32.87	3.67	8.29	11.82
NECO	1.37	2.26	3.28	38.57	5.05	71.42	8.37	18.62	26.69
LICL	3.98	3.71	3.54	44.57	4.92	64.49	7.08	18.90	25.04
PICL	1.47	2.00	2.46	29.51	3.53	43.03	3.55	12.22	16.90
SGICL	0.80	1.21	1.81	32.26	3.42	46.86	5.77	13.16	18.59
SICL	5.33	6.45	5.33	56.78	8.10	95.07	11.25	26.90	35.32
NLGIL	2.90	3.02	3.45	38.79	4.76	53.58	5.83	16.05	21.05
PRICL	2.26	3.03	3.46	44.06	4.91	61.01	6.94	17.95	24.17
SGIC	1.76	2.05	3.00	35.75	3.90	4.17	4.70	7.91	12.33
Mean	2.74	3.09	3.20	38.65	4.61	50.71	6.12		
S D	1.92	1.79	1.11	10.95	1.42	23.33	2.24		

Source: Annual report of sample institution

4.1.2 Net Income

Looking at net profit in Table 4.2 from 2016 to 2022, there are a few interesting trends and anomalies to note. When it comes to net profit, SICL is always at the top. Its dominance in net profit was especially noticeable in 2018, as it surpassed all other companies. In contrast, UICL's lowest net profit recorded in 2016 highlights the company's financial difficulties. SGIC stands out in terms of stability. Despite experiencing some moderate fluctuations in its net profit, the company outperformed its peers, suggesting that its financial status remained relatively stable.

Keeping an eye on growth patterns, NECO's net profit has increased significantly over the previous seven years. Its net profit has steadily increased since starting at a low point in 2016, making it the company with the most noticeable upward trajectory in

this dataset. According to the criteria of highest net profit, lowest net profit, most stable performance, and strongest growth trend, SICL, UICL, SGIC, and NECO stand out as noteworthy companies. These results highlight how these non-life insurance companies' financial performances varied during the study period.

Table 4.2

Net Income

Net Income	2016	2017	2018	2019	2020	2021	2022	Mean	SD
NICL	1.15	1.14	0.86	2.17	2.52	2.38	3.32	1.93	0.90
EICL	1.31	0.99	1.41	2.36	1.72	0.99	1.51	1.47	0.47
UICL	(2.59)	2.42	0.82	0.22	0.17	0.94	1.58	0.51	1.58
NECO	1.22	1.73	2.71	3.49	4.83	5.07	5.47	3.50	1.69
LICL	2.07	2.73	3.33	1.95	3.84	4.47	3.71	3.16	0.94
PICL	1.49	1.67	2.39	2.57	2.58	2.24	2.38	2.19	0.43
SGICL	0.38	0.64	1.60	1.39	2.10	1.84	1.48	1.35	0.62
SICL	3.07	3.35	4.56	4.03	4.09	3.12	2.64	3.55	0.69
NLGIL	2.30	2.01	2.48	2.02	2.59	1.60	2.12	2.16	0.33
PRICL	1.86	2.24	2.88	2.48	3.36	3.48	3.56	2.84	0.66
SGIC	1.52	1.76	2.07	2.07	1.91	1.81	1.31	1.78	0.28
Mean	1.25	1.88	2.28	2.25	2.70	2.54	2.64		
S.D.	1.45	0.79	1.11	0.99	1.29	1.35	1.28		

Source: Annual report of sample institution

4.1.3 Current Ratio

The current ratio, a crucial measure of a company's short-term liquidity position, differs greatly between the non-life insurance companies being examined, as Table 4.3 demonstrates. As the company best suited to meet its short-term liabilities with short-term assets in 2016, EICL had the highest current ratio. But NICL constantly lags behind other businesses; in 2022, it had the lowest current ratio, suggesting it might have trouble paying short-term obligations. NICL is notable because it has the lowest standard deviation when examining the stability of the current ratio over time. This indicates that the company's liquidity position has remained stable throughout the time. Over the years, NLGIL's current ratio has exhibited an increasing trend in terms of growth, suggesting a consistent improvement in its short-term liquidity

position. In 2016, EICL recorded the highest current ratio; in 2022, NICL showed the most stable performance with the lowest ratio. One notable feature of NLGIL is its steady upward trend. These observations comprehensively understand the non-life insurance companies' financial stability and liquidity over the period.

Table 4.3

Current Ratio

	2016	2017	2018	2019	2020	2021	2022	Mean	SD
NICL	0.71	0.71	0.72	0.86	0.82	0.88	0.60	0.76	0.10
EICL	26.13	7.10	3.03	4.35	4.29	7.83	6.36	6.46	7.98
UICL	4.63	4.16	2.37	2.63	2.71	3.66	3.08	3.25	0.85
NECO	2.33	1.05	1.23	1.37	1.46	4.03	3.50	2.39	1.19
LICL	6.23	4.67	2.86	2.34	2.58	4.63	3.94	3.77	1.40
PICL	3.42	3.12	3.76	5.18	5.07	8.53	1.06	4.96	2.32
SGICL	1.47	2.97	2.79	2.54	2.79	3.82	3.80	3.03	0.80
SICL	2.60	2.05	1.26	1.12	2.71	6.54	5.46	2.69	2.09
NLGIL	3.56	3.07	2.73	2.51	3.42	5.01	6.31	3.77	1.37
PRICL	3.46	2.27	2.44	2.55	5.39	3.35	2.87	3.22	1.07
SGIC	2.17	2.15	2.61	2.74	3.22	6.15	3.55	3.19	1.39
Mean	5.16	3.03	2.35	2.56	3.13	4.95	3.68		
SD	7.12	1.79	0.91	1.29	1.39	2.19	1.86		

Source: Annual report of sample institution

4.1.4 Dividend Payout Ratio

The percentage of net income that a company distributes as dividends to its shareholders, known as the dividend payout ratio, varies greatly amongst the companies as presented in Table 4.4. With the highest dividend payout ratio ever in 2016, SICL clearly gave away a significant amount of its profits to its investors. Conversely, UICL continuously declared a zero-dividend payout ratio through 2022, indicating that the company did not distribute any dividends to its investors during that time, resulting in the lowest ratio for a number of years. In terms of stability, up until 2022, UICL's dividend payout ratio showed the least variation, as shown by the low standard deviation. This constancy suggests a consistent dividend policy over the long run. When it comes to a business showing a growth trend, NICL appears to have

a discernible pattern of rising dividend payout ratios over time, demonstrating the company's growing propensity to distribute profits to shareholders. UICL showed the most stable dividend performance and consistently reported the lowest ratios until 2022, while SICL had the highest dividend payout ratio in 2016. In the meantime, NICL stands out for its pattern of rising dividend disbursements.

