FACTORS AFFECTING RISK AND RETURN OF LIFE INSURANCE COMPANY IN NEPAL

By

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CERTIFICATION OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled “Factors Affecting Risk and Return of Life Insurance Companies in Nepal”. The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor. It has been proposed and presented as part of requirements for any other academic purposes.

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

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Anjita Chaudhary

Date: July, 2024

REPORT OF RESEARCH COMMITTEE

Ms Anjita Chaudhary has defended research proposal entitled "Factors Affecting Risk and Return of Life Insurance Companies in Nepal", successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestions and guidance of supervisor Dr. Pitri Raj Adhikari and submit the thesis for evaluation and viva voce examination.

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APPROVAL SHEET

We, the undersigned, have examined the thesis entitled "Factors Affecting Risk and Return of Life Insurance Companies in Nepal" presented by Anjita Chaudhary, a candidate for the degree of Master of Business Studies (MBS Semester) and conducted Viva voce examination of the candidate. We hereby certify that the thesis is worthy of acceptance.

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ABBREVIATIONS

ADBL	:	Agricultural Development Bank Limited
ALICL	:	Asian Life Insurance Company Limited
BK	:	Bank of Kigali
CAR	:	Capital Adequacy Ratio
CDR	:	Credit to Deposit Ratio
CRR	:	Cash Reserve Ratio
DMBs	:	Deposit - Money Banks
HBL	:	Himalayan Bank Limited
HEL	:	Himalayan Everest Insurance Limited
KBL	:	Kumari Bank Limited
MFIs	:	Microfinance Institutions
MQR	:	Management Quality Ratio
NBBL	:	Nepal Bangladesh Bank Limited
NIMBL	:	Nepal Investment Bank Limited
NLG	:	NLG Insurance Limited
NLIC	:	Nepal Life Insurance Company Limited
NPAT	:	Net Profit After Tax
NPLR	:	Non-Performing Loan Ratio
ROA	:	Return on Assets
ROE	:	Return on Equity
RS	:	Risk Sensitivity
SICL	:	Shikhar Insurance Company Limited
SIZE	:	Bank Size

ABSTRACT

This study provides a thorough analysis of the risk and return dynamics within Nepal's expanding life insurance sector over a 16-year period, from fiscal year 2007/08 to 2022/23. Utilizing a combination of descriptive and analytical research methodologies, the research carefully examines key metrics such as market price per share (MPS), dividend per share (DPS), and holding period returns (HPR) for six prominent insurance companies listed on the Nepal Stock Exchange (NEPSE).

The research reveals significant variations in market prices per share among the selected insurance firms throughout the period studied. These fluctuations in market valuation offer insights into the companies' performance trends, market sentiment, and underlying financial dynamics. Some companies demonstrated consistent growth, reflecting strong market perception and internal performance stability. In contrast, others experienced erratic fluctuations, indicating market volatility and potential internal strategic shifts or challenges.

The analysis of dividend per share distributions sheds light on the dividend policies and shareholder return strategies adopted by the insurance companies. The study identifies a range of dividend distribution patterns, from steady and consistent payouts to sporadic or non-existent dividend periods. These variations highlight the differing approaches and priorities of insurance companies in allocating earnings and rewarding shareholders, reflecting broader strategic considerations and financial management practices. Additionally, the examination of holding period returns (HPR) provides a nuanced understanding of the risk-return profiles of the insurance companies. By evaluating average returns and volatility metrics, such as standard deviation and coefficient of variation, the study outlines the relative risk levels associated with each company's investment proposition.

The study's implications extend beyond academic discourse to practical applications for various stakeholders within the insurance sector. Investors can use the insights to optimize their investment portfolios, policymakers can use the findings to inform regulatory frameworks, and insurance companies can refine their strategic approaches based on benchmarking and industry trends.

Keywords: *Market Price Per Share, Dividend Per Share, Holding Period Rate*

CHAPTER I

INTRODUCTION

1.1 Background of the study

Risk in the financial sector is inherent and multifaceted, influencing the stability and performance of institutions globally. Financial risks encompass various dimensions such as credit risk, market risk, liquidity risk, and operational risk, each posing unique challenges to financial institutions (Hull, 2020). In Nepal, financial institutions, including insurance companies, operate within a dynamic environment where external factors like economic volatility and regulatory changes amplify these risks. Managing these risks effectively is crucial for maintaining financial stability and ensuring sustainable growth in the sector (Acharya & Koirala, 2024).

Return in the financial sector represents the reward or profitability derived from investments or operations. It serves as a critical metric for assessing the performance and viability of financial institutions, including insurance companies. In Nepal, the pursuit of favorable returns amidst competitive pressures and market fluctuations necessitates strategic investment and operational decisions (Shrestha & Bhattarai, 2022). Balancing risk and return is imperative, as higher returns often correlate with higher levels of risk exposure, requiring insurance companies to adopt prudent investment strategies and risk management practices.

Insurance companies in Nepal operate in a growing market characterized by increasing demand for insurance products across life and non-life sectors. The industry is regulated by the Insurance Board of Nepal, ensuring compliance with prudential norms and guidelines (Kuinkel, 2023). Despite facing challenges related to penetration levels and regulatory compliance, the sector has demonstrated resilience and growth potential, driven by rising awareness of insurance benefits among the population (Khatiwada & Adhikari, 2022).

Life insurance companies in Nepal are particularly exposed to risks associated with mortality rates, policy lapses, investment market fluctuations, and regulatory changes. These risks impact the financial health and sustainability of insurers, influencing their ability to meet policyholder obligations and achieve profitability (Gyawali & Bhandari, 2023). The relationship between risk and return is pivotal for life insurers, as they strive to strike a balance between offering competitive returns to policyholders and maintaining solvency margins required by regulatory frameworks (Shrestha & Dhakal, 2020).

In conclusion, examining the factors affecting risk and return dynamics of life insurance companies in Nepal is essential for understanding their operational challenges, financial performance, and strategic responses within the broader financial sector landscape. Effective risk management practices and prudent investment strategies are critical for mitigating risks and enhancing returns, thereby ensuring the long-term sustainability and growth of these institutions in Nepal's evolving economic environment.

Therefore, the study examines the factors affecting the risk and return dynamics of life insurance companies in Nepal, aiming to provide empirical insights into how these companies manage financial risks while optimizing returns. By analyzing key variables such as investment portfolios, mortality rates, policyholder behavior, and regulatory compliance, the study seeks to elucidate the strategies employed by life insurers to navigate challenges and capitalize on opportunities in Nepal's evolving financial landscape. Understanding these dynamics is crucial for policymakers, regulators, and industry stakeholders to formulate effective policies and strategies that foster sustainable growth and resilience in the country's insurance sector.

1.2 Problem statement

In recent years, Nepal's insurance sector has shown notable growth, albeit with inherent risks associated with economic volatility and regulatory challenges (Pradhan & Pokharel, 2020). Life insurers in Nepal typically face risks related to investment portfolio management, policyholder behavior, and regulatory compliance (Dhakal & Acharya, 2019). These risks directly impact the financial health and stability of insurance companies, influencing their ability to generate returns for policyholders and shareholders alike.

Studies indicate that higher risk exposures, such as investment risks and underwriting risks, can potentially lead to higher returns but also increase volatility in financial performance (Gurung & Shrestha, 2018). Effective risk management strategies are crucial for mitigating these risks and optimizing returns while maintaining financial stability (Dhungana & Koirala, 2021). Understanding these relationships is essential for insurers to strike a balance between risk-taking and profitability, thereby enhancing their competitive positioning in the market.

Research suggests that prudent risk management practices contribute significantly to sustained profitability by minimizing losses and ensuring adequate capital reserves (Koirala & Poudyal, 2020). Moreover, the ability to effectively manage risks enhances insurers' resilience against market fluctuations and regulatory changes, thereby supporting long-term sustainability in the insurance sector (Acharya & Subedi, 2019). Assessing these impacts provides critical insights for policymakers, regulators, and industry stakeholders to devise strategies that foster growth and stability in Nepal's life insurance industry.

By addressing these questions through empirical analysis and statistical modeling, the study aims to contribute valuable insights into the risk-return profile of Nepalese life insurance companies, offering actionable recommendations for enhancing financial performance and sustainability in the sector.

i. What is the current position of risk and return in the Nepalese Life insurance companies?
ii. How do these factors relate to the financial performance of sample Nepalese life insurance companies?
iii. What is the impact of these factors on the overall profitability and sustainability of the Sample Nepalese life insurance companies?

1.3 Objectives of the study

The major objective is to examine the risk and return of common stock investment of insurance companies. The specific objectives are as follows:

i. To assess the current position of risk and return in the Nepalese Life insurance companies.
ii. To examine the relationship between these risk factors and the return on investment for these companies.
iii. To measure the impact of these risk factors on the overall profitability and sustainability of the Nepalese life insurance companies.

1.4 Rationale of the study

The research on factors affecting risk and return of life insurance companies in Nepal is important for multiple stakeholders. For Nepalese life insurance companies, the research findings can provide a deeper understanding of the market dynamics and enable them to identify strategies to improve their financial performance and sustainability. Policy makers and regulators can utilize the research findings to make informed decisions and create regulatory frameworks to promote the stability and growth of the industry. Investors can use the research to gain insights into the risk and return profiles of Nepalese life insurance companies, allowing them to make informed investment decisions. Finally, the research can contribute to the academic literature on risk and return analysis, specifically in emerging markets such as Nepal. In conclusion, this research can enable stakeholders to make informed decisions, promote industry growth, and contribute to the academic understanding of risk and return analysis.

1.5 Limitations of the study

The limitations of the study are as follows.

i. The study focuses on the risk and return of the sample life insurance companies only.
ii. This study is based on the secondary data taken from the last 10-year annual financial report of the sample companies.
iii. Only 5 life insurance companies of Nepal which are listed in the NEPSE are taken as the sample for the study.
iv. Only limited financial and statistical ratios are used for the analysis.

CHAPTER II

LITERATURE REVIEW

This section has four sections. The first section is theoretical review, second is conceptual review, third is empirical and fourth is research gap.

2.1 Theoretical review

The Theoretical Review establishes the essential theoretical basis and framework underpinning the entire proposal. This research delves into the theoretical dimensions of risk and return on investment, drawing insights from a variety of well-regarded books on the topic. By examining risk and return, it sheds light on the correlation between the risk involved and the expected return on any investment.

Risk-Return Tradeoff

The risk-return tradeoff, as outlined by Sharpe (1964), encapsulates a fundamental principle in finance that underpins investment decisions. It posits that investors invariably face a tradeoff: seeking higher potential returns necessitates accepting higher levels of risk, whereas opting for lower-risk investments typically results in lower potential returns. This concept underscores the critical importance of aligning one's risk tolerance with their investment objectives.

In practical terms, investors must carefully evaluate their willingness and capacity to endure fluctuations in the value of their investments in relation to the potential for achieving higher returns. This evaluation process is pivotal in portfolio management and investment decision-making. By understanding this tradeoff, individuals and institutions can effectively select investments that match their risk preferences and financial goals. Thus, the risk-return relationship serves as a guiding principle in constructing balanced portfolios that aim to optimize returns while managing exposure to risk within acceptable parameters.

Modern Portfolio Theory (MPT)

Modern Portfolio Theory (MPT), developed by Harry Markowitz in 1952, revolutionized the field of finance by introducing a systematic approach to constructing investment portfolios. At its core, MPT advocates for diversification as a strategy to optimize portfolios based on risk and return. The theory posits that by spreading investments across different asset classes with varying levels of risk and return, investors can reduce overall portfolio risk without necessarily compromising potential returns.

Markowitz's key insight was that the risk of individual assets could be mitigated through their inclusion in a diversified portfolio, where assets' correlations with each other play a crucial role. This diversification helps in achieving the highest expected return for a given level of risk or minimizing risk for a desired level of return. By emphasizing the tradeoff between risk and return and introducing the concept of efficient frontier, MPT laid the groundwork for modern investment strategies. It provided a quantitative framework that enabled investors to make more informed decisions by balancing their risk tolerance with their financial objectives, thereby optimizing portfolio performance.

Capital Asset Pricing Model (CAPM)

The Capital Asset Pricing Model (CAPM), developed by William Sharpe in 1964, is a fundamental tool in finance for estimating the expected return of an asset. CAPM establishes that the expected return of an asset is composed of two components: the risk-free rate and a risk premium. The risk premium is determined by the asset's beta coefficient, which measures its volatility relative to the overall market. Assets with higher betas are expected to have higher returns to compensate investors for the additional risk they bear.

CAPM assumes that investors are rational and risk-averse, seeking to maximize returns while minimizing risk. This model plays a crucial role in financial markets by providing a systematic approach to pricing assets and determining their required rates of return. By quantifying the relationship between systematic risk (beta) and expected return, CAPM enables investors and analysts to make informed decisions about asset allocation and portfolio management. It forms the basis for understanding how assets should be priced in efficient markets, where asset prices reflect all available information accurately.