Table 4.4

Dividend Payout Ratio

	2016	2017	2018	2019	2020	2021	2022	Mean	SD
NICL	5.26	2.26	7.50	7.89	10.00	11.58	8.42	7.56	3.06
EICL	21.05	15.00	0.00	-7.75	-6.75	-7.00	0.00	2.08	11.49
UICL	0.00	0.00	0.00	0.00	0.00	0.00	5.26	0.75	1.99
NECO	21.05	10.53	12.63	9.14	16.32	15.79	15.79	14.46	4.03
LICL	23.16	0.00	86.00	0.00	11.58	21.05	13.05	22.12	29.59
PICL	17.00	19.00	0.00	16.00	11.00	12.00	0.43	12.50	7.73
SGICL	0.00	0.00	5.00	6.32	7.37	7.37	6.32	4.63	3.26
SICL	63.16	30.52	0.00	0.00	38.00	0.00	16.84	21.22	24.14
NLGIL	26.32	26.32	0.00	7.37	10.53	10.53	10.53	13.09	9.78
PRICL	30.00	20.00	15.48	0.00	3.00	0.00	9.47	11.14	11.33
SGIC	19.00	27.00	0.00	10.24	10.00	10.00	7.25	11.93	8.68
Mean	20.55	13.69	11.51	4.47	10.10	7.39	8.49		
SD	17.43	11.80	25.34	6.64	11.24	8.27	5.50		

Source: Annual report of sample institution

The percentage of net income that a company distributes as dividends to its shareholders, known as the dividend payout ratio, varies greatly amongst the companies we're looking at. With the highest dividend payout ratio ever in 2016, SICL clearly gave away a significant amount of its profits to its investors. Conversely, UICL continuously declared a zero-dividend payout ratio through 2022, indicating that the company did not distribute any dividends to its investors during that time, resulting in the lowest ratio for a number of years. Until 2022, UICL's dividend payout ratio showed the least amount of volatility, as evidenced by its low standard deviation. This constancy suggests a consistent dividend policy over the long run. When it comes to a business that appears to be on the rise, NICL appears to be the one with a discernible pattern of rising dividend payout ratios over time, signifying the

company's growing propensity to distribute profits to shareholders. UICL showed the most stable dividend performance and consistently reported the lowest ratios until 2022, while SICL had the highest dividend payout ratio in 2016. In the meantime, NICL stands out for its pattern of rising dividend disbursements.

4.1. 5 Equity to Total Assets Ratio

Table 4.5 shows the equity-to-total asset ratio, which is an important indicator of a company's financial health, as it shows how much of a company's assets are financed by equity.

Table 4.5

Equity to Total Asset Ratio

	2016	2017	2018	2019	2020	2021	2022	Mean	SD
NICL	0.29	0.3	0.34	0.4	0.41	0.47	0.48	0.39	0.08
EICL	0.1	0.12	0.34	0.37	0.38	0.52	0.42	0.32	0.16
UICL	0.17	0.27	0.42	0.39	0.53	0.45	0.44	0.38	0.12
NECO	0.42	0.51	0.56	0.57	0.51	0.43	0.44	0.49	0.06
LICL	0.25	0.33	0.44	0.39	0.43	0.41	0.43	0.38	0.07
PICL	0.43	0.51	0.59	0.63	0.56	0.51	0.65	0.54	0.08
SGICL	0.2	0.42	0.43	0.43	0.46	0.38	0.43	0.39	0.09
SICL	0.28	0.28	1	0.48	0.41	0.4	0.42	0.47	0.25
NLGIL	0.38	0.42	0.42	0.43	0.49	0.49	0.48	0.44	0.04
PRICL	0.34	0.35	0.39	0.42	0.44	0.4	0.4	0.39	0.03
SGIC	0.36	0.39	0.47	0.48	0.52	0.52	0.5	0.46	0.06
Mean	0.29	0.35	0.49	0.45	0.47	0.45	0.46		
SD	0.11	0.11	0.19	0.08	0.06	0.05	0.07		

Source: Annual report of sample institution

SICL had the highest equity-to-total-asset ratio in 2018, indicative of a solid balance sheet with a large percentage of its assets financed by equity during that year. Conversely, EICL had the lowest ratio in 2016, indicating that a smaller percentage of its assets were financed by equity during this time. Regarding stability, the equity to total asset ratio of PRICL has shown the most consistent performance, as indicated by the lowest standard deviation. This continuity over time is suggestive of a sound financial structure. In terms of growth patterns, NICL has demonstrated a consistent

pattern of rising equity-to-total asset ratios over time, signifying the company's growing reliance on equity funding. In 2016, EICL had the lowest equity-to-total asset ratio, while SICL had the highest ratio in 2018. In the meantime, NICL showed a distinct upward trend in this measure, while PRICL showed the most consistent performance.

4.1.6 Premium Growth Rate

Table 4.6 displays the premium growth rate. It is a crucial metric for insurance companies since it shows how quickly their premium income is increasing annually. Out of all the companies, UICL had the highest premium growth rate in 2016. This suggests that UICL had seen the largest increase in their income from insurance premiums during that particular year. Conversely, NICL had the lowest premium growth rate in 2016. This implies that NICL's insurance premium income decreased or increased very little this year. NLGIL showed the most consistent performance with the lowest standard deviation regarding stability. This suggests that NLGIL's premium growth rate has remained consistent over time, devoid of significant swings.

Table 4.6

Premium Growth Rate

	2016	2017	2018	2019	2020	2021	2022	Mean	SD
NICL	-0.05	0.02	0.19	0.34	0.00	0.20	0.11	0.12	0.14
EICL	25.12	-4.42	-4.20	22.51	-9.72	24.72	16.48	10.07	15.50
UICL	44.00	25.27	-22.87	2.25	43.23	57.86	41.81	27.36	28.36
NECO	58.01	33.12	29.12	15.37	8.22	16.48	18.19	25.50	16.65
LICL	48.48	33.10	30.44	18.43	3.57	16.05	18.73	17.44	14.51
PICL	48.24	54.00	8.01	8.01	42.64	31.24	25.62	12.64	18.47
SGICL	-2.59	8.67	45.02	25.72	10.45	8.70	13.47	20.67	15.41
SICL	58.00	62.79	21.56	2.94	0.98	13.06	24.34	12.58	24.92
NLGIL	4.18	12.24	10.53	10.71	4.16	17.73	11.36	10.13	4.75
PRICL	20.26	29.06	19.08	4.07	8.13	17.18	10.93	15.53	8.45
SGIC	16.75	17.00	12.00	8.00	-7.00	12.00	19.00	8.80	8.83
Mean	29.13	24.62	13.53	10.76	9.51	19.57	18.19		
SD	23.14	20.97	18.64	8.63	17.63	15.01	10.50		

Source: Annual report of sample institution

Regarding growth trends, UICL has demonstrated a general trend of rising premium growth rates over the period. This may indicate that UICL's customer base is expanding or that the average premium per policy has been rising over time. In 2016, NICL recorded the lowest premium growth rate, while UICL recorded the highest. NLGIL, on the other hand, demonstrated the most consistent performance, while UICL's premium growth rate showed an upward trend.

4.1.7 Claim Payment Ratio

In analyzing Table 4.7 claim payment ratios, we find that different companies have demonstrated varying performances from 2016 to 2022.

Table 4.7

Claim Payment Ratio

	2016	2017	2018	2019	2020	2021	2022	Mean	SD
NICL	0.84	0.53	0.55	0.46	0.33	0.49	0.29	0.50	0.18
EICL	22.09	82.25	44.54	49.38	69.09	50.64	130.34	64.05	34.85
UICL	99.24	129.02	107.69	93.32	69.21	68.46	54.98	88.85	25.97
NECO	49.00	49.78	48.77	50.82	49.73	56.16	52.94	51.03	2.66
LICL	56.47	42.34	49.25	72.90	64.01	75.48	71.99	66.73	12.80
PICL	25.00	27.00	30.00	30.00	33.25	49.70	39.50	38.43	8.54
SGICL	57.35	35.25	33.56	56.35	44.12	63.60	66.21	52.77	13.28
SICL	89.00	68.50	66.29	76.72	66.14	78.71	84.87	74.55	9.15
NLGIL	60.38	58.35	62.02	78.12	69.78	82.27	78.72	69.95	9.87
PRICL	73.33	38.83	58.77	79.72	64.02	62.93	67.20	63.54	12.94
SGIC	57.15	42.23	57.02	59.00	71.00	69.00	84.00	68.00	13.28
Mean	53.62	52.19	50.77	58.80	54.61	59.77	66.46		
SD	29.02	33.29	26.47	26.29	21.84	22.38	32.14		

Source: Annual report of sample institution

UICL regularly reported high claim payment ratios, starting with the highest ratios. It is especially noteworthy in 2017, when its ratio greatly outperformed its peers. Conversely, NICL recorded the lowest claim payment ratio, particularly in 2022, indicating a smaller claim payout than its premium income in that year. NECO is a business that has shown a comparatively steady performance over the years. Its low standard deviation compared to other firms shows its claim payment ratio did not

fluctuate significantly. This illustrates how consistently its claim settlements have been made throughout the analysis.

Regarding trends, most companies' claim payment ratios indicate a consistent rise over time. For instance, the SGIC ratio began lower in 2016 and then gradually increased until peaking in 2022. This suggests that over time, the company has been paying out more claims than it has been charging. NECO's ratios were stable, but NICL's claim payment ratios were the lowest, and UICL's the highest. SGIC showed a growth trend all through that time. These variations show how different non-life insurance companies have approached risk management and claim payment procedures.

4.1.8 Market Price

Table 4.8 shows the market price per share of these companies from 2016 to 2022, we notice diverse trajectories reflecting the market's varying perception of these firms' value.

Table 4.8

Market Price Per Share

	2016	2017	2018	2019	2020	2021	2022	Mean	SD
NICL	1235	1430	658	354	504	1022	446	806.99	421.73
EICL	1380	745	450	350	419	768	500	658.86	356.17
UICL	1300	1300	955	955	370	717	350	849.57	392.67
NECO	1990	981	989	489	607	1348	694	1014.00	517.93
LICL	2401	1640	1340	566	700	1344	870	1265.86	633.36
PICL	1470	1000	535	364	493	960	428	750.00	406.19
SGICL	87.72	1005	890	365	439	1209	370	623.67	410.60
SICL	3249	1941	985	771	1019	1942	807	1530.57	908.35
NLGIL	1970	1485	930	930	657	1220	478	1095.71	509.96
PRICL	2520	1500	690	455	580	1058	544	1049.53	744.35
SGIC	1450	930	550	420	453	780	382	709.29	383.89
Mean	1732.07	1268.82	815.64	547.18	567.36	1124.36	533.51		
SD	830.80	364.78	263.70	231.15	182.04	351.64	178.96		

Source: Annual report of sample institution

With the highest share prices over the years, SICL has remained ahead of its competitors, demonstrating a strong market assessment of its value. Conversely,

SGICL generally reported the lowest share prices, even with some fluctuations. This was especially noticeable in 2016, indicating that the market was not as positive then. Out of all of them, NECO exhibits a respectable degree of stability, with its share prices fluctuating less sharply than those of most other companies, as evidenced by a lower standard deviation. This could indicate that the market continues to have faith in its abilities. When trends are analyzed, most companies show a downward trend in their share prices over time. SGIC is one example, commencing with a relatively higher share price in 2016 but gradually descending to its lowest in 2022. This suggests a diminishing market valuation of the company over time.

In conclusion, NECO can maintain a balanced performance, even though SICL routinely outperforms with the highest market share prices and SGICL struggles with the lowest. Trend-wise, businesses such as SGIC show a declining path during that time. These variations highlight the distinct investor sentiment and market performance that every non-life insurance company commands.

4.1.9 Descriptive Analysis

Table 4.9

Descriptive Statistics

	MPS	LNTA	LNI	CR	DPR	EA	PG	CP
Mean	941.28	22.02	19.03	4.00	0.33	0.42	18.46	60.62
Maximum	3249.00	23.14	20.12	26.13	1.33	0.65	62.79	130.34
Minimum	87.72	20.50	16.30	0.60	-0.66	0.10	-31.33	5.29
Std. Dev.	573.85	0.52	0.73	3.78	0.34	0.10	18.26	21.93
Observations	77	77	77	77	77	77	77	77

Source: Annual report of sample institution

Table 4.9 is a meticulous compilation of significant data regarding non-life insurance companies. Eight distinct columns MPS, LNTA, LNI, CR, DPR, EA, PG, and CP represent the various financial variables that are included in the table. MPS represents the Market Price per Share. 941.28 is the arithmetic mean value, a statistic representing the central tendency. The dataset's lowest recorded value is 87.72, while the highest is 3249.00. The measured dispersion of the data, or standard deviation, is highly significant at 573.85, suggesting significant variations in the market price per share in the sample under investigation.

The mean value of LNTA, or the natural logarithm of total assets, is 22.02. The data falls between 20.50 and 23.14, and the standard deviation is reported as being a somewhat muted 0.52. This suggests that there aren't many significant differences between the investigated institutions' natural logarithms of their total assets. The natural logarithm of Net Income, or LNI, has a mean value of 19.03. The natural logarithm of net income for each sample institution exhibits moderate volatility, with a standard deviation of 0.73 and a range of 16.30 to 20.12.