Efficient Market Hypothesis (EMH)

The Efficient Market Hypothesis (EMH), developed by Eugene Fama in 1970, posits that financial markets are efficient in promptly reflecting all available information in asset prices. EMH classifies markets into three levels of efficiency: weak, semi-strong, and strong. In a weak-form efficient market, prices reflect all historical market data, meaning that past price movements and trading volumes are already incorporated into current prices. This challenges the effectiveness of technical analysis strategies that attempt to predict future price movements based on historical patterns. A semi-strong form market efficiency asserts that asset prices reflect all publicly available information, including financial statements, economic data, and news releases. This implies that fundamental analysis, which assesses the intrinsic value of securities based on public information, is unlikely to consistently provide superior returns. In its strongest form, EMH contends that prices reflect all information, both public and private, including insider knowledge. This suggests that even insiders cannot consistently profit above the market average due to the rapid assimilation of insider information into prices.

Measuring Risk and Return

Standard Deviation: A statistical measure of the dispersion of returns for a given security or market index. A higher standard deviation indicates higher volatility and thus higher risk (Jorion, 2000).

Beta: A measure of a stock's volatility in relation to the overall market. A beta greater than 1 indicates that the stock is more volatile than the market, while a beta less than 1 indicates less volatility (Fama & French, 1993).

Sharpe Ratio: Developed by William Sharpe, this ratio measures the performance of an investment compared to a risk-free asset, after adjusting for its risk. It is calculated as the difference between the returns of the investment and the risk-free return, divided by the standard deviation of the investment's excess return (Sharpe, 1966).

2.2 Conceptual Review

Concept of investment

Investment, risk, and return are interrelated financial concepts. Investment refers to the act of foregoing current money with the expectation of receiving future cash inflows, which are considered returns. The present investment is definite and immediate, whereas future returns are uncertain and not time-bound. Investment involves using savings in hopes of generating profit or benefits, representing the allocation of funds to earn additional income or growth in value. This process entails deferring current consumption to gain future benefits and can involve both tangible assets and financial instruments. Investing in tangible assets, such as buildings, land, machinery, and factories, is termed real investment.

In contrast, investing in financial instruments like shares, debentures, warrants, and convertibles is known as financial investment, which represents an indirect claim on tangible assets held by another party. Investment can be defined as the purchase of financial or real assets by an individual or institutional investor, which yields a return proportional to the assumed risk over a future investment period. It involves committing funds with the expectation of achieving a certain rate of return. If undertaken correctly, the return will align with the risk assumed by the investor (Weston & Thomas, 2003). Investment is the current allocation of funds over a period to obtain future funds that will compensate for the time, inflation, and uncertainty involved (Frank & Keith, 2004).

Investment Portfolio

A portfolio is typically defined as a combination of assets or a collection of securities. It refers to the range of securities held by an investor or institution. Essentially, a portfolio signifies the strategy of diversifying investments across multiple assets. The combination of these investment assets is known as a portfolio. Investors have various alternatives, including equity securities (such as short-term debt securities, negotiable certificates of deposit, commercial paper, banker's acceptances, and Treasury bills), intermediate and long-term debt securities (such as government securities, agency securities, and municipal securities), hybrid securities (such as convertible preferred stock and convertible bonds), derivative securities (such as options, commodity futures, financial futures, options on futures, rights, and warrants), real assets, international investments, and other investment options (Weston & Brigham, 2014).

Investment securities

A security is a legal document that represents an ownership interest. It legally signifies the right to receive future benefits under specified conditions and to buy or sell ownership stakes. Commonly, securities include shares, debentures, common stocks, preferred stocks, warrants, convertibles, or other financial certificates issued by companies to the public. These certificates are issued at a certain price, known as par value, and are transferable between individuals. In simpler terms, securities can be understood as promissory notes that companies issue to investors in exchange for money as a loan or share. There are various types of securities available for investment, such as common stock, preferred stock, bonds, warrants, convertibles, and treasury bills. Among all forms of securities, common stocks (equity shares) are often considered the most intriguing. While fixed-income investments may be more important to many investors, equity shares tend to capture the most interest. The potential rewards and risks associated with equity shares make them an exciting investment option, often sparking conversations at social gatherings (Chandra, 1996).

Common Stock

The study focuses on common stock investment, making it essential to examine this type of security. Common stock serves as a source of long-term financing and represents ownership in a company. Legal documents known as common stock certificates evidence ownership or equity in a corporation and are marketable financial instruments. Common stockholders are entitled to the corporation's residual income, but this investment carries high risk due to its low claim priority during liquidation. When investors purchase common stock, they receive ownership certificates that specify the number of shares bought and their per-share value. Common stock often captures investor interest the most. The potential rewards and risks associated with common stock make it an intriguing and exciting investment option, frequently discussed at social gatherings (Fisher & Jordan, 2000).

Common stockholders are considered residual owners of a corporation, meaning their claims to income and assets are secondary to those of creditors and preferred stockholders. Consequently, the return on investment for stockholders is less predictable compared to lenders or preferred stockholders. Common stock can be issued either with or without a par value, which is a nominal amount specified in the corporate charter and holds little economic significance (Horne, 2002). Companies should avoid issuing stock below its par value because stockholders who purchase at a price lower than par value would be liable to creditors for the difference (Horne, 2002). Common stockholders have certain rights, including:

Control through voting rights

Preemptive rights

Limited liability

The right to income and distribution of additional shares

Residual rights

Common Stock Shares

Common stock values are represented by par value, book value, or market value. These terms have distinct meanings, and their monetary amounts vary:

Par Value: This is the face value of a stock established when the stock is first issued, typically set at Rs.10, Rs.100, or another specified amount. In Nepal, the Securities Board of Nepal (SEBON) 2063 mandates that the par value of a share must be Rs.100. Companies should not issue common stock below this par value because any discount from the par value is considered a contingent liability for the owner to the company's creditors. In the event of liquidation, shareholders would be legally responsible for any discount from the par value. However, in Nepal, issuing shares at a discount is not allowed.

Book Value: Corporations must pay interest to creditors and dividends to stockholders. Any remaining amount after these distributions is added to the cumulative retained earnings recorded in the corporation’s books. The book value of equity is the total of cumulative retained earnings, common stock par value, and capital contributions exceeding par value under stockholders' equity.

Market Value: This represents the value of a share in the secondary market, where it is traded between investors and traders. Market value is determined by the forces of demand and supply.

Security market

A securities market is a system designed to facilitate the exchange of financial assets by connecting buyers and sellers of these assets. It encompasses various types such as money markets, capital markets, primary and secondary markets, and financial intermediaries. The capital market, influenced by demand and supply, is where securities are traded. This market connects financial suppliers—like commercial banks, financial institutions, investment companies, and individual investors—with financial demanders, such as business houses, agricultural sectors, and industrial sectors. Capital markets are essential for trading long-term financial instruments like equities and bonds and are a crucial component of the securities market. They enable transactions between fund suppliers and demanders, playing a vital role in investment activities.

Primary Market: The primary market is where funds are transferred from savers to investors, involving the initial issuance of securities. This market facilitates direct fund transfers, with participants including issuing companies, investment bankers (issue managers), and investors. Investment bankers provide expert advice on the nature of securities, maturity, interest rates, and also underwrite the securities. Occasionally, a business may directly sell securities to buyers without underwriting, known as direct placement. The issuer receives cash, which can be used for production assets or other business purposes, while the public acquires newly issued securities. In the primary market, stocks are typically traded at their par value, often Rs.100 per share.

Secondary Market: The secondary market is where existing securities are bought and sold, providing liquidity to the purchasers. High liquidity in this market encourages investment in the primary market by offering a ready trading platform for securities. The transaction volume and magnitude in the secondary market influence primary market activities. This market acts as a center to convert stocks, bonds, and other securities into cash promptly. Organized security exchanges facilitate these transactions, with specialists playing a crucial role. Most capital market transactions occur in the secondary market. In Nepal, the Nepal Stock Exchange (NEPSE) Ltd. operates as an authorized secondary market under the Securities Exchange Act, 1983. NEPSE's primary objective is to provide marketability and liquidity to government bonds, corporate bonds, and securities through transactions facilitated by brokers and market makers on its trading floor. NEPSE members are authorized intermediaries for buying and selling government and listed corporate securities.

Risk on common stock

Risk can be described as the likelihood of incurring a loss. Assets with a higher probability of loss are considered riskier than those with a lower probability of loss. More formally, the term "risk" is often used interchangeably with "uncertainty" to describe the variability of expected returns for a particular asset. For instance, a government bond that guarantees the holder Rs. 100 in interest after 30 days is risk-free, as there is no return variability. Conversely, an equivalent investment in a company's common stock, which might yield anywhere from Rs. 0 to Rs. 100 over the same period, is very risky due to the high variability in returns. The more predictable the returns from an asset, the less variability and, consequently, the less risk. Therefore, risk is defined as the variability of possible returns around the expected returns of an investment.

Each investor has their own risk tolerance and must determine the best combination of alternatives that balances risk and expected compensation. According to Webster's dictionary, risk is described as a hazard, peril, or exposure to loss or injury, referring to the possibility of an unfavorable event occurring. In the context of financial investments or new projects, the unfavorable event is receiving a lower return than anticipated (Eharhardt & Brigham, 2014). Generally, risk is the probability of unfavorable outcomes. However, it can have different meanings depending on the context. In our context, two measures from the probability distribution are used as initial indicators of return and risk: the mean and the standard deviation (Eharhardt & Brigham, 2014).

Sources of investment risk

Every investment carries uncertainties that make future returns unpredictable. The risks associated with various investment options can arise from numerous sources. A careful investor should consider the following key sources of risk contributing to investment risk:

Interest Rate Risk: This risk arises from potential changes in market interest rates that can cause fluctuations in returns. If market interest rates increase, the value and market price of investments will decrease, and vice versa. This variability in returns due to interest rate changes is known as interest rate risk and affects the prices of bonds, stocks, etc.

Purchasing Power Risk: Also known as inflation risk, this refers to the variability of returns due to inflation. When inflation occurs, financial assets like cash, stocks, and bonds may lose their purchasing power, meaning they cannot buy as much in real goods and services as before. Thus, the real rate of return on financial assets might not sufficiently compensate for inflation.

Bull-Bear Risk: This risk stems from the fluctuations in market returns due to alternating bull and bear market conditions. A bull market is characterized by a consistent rise in a security index from a low point (trough) to a high point (peak). Conversely, a bear market occurs when the market declines from a peak to the next trough.

Default Risk: This risk is associated with changes in the financial integrity of an investment. It represents the variability in returns resulting from changes in the creditworthiness of the firm in which an investor has invested. If a firm's financial integrity weakens, investors may face losses due to anticipated defaults.

Liquidity Risk: Liquidity risk is the variability in an asset's return due to price discounts or sales commissions required to sell the asset quickly. Highly liquid assets are easily marketable and incur no liquidation costs. Illiquid assets, on the other hand, may require price discounts or sales commissions to sell promptly.

Callable Risk: Some bonds and preferred stocks have a provision allowing the issuer to repurchase them. The variability in returns due to the possibility of the issue being called is known as callable risk.

Convertibility Risk: This risk pertains to the variability in returns from convertible bonds or preferred stocks due to the possibility of conversion into the issuer's common stock at a time that may not be favorable for the investor.

Political Risk: Political risk arises from actions by politically strong groups exploiting weaker groups, leading to increased variability in returns from the affected assets.

Industry Risk: This risk is specific to a group of companies competing in the same market. It refers to the variability in returns caused by events affecting the products and firms within an industry.

Types of Risk

The total variance of the rate of return encompasses various risks, primarily classified into two types:

Systematic Risk: This risk refers to the portion of return variability caused by factors affecting the market as a whole, making it non-diversifiable. It is also known as market risk or relevant risk and is influenced by changes in the economy and market conditions. Systematic risk is compensated through a risk premium and includes factors such as interest rate changes, purchasing power changes, and changes in investor expectations about the overall economy.

Unsystematic Risk: Also called diversifiable risk, company-specific risk, or unique risk, this risk is specific to individual firms or projects. It arises from non-market factors such as management decisions, raw material availability, strikes, government regulations, foreign competition, and financial leverage. This portion of risk can be mitigated or eliminated through diversification.

Return on Common Stock: Return is the reward to investors for bearing certain risks and is the primary goal of investment. It is defined as the after-tax increase in the value of an investment and can be expressed through cash dividends or capital gains/losses. Investors aim to maximize expected returns relative to their risk tolerance. Returns can be measured using financial ratios or by calculating the total gain and loss over a given period. The expression for calculating the rate of return (Ks) earned on any asset over a period (t) is:

Total Return = Capital Gain + Regular Gain (Ordinary Gain)

Capital Gain = Ending Price - Beginning Price Regular Gain = Dividend or Income

Relationship between Risk and Return

In financial theory, there is a linear relationship between risk and return, meaning low risk is associated with low returns, and high risk is linked to high returns. According to the Capital Asset Pricing Model (CAPM), firms are positioned on the Security Market Line (SML) and aim to generate returns commensurate with their risk. A higher risk investment proposal must offer a higher expected return to be acceptable. Generally, there is a positive relationship between risk and return, as risk-averse investors require higher returns to compensate for higher risks. Investors prefer investments that promise higher returns for the same level of risk.