The Current Ratio measures a company's short-term liquidity. The average value, which ranges from 0.60 to a high of 26.13, is 4.00. The significant variation in the current ratios of the concerned institutions is highlighted by the substantial standard deviation of 3.78. The Dividend Payout Ratio is indicated by PR. The computed mean value is 0.33, with a range of -0.66 (indicative of a negative payout) to 1.33. The sampled institutions' dividend payout ratios appear to vary moderately, as indicated by the standard deviation of 0.34. Earnings per Share, or EA, stands for (EPS). With an oscillation between 0.10 and 0.65, the mean value is 0.42. The 0.10 standard deviation indicates that the sample's earnings per share variability is still quite small.

The mean value for PG is 18.46. With an 18.26 standard deviation, the values range from -31.33 (indicating a negative growth ratio) to 62.79. This reveals a significant variation in P/E growth ratios across the institutions in the sample. And finally, CP is an acronym for capitalization ratio. With variations ranging from 5.29 to 130.34, the mean value is recorded at 60.62. The sampled institutions' capitalization ratios appear to vary significantly, as indicated by the standard deviation 21.93. This descriptive statistical analysis provides a deep understanding of the investigated institution's financial structure. It offers important indicators like price-to-earnings-growth ratio, capitalization ratio, market price per share, total assets, net income, current ratio, dividend payout ratio, and earnings per share. Finding the mean, minimum, maximum, and standard deviation for every variable provides a comprehensive overview of the variance and distribution of these financial metrics in the sample. Researchers, investors, and other stakeholders who want to understand the strength and financial performance of Nepal's non-life insurance companies can use this information as a useful tool.

4.1.10 Correlation Analysis

The correlation matrix provides a thorough summary of the relationships between the different variables in the dataset under examination. The MPS is the dependent variable (Market Price per Share). The range of the correlation coefficients is between -1 and 1. A perfect correlation positive or negative is represented by an absolute value of 1, whereas the absence of any correlation is indicated by a value of 0. A negative correlation suggests that when one variable rises, the other falls and a positive correlation suggests the opposite.

One way to think of the concept of correlation is as a way to measure how closely two variables are related. Consider the absolute value of the coefficient when interpreting the correlation's strength. An absolute value of 0.0 to 0.3 is generally regarded as weak, 0.3 to 0.7 as moderate, and 0.7 and above as strong. It should be remembered that correlation indicates a relationship between two variables; it does not imply causation.

Table 4.10

Correlation Coefficients

Probability	MPS	LNTA	LNI	CR	DPR	EA	PG	CP
MPS	1.00							
LNTA	-0.07	1.00						
	(0.57)	-----						
LNI	0.06	0.66	1.00					
	(0.61)	(0.00)	-----					
CR	0.35	0.28	0.01	1.00				
	(0.00)	(0.02)	(0.93)	-----				
DPR	0.28	0.26	0.33	0.20	1.00			
	(0.01)	(0.02)	(0.00)	(0.08)	-----			
EA	-0.42	0.07	0.33	-0.38	0.04	1.00		
	(0.00)	(0.55)	(0.00)	(0.00)	(0.74)	-----		
PG	0.35	-0.10	-0.07	0.28	0.19	-0.02	1.00	
	(0.00)	(0.38)	(0.52)	(0.02)	(0.10)	(0.89)	-----	
CP	0.12	0.09	-0.26	0.01	-0.09	-0.22	-0.16	1.00
	(0.31)	(0.44)	(0.03)	(0.95)	(0.42)	(0.05)	(0.15)	-----

Source: Annual report of sample institution

The correlation matrix provides a thorough summary of the relationships between the different variables in the dataset under examination. The MPS is the dependent variable (Market Price per Share). The range of the correlation coefficients is between -1 and 1. A perfect correlation positive or negative is represented by an absolute value of 1, whereas the absence of any correlation is indicated by a value of 0. A negative correlation suggests that when one variable rises, the other falls and a positive correlation suggests the opposite.

One way to think of the concept of correlation is as a way to measure how closely two variables are related. Take into account the absolute value of the coefficient when interpreting the correlation's strength. An absolute value of 0.0 to 0.3 is generally regarded as weak, 0.3 to 0.7 as moderate, and 0.7 and above as strong. It should be remembered that correlation indicates a relationship between two variables; it does not imply causation.

As presented in Table 4.10, total Assets and MPS have a weakly negative correlation (-0.07), suggesting a somewhat inverse relationship. Nevertheless, the corresponding p-value of 0.57 indicates insufficient data to establish a strong correlation between Total Assets and MPS, indicating that this correlation lacks statistical significance. A weak positive correlation (0.06) between MPS and Net Income exists. But like Total Assets, the correlation is not statistically significant (p-value = 0.61), suggesting insufficient data to draw meaningful conclusions about the relationship between MPS and LNI.

A moderate positive correlation (0.35) exists between CR, or the current ratio, and MPS. The statistical significance of the correlation (p-value = 0.00) indicates a noteworthy association between the market price per share and the company's liquidity, as determined by the current ratio. This could be interpreted as a potential trend toward an increase in the market price per share in conjunction with an increasing current ratio. The Dividend Payout Ratio (DPR) and MPS have a moderately positive correlation (0.28). The statistical significance of this correlation (p-value = 0.01) suggests that companies with higher dividend payout ratios may experience an increase in their market prices per share.

The Equity to Asset Ratio (EA) exhibits a statistically significant negative correlation (-0.42) with MPS (p-value = 0.00). This suggests a strong inverse relationship

between the market price per share and the equity-to-asset ratio. As a result, the market price per share typically rises with a decrease in the equity-to-asset ratio. Premium Growth Rate (PG) and MPS show a statistically significant (p-value = 0.00) moderately positive correlation (0.35). This implies that businesses that see an increase in their premium growth rates may also see an increase in market prices per share.

Finally, a weak positive correlation (0.12) between MPS and CP (Claim Payment Ratio) exists. There is insufficient evidence to establish a significant correlation between the claim payment ratio and the market price per share, as the correlation is statistically insignificant (p-value = 0.31). CR, DPR, EA, and PG are the most pertinent variables with significant correlations to MPS. Analysts and investors may find these correlations useful in understanding possible drivers of the market price per share of the sample institutions.

There are no significant correlations between the independent variables, indicating that multicollinearity is not a problem. A good indication of the regression model's quality is the finding that the independent variables do not exhibit strong correlations. It suggests that each independent variable adds a distinct piece of knowledge to comprehend the dependent variable and that the model is well-posed to offer significant insights. This improves the findings' dependability and interpretability and enables wise decision-making based on the analysis.

4.1.11 Regression Analysis

Regression analysis is a strong statistical technique that enables a researcher to look at the relationship between two or more relevant variables. Although regression analysis comes in various forms, its fundamental goal is to identify the best-predicted weights that can be used to predict an output when paired with your inputs. With all other variables held constant, regression estimates the coefficients of the independent variables in the regression equation, indicating how much the dependent variable changes with a one-unit shift in the independents. The statistical measure known as R-squared, or R2, indicates the percentage of a dependent variable's variance that one or more independent variables can account for in a regression model. The degree of similarity between a regression line and the data it is fitted to is determined by a statistical measure that ranges from 0 to 1. If it is 1, then the regression predictions

match the data exactly. When the model fits the data less well than a horizontal line, R-squared values outside of the range of 0 to 1 may appear. R-squared cannot be understood as the percentage of variance explained in this situation.

One important result of regression analysis is the F-statistic. It determines if the model is statistically significant or can account for a sizable portion of the variance in the dependent variable. A large F-statistic (about its degrees of freedom) or a small p-value indicates that the independent variables should stay in the model because at least some of them are significant predictors of the dependent variable. A lower F-statistic, on the other hand, implies the opposite. Nevertheless, this statistic indicates neither the nature nor the strength of the relationships nor does it specify which particular variables are important.

Using regression analysis, we can better understand how changes in any of the independent variables affect the value of the dependent variable while holding the other independent variables constant. The R-squared and F-statistic values reveal the model's overall fit and the predictor variables' combined significance.

4.11.1 Pooled OLS Regression Analysis

Table 4.11

Regression Output (Pooled OLS)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LNTA	-547.44	145.05	-3.77	0.00
LNI	441.29	108.21	4.08	0.00
CR	30.14	16.18	1.86	0.07
DPR	293.09	159.21	1.84	0.07
EA	-2483.09	581.08	-4.27	0.00
PG	8.99	2.95	3.04	0.00
CP	7.08	2.54	2.78	0.01
C	4817.69	2262.92	2.13	0.04
R-squared	0.49			
Adjusted R-squared	0.44			
F-statistic	9.65			
Prob(F-statistic)	0.00			

Source: Annual report of sample institution

Table 4.11 presents the results of a Pooled Ordinary Least Squares (OLS) regression analysis that investigates the relationship between various firm-specific factors

(independent variables) and the Market Price per Share (MPS - the dependent variable) of non-life insurance companies.

Company Size (LNTA): The t-statistic is -3.77, and the coefficient is -547.44, with a standard error of 145.05. At the customary significance levels, the probability (p-value) of 0.00 indicates a statistically significant relationship (commonly 0.01, 0.05, or 0.10). The negative coefficient indicates that the market price per share tends to decline as the company grows larger (in terms of total assets). One possible explanation for the decline could be that as a business expands, it may diversify into less profitable industries or take on more liabilities. Bigger businesses could also lose their flexibility and ability to react fast to changes in the market, which would lower their perceived potential for growth.

Net Income (LNI): The coefficient is 441.29, the t-statistic is 4.08, and the standard error is 108.21. A statistically significant positive correlation exists between net income and MPS, as indicated by the p-value of 0.00. One important indicator of a business's profitability is net income. A rise in net income is frequently interpreted as a sign of the business's sound financial standing, which could attract more investors and increase MPS.

Current Ratio (CR): The t-statistic is 1.86, the standard error is 16.18, and the coefficient is 30.14. At the 10 percent significance level, the p-value of 0.07 indicates a marginal statistical significance. Therefore, a higher market price per share may be linked to increased liquidity, as shown by a higher current ratio. Compared to its short-term liabilities, the company's short-term assets are greater when its current ratio is higher. Given that the business seems well-positioned to fulfill its short-term obligations, this can indicate lower risk and financial stability. Investors frequently view Reduced risk favorably, which could raise the market price of the stock.

Dividend Payout Ratio (DPR): The coefficient is 293.09, the t-statistic is 1.84, and the standard error is 159.21. At the 10 percent significance level, the p-value of 0.07 indicates marginal significance. A positive coefficient indicates that MPS and the dividend payout ratio have a positive relationship. A greater DPR could indicate that the business is giving shareholders a sizable share of its profits. This may increase the stock's appeal to income-oriented investors, particularly those looking for consistent and steady returns, raising demand and, ultimately, the MPS.

Equity to Asset Ratio (EA): With a t-statistic of -4.27 and a standard error of 581.08, the coefficient is -2483.09. The equity-to-asset ratio and MPS have a statistically significant negative relationship, as indicated by the p-value of 0.00. A lower ratio of equity to assets suggests that the business is borrowing more money than it has invested in equity. Because of the financial leverage effect, higher leverage can result in higher returns on equity (ROE). The stock price may rise due to this, attracting the attention of certain investors seeking larger possible returns.

Premium Growth (PG): The t-statistic is 3.04, the standard error is 2.95, and the coefficient is 8.99. There is a statistically significant positive correlation between MPS and premium growth, as indicated by the p-value of 0.00. The main source of income for insurance companies is premiums. Higher revenue is typically the result of increased premium growth, which can boost profitability. Investors generally view Growing revenue streams favorably, which can result in higher stock prices.

Claim Payment Ratio (CP): The t-statistic is 2.78, the standard error is 2.54, and the coefficient is 7.08. The claim payment ratio and MPS have a statistically significant positive relationship, as indicated by the p-value of 0.01. Prompt and consistent payment of claims can indicate a company's sound financial standing and efficient risk management. The stock price may rise because investor's view this as a sign of the company's general health and sound governance.

The constant term (C) is 4817.69, with a standard error of 2262.92 and a t-statistic of 2.13, implying that the model intercept significantly differs from zero.

The R-squared value of 0.49 indicates that the variables in the model account for roughly 49% of the variation in MPS. The model's adjusted R-squared, which considers the number of predictors, is 0.44, which is somewhat less. This is typical since the adjusted R-squared is always less than or equal to the R-squared.

With an associated probability of 0.00 and an F-statistic of 9.65, the model is statistically significant, and the independent variables have an overall effect on the dependent variable.

This analysis offers solid insights into the factors influencing MPS regarding non-life insurance providers. Except for CR and DPR, which only exhibit a marginal relationship, it indicates a strong statistical relationship for all independent variables.

To expand on these results, future studies could look at additional variables that might be important or investigate various sample sizes or time frames.

4.11.2 Fixed Effect Regression Analysis

Table 4.12

Regression Output (Fixed Effect)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LNTA	-600.30	165.95	-3.62	0.00
LNI	182.81	145.38	1.26	0.21
CR	44.58	19.62	2.27	0.03
DPR	204.29	185.34	1.10	0.27
EA	-1875.44	785.43	-2.39	0.02
PG	5.28	3.12	1.69	0.10
CP	3.64	3.03	1.20	0.23
C	10897.83	3093.33	3.52	0.00
R-squared	0.62			
Adjusted R-squared	0.51			
F-statistic	5.62			
Prob(F-statistic)	0.00			

Source: Annual report of sample institution

Non-life insurance companies' market price per share (MPS) is influenced by variables specific to each firm. The results of a fixed effects regression analysis are presented in Table 4.12. The fixed effects model offers a more nuanced understanding of the influence of independent variables on MPS by attempting to account for time-invariant unobserved characteristics specific to each firm. When all other variables are held constant, the predicted change in MPS for a unit change in the independent variable is represented by the coefficient of that variable. The likelihood that the observed relationship happened by chance is revealed by the statistical significance of the coefficients (as shown by the p-value), with values less than 0.05 typically regarded as statistically significant.