2.2 Empirical review

Risal (2023) examined how factors such as company size, liquidity, leverage, and underwriting risk affect the financial performance of non-life insurance companies in Nepal, using a decade of data from five non-life insurance firms. The study utilized a descriptive and analytical approach, employing regression and correlation techniques to explore cause-and-effect relationships. The analysis was based on fifty firm-year observations, and the study applied correlation analysis, multiple regression techniques, and F-statistics to determine the significance of these factors on financial performance. The results revealed that larger non-life insurance companies demonstrated a significant positive effect on profitability. In contrast, variations in liquidity had no discernible impact on the performance of these companies in Nepal. Additionally, the study found that higher levels of leverage were associated with poorer financial performance among non-life insurance companies. The research also showed that fluctuations in benefits paid and net premiums did not significantly affect the return on assets (ROA). In the context of Nepal, the size of non-depository financial institutions and leverage were identified as the most critical factors influencing the financial performance of non-life insurance companies.

Yuan et al. (2022) investigated the determinants of bank profitability in Asian countries. Panel data analysis with OLS regression was used as a research methodology to analyze the data. The main findings of the study were return on assets (ROA) was positively influenced by bank size and capital ratio, negative impact of deposit to asset ratio (DTAR) and loan to deposit ratio (LDR) on ROA.

Zerihun (2021) examined bank-specific factors on bank value in Ethiopian commercial banks. The study was analyzed using panel data analysis with a random effect model. The findings of the study revealed that capital ratio and management efficiency positively influence bank value, while bank size negatively affects it.

Mohanty and Sarkar (2020) analyzed the specific and the external factors of the bank. The study was conducted using descriptive and regression analysis. The study found that liquidity risk, operational risk, and capital efficiency negatively impact bank value.

Pokharel and Panthi (2020) determined the factors influencing life insurance consumption in the country. To achieve this objective, the researchers utilized regression analysis research methodology. The main findings of the study highlighted that factors such as income levels, educational attainment, and awareness significantly influence life insurance consumption in Nepal. Higher income levels and greater awareness were associated with increased uptake of life insurance products.

Poudel and Bhusal (2020) analyzed the risk-return trade-off of these companies. The researchers employed panel data analysis research methodology. The main findings of the study were that Nepalese life insurance companies face significant risk, indicating a poor risk-return trade-off, the returns generated by these companies do not adequately compensate for the level of risk they undertake.

Bhatta and Bhusal (2019) analyzed this impact. To accomplish this objective, the researchers employed regression analysis research methodology. The main findings of the study revealed that premium income has a significant positive impact on the financial performance of Nepalese life insurance companies. Higher premium income was associated with increased profitability, improved solvency ratios, and enhanced liquidity positions.

Dhakal and Bhattarai (2019) assessed solvency and profitability of Nepalese life insurance companies”. To achieve this objective, the researchers utilized regression analysis research methodology. The main findings of the study indicated that Nepalese life insurance companies faced challenges in both solvency and profitability.

Serwadda (2018) assessed the impact of bank-specific factors on commercial bank value in Hungary. Through panel regression and correlation analysis, the study found that bank size and asset quality significantly influence bank value. It also found that larger banks with better asset quality tend to be more valuable in the Hungarian banking sector.

Dhungana and Bhattarai (2018) determined the factors affecting the profitability of Nepalese life insurance companies. To achieve this objective, the researchers employed regression analysis research methodology. The main findings of the study revealed that factors such as investment choices, company size, and underwriting risk significantly impact the profitability of Nepalese life insurance companies.

Acharya and Shrestha (2018) analyzed the investment pattern of Nepalese life insurance companies. To achieve this objective, the researchers utilized regression analysis research methodology. Through regression analysis, they examined the relationship between investment choices and profitability of life insurance companies. The main findings of the study revealed that investment in equity positively impacts profitability, while investment in fixed income securities negatively impacts it.

Maharjan (2018) conducted an analysis of risk and return related to common stock investments. The study employed a quantitative, descriptive approach using secondary data. The primary goals of the research were to determine whether the stocks of selected companies were overpriced, underpriced, or in equilibrium, and to assess the proportions of systematic and unsystematic risks associated with common stocks. The study’s findings revealed that the standard deviation of HBL’s stock was high. It was concluded that the common stocks of all the listed commercial banks analyzed in the study were undervalued. The average expected return for the common stocks of three sampled commercial banks was 44.34%, with a corresponding risk level of 43.15%. Through portfolio analysis, a three-asset portfolio was created, showing that the portfolio’s return and risk were approximately aligned with the average return and risk of the individual assets. The study also found that unsystematic risk constituted a larger portion of the total risk for NABIL. Based on these findings, Maharjan recommended investing in NABIL.

Tui et al. (2017) investigated the effect of profitability on firm value in Vietnam. Using quantitative analysis with regression, they found that profitability positively impacts firm value. This suggests that profitable firms are perceived as more valuable by investors and stakeholders in the Vietnamese market. The study underscores the significance of profitability as a key determinant of firm value and highlights its implications for financial decision-making.

Karki and Khatiwada (2016) evaluated the asset liability management practices of Nepalese life insurance companies. The main objective of the study was to assess these practices. To achieve this objective, the researchers employed a case study research methodology. Through case study analysis, they examined the asset liability management practices of various life insurance companies in Nepal. The main findings of the study emphasized the critical importance of effective management of assets and liabilities for improving profitability and solvency within the sector. This highlights the need for robust risk management and financial planning strategies in the Nepalese life insurance industry.

Bhatta and Bhusal (2016) analyzed the financial performance of Nepalese life insurance companies. The main objective of the study was to assess this performance. To achieve this objective, the researchers utilized ratio analysis research methodology. Through ratio analysis, they evaluated various financial indicators such as profitability, liquidity risk, and capital adequacy of Nepalese life insurance companies. The main findings of the study indicated that Nepalese life insurance companies exhibit low profitability, high liquidity risk, and inadequate capital adequacy. This underscores the need for strategic interventions to address these challenges and improve the overall financial health of the companies.

K.C. and Adhikari (2016) evaluated the performance of the Nepalese life insurance industry. To achieve this objective, the researchers utilized descriptive analysis research methodology. Through descriptive analysis, they examined various aspects of the performance of the Nepalese life insurance industry, including growth trends, profitability, competition, and regulation. The main findings of the study highlighted rapid industry growth alongside challenges such as low profitability, high competition, and inadequate regulation. This underscores the need for comprehensive regulatory reforms and strategic initiatives to sustainably develop the life insurance sector in Nepal.

Mahmud et al. (2016) identified bank-specific variables affecting the value of commercial banks in Bangladesh. Employing the Prais-Winsten correlated panels corrected standard errors model analysis, they revealed that size, operating expense, gearing ratio, and capital positively impact bank value. This implies that larger banks with lower operating expenses and higher capitalization tend to be more valuable in the context of Bangladesh's banking industry.

Basaula (2015) conducted a study utilizing primary data and a descriptive research approach, employing statistical tools to analyze the information collected. This quantitative data was then examined qualitatively to uncover insights into the patterns of life insurance and the impact of claim settlement strategies in Nepal. The study aimed to explore the practices of life insurance companies (LICs) in Nepal, focusing on the processes of maturity claims, survival benefits, and death claim settlements. It also sought to explain the portion of systematic and unsystematic risks relative to the total risk faced by these companies. Basaula recommended that a deeper understanding of claim settlement management could lead to the refinement of effective practices and design frameworks. He suggested that future research could further validate the design framework's effectiveness in similar contexts. The study concluded that there is a need for more research on claim settlement processes and improving policyholders' understanding of life insurance policies in Nepal.

Ojha (2015) examined the investment policies of Everest Bank Limited (EBL) and Himalayan Bank Limited (HBL) using secondary data. Out of the 28 commercial banks in the sector, the study focused on just these two banks as its sample. The research employed statistical techniques such as trend analysis, mean calculations, and coefficient of variation (CV), alongside financial tools like activity ratios, risk ratios, and profitability ratios to conduct the analysis. The study aimed to explore the relationships among total investments, deposits, loans and advances, net profit, and assets, and to compare these aspects between EBL and HBL. It also sought to evaluate the liquidity, asset management, efficiency, profitability, and risk profiles of both banks, analyze the trends in deposit utilization, and project these trends for the next five years. Furthermore, the study provided a set of practical recommendations and guidelines to enhance the investment policies of the banks. The results revealed that EBL had a better liquidity position compared to HBL, with a higher ratio of cash and bank balances to total deposits and current assets. While both banks exhibited similar investment patterns in government securities, their fluctuating ratios indicated an unstable investment policy. Overall, the asset management ratios for both EBL and HBL were found to be satisfactory.

Weersainghe and Ravinda (2013) aimed to understand the impact of both bank-specific and macroeconomic determinants on commercial bank value in Sri Lanka. Utilizing multiple panel regression analysis, the researchers found that large banks tend to record more profits. However, they observed that liquidity and operating cost efficiency negatively impact bank value. Additionally, the study highlighted that interest rates have a negative effect on return on assets, indicating a complex interplay between internal and external factors affecting bank value in Sri Lanka.

Oli (2013) investigated the risk and return associated with investing in the common stocks of insurance companies, focusing on the relationship between each company's stock and the industry index, and evaluating stock prices using the Capital Asset Pricing Model (CAPM). The study found that the expected rate of return for the insurance sector was X% with a standard deviation of Y% and a coefficient of variation of Z for the insurance index. It was observed that the common stocks of Surya Insurance Company (SIC), National Life Insurance Company Ltd (NLIC), and United Insurance Company (UIC) were undervalued, while the stocks of NLICL and SICL were overvalued. The analysis of an optimal portfolio revealed that the best investment strategy was to allocate 50% of the portfolio to SICL and 50% to UIC, which would yield the highest return. Additionally, the study found that NLICL had a high proportion of unsystematic risk relative to its total risk. Based on these findings, Oli recommended investing in UIC for optimal returns due to its lower risk and higher expected returns.

Shahi (2012) conducted a comparison of two insurance companies, Everest Insurance Company Ltd (EIC) and Surya Insurance Company Ltd (SIC), focusing on their risk and return profiles. The study revealed that EIC provides higher returns compared to SIC. Risk was assessed using standard deviation, and the findings indicated that EIC bears more risk than SIC. EIC also exhibited a higher beta coefficient, signifying that it is a more aggressive stock compared to SIC. The analysis highlighted a significant difference between the two companies in terms of portfolio risk and returns, with EIC achieving higher portfolio returns. Additionally, the study found that both companies had a positive but low correlation, which is advantageous for investors seeking to diversify their portfolios.

Table 1

Summary of Review

Author(s)	Variables	Methodology	Major Findings
Risal (2023)	Company size, liquidity, leverage, underwriting risk	Descriptive and analytical; regression and correlation analysis	Company size positively impacts profitability; liquidity fluctuations don't affect performance; higher leverage results in lower performance; underwriting risk doesn't impact ROA.
Yuan et al. (2022)	Bank size, capital ratio, DTAR, LDR	Panel data analysis with OLS regression	ROA is positively influenced by bank size and capital ratio; DTAR and LDR negatively impact ROA.
Zerihun (2021)	Capital ratio, management efficiency, bank size	Panel data analysis with a random effect model	Capital ratio and management efficiency positively influence bank value; bank size negatively affects it.
Mohanty and Sarkar (2020)	Liquidity risk, operational risk, capital efficiency	Descriptive and regression analysis	Liquidity risk, operational risk, and capital efficiency negatively impact bank value.
Pokharel and Panthi (2020)	Income levels, educational attainment, awareness	Regression analysis	Higher income levels and greater awareness increase life insurance consumption.
Poudel and Bhusal (2020)	Risk, return	Panel data analysis	Nepalese life insurance companies face significant risk with poor risk-return trade-off.

Bhatta and Bhusal (2019)	Premium income, profitability, solvency ratios	Regression analysis	Premium income significantly positively impacts financial performance of Nepalese life insurance companies.
Dhakal and Bhattarai (2019)	Solvency, profitability	Regression analysis	Nepalese life insurance companies face challenges in solvency and profitability.
Serwadda (2018)	Bank size, asset quality	Panel regression and correlation analysis	Bank size and asset quality significantly influence bank value; larger banks with better asset quality tend to be more valuable.
Dhungana and Bhattarai (2018)	Investment choices, company size, underwriting risk	Regression analysis	Investment choices, company size, and underwriting risk significantly impact profitability of Nepalese life insurance companies.
Acharya and Shrestha (2018)	Investment choices, profitability	Regression analysis	Investment in equity positively impacts profitability; investment in fixed income securities negatively impacts profitability.
Maharjan (2018)	Stock price, systematic risk, unsystematic risk	Quantitative and descriptive method	Stocks of analyzed banks are underpriced; high standard deviation in HBL; suggests investing in NABIL for higher returns and less risk.
Tui et al. (2017)	Profitability, firm value	Quantitative analysis with regression	Profitability positively impacts firm value.
Karki and Khatiwada (2016)	Asset liability management	Case study analysis	Effective management of assets and liabilities is critical for profitability and solvency

	practices, profitability		of Nepalese life insurance companies.
Bhatta and Bhusal (2016)	Profitability, liquidity risk, capital adequacy	Ratio analysis	Nepalese life insurance companies exhibit low profitability, high liquidity risk, and inadequate capital adequacy.
K.C. and Adhikari (2016)	Growth trends, profitability, competition	Descriptive analysis	Rapid industry growth with challenges in profitability, competition, and regulation; need for regulatory reforms.
Mahmud et al. (2016)	Size, operating expense, gearing ratio, capital	Prais-Winsten correlated panels corrected standard errors model analysis	Size, operating expense, gearing ratio, and capital positively impact bank value in Bangladesh.
Basaula (2015)	Claim settlement practices, maturity claim, survival benefits	Descriptive study with quantitative data	Emphasizes importance of efficient claim settlement practices for life insurance companies in Nepal.
Ojha (2015)	Total investments, deposits, loans and advances	Statistical and financial tools (trend analysis, mean, CV, activity ratios, risk ratio, profitability ratio)	EBL has better liquidity position than HBL; similar investment patterns but fluctuating ratios indicate unstable investment policy; satisfactory asset management ratios.
Weersainghe and Ravinda (2013)	Bank size, liquidity, operating cost efficiency	Multiple panel regression analysis	Large banks record more profits; liquidity and operating cost efficiency negatively impact bank value; interest rates negatively affect ROA.

Oli (2013)	Stock price, systematic risk, unsystematic risk	Quantitative analysis	SIC, NLIC, and UIC stocks are underpriced; optimal portfolio suggests equal investment in SIC and UIC for maximum return with less risk.
Shahi (2012)	Risk and returns, portfolio risk, beta coefficient	Quantitative, analytical, and descriptive research design	EIC offers maximum returns but with higher risk; EIC and SIC have positive and low correlation, favorable for investors.

2.3 Research gap

The research gap identified in the area of "Factors Affecting Risk and Return Analysis of Life Insurance Companies in Nepal" is multifaceted. Firstly, there is a lack of research on the relationship between risk and return in the Nepalese life insurance industry, especially in comparison to other industries or countries. Existing literature on this topic in the Nepalese context is limited to a few studies (Sharma & Bhattarai, 2018; Bhandari & Bhattarai, 2016; Bhattarai & Shakya, 2015), and these studies provide only a preliminary understanding of the topic. Thus, there is a need for more in-depth research that can provide a comprehensive understanding of the risk and return relationship in the Nepalese life insurance industry.

There is a lack of research on the impact of various external factors on the risk and return of Nepalese life insurance companies. Regulatory changes, technological advancements, macroeconomic factors, corporate governance practices, and environmental, social, and governance (ESG) factors are all external factors that can affect the risk and return of life insurance companies. However, research on these factors' impact on the Nepalese life insurance industry is limited to a handful of studies (Bhandari & Bhattarai, 2016; Bhattarai & Shakya, 2015; Poudyal & Koirala, 2018; Sharma & Bhattarai, 2018). Therefore, a more in-depth study is needed to understand the impact of these external factors on the risk and return of Nepalese life insurance companies.

Addressing these research gaps would be beneficial for industry practitioners and policymakers alike. Understanding the risk and return relationship and the impact of external factors would help insurers develop better strategies for managing risk and increasing profitability. Policymakers could use the findings to develop more effective regulations that foster a healthy and sustainable life insurance industry.

CHAPTER III

RESEARCH METHODOLOGY

This chapter consists of five sections. The first section consists of the information about the research design used in the study, second consists of the population, sample as well as the sampling design used in the study, followed by third sections with the nature and sources of the data as well as the instrument of the data collection, various methods of the data analysis used in the study and the research framework used in the study.

3.1 Research design

The main goal of this academic research is to address specific questions and manage the variations in the data. The study uses a casual comparative and descriptive research design, which is a systematic way of investigating the common stock of five listed life insurance companies based on the available information. This research approach is analytical and descriptive, focusing on examining the data in detail. To analyze the portfolio, the study considers the common stocks of the selected life insurance companies. Various statistical and financial tools are employed for the financial analysis to explore and explain the data effectively.

3.2 Population, sample, and sampling design

This research focuses on comparing the risk and return associated with common stock investments across three life insurance companies listed on the Nepal Stock Exchange, using data from the fiscal year 2007/12 to 2022/23. The study examines all life insurance companies that are listed on NEPSE, with a specific focus on these firms. The sample for this study includes five life insurance companies: Nepal Life Insurance Company, Asian Life Insurance Company Limited, National Life Insurance Company Limited, Himalayan Everest Insurance Limited, NLG Insurance Limited, and Shikhar Insurance Company Limited. These companies were selected based on their high market value per share in the market.

3.3 Nature and source of data, and the instrument of data collection

For this study, data was collected from secondary sources, including market price information, stock market capitalization, and NEPSE index trends from trading reports available on the Nepal Stock Exchange website. Annual reports and financial statements of the life insurance companies involved in the study were also accessed through their respective websites. Additionally, relevant NEPSE periodicals, articles, and earlier research reports were reviewed.

3.4 Method of analysis

The study was employed both descriptive and analytical statistics to analyze the collected data; this process also involved manual working and computer programmed MS-word, MS-excel and SPSS. The study was used descriptive statistics in analyzing data through ratio and data presented in form of times and percentages which reflected the different financial ratio include in this study.

3.4.1 Financial tools

A ratio is simply a number expressed in terms of other number and it expressed the quantitative relation between any two Variables. Moreover, it was used as a technique to quantify the relationship between two sets of financial data taken from the insurance companies

3.4.2 Statistical tools

In this research study some statistical tools are used for the analysis of the data more accurately, which are given below:

Descriptive Statistics

Arithmetic Mean or Average

The mean, or average value, is a single number that represents the middle point of a set of data. It’s called a measure of central value because it helps show where most of the data falls.

Standard Deviation

Standard deviation, represented by the Greek letter sigma (σ), is a common way to show how spread out the values in a data set are. It gives an idea of how much individual data points differ from the average.

Coefficient of Variation (CV)

The coefficient of variation is the ratio of standard deviation to the mean for a given sample used to measure spread. It can also be thought of as the measure of relative risk. The larger the coefficient of variation, the greater the risk relative to the average.

Statistical Analysis

Correlation Analysis

The correlation coefficient measures the strength and direction of the relationship between two variables. It helps us understand how changes in one variable are associated with changes in another variable. If the correlation coefficient is high, it indicates that when one variable changes, the other tends to change in a predictable way—either increasing or decreasing together (Kuinkel, 2023).

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

Where,

n = number of observation in series X and Y

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

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

$\sum$ X2 = sum of squared observation in series X

$\sum$ Y2 = sum of squared observation n series y

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

The value of correlation coefficient ranges from -1 to +1.

r = 0 means variables are correlated lies between -1 and +1

r = -1 means perfect negative correlation between the variables

r = +1 means positive correlation between the variables

Regression Analysis

Regression analysis is a set of statistical processes for estimating the relationships among variables. It includes many techniques for modeling and analyzing several variables, when the focus is on the relationship between a dependent variable and one or more independent variables. More specifically, regression analysis helps one understand how the typical value of the dependent variable changes when any one of the independent variables is varied, while the other independent variables are fixed (Yadav et al., 2010).

Regression Equation:

Model 1: $HPR = \beta 0 + \beta 1\ MPS + \beta 2\ DPS + \beta 3\ DPR + \beta 4\ EPS + e$

Model 2: $SD = \beta 0 + \beta 1\ MPS + \beta 2\ DPS + \beta 3\ DPR + \beta 4\ EPS + e$

Where,

HPR = Holding Period Return

SD = Standard Deviation

MPS = Market Price Per Share

DPS = Dividend Per Share

DPR = Dividend Payout Ratio

EPS = Earnings Per Share

$\beta 0$ = intercept value of regression equation

$\beta 1$ = coefficient of market price per share

$\beta 5$ = coefficient of dividend per share

e = residual term of the regression equation

3.5 Research framework and definition of variables

Many analytical techniques can be applied to evaluate a firm's risk and return. In this study, various financial and statistical tools will be used to achieve the research objectives. The following framework will guide the analysis of the data presented in the study.

Independent Variable **Dependent Variable**

Earnings Per Share (EPS)
Dividend Payout Ratio (DPR)
Dividend Per Share (DPS)
Market Price Per Share (MPS)

Holding Period Return (HPR)
Standard Deviation (S.D)

Figure 1: *Conceptual Framework*

(*Source: Tui et al., 2017*)

EPS (Earnings Per Share)

EPS stands for Earnings Per Share. It is a financial metric that indicates the portion of a company's profit allocated to each outstanding share of common stock. It is calculated by dividing the company's net earnings (after taxes and preferred stock dividends) by the weighted average number of shares outstanding during a specific period. EPS is commonly used by investors and analysts to assess a company's profitability on a per-share basis.

DPR (Dividend Payout Ratio)

DPR stands for Dividend Payout Ratio. It is a financial ratio that indicates the proportion of a company's earnings paid out to shareholders in the form of dividends. It is calculated by dividing the total dividends paid by the company by its net earnings. The DPR helps assess how much of a company's earnings are retained for reinvestment or other purposes versus how much is distributed to shareholders as dividends.

Market Price of the Stock (MPS)

The market price of a stock is a key piece of information for this study. Stocks have different prices throughout the year, including high, low, and closing prices. For this analysis, we only need one price, so we use the closing price for each year. This is because the closing price represents the stock's value at the end of the year, which helps us focus on yearly trends rather than daily price fluctuations.

Dividend per Share (DPS)

A dividend is a portion of a company's earnings that is paid out to shareholders as a reward for their investment. It represents the return on the equity they have invested, accounting for the time and risk they've taken. The amount paid per share is called the Dividend per Share (DPS). Symbolically, DPS can be expressed as follows:

$$\text{DPS} = \frac{The\ Total\ amount\ of\ dividend}{No.of\ Shares\ Outstanding}$$

To get a real amount of dividend following model has been used throughout.

Net dividend amount = Cash dividend + Stock Dividend% * Next Year's MPS

Holding Period Return (HPR)

The holding period is the amount of time you measure the performance of an investment. The holding period return (HPR) is the total profit or loss you make from holding an investment for that period. It includes both the increase in the investment's price and any dividends you receive. HPR is useful for comparing different investments because it takes into account both the income you get from dividends and the capital gains, making it easier to see which investment performs better. Generally, investments with a higher HPR are considered better options (Pradhan & Pokharel, 2020).

Symbolically,

HPR or Simple

$R = Pt - Pt{-}1 + Dt/\ Pt{-}1$

Where, R=Annual rate of return

Pt=Ending price of the stock at time't'

Dt=Dividend receive at time't'

$Pt{-}1$=Beginning price of stock at time't'

Standard Deviation

Standard deviation shows how much the values in a data set differ from the average value. Represented by the Greek letter sigma (σ), it gives you an idea of how spread out or clustered the data is around the mean. A low standard deviation means the values are close to the average, while a high standard deviation indicates that they are spread out over a wider range. It's a helpful tool for understanding how well the average value represents the overall data.

CHAPTER IV

RESULTS AND DISCUSSION

Significant data from Nepal's insurance companies, as well as their analysis and interpretation in order to meet the study's goals, are presented and discussed in this chapter. As explained in the third chapter, the data has been analyzed in line with the research strategy in order to get the best potential result. It is possible to understand the foundations of data analysis and interpretation, as well as how to do these tasks, by reading this chapter. The statistical testing of significance is an essential component of data analysis because it establishes if the correlations or differences supporting or opposing the original or new hypothesis are statistically significant. This assists in determining the validity of the data and the validity with which it may be utilized to draw any conclusions. A variety of financial and statistical methodologies are used throughout this chapter to analyze data acquired from secondary sources. The findings of the study are discussed in depth.

4.1 Results

The performances of individual companies that are listed in the stock exchange have direct impact on capital market and changes the price as per their financial performance. A company having a good performance has highest market price, high volume of transaction, higher demand of stock, lower risk and low cost of capital. The risk on the listed companies depends upon the trend of the market of the companies.

4.1.1 Analysis of Market Price per Share (MPS)

The analysis of Market Price per Share (MPS) provides essential insights into how investors value a company's shares within the secondary market over a specified period. MPS serves as a critical indicator of the company's market valuation, reflecting investor sentiment, market expectations, and perceptions about the company's future prospects. A higher MPS generally indicates positive investor confidence in the company's current financial performance, growth potential, and overall market position. Conversely, fluctuations in MPS can reflect changes in broader market sentiment and economic conditions, influencing investor perceptions of risk and return associated with the company's stock.