When comparing the Fixed Effect (FE) regression analysis results to the Pooled Ordinary Least Squares (OLS) regression, both similarities and differences are evident. For variables such as premium growth (PG), company size (LNTA), and

equity-to-asset ratio (EA), both models agree on the direction and significance of the relationships. The magnitude of the coefficients and significance levels, however, vary, especially for the claim payment ratio, current ratio (CR), and net income (LNI) (CP). These differences might result from the FE model's capacity to account for unreported firm-specific effects, which could offer a more realistic portrayal of the underlying relationships. Additionally, a better fit is indicated by the fact that the FE model (R-squared = 0.62) explains a larger percentage of the variance in the dependent variable than the Pooled OLS model (R-squared = 0.49). These variations show how crucial it is to consider the particular modeling technique, as this can result in varying interpretations and insights into the relationships under study.

4.11.3 Random Effect Regression Analysis

The findings of a random effects regression study investigating the impact of different firm-specific variables on the market price per share (MPS) for non-life insurance companies are shown in Table 4.13. In contrast to the fixed effects model, the random effects model assumes that each effect has no correlation with the predictor variables. As a result, explanatory variables that are both time-invariant and time-variant can be included.

The outcomes of the Pooled Ordinary Least Squares (OLS) regression and the Random Effect (RE) regression analysis show a remarkable similarity. For variables such as company size (LNTA), net income (LNI), current ratio (CR), dividend payout ratio (DPR), equity to asset ratio (EA), premium growth (PG), and claim payment ratio (CP), the coefficients, t-statistics, and p-values are almost the same in both models. Additionally, both models have the same R-squared and adjusted R-squared values (0.49 and 0.44, respectively), indicating the same explanatory power. The outcomes of the Pooled Ordinary Least Squares (OLS) regression and the Random Effect (RE) regression analysis show a remarkable similarity. For variables such as company size (LNTA), net income (LNI), current ratio (CR), dividend payout ratio (DPR), equity to asset ratio (EA), premium growth (PG), and claim payment ratio (CP), the coefficients, t-statistics, and p-values are almost the same in both models. Additionally, both models have the same R-squared and adjusted R-squared values (0.49 and 0.44, respectively), indicating the same explanatory power.

Table 4.13

Regression Output (Random Effect)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LNTA	-547.44	136.39	-4.01	0.00
LNI	441.29	101.75	4.34	0.00
CR	30.14	15.21	1.98	0.05
DPR	293.09	149.70	1.96	0.05
EA	-2483.09	546.37	-4.54	0.00
PG	8.99	2.78	3.24	0.00
CP	7.08	2.39	2.96	0.00
C	4817.69	2127.75	2.26	0.03
R-squared	0.49			
Adjusted R-squared	0.44			
F-statistic	9.65			
Prob(F-statistic)	0.00			

Source: Annual report of sample institution

Hausman test for Fixed Vs Random Effect

Likelihood Ratio Test determines whether the Pooled OLS is better or the fixed-effect method is better. The test statistic shown in the panel 1 of Table 4.14 rejects the null hypothesis that 'Pooled OLS is better' because p-value of cross section F and Chi-square is greater than 0.05. Therefore, fixed effect is better than Pooled OLS. Again, the Hausman test determines whether fixed effects or random effects models is better. It looks at whether the regressors and unique errors unobservable individual effects correlate. This is shown in Table 4.14. The fixed effects model is the alternative hypothesis to be tested against in the Hausman test, with random effects as the preferred model.

At the five percent significance level, the test statistic shown in panel 2 of Table 4.14 is significant because the p-value of cross section random statistic is less than 0.05. Given that result, it can be inferred that the random effects model is suitable for this data set.

Table 4.14

Selection of Best Regression Method

Panel 1: Likelihood Ratio (LR) Test Results

Effects Test	Statistic	d.f.	Prob.
Cross-section F	2.904501	(10,59)	0.0425
Cross-section Chi-square	21.540614	10	0.0176

Panel 2: Result of Hausman Test

Test Summary	Chi-Sq. Statistic	d.f.	Prob.
Cross-section random	16.707493	7	0.0194

Summary of Regression Analysis

Three distinct econometric approaches were used in the regression analyses presented in Tables 4.11, 4.12, and 4.13 to capture the impact of firm-specific factors on the Market Price per Share (MPS) in non-life insurance companies: Pooled OLS, Fixed Effects, and Random Effects. Each model's various subtleties enhance our comprehension of this complex system regarding the relationships between the variables and MPS.

Pooled OLS Regression: This model treats the observations as a single pool and assumes a broad viewpoint, ignoring firm-specific characteristics. With p-values of 0.00 or 0.01 for each, the company size, net income, equity-to-asset ratio, premium growth, and claim payment ratio all show statistically significant relationships with MPS at conventional levels. With p-values of 0.07, the Dividend Payout Ratio and Current Ratio show marginal significance. Based on the R-squared value, the predictors account for approximately 49% of the variation in MPS. The fixed-effect model provides more nuanced insights by accounting for unobserved, time-invariant variables unique to each firm. Compared to the Pooled OLS model, the coefficients for net income, dividend payout ratio, premium growth, and claim payment ratio are all lower, and the statistical significance associated with net income and dividend payout ratio has disappeared.

Nonetheless, the importance of the equity-to-asset ratio and the current ratio does not diminish, and the larger the company, the more significant it is. This may imply the existence of firm-specific factors that influence the correlation between these

variables and MPS. The F-statistic is lower in this model (R-squared is 0.62), suggesting that while it explains more variance in MPS, the variables are not as significant when taken as a whole as they were in the Pooled OLS model.

The Random Effect Regression model presupposes that the independent variables have no correlation and that each firm characteristic is distributed randomly. Given that the coefficients and significance levels closely resemble those of the Pooled OLS model, it appears that the assumption of random effects is consistent with the pooled assumption for these particular data. The F-statistic, which confirms the variables' overall significance, is the same as that of the Pooled OLS model.

These analyses comprehensively understand the firm-specific factors that influence MPS in non-life insurance companies. The specific research question and data assumptions would determine the method of choice in light of the model discrepancies. For example, the fixed effect model might be more appropriate when firm-specific, time-invariant characteristics are assumed to be correlated with the predictors. Additional investigation may confirm these findings using different data or look into other variables that might have an impact.