Table 2

MPS of the Insurance Companies

	NLIC	ALICL	NLICL	SICL	HEL	NLG	Mean	S.D.
2007/08	820.00	0.00	225.00	545.00	345.00	0.00	322.50	320.95
2008/09	345.00	0.00	598.00	467.00	285.00	0.00	282.50	243.76
2009/10	770.00	1250.00	486.00	434.00	234.00	0.00	529.00	437.19
2010/11	566.00	250.00	334.00	398.00	200.00	0.00	291.33	191.61
2011/12	785.00	189.00	529.00	429.00	197.00	0.00	354.83	282.56
2012/13	1425.00	250.00	596.00	406.00	182.00	0.00	476.50	506.75
2013/14	4351.00	1250.00	2550.00	940.00	590.00	863.00	1757.33	1445.22
2014/15	2886.00	1013.00	1840.00	690.00	378.00	559.00	1227.67	962.21
2015/16	4006.00	1710.00	3300.00	3249.00	1380.00	1970.00	2602.50	1055.03
2016/17	2148.00	1458.00	2300.00	1941.00	745.00	1485.00	1679.50	571.50
2017/18	1050.00	683.00	799.00	985.00	2470.00	930.00	1152.83	658.68
2018/19	901.00	383.00	585.00	771.00	365.00	930.00	655.83	250.03
2019/20	1260.00	607.00	662.00	1019.00	412.00	657.00	769.50	310.25
2020/21	1919.00	1348.00	1151.00	1942.00	749.00	1220.00	1388.17	465.44
2021/22	747.00	574.00	577.00	807.00	500.00	478.00	613.83	133.72
2022/23	617.00	646.90	545.30	728.00	548.00	727.10	650.76	
Mean	1537.25	725.74	1067.33	984.44	598.75	613.69		
S.D.	1227.10	565.34	937.90	796.13	603.19	627.40		
CV	79.82%	77.90%	87.87%	80.87%	100.74%	102.23%		

The Table 2 provides a comprehensive overview of the Market Price per Share (MPS) for six insurance companies—NLIC, ALICL, NLICL, SICL, HEL, and NLG—over the period from 2007/08 to 2022/23. The data indicates substantial variations in the MPS values among these companies over the years. NLIC shows significant fluctuations, with particularly high values, peaking in 2013/14 at 4351.00, indicating strong performance or market perception in that year. ALICL started with zero values in the first two years but exhibited substantial increases in subsequent years, with a peak of 1710.00 in 2015/16. NLICL also demonstrated variability, peaking at 3300.00 in the same year, indicating a strong but inconsistent performance. SICL's MPS values show a general upward trend with notable fluctuations, reaching its highest point at 3249.00 in 2015/16. HEL had a substantial spike in 2017/18 with an MPS of 2470.00, reflecting significant market activity or profitability during that period. NLG, starting with zero values, also saw considerable increases in later years, with a peak of 1970.00 in 2015/16. Statistical analysis of the data shows that NLIC has the highest mean MPS at 1537.25, indicating a generally higher market valuation compared to others. ALICL and NLG have the lowest means at 725.74 and 613.69, respectively, suggesting comparatively lower market valuations. The standard deviation (S.D.) values indicate the variability in MPS, with NLIC having the highest S.D. at 1227.10, pointing to significant fluctuations in its market price. The coefficients of variation (CV), which measure relative variability, are highest for NLG (102.23%) and HEL (100.74%), indicating more relative volatility in their MPS compared to other companies. Overall, the data reflects diverse market performances and varying degrees of stability among these insurance companies over the observed period.

4.1.2 Analysis of Dividend per Share (DPS)

Dividend per share is the rupee earnings distributed per share to common stock holders. Dividend per share shows the portion of earning distributed to the shareholders on per share basis. Generally, the higher DPS creates positive attitude among the shareholders toward the insurance companies, which accordingly helps to increase the market value of shares. It also works as the indicator of better performance. The Dividend per share of the insurance companies under study are stated in table.

Table 3

DPS of the Insurance Companies

	NLIC	ALICL	NLICL	SICL	HEL	NLG	Mean	S.D.
2007/08	10.00	0.00	0.00	4.32	5.26	0.00	3.26	4.06
2008/09	13.22	0.00	0.00	8.00	10.00	0.00	5.20	5.94
2009/10	3.24	0.00	21.00	23.40	12.50	0.00	10.02	10.51
2010/11	0.00	0.00	32.00	20.00	0.00	0.00	8.67	13.95
2011/12	126.32	0.00	26.00	21.00	0.00	0.00	28.89	49.13
2012/13	98.50	0.00	73.00	21.05	0.00	21.00	35.59	40.78
2013/14	68.00	0.00	38.00	21.05	10.25	21.00	26.38	24.00
2014/15	26.32	0.00	32.00	26.32	21.05	21.00	21.12	11.12
2015/16	30.08	0.00	26.00	63.16	21.05	26.32	27.77	20.39
2016/17	70.53	0.00	14.21	30.53	15.00	26.32	26.10	24.25
2017/18	48.50	0.00	26.57	0.00	0.00	0.00	12.51	20.59
2018/19	51.00	0.00	10.79	0.00	0.00	7.37	11.53	19.87
2019/20	14.74	27.00	22.00	38.00	8.42	10.53	20.12	11.21
2020/21	15.79	15.26	18.79	0.00	6.32	10.53	11.12	7.00
2021/22	0.00	8.95	6.50	16.84	0.00	10.53	7.14	6.50
2022/23	21.05	8.16	0.00	0.00	6.54	5.79	5.43	
Mean	37.33	3.71	21.68	18.35	7.27	10.02		
S.D.	37.15	7.70	18.25	16.95	7.34	10.07		
CV	99.53%	207.38%	84.20%	92.34%	100.84%	100.46%		

The Table 3 presents the Dividend per Share (DPS) for six insurance companies—NLIC, ALICL, NLICL, SICL, HEL, and NLG—over the period from 2007/08 to 2022/23. The data highlights substantial variability in the dividend distributions across these companies and years. NLIC shows significant fluctuations in DPS, with a notable peak in 2011/12 at 126.32, suggesting a substantial dividend payout during that year. However, there are also years with zero dividends, indicating inconsistency in dividend distributions. ALICL consistently shows zero DPS until 2019/20, when it begins to distribute dividends, though these remain relatively low compared to other companies. NLICL demonstrates significant variability in its DPS, with a high of 73.00 in 2012/13 and a general downward trend in subsequent years. SICL shows a more consistent dividend payout pattern, with peaks such as 63.16 in 2015/16 but also some years with zero dividends. HEL's DPS values are low and sporadic, with several years of no dividends, reflecting a more conservative or inconsistent dividend policy. NLG shows a similar pattern of sporadic dividends, with the highest value of 26.32 in 2015/16. Statistical analysis reveals that NLIC has the highest mean DPS at 37.33, indicating a higher average dividend distribution compared to the other companies. ALICL has the lowest mean DPS at 3.71, reflecting its limited dividend payouts. NLICL, SICL, and HEL have moderate mean DPS values, suggesting relatively better but still inconsistent dividend distributions. The standard deviation (S.D.) values indicate the variability in DPS, with NLIC having the highest S.D. at 37.15, showing significant fluctuations in its dividend payouts. The coefficient of variation (CV) for ALICL is extremely high at 207.38%, indicating very high relative variability in its dividend distributions, albeit starting from a low base. The CV values for other companies range between 84.20% for NLICL and 100.84% for HEL, indicating varying degrees of dividend distribution stability. Overall, the data suggests that the insurance companies have highly variable and often inconsistent dividend policies, with NLIC showing the highest average dividends but also significant fluctuations, and ALICL showing minimal dividends with extremely high relative variability. The patterns indicate differing strategies or financial performances across these companies regarding shareholder returns.

4.1.3 Analysis of Holding Period Return (HPR)

The Holding Period Return (HPR) is a measure of the total return earned on an investment over the holding period. It is calculated as the sum of the capital gains and dividends received over the holding period, expressed as a percentage of the initial investment. Analyzing the mean, standard deviation, and coefficient of variation (CV) of HPR provides insights into the average performance, volatility, and relative risk of the investment.

Table 4

HPR of the Insurance Companies

	NLIC	ALICL	NLICL	SICL	HEL	NLG	Mean	S.D.
2007/08	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
2008/09	1.61%	0.00%	0.00%	1.47%	2.90%	0.00%	1.00%	1.20%
2009/10	0.94%	0.00%	3.51%	5.01%	4.39%	0.00%	2.31%	2.26%
2010/11	0.00%	0.00%	6.58%	4.61%	0.00%	0.00%	1.87%	2.96%
2011/12	22.32%	0.00%	7.78%	5.28%	0.00%	0.00%	5.90%	8.69%
2012/13	12.55%	0.00%	13.80%	4.91%	0.00%	0.00%	5.21%	6.47%
2013/14	4.77%	0.00%	6.38%	5.18%	5.63%	0.00%	3.66%	2.89%
2014/15	0.60%	0.00%	1.25%	2.80%	3.57%	2.43%	1.78%	1.38%
2015/16	1.04%	0.00%	1.41%	9.15%	5.57%	4.71%	3.65%	3.47%
2016/17	1.76%	0.00%	0.43%	0.94%	1.09%	1.34%	0.93%	0.63%
2017/18	2.26%	0.00%	1.16%	0.00%	0.00%	0.00%	0.57%	0.95%
2018/19	4.86%	0.00%	1.35%	0.00%	0.00%	0.79%	1.17%	1.89%
2019/20	1.64%	7.05%	3.76%	4.93%	2.31%	1.13%	3.47%	2.25%
2020/21	1.25%	2.51%	2.84%	0.00%	1.53%	1.60%	1.62%	1.01%
2021/22	0.00%	0.66%	0.56%	0.87%	0.00%	0.86%	0.49%	0.40%
2022/23	2.82%	1.42%	0.00%	0.00%	1.31%	1.21%	1.13%	1.05%
Mean	3.65%	0.73%	3.18%	2.82%	1.77%	0.88%		
S.D.	5.85%	1.83%	3.79%	2.80%	2.06%	1.27%		
CV	160.31%	250.76%	119.28%	99.19%	116.51%	144.27%		

The data in Table 4 illustrates the Holding Period Return (HPR) for six insurance companies—NLIC, ALICL, NLICL, SICL, HEL, and NLG—over 16 years, from 2007/08 to 2022/23. This includes annual HPR values, mean HPR, standard deviation (S.D.), and coefficient of variation (CV) for each company. The mean HPR shows that NLIC has the highest average return at 3.65%, indicating robust performance. NLICL follows closely with a mean HPR of 3.18%, while SICL has a moderate mean return of 2.82%, reflecting steady performance. HEL's mean HPR of 1.77% and the low mean HPRs of NLG and ALICL, at 0.88% and 0.73% respectively, indicate modest average returns. The standard deviation, which measures the variability of returns, reveals that NLIC has the highest variability with an S.D. of 5.85%, suggesting higher risk. NLICL's S.D. of 3.79% indicates moderate volatility, while SICL's S.D. of 2.80% reflects relatively lower variability. HEL, with an S.D. of 2.06%, shows moderate variability in returns. ALICL and NLG, with S.D.s of 1.83% and 1.27% respectively, exhibit the lowest volatility, indicating more stable but lower returns. The coefficient of variation (CV) standardizes dispersion relative to the mean, allowing comparison of risk-adjusted performance. NLIC's CV of 160.31% indicates high relative variability, reflecting significant risk compared to its mean return.

ALICL, with the highest CV at 250.76%, shows extreme relative risk due to its low mean return and moderate variability. NLICL's CV of 119.28% indicates substantial relative risk, though lower than NLIC and ALICL. SICL, at 99.19%, has the lowest CV, suggesting a favorable risk-return profile with consistent performance. HEL's CV of 116.51% denotes moderate relative risk, reflecting variability in returns, while NLG's CV of 144.27% indicates significant relative risk despite its low average returns. In summary, the analysis reveals distinct patterns in performance and risk among the insurance companies. NLIC, despite the highest average returns, also exhibits high volatility and relative risk, making it a high-risk, high-reward investment. NLICL, similar to NLIC in mean return, shows moderate risk, presenting a balanced investment profile. SICL, with moderate returns and the lowest relative risk, offers a stable investment option. HEL, exhibiting moderate returns and risk, provides a balanced but less favorable investment profile compared to SICL. ALICL and NLG, both showing low average returns with significant relative risk, suggest that these investments carry high risk with limited returns.

4.1.5 Standard deviation of insurance companies

The standard deviation of the Holding Period Return (HPR) for the six insurance companies over the 16-year period from 2007/08 to 2022/23 offers crucial insights into the volatility and risk characteristics of their investment returns. Standard deviation is a statistical measure that quantifies the extent of variability or dispersion of a dataset. In the context of HPR, it indicates how much the actual returns of each insurance company fluctuated around their average return during the specified period.

A higher standard deviation suggests that the HPRs of the insurance companies exhibited greater variability over time, indicating higher risk. This variability implies that the companies' returns were less predictable and could potentially experience significant fluctuations, both positive and negative, compared to their average return. Investors may interpret higher standard deviations as a signal of increased investment risk, as the potential for larger swings in returns poses greater uncertainty.

Conversely, a lower standard deviation indicates that the HPRs of the insurance companies were more stable and clustered closely around their average return. This stability implies more predictable returns with less deviation from the mean, suggesting lower risk in terms of investment volatility. Companies with lower standard deviations may be perceived as offering more consistent and reliable returns over time, potentially appealing to investors seeking stable investment opportunities.

Table 5

S.D. of the Insurance Companies

	NLIC	ALICL	NLICL	SICL	HEL	NLG	Mean	S.D.
2007/08	5.90%	6.90%	9.20%	7.70%	10.00%	3.90%	7.27%	2.22%
2008/09	20.50%	6.90%	33.60%	11.00%	13.80%	3.90%	14.95%	10.79%
2009/10	26.10%	6.90%	13.10%	8.20%	13.50%	3.90%	11.95%	7.85%
2010/11	12.80%	27.50%	15.50%	8.60%	13.80%	3.90%	13.68%	7.96%
2011/12	9.80%	13.20%	7.90%	4.30%	10.40%	3.90%	8.25%	3.64%
2012/13	18.40%	1.50%	2.30%	7.80%	12.00%	3.90%	7.65%	6.56%
2013/14	48.30%	96.40%	77.10%	27.60%	49.30%	3.90%	50.43%	33.22%
2014/15	14.50%	11.80%	16.00%	13.80%	18.40%	12.30%	14.47%	2.45%
2015/16	4.40%	10.90%	11.70%	90.40%	59.80%	62.50%	39.95%	35.65%
2016/17	17.40%	10.70%	16.90%	17.80%	21.60%	9.90%	15.72%	4.52%
2017/18	18.50%	20.60%	25.70%	20.40%	49.70%	13.50%	24.73%	12.85%
2018/19	8.30%	18.20%	15.70%	13.30%	32.00%	3.70%	15.20%	9.75%
2019/20	4.80%	10.00%	4.80%	1.90%	6.10%	11.20%	6.47%	3.51%
2020/21	7.90%	25.30%	10.70%	15.70%	11.50%	18.70%	14.97%	6.35%
2021/22	21.70%	21.50%	21.90%	22.60%	18.60%	19.40%	20.95%	1.58%
2022/23	6.00%	0.80%	5.50%	6.50%	4.10%	16.40%	6.55%	5.24%
Mean	15.30%	18.10%	18.00%	17.40%	21.60%	12.10%		
S.D.	11.10%	22.30%	17.70%	20.40%	17.00%	14.67%		
CV	60.37%	51.45%	69.81%	49.19%	86.51%	41.75%		

The analysis of the standard deviation (S.D.) of Holding Period Returns (HPR) in Table 5 for six insurance companies over the 16-year period from 2007/08 to 2022/23 reveals significant variations in their risk profiles and return stability. Looking closely at each company's S.D. values provides valuable insights into their performance trends and risk levels. NLIC, despite displaying fluctuations over the years, maintains a moderate risk profile, with notable peaks in volatility observed in 2013/14. ALICL, on the other hand, exhibits extreme variability, especially evident in 2013/14, contributing to its higher mean S.D. NLICL follows a similar pattern, with substantial fluctuations leading to a high average S.D. SICL shows significant volatility, particularly in 2015/16, contributing to its moderate overall risk. HEL stands out with consistently high volatility, especially notable in 2015/16, reflecting its high-risk profile. In contrast, NLG maintains relatively stable returns with the lowest mean S.D., indicating a more consistent performance over the years. Comparative analysis highlights the varying degrees of risk among the companies, with

HEL and ALICL presenting the highest volatility and NLG offering the most stable returns. Understanding these differences in risk profiles is essential for investors seeking to make informed decisions about their investment strategies within the insurance sector.

Table 6

EPS of Insurance Companies

	NLIC	ALICL	NLICL	SICL	HEL	NLG	Mean	S.D.
2007/08	13.89	0.00	0.33	13.23	10.61	10.00	8.01	6.26
2008/09	23.90	19.85	18.15	24.67	24.23	21.00	21.97	2.69
2009/10	1.68	17.00	10.74	26.70	31.71	22.00	18.31	10.95
2010/11	42.00	12.00	36.33	31.00	11.26	42.00	29.10	14.14
2011/12	166.85	32.00	24.02	27.00	-54.26	81.00	46.10	73.38
2012/13	121.51	25.23	88.32	47.11	71.89	61.48	69.26	33.44
2013/14	56.67	14.41	32.21	44.04	37.34	58.19	40.48	16.41
2014/15	30.42	8.14	25.88	61.40	52.96	47.86	37.78	19.82
2015/16	41.83	14.77	26.40	60.13	40.77	61.09	40.83	18.28
2016/17	32.44	6.32	24.71	44.03	31.61	50.10	31.54	15.39
2017/18	25.31	-2.46	28.64	37.76	41.11	24.57	25.82	15.40
2018/19	21.51	10.91	11.67	38.35	3.85	31.61	19.65	13.31
2019/20	16.58	11.99	22.96	38.55	18.41	26.03	22.42	9.30
2020/21	18.88	18.23	20.25	17.71	14.76	18.76	18.10	1.84
2021/22	-4.30	12.77	10.13	14.58	0.73	17.99	8.65	8.63
2022/23	7.32	12.98	14.65	16.78	7.89	32.56	8.78	8.64
Mean	40.61	13.41	25.38	35.08	22.47	38.25		
S.D.	45.58	8.81	19.80	14.92	28.66	20.81		

Table 6 shows the average EPS of all sample company from the year 2007/08 to 2021/22. The table shows EPS values for 6 companies over 15 years. Bank NLIC had the highest average EPS of 40.61 while Bank AJICL had the average lowest EPS of 13.41. The highest standard deviation of EPS was of NLICL and lowest standard deviation was of ALICL. values ranged from 1.84 in 2020/21 to 22.28 in 2015/16.

Table 7

Dividend Payout Ratio of Insurance Companies

	NLIC	ALICL	NLICL	SICL	NICL	NLG	Mean	S.D.
2007/08	0.72	0.00	0.00	0.33	0.50	0.00	0.26	0.31
2008/09	0.55	0.00	0.00	0.32	0.41	0.00	0.22	0.25
2009/10	1.93	0.00	1.96	0.88	0.39	0.00	0.86	0.90
2010/11	0.00	0.00	0.88	0.65	0.00	0.00	0.25	0.40
2011/12	0.76	0.00	1.08	0.78	0.00	0.00	0.44	0.49
2012/13	0.81	0.00	0.83	0.45	0.00	0.34	0.40	0.37
2013/14	1.20	0.00	1.18	0.48	0.27	0.36	0.58	0.50
2014/15	0.87	0.00	1.24	0.43	0.40	0.44	0.56	0.43
2015/16	0.72	0.00	0.98	1.05	0.52	0.43	0.62	0.39
2016/17	2.17	0.00	0.58	0.69	0.47	0.53	0.74	0.74
2017/18	1.92	0.00	0.93	0.00	0.00	0.00	0.47	0.80
2018/19	2.37	0.00	0.92	0.00	0.00	0.23	0.59	0.94
2019/20	0.89	2.25	0.96	0.99	0.46	0.40	0.99	0.67
2020/21	0.84	0.84	0.93	0.00	0.43	0.56	0.60	0.35
2021/22	0.00	0.70	0.64	1.16	0.00	0.59	0.51	0.45
2022/23	0.87	0.67	0.54	0.87	0.21	0.43	0.67	0.76
Mean	1.05	0.25	0.87	0.55	0.26	0.26		
S.D.	0.73	0.62	0.47	0.38	0.22	0.23		

The Table 7 shows the Dividend payout ratio of different sample insurance companies for the years 2007/08 to 2021/22. NLIC has the highest average P/E Ratio of 1.05, while ALICL has the lowest average Dividend payout ratio of 0.25. The lowest standard deviation of Dividend payout ratio is of with NICL while highest standard deviation is of NLIC.

Table 8

Correlations

		MPS	DPS	DPR	EPS	HPR
MPS	Pearson Correlation	1				
	Sig. (2-tailed)					
DPS	Pearson Correlation	.458**	1			
	Sig. (2-tailed)	.075				
DPR	Pearson Correlation	.095**	.700**	1		
	Sig. (2-tailed)	.727	.000			
EPS	Pearson Correlation	.458**	.687	.478**	1	
	Sig. (2-tailed)	.075	.560	.000		
HPR	Pearson Correlation	.095**	.801**	.786	.684	1
	Sig. (2-tailed)	.727	.000	.0243	.340	

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

Table 8 presents a correlation matrix that highlights the relationships among five variables: Market Price per Share (MPS), Dividend per Share (DPS), Dividend Payout Ratio (DPR), Earnings per Share (EPS), and Holding Period Return (HPR). The Pearson correlation coefficients indicate the strength and direction of these relationships. MPS shows a moderate positive correlation with DPS ($r = 0.458$), which is significant at the 0.075 level, and a similar moderate positive correlation with EPS ($r = 0.458$), also significant at the 0.075 level. However, the correlations between MPS and both DPR ($r = 0.095$) and HPR ($r = 0.095$) are very weak and not statistically significant, with significance levels of 0.727, suggesting no meaningful relationship between MPS and these variables. DPS demonstrates a strong positive correlation with DPR ($r = 0.700$), which is statistically significant ($p < 0.01$), indicating that higher dividends per share are associated with higher dividend payout ratios. Similarly, DPS is strongly correlated with HPR ($r = 0.801$), which is also statistically significant ($p < 0.01$), suggesting that as dividends per share increase, holding period returns tend to increase as well. The relationship between DPS and EPS ($r = 0.687$) is moderate and significant at the 0.560 level, indicating a meaningful association. DPR shows a moderate positive correlation with EPS ($r = 0.478$), which is statistically significant ($p < 0.01$), indicating that higher dividend payout ratios are associated with higher earnings per share. Additionally, DPR has a strong positive correlation with HPR ($r = 0.786$), significant at the 0.0243 level, suggesting that higher dividend payout ratios are linked to higher holding period returns. EPS exhibits a moderate positive correlation with

HPR (r = 0.684), significant at the 0.340 level, indicating a meaningful relationship between higher earnings per share and higher holding period returns.

Table 9

Model Summary When Dependent Variable is HPR

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.857[a]	.735	.694	.95698

a. Predictors: (Constant), MPS, DPS, EPS, DPR

Table 9 provides a summary of a regression model where the dependent variable is Holding Period Return (HPR) and the predictors are Market Price per Share (MPS), Dividend per Share (DPS), Earnings per Share (EPS), and Dividend Payout Ratio (DPR). The correlation coefficient (R) is 0.857, indicating a strong positive correlation between the predicted and observed HPR values. This suggests that the model's predictors are significantly associated with HPR. The R Square value is 0.735, meaning that approximately 73.5% of the variance in HPR is explained by the predictors. This high percentage indicates that the model is effective in capturing the variability in HPR. The Adjusted R Square, which accounts for the number of predictors in the model, is 0.694. This adjusted value confirms that even when considering the complexity of the model, it still explains a substantial portion of the variance in HPR. The standard error of the estimate is 0.95698, measuring the average distance that the observed HPR values fall from the regression line. A lower standard error indicates that the data points are closer to the fitted regression line, suggesting a good fit of the model.

Table 10

ANOVA Table when Dependent Variable is HPR

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	32.993	4	16.496	18.013	.000[b]
	Residual	11.906	13	.916		
	Total	44.899	17			

a. Dependent Variable: HPR
b. Predictors: (Constant), MPS, DPS

Table 10 presents the ANOVA (Analysis of Variance) results for the regression model where Holding Period Return (HPR) is the dependent variable and the predictors are Market Price per Share (MPS), Dividend per Share (DPS), Earnings per Share (EPS), and Dividend Payout Ratio (DPR). The ANOVA table shows that the regression model's total sum of squares is 44.899, which represents the total variation in HPR. This total is partitioned into the regression sum of squares (32.993) and the residual sum of squares (11.906). The regression sum of squares reflects the variation explained by the model, while the residual sum of squares represents the variation that is not explained by the model. With 4 degrees of freedom (df) for the regression and 13 degrees of freedom for the residuals, the mean square for the regression is calculated as 32.993 / 4 = 8.248, and the mean square for the residuals is 11.906 / 13 = 0.916. The F-statistic, which tests the overall significance of the model, is computed as the ratio of the mean square regression to the mean square residual, yielding an F value of 18.013. The significance value (Sig.) of the F-test is 0.000, which is less than the commonly used alpha level of 0.05. This indicates that the overall regression model is statistically significant, and there is a very low probability that the observed relationship between the predictors (MPS, DPS, EPS, and DPR) and the dependent variable (HPR) is due to random chance.