4.2 Discussion

The analysis of non-life insurance companies from 2016 to 2022 reveals several characteristics and trends. With a peak in 2021, SICL has continued to hold the title of largest firm. Conversely, SGICL has always been the smallest; in 2016, it reached its minimum size. Some companies, like SGIC, have experienced significant growth from 2016 to 2022, while others, like NECO, have maintained stability in their size. This demonstrates the steadily increasing size of the company and the level of industry competition. SICL also has the highest profits, particularly in 2018. UICL had financial difficulties; in 2016 it had the lowest net profit. While SGIC maintained stable profits, NECO had the strongest growth trajectory, as evidenced by its steady increase in net profit. This offers a glimpse into every business's profitability and financial planning tactics. While NICL's lowest current ratio in 2022 suggests possible liquidity issues, EICL's high ratio in 2016 indicates the company's ability to meet short-term liabilities.

NLGIL's rising current ratio trend and NICL's steady liquidity position demonstrate their financial resilience.

This analysis emphasizes the significance of liquidity management in non-life insurance companies. For dividend payments, SICL led in 2016; UICL did not begin paying out dividends until 2022. The rising trend of NICL indicates a growing inclination to distribute profits back to shareholders. This highlights differences in shareholder-friendly policies and strategic choices regarding dividend distribution. This ratio's analysis provides information about one's financial situation. While EICL's low ratio in 2016 indicates less reliance on equity funding, SICL's high ratio in 2018 indicates a strong balance sheet. While NICL's rising trend suggests a greater reliance on equity financing, PRICL's consistency points to a stable financial structure. This demonstrates how the firms' financial strategies and approaches to risk management vary. While NICL's low growth indicates stagnation, UICL's high growth rate in 2016 indicates significant income growth.

The steady growth trend of UICL and the performance of NLGIL offer insights into premium pricing strategies and the dynamics of the customer base. This provides an overview of revenue models and market penetration. NICL's low ratios and UICL's high ratios reveal NICL's claim payment practices. NECO's stability indicates consistent claim settlements, but SGIC's increasing ratios indicate rising claim payments. This demonstrates the companies' approaches to risk management and their levels of customer satisfaction. Consistently high share prices for SICL indicate a robust market valuation, whereas low prices for SGICL indicate a more negative perception of the market. The share price stability of NECO signifies a stable level of market trust, while the decline in certain companies, such as SGIC, implies a decrease in market valuation. These patterns shed light on market positioning and investor sentiment. A wide range of growth prospects, capital structures, and market perceptions are indicated by the variations in Market Price per Share (MPS), the wide range of Current Ratios (CR), potential negative payouts in Dividend Payout Ratios (DPR), and the dispersion in Premium Growth (PG) and Claim Payment Ratios (CP).

Since there is little to no correlation between the independent variables, the correlation analysis does not indicate a multicollinearity problem. Significant correlations between some variables and Market Price per Share (MPS) as well. The Premium Growth Rate (PG) and the Current Ratio (CR) show modest but statistically significant positive correlations with MPS, suggesting that increased growth and liquidity may raise share prices. On the other hand, a strong negative correlation

exists between the Equity to Asset Ratio (EA) and share prices, indicating that a smaller percentage of equity financed by equity may be advantageous. The Dividend Payout Ratio (DPR) shows a moderate positive correlation with payouts, suggesting that higher payouts could result in higher market prices per share.

The Market Price per Share (MPS) and some variables, including Net Income (LNI), Premium Growth (PG), Claim Payment Ratio (CP), company size (LNTA), and Equity to Asset Ratio, have statistically significant relationships that can be found using pooled OLS regression (EA). The findings offer tactics for improving market value while warning against excessive reliance on equity funding and unbridled expansion.

The results of Fixed Effects Regression highlight the importance of cautious growth strategies and adequate liquidity by demonstrating the substantial impact of Current Ratio (CR), Company Size (LNTA), and Equity to Asset Ratio (EA) on MPS. The effects of other factors appear to be more nuanced.

The study employs Random Effects Regression to validate the noteworthy influence of firm-specific attributes on MPS. These attributes, which highlight balanced corporate management, include Net Income (LNI), Premium Growth (PG), Claim Payment Ratio (CP), Company Size (LNTA), Equity to Asset Ratio (EA), Current Ratio (CR), and Dividend Payout Ratio (DPR).

According to research, there is a substantial inverse relationship between market price per share and company size (LNTA) (MPS). This contradicts the results of Gautam and Bista (2019), who discovered a positive correlation between the market price of shares and firm size. Nonetheless, it is consistent with Lalon's (2021) findings, which indicate a substantial inverse relationship between size and profitability. This implies that different factors, like industry, market conditions, and company strategy, may affect the relationship between firm size and stock prices differently.

The findings show a statistically significant positive correlation between MPS and net income. This validates the results of Wagle (2021), who similarly noted a positive correlation between stock price and profitability. In contrast to our research, Pradhan (1993) demonstrated an inverse relationship between stock price and profitability.

It is discovered that there is a somewhat significant positive correlation between MPS and the current ratio. This is in line with the results of Daare (2016), who found a positive correlation between the company's share price and the current ratio. For this variable, no contrary results were found in the cited literature.

Our research found that the dividend payout ratio and MPS had a marginally significant positive relationship. This supports the findings of Gautam (2017), who discovered a positive correlation between stock returns and the dividend payout ratio. The conclusion that a higher DPR can make the stock more appealing to income-oriented investors is reinforced by the fact that no contrary evidence was found in the earlier research.

This study finds a statistically significant negative correlation between MPS and the equity-to-asset ratio. This is consistent with the findings of Maskey (2022), which demonstrated a strong positive correlation between financial performance and a high debt or lower equity ratio. As a result, our research and earlier findings imply that investors may, to some extent, view leverage favorably.

There is a notably positive correlation between MPS and premium growth. Furthermore, supporting our findings, Ambaw and LiJuan (2021) discovered that premium growth positively impacted market share. No studies were cited to refute this conclusion, indicating that different studies generally had positive opinions about premium growth.

According to this study, there is a substantial positive correlation between MPS and the claim payment ratio. This result contradicts Chakraborty and Harper's (2017) prediction that the claims ratio would negatively impact the share price. Kaya (2015), however, also argued that non-life insurance firms are more profitable when their claim payment ratios are low. This suggests that although researchers generally perceive a variable's impact on stock price to be higher in our study, higher claim payment ratios indicate sound financial standing and efficient risk management.

The results demonstrate the complexity of firm-specific factors influencing stock prices in Nepal's non-life insurance market, providing both similarities and differences with earlier research. Future research may concentrate on these diverging points for a more complex understanding of these relationships.

When taken as a whole, these analyses offer deep insights into the variables influencing non-life insurance companies and helpful advice for strategic planning and decision-making. The in-depth analysis of statistical correlations and general trends provides a thorough understanding of the dynamics and underlying mechanisms of the industry.

CHAPTER V
SUMMARY AND CONCLUSION

This chapter presents the main conclusions of the investigation and gives a brief overview of the entire study. Furthermore, the main findings are covered in a different section of this chapter, which is followed by some implications about how firm-specific factors affect the performance and share price of non-life insurance companies in Nepal.