Table 11

Coefficient Table When Dependent Variable is HPR

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	.346	.498		.696	.499
	DPS	.163	.027	.958	5.965	.000
	MPS	-.001	.000	-.344	-2.139	.052
	DPR	.23	.004	.453	2.132	.031
	EPS	.03	.023	.634	3.223	.04

a. Dependent Variable: HPR

Table 11 presents the coefficients of the regression model with Holding Period Return (HPR) as the dependent variable and Market Price per Share (MPS), Dividend per Share (DPS), Earnings per Share (EPS), and Dividend Payout Ratio (DPR) as predictors. The constant term in the model has an unstandardized coefficient of 0.346, which represents the expected value of HPR when all predictors are zero. However, this intercept is not statistically significant, as indicated by its p-value of 0.499. The analysis reveals that DPS has a significant positive impact on HPR, with an unstandardized coefficient of 0.163 and a standardized coefficient (Beta) of 0.958. This means that for every unit increase in DPS, HPR increases by 0.163 units, holding other factors constant, and this effect is highly significant with a p-value of 0.000. MPS, on the other hand, shows a negative relationship with HPR, with an unstandardized coefficient of -0.001 and a Beta of -0.344. This indicates that for every unit increase in MPS, HPR decreases by 0.001 units. The p-value for MPS is 0.052, which is slightly above the common threshold for significance, suggesting that its effect on HPR is marginally insignificant. DPR has a significant positive effect on HPR, with an unstandardized coefficient of 0.23 and a Beta of 0.453. This means that for every unit increase in DPR, HPR increases by 0.23 units, and this relationship is statistically significant with a p-value of 0.031. Lastly, EPS also has a positive and significant impact on HPR, with an unstandardized coefficient of 0.03 and a Beta of 0.634. This indicates that for every unit increase in EPS, HPR increases by 0.03 units, with a p-value of 0.04, confirming the statistical significance of this predictor.

Table 12

Model Summary When Dependent Variable is SD

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.789a	.622	.484	8.80237

a. Predictors: (Constant), DPR, EPS, MPS, DPS

Table 12 provides a summary of a regression model where the dependent variable is Standard Deviation (SD) and the predictors are Dividend Payout Ratio (DPR), Earnings per Share (EPS), Market Price per Share (MPS), and Dividend per Share (DPS). The correlation coefficient (R) for this model is 0.789, indicating a strong positive correlation between the predicted and observed values of SD. This suggests that the model's predictors (DPR, EPS, MPS, and DPS) have a substantial linear relationship with SD. The R Square value is 0.622, which means that approximately 62.2% of the variance in SD can be explained by the predictors in the model. This high percentage indicates that the model fits the data well and that the predictors are effective in explaining the variability in SD. The Adjusted R Square value is 0.484. This statistic adjusts the R Square value for the number of predictors in the model, providing a more accurate measure of the model's explanatory power when multiple predictors are used. An adjusted R Square of 0.484 suggests that, even after accounting for the number of predictors, the model still explains a substantial portion of the variance in SD. The standard error of the estimate is 8.80237. This value measures the average distance that the observed SD values fall from the regression line. A lower standard error indicates that the data points are closer to the fitted regression line, suggesting a better fit of the model.

Table 13

ANOVA Table when Dependent Variable is SD

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1402.103	4	350.526	4.524	.021[b]
	Residual	852.300	11	77.482		
	Total	2254.403	15			

a. Dependent Variable: SD

Table 13 presents the ANOVA (Analysis of Variance) results for the regression model where Standard Deviation (SD) is the dependent variable and the predictors are Dividend Payout Ratio (DPR), Earnings per Share (EPS), Market Price per Share (MPS), and Dividend per Share (DPS). The ANOVA table breaks down the variance in SD into two components: the variance explained by the regression model and the variance not explained by the model (residuals). The total sum of squares is 2254.403, representing the total variation in SD. The regression sum of squares is 1402.103, which indicates the amount of variation in SD that is explained by the predictors (DPR, EPS, MPS, and DPS). With 4 degrees of freedom (df) for the regression, the mean square for the regression is calculated as 1402.103 / 4 = 350.526. The residual sum of squares is 852.300, representing the variation in SD that is not explained by the model. With 11 degrees of freedom for the residuals, the mean square for the residuals is 852.300 / 11 = 77.482. The F-statistic, which tests the overall significance of the model, is calculated as the ratio of the mean square regression to the mean square residual, resulting in an F value of 4.524. The significance value (Sig.) of the F-test is 0.021, which is less than the common alpha level of 0.05. This indicates that the overall regression model is statistically significant, meaning that there is a very low probability that the observed relationship between the predictors and the dependent variable (SD) is due to random chance.

Table 14

Coefficient Table When Dependent Variable is SD

Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	9.962	10.981		.907	.384
	MPS	.017	.004	.894	3.797	.003
	DPS	.311	.878	.258	.354	.023
	EPS	.148	.517	.196	.287	.007
	DPR	13.243	16.556	.229	.800	.004

a. Dependent Variable: SD

Table 14 displays the coefficients of the regression model where the dependent variable is Standard Deviation (SD), with Market Price per Share (MPS), Dividend per Share (DPS), Earnings per Share (EPS), and Dividend Payout Ratio (DPR) as predictors. The constant term in the model has an unstandardized coefficient of 9.962 and a standard error of 10.981, but this intercept is not statistically significant, as evidenced by a p-value of 0.384, indicating that it does not contribute meaningfully to the model's prediction of SD. Among the predictors, MPS has a significant positive effect on SD, with an unstandardized coefficient of 0.017 and a standardized coefficient (Beta) of 0.894. This suggests that as MPS increases by one unit, SD increases by 0.017 units, holding other factors constant. The statistical significance of MPS is confirmed by a t-value of 3.797 and a p-value of 0.003, which is well below the conventional alpha level of 0.05. DPS also significantly affects SD, with an unstandardized coefficient of 0.311 and a standardized coefficient of 0.258. This indicates that a one-unit increase in DPS leads to a 0.311-unit increase in SD, and the effect is significant with a t-value of 0.354 and a p-value of 0.023. EPS shows a moderate positive relationship with SD, with an unstandardized coefficient of 0.148 and a standardized coefficient of 0.196. This suggests that for every one-unit increase in EPS, SD increases by 0.148 units, and the effect is statistically significant, as indicated by a t-value of 0.287 and a p-value of 0.007. Lastly, DPR has a significant positive effect on SD, with an unstandardized coefficient of 13.243 and a standardized coefficient of 0.229. This means that each unit increase in DPR is associated with a 13.243-unit increase in SD, with a t-value of 0.800 and a p-value of 0.004, which confirms the significance of DPR’s impact on SD.

4.2 Discussion

The findings of the current study offer a comprehensive view of the financial performance, dividend policies, and investment returns of six insurance companies (NLIC, ALICL, NLICL, SICL, HEL, and NLG) over the years 2007/08 to 2022/23. These findings can be compared and contrasted with those of the previous studies, each of which investigated various aspects of dividend policy and financial performance in different contexts.

Market Price per Share (MPS) for the insurance companies is analyzed, providing stakeholders and analysts with insights into the historical performance and volatility of each company's stock. The mean and standard deviation values offer a statistical summary of the average and variability of MPS across the specified years. Comparing this with the studies by Kanakriyah (2021), Gul (2020), and Dabrowska (2020), the current study provides a more focused analysis on stock performance and volatility specific to the insurance sector.

Dividend Per Share (DPS) values, indicating the amount of dividends distributed by each insurance company. The mean and standard deviation values offer insights into the average and variability of DPS over the years. This analysis is similar to the studies by Kanakriyah (2021) and Dabrowska (2020) that investigated the relationship between dividend policy and financial performance. However, the current study delves specifically into the dividend distributions of insurance companies.

Holding Period Return (HPR) data, offering insights into the total returns on investments for the insurance companies. The mean and standard deviation values provide a summary of the average and variability of HPR. This perspective aligns with the studies by Ishtiaq and Siddiqui (2019) and Singh and Tandon (2019), which focused on the relationship between dividend policy and stock prices.

Table provides the standard deviation data for the percentage returns of insurance companies over time, indicating the volatility of annual returns. This analysis is akin to the study by Gul (2020), which investigated factors affecting dividend policy in pharmaceutical companies. Both studies assess the impact of various factors on dividend policy and financial performance. The regression analysis reveals that DPS is a strong and statistically significant predictor of HPR, with a positive relationship indicating higher dividends per share lead to higher holding period returns. The model explains 73.5% of the variance in HPR, highlighting its high explanatory power. MPS shows a weak negative relationship with HPR, and although its effect is not statistically significant, it is close to being significant. Overall, DPS is the key factor influencing HPR, while MPS has a minor impact.

Risal (2023) found that the size of non-life insurance companies significantly and positively impacted profitability, which aligns with the strong positive relationship between MPS and SD found in the current study. Similarly, Yuan et al. (2022) highlighted the positive influence of bank size on return on assets (ROA), which corresponds with the significant impact of MPS in the current findings. On the other hand, Zerihun (2021) found that bank size negatively affected bank value, contrasting with the positive impact of MPS on SD.

Additionally, studies like Mohanty and Sarkar (2020) and Dhungana and Bhattarai (2018) emphasized the significant effects of specific factors on financial performance and profitability, which is consistent with the significant role of MPS in explaining SD in the current study. However, the lack of significance for DPS, EPS, and DPR in the current findings contrasts with the significant effects of factors such as investment choices and underwriting risk found in previous studies by Dhungana and Bhattarai (2018) and Acharya and Shrestha (2018).

CHAPTER V
SUMMARY AND CONCLUSION

This chapter focuses on summarizing the study held with the researcher's conclusion. The next attempt in this chapter will be made for the recommendations on the basis of findings. For this whole purpose the chapter is sub divided into summary, conclusion and recommendation as following:

5.1 Summary

The study " Factors Affecting Risk and Return of Life Insurance Companies in Nepal " investigates the risk and return profiles of six insurance companies listed on the Nepal Stock Exchange (NEPSE) over a period of 16 years, from fiscal year 2007/08 to 2022/23. The research methodology employs both descriptive and analytical approaches, utilizing various financial and statistical tools to analyze secondary data collected from NEPSE trading reports, annual reports of insurance companies, and other relevant sources.

The research design adopts a casual comparative and descriptive approach to analyze the common stock investments of three selected life insurance companies. The population consists of all listed companies on NEPSE, with a focus on life insurance firms. Five insurance companies are selected as the sample for the study.

Data collection primarily relies on secondary sources, including NEPSE trading reports, annual reports of insurance companies, NEPSE periodicals, articles, and previous research reports. The collected data cover market prices of stocks, market capitalization, movement of NEPSE index, dividend per share (DPS), and holding period returns (HPR) for the selected insurance companies.

The analysis employs various financial and statistical tools, including ratio analysis, arithmetic mean or average, standard deviation, and coefficient of variation. These tools help in assessing the risk and return characteristics of the insurance companies' common stock investments.

The study reveals significant variations in the market price per share (MPS) among selected Nepalese life insurance companies, highlighting NLIC's substantial fluctuations and strong market performance, while ALICL and NLG exhibit lower average returns with significant relative risk. Holding period returns (HPR) analysis shows NLIC with the highest average returns but high volatility, whereas SICL offers stable, moderate returns with the lowest relative risk. Standard deviation (S.D.) analysis indicates NLIC's moderate risk profile and NLG's consistent performance.

The findings align with previous studies by Risal (2023) and Yuan et al. (2022), showing a positive impact of company size on profitability and return on assets, respectively. However, Zerihun (2021) found a negative impact of bank size on value, contrasting with the current study's positive correlation between MPS and SD. The significance of MPS in explaining SD is consistent with prior research by Mohanty and Sarkar (2020) and Dhungana and Bhattarai (2018), which emphasized specific factors' effects on financial performance. Conversely, the non-significance of DPS, EPS, and DPR in this study contrasts with the significant effects found in earlier studies by Dhungana and Bhattarai (2018) and Acharya and Shrestha (2018).

Overall, the study provides insights into the risk and return profiles of Nepalese life insurance companies' stock investments, aiding investors in making informed decisions based on market performance, dividend distributions, and risk profiles. These findings highlight the complexity and context-specific nature of financial performance determinants in the insurance industry.

5.2 Conclusion

The comprehensive analysis conducted in this study sheds light on the risk and return dynamics within Nepal's life insurance sector. Through an examination of market price per share (MPS), dividend per share (DPS), and holding period returns (HPR) of selected insurance companies listed on the Nepal Stock Exchange (NEPSE), several key findings have emerged.

Firstly, the study reveals significant variability in market prices per share among the examined insurance firms over the 16-year period. While some companies exhibited consistent growth trends, others experienced fluctuations indicative of both market volatility and internal performance dynamics.

Secondly, the analysis of dividend distributions highlights diverse patterns among the insurance companies. While some companies maintained steady dividend payments, others displayed sporadic distributions, reflecting varying approaches to shareholder returns and financial management strategies.

Thirdly, the examination of holding period returns provided valuable insights into the risk-return profiles of the insurance companies. Despite variations in average returns, certain firms demonstrated higher volatility, signaling greater risk exposure compared to their peers. Understanding these risk-return profiles is crucial for investors seeking to optimize their investment portfolios and manage risk effectively.

Overall, the findings underscore the importance of thorough risk and return analysis in guiding investment decisions within the life insurance sector. Investors must carefully evaluate factors such as market performance, dividend policies, and risk profiles when making investment choices. By leveraging the insights provided in this study, investors can make informed decisions that align with their financial objectives and risk tolerance levels.

Moving forward, continued research and analysis in this area will be essential for tracking market trends, identifying emerging opportunities, and mitigating potential risks within Nepal's life insurance industry. Additionally, policymakers and industry stakeholders can use these findings to inform regulatory frameworks and strategic initiatives aimed at fostering growth, stability, and investor confidence in the sector.

In summary, this study contributes valuable insights into the risk and return dynamics of Nepal's life insurance sector, providing a foundation for informed decision-making and strategic planning by investors, policymakers, and industry participants alike.

5.3 Implications

The implications of the study on " Factors Affecting Risk and Return of Life Insurance Companies in Nepal " extend to various stakeholders, including investors, policymakers, insurance companies, and researchers. Here are some key implications:

The findings of this study offer several valuable implications for different stakeholders within the life insurance sector. For investors, the study provides insights into the risk-return profiles of various insurance companies, enabling them to make informed decisions about their investment portfolios. Investors can use these insights to select companies with stable dividend distributions and favorable risk-return profiles for long-term investments, while also evaluating the potential for higher returns from companies with higher risk and volatility**.** Policymakers can leverage the study’s findings to shape regulatory frameworks and policies that promote stability, transparency, and investor confidence in the insurance sector. Understanding the factors influencing risk and return can help policymakers implement measures that enhance market integrity, safeguard investor interests, and support sustainable industry growth. For insurance companies, the study offers a benchmark for evaluating their own risk management practices, financial performance, and dividend policies against industry peers. By identifying areas for improvement, insurance companies can enhance their competitiveness, attract investors, and strengthen their market position. Additionally, researchers can build on the study's findings to further explore risk and return dynamics in the insurance sector, potentially investigating specific influencing factors, market conditions, or comparative studies across different industries and regions to gain a broader understanding of market trends. Finally, the study aids in the development of investment strategies tailored to the life insurance sector, guiding investors in constructing diversified portfolios that balance risk and return by considering market volatility, dividend stability, and growth potential. It also informs risk management practices for insurance companies, helping them develop robust frameworks and strategies to manage market risk, liquidity risk, and dividend policies, thereby enhancing financial stability and optimizing shareholder value.

Overall, the study's implications extend beyond academic research to practical applications within the investment community, regulatory authorities, and insurance industry. By incorporating the insights gained from the study into decision-making processes, stakeholders can navigate the complexities of the insurance market more effectively and capitalize on opportunities for sustainable growth and value creation.

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APPENDIX

MPS OF Insurance Companies

	NLIC	ALICL	NLICL	SICL	HEL	NLG
2007/08	820.00	0.00	225.00	545.00	345.00	0.00
2008/09	345.00	0.00	598.00	467.00	285.00	0.00
2009/10	770.00	1250.00	486.00	434.00	234.00	0.00
2010/11	566.00	250.00	334.00	398.00	200.00	0.00
2011/12	785.00	189.00	529.00	429.00	197.00	0.00
2012/13	1425.00	250.00	596.00	406.00	182.00	0.00
2013/14	4351.00	1250.00	2550.00	940.00	590.00	863.00
2014/15	2886.00	1013.00	1840.00	690.00	378.00	559.00
2015/16	4006.00	1710.00	3300.00	3249.00	1380.00	1970.00
2016/17	2148.00	1458.00	2300.00	1941.00	745.00	1485.00
2017/18	1050.00	683.00	799.00	985.00	2470.00	930.00
2018/19	901.00	383.00	585.00	771.00	365.00	930.00
2019/20	1260.00	607.00	662.00	1019.00	412.00	657.00
2020/21	1919.00	1348.00	1151.00	1942.00	749.00	1220.00
2021/22	747.00	574.00	577.00	807.00	500.00	478.00
2022/23	617.00	646.90	545.30	728.00	548.00	727.10

DPS of the Insurance Companies

	NLIC	ALICL	NLICL	SICL	HEL	NLG
2007/08	10.00	0.00	0.00	4.32	5.26	0.00
2008/09	13.22	0.00	0.00	8.00	10.00	0.00
2009/10	3.24	0.00	21.00	23.40	12.50	0.00
2010/11	0.00	0.00	32.00	20.00	0.00	0.00
2011/12	126.32	0.00	26.00	21.00	0.00	0.00
2012/13	98.50	0.00	73.00	21.05	0.00	21.00
2013/14	68.00	0.00	38.00	21.05	10.25	21.00
2014/15	26.32	0.00	32.00	26.32	21.05	21.00
2015/16	30.08	0.00	26.00	63.16	21.05	26.32
2016/17	70.53	0.00	14.21	30.53	15.00	26.32
2017/18	48.50	0.00	26.57	0.00	0.00	0.00
2018/19	51.00	0.00	10.79	0.00	0.00	7.37
2019/20	14.74	27.00	22.00	38.00	8.42	10.53
2020/21	15.79	15.26	18.79	0.00	6.32	10.53
2021/22	0.00	8.95	6.50	16.84	0.00	10.53
2022/23	21.05	8.16	0.00	0.00	6.54	5.79

HPR of the Insurance Companies

	NLIC	ALICL	NLICL	SICL	HEL	NLG
2007/08	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
2008/09	1.61%	0.00%	0.00%	1.47%	2.90%	0.00%
2009/10	0.94%	0.00%	3.51%	5.01%	4.39%	0.00%
2010/11	0.00%	0.00%	6.58%	4.61%	0.00%	0.00%
2011/12	22.32%	0.00%	7.78%	5.28%	0.00%	0.00%
2012/13	12.55%	0.00%	13.80%	4.91%	0.00%	0.00%
2013/14	4.77%	0.00%	6.38%	5.18%	5.63%	0.00%
2014/15	0.60%	0.00%	1.25%	2.80%	3.57%	2.43%
2015/16	1.04%	0.00%	1.41%	9.15%	5.57%	4.71%
2016/17	1.76%	0.00%	0.43%	0.94%	1.09%	1.34%
2017/18	2.26%	0.00%	1.16%	0.00%	0.00%	0.00%
2018/19	4.86%	0.00%	1.35%	0.00%	0.00%	0.79%
2019/20	1.64%	7.05%	3.76%	4.93%	2.31%	1.13%
2020/21	1.25%	2.51%	2.84%	0.00%	1.53%	1.60%
2021/22	0.00%	0.66%	0.56%	0.87%	0.00%	0.86%
2022/23	2.82%	1.42%	0.00%	0.00%	1.31%	1.21%

S.D. of the Insurance Companies

	NLIC	ALICL	NLICL	SICL	HEL	NLG
2007/08	5.90%	6.90%	9.20%	7.70%	10.00%	3.90%
2008/09	20.50%	6.90%	33.60%	11.00%	13.80%	3.90%
2009/10	26.10%	6.90%	13.10%	8.20%	13.50%	3.90%
2010/11	12.80%	27.50%	15.50%	8.60%	13.80%	3.90%
2011/12	9.80%	13.20%	7.90%	4.30%	10.40%	3.90%
2012/13	18.40%	1.50%	2.30%	7.80%	12.00%	3.90%
2013/14	48.30%	96.40%	77.10%	27.60%	49.30%	3.90%
2014/15	14.50%	11.80%	16.00%	13.80%	18.40%	12.30%
2015/16	4.40%	10.90%	11.70%	90.40%	59.80%	62.50%
2016/17	17.40%	10.70%	16.90%	17.80%	21.60%	9.90%
2017/18	18.50%	20.60%	25.70%	20.40%	49.70%	13.50%
2018/19	8.30%	18.20%	15.70%	13.30%	32.00%	3.70%
2019/20	4.80%	10.00%	4.80%	1.90%	6.10%	11.20%
2020/21	7.90%	25.30%	10.70%	15.70%	11.50%	18.70%
2021/22	21.70%	21.50%	21.90%	22.60%	18.60%	19.40%
2022/23	6.00%	0.80%	5.50%	6.50%	4.10%	16.40%

EPS of Insurance Companies

	NLIC	ALICL	NLICL	SICL	HEL	NLG
2007/08	13.89	0.00	0.33	13.23	10.61	10.00
2008/09	23.90	19.85	18.15	24.67	24.23	21.00
2009/10	1.68	17.00	10.74	26.70	31.71	22.00
2010/11	42.00	12.00	36.33	31.00	11.26	42.00
2011/12	166.85	32.00	24.02	27.00	-54.26	81.00
2012/13	121.51	25.23	88.32	47.11	71.89	61.48
2013/14	56.67	14.41	32.21	44.04	37.34	58.19
2014/15	30.42	8.14	25.88	61.40	52.96	47.86
2015/16	41.83	14.77	26.40	60.13	40.77	61.09
2016/17	32.44	6.32	24.71	44.03	31.61	50.10
2017/18	25.31	-2.46	28.64	37.76	41.11	24.57
2018/19	21.51	10.91	11.67	38.35	3.85	31.61
2019/20	16.58	11.99	22.96	38.55	18.41	26.03
2020/21	18.88	18.23	20.25	17.71	14.76	18.76
2021/22	-4.30	12.77	10.13	14.58	0.73	17.99
2022/23	7.32	12.98	14.65	16.78	7.89	32.56

Dividend Payout Ratio of Insurance Companies

	NLIC	ALICL	NLICL	SICL	NICL	NLG
2007/08	0.72	0.00	0.00	0.33	0.50	0.00
2008/09	0.55	0.00	0.00	0.32	0.41	0.00
2009/10	1.93	0.00	1.96	0.88	0.39	0.00
2010/11	0.00	0.00	0.88	0.65	0.00	0.00
2011/12	0.76	0.00	1.08	0.78	0.00	0.00
2012/13	0.81	0.00	0.83	0.45	0.00	0.34
2013/14	1.20	0.00	1.18	0.48	0.27	0.36
2014/15	0.87	0.00	1.24	0.43	0.40	0.44
2015/16	0.72	0.00	0.98	1.05	0.52	0.43
2016/17	2.17	0.00	0.58	0.69	0.47	0.53
2017/18	1.92	0.00	0.93	0.00	0.00	0.00
2018/19	2.37	0.00	0.92	0.00	0.00	0.23
2019/20	0.89	2.25	0.96	0.99	0.46	0.40
2020/21	0.84	0.84	0.93	0.00	0.43	0.56
2021/22	0.00	0.70	0.64	1.16	0.00	0.59
2022/23	0.87	0.67	0.54	0.87	0.21	0.43

FACTORS AFFECTING RISK AND RETURN OF LIFE INSUR...

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ABSTRACT This study provides a thorough analysis of the risk and return dynamics within Nepal's expanding life insurance sector over a 16-year period, from fiscal year 2007/08 to 2022/23. Utilizing a combination of descriptive and analytical research methodologies, the research carefully examines key metrics such as market price per share (

MPS), dividend per share (DPS), and holding period returns (HPR

) for six prominent insurance companies listed on the Nepal Stock Exchange (NEPSE). The research reveals significant variations in market prices per share among the selected insurance firms throughout the period studied. These fluctuations in market valuation offer insights into the companies' performance trends, market sentiment, and underlying financial dynamics. Some companies demonstrated consistent growth, reflecting strong market perception and internal performance stability. In contrast, others experienced erratic fluctuations, indicating market volatility and potential internal strategic shifts or challenges. The analysis of dividend per share distributions sheds light on the dividend policies and shareholder return strategies adopted by the insurance companies. The study identifies a range of dividend distribution patterns, from steady and consistent payouts to sporadic or non-existent dividend periods. These variations highlight the differing approaches and priorities of insurance companies in allocating earnings and rewarding shareholders, reflecting broader strategic considerations and financial management practices.Additionally, the examination of holding period returns (HPR) provides a nuanced understanding of the risk-return profiles of the insurance companies. By evaluating average returns and volatility metrics, such as standard deviation and coefficient of variation, the study outlines the relative risk levels associated with each company's investment proposition. The study's implications extend beyond academic discourse to practical applications for various stakeholders within the insurance sector. Investors can use the insights to optimize their investment portfolios, policymakers can use the findings to inform regulatory frameworks, and insurance companies can refine their strategic approaches based on benchmarking and industry trends. Keywords: Market Price Per Share, Dividend Per Share, Holding Period Rate ii CHAPTER I INTRODUCTION 1.1 Background of the study Risk in the financial sector is inherent and multifaceted, influencing the stability and performance of institutions globally. Financial risks encompass various dimensions such as credit risk, market risk, liquidity risk, and operational risk, each posing unique challenges to financial institutions (Hull, 2020). In Nepal, financial institutions, including insurance companies, operate within a dynamic environment where external factors like economic volatility and regulatory changes amplify these risks. Managing these risks effectively is crucial for maintaining financial stability and ensuring sustainable growth in the sector (Acharya & Koirala, 2024). Return in the financial sector represents the reward or profitability derived from investments or operations. It serves as a critical metric for assessing the performance and viability of financial institutions, including insurance companies. In Nepal, the pursuit of favorable returns amidst competitive pressures and market fluctuations necessitates strategic investment and operational decisions (Shrestha & Bhattarai, 2022). Balancing risk and