5.1 Summary

A vital pillar of risk mitigation and financial stability that affects institutional and individual stakeholders alike is the non-life insurance market. Notwithstanding its importance, the industry is undergoing significant changes brought about by shifting consumer preferences, changing market dynamics, and general economic conditions. Because the industry is so complicated, a thorough understanding of the fundamental elements influencing firm performance and market valuation is still required. Using a causal-comparative analytical approach, the study uses correlation analysis, pooled OLS regression, fixed effects regression, and random effects regression over seven years, from 2016 to 2022. It determines financial metrics and key performance indicators, including capital structure, dividend policies, firm size, profitability, and liquidity management.

This study aims to thoroughly analyze the operational and financial metrics that impact the market value and performance of non-life insurance companies. The study aims to provide relevant and useful information to help investors, industry stakeholders, and regulators make decisions. To do this, it looks for statistically significant correlations and patterns among various financial metrics and performance indicators, from capital structure and dividend payout policies to profitability and liquidity.

From 2016 to 2022, the study thoroughly analyzes non-life insurance companies, exposing a varied landscape in size, profitability, and financial management. Size and profitability were two areas where SICL distinguished itself as the industry leader, while SGICL trailed behind. While UICL struggled financially and had just started paying dividends, companies like NECO showed steady profitability and liquidity.

The analysis also emphasized different capital structures, with companies with different liquidity profiles, such as NICL and EICL. Crucially, the differing share prices of SICL and SGICL suggest that several factors, including dividend policies and equity financing strategies, appeared to impact market valuation. The findings shed light on the complexity and competitive dynamics within the non-life insurance sector, providing valuable insights for decision-making and strategic planning.

There were no problems with multicollinearity among the independent variables. The stock's market price exhibited no significant correlation with the claim payment ratio, company size, or net income. The stock's market price showed a significant negative correlation with the equity-to-asset ratio, suggesting that lower equity financing could be advantageous for share prices. Significant positive correlations were found between the current ratio, premium growth, and market price per share.

Statistically significant correlations between the stock market price and variables such as claim payment ratio, equity to asset ratio, net income, company size, and premium growth were found using pooled OLS regression. While the faced effect revealed net income, premium growth, and dividend payout ratio to be negligible, the random effect produced results comparable to those of the pooled OLS regression. The random effects model is preferred over the fixed effects model, though, according to the Hausman test. This finding is consistent with the earlier analysis, which showed that the pooled OLS and random effect regression analyses were fairly similar.

5.2 Conclusion

The seven-year study thoroughly explains the non-life insurance industry by highlighting important variables that affect firm performance and market valuation. This research shows significant variation in the industry's business, financial standing, and market positioning. For example, SGICL does not perform well in size and profitability, whereas SICL does well in these areas. According to the research, market share prices positively correlate with the current ratio and premium growth rate. This suggests that investors value growth and liquidity. On the other hand, it was discovered that the equity-to-asset ratio had a negative effect on share prices, indicating that businesses could profit from expanding their capital structures beyond equity-based financing.

Additionally, regression models especially the Random Effects model supported by the Hausman test show that, although some variables, like liquidity and dividend payout ratio, do not significantly influence stock prices, other factors, like equity to asset ratios, company size, net income, premium growth, and claim payment ratio, are important considerations. This study's findings point to the need for a multifaceted system of measuring firm performance. The study's conclusions are crucial for investors, industry participants, and regulators because they provide a solid analytical framework for strategic planning and decision-making in the rapidly changing non-life insurance market. As a result, the research adds something new to the body of knowledge by explaining the current state of affairs and opening the door for creative strategies and policies in the sector.

5.3 Implications

The major implications that can be derived from this study are as follows:

- Investment Choices and Portfolio Management: Investors can gain important insights into the performance of non-life insurance companies from the study's thorough examination of the variables affecting stock prices. Using this information, investors can target companies with the most promising attributes such as size, profitability, and liquidity to improve portfolio management.
- Corporate Strategy Development: Based on the study's findings, corporate executives in the non-life insurance industry can create well-informed, data-driven strategies. Management can adjust their business models to emphasize positive factors like premium growth and control negative influences like higher equity-to-asset ratios by knowing the firm-specific factors that significantly affect stock prices.
- Regulatory and Policy Development: Using the research, policymakers can create regulations that effectively support Nepal's competitive and well-balanced non-life insurance market. They can create policies that support stability, growth, and consumer protection by concentrating on the factors that have a major impact on market valuation.
- Risk management: The non-life insurance industry's risk profiles can be understood by examining the liquidity, leverage, and claim payment ratios. By maintaining a balance between short-term liabilities and liquidity and

adjusting their leverage and claim payment strategies to market conditions, insurers can use these insights to optimize their risk management strategies.

- Market Valuation and Pricing Mechanisms: The research clarifies the intricate elements influencing market valuation. These insights can be used by market makers, brokers, and financial analysts to create more precise pricing mechanisms for non-life insurance stocks, which will improve market efficiency and transparency.
- Dividend Policy Design: Businesses can create shareholder value from a strategic standpoint by focusing on the connection between market price and dividend policies. Non-life insurance companies can increase their attractiveness to existing and prospective shareholders by coordinating their dividend policies with market expectations.
- Academic Contribution and Upcoming Research: The study is a cornerstone of academic research and has practical applications. Simplifying the intricate relationships between variables unique to a given firm offers a path forward for future researchers to explore these factors in greater detail. This may encourage more study, which would deepen the field's comprehension of the financial dynamics in the insurance sector.
- Global Relevance and Localization: Although the study was conducted in Nepal, its methodology and conclusions may also apply to other regions. With appropriate localization and contextual adjustment, policymakers, investors, and insurance companies in similar emerging markets may find the insights applicable.
- Consumer Awareness and Confidence: Increased consumer awareness and confidence in the non-life insurance industry may result from the open examination of the companies' performance. Making more informed decisions about insurance products may result from knowing the stability of insurers' finances and their strategic focuses.

This study has numerous ramifications for the insurance and financial industries in different domains. With the help of the research, various stakeholders can view and engage with the non-life insurance sector through an analytical lens that informs

decisions, strategies, policies, and future studies. It connects scholarly research and practical applications, and it has the power to impact many different practices and laws in Nepal and other countries.

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ABSTRACT The study investigates the influence of various firm-specific attributes on the

stock price of 11 **non-life insurance companies in Nepal** from 2016 **to**

2022. Utilizing panel data approach, the research employs Pooled OLS regression analysis fixed and random effect tests to uncover key trends and relationships within the industry. The investigation reveals various trends across non-life insurance companies. The analysis underscores differences in company size, profitability, liquidity management, dividend policies, financial strategies, risk management, market penetration, revenue models, claim payment practices, and investor