DIVIDEND PRACTICES OF LIFE INSURANCE COMPANIES IN NEPAL

A Dissertation submitted to the Office of the Dean, Faculty of Management, in partial fulfillment of the requirements for the Master's Degree

By

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CERTIFICATION OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled **"Dividend Practices of Life Insurance Companies in Nepal"**. The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor has it been proposed and presented as part of requirements for any other academic 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 this dissertation.

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REPORT OF RESEARCH COMMITTEE

Ms. Suchana Kattel has defended research proposal entitled **"Dividend Practices 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 suggestion and guidelines of supervisor Dr. Pitri Raj Adhikari Submit the thesis for evaluation and viva-voce examination.

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APPROVAL SHEET

We, the undersigned, have examined the thesis entitled **"Dividend Practices of Life Insurance Companies in Nepal"** Presented by Suchana Kattel Candidate for the degree of Master of Business Studies (MBS Semester) and conducted the Viva voce examination of the candidate. We hereby certify that the thesis is worthy of acceptance.

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This study entitled "Dividend Practices of Life Insurance Companies in Nepal" has been prepared in partial fulfillment for the Degree of Master of Business Studies (MBS) under the Faculty of Management, Tribhuvan University is based on research models involving the use of quantitative aspect of determinant factors of life insurance companies in Nepal.

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Suchana Kattel

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ABBREVIATIONS

LR	Liquidity Ratio
df	Degree of Freedom
DPR	Dividend Payout Ratio
DPR(n-1)	Dividend Payout Ratio of Previous Year
ECM	Emerging Capital Market
EPS	Earning Per Share
LR	Liquidity Ratio
LEV	Leverage
MBS	Master of Business Studies
NEPSE	Nepal Stock Exchange
PE	Price Earning Ratio
ROA	Return on Assets
NLIC	Nepal Life Insurance Company Limited
ALICL	Asian Life Insurance Company Limited
LICN	Life Insurance Corporation Nepal

ABSTRACTS

Dividend practice is the entire managerial practice to determine how much net income will be paid out as dividends and how much net profit can be maintained for company. The dividend practice is one of the most debated topics within corporate finance and some academics have called the company's dividend practice an unsolved puzzle. Although there were lots of research on dividend practice but there are few studies conducted on countries like Nepal especially in insurance industry. There is no uniformity in the result about the factors affecting dividend practice. The main purpose of the study was to investigate the relationship between the dividend practice and company's selected factors in Nepalese life insurance companies. Based on the literature review, five variables were taken for the study. The independent variables taken for the study are dividend payout ratio of previous year, leverage ratio, profitability ratio (i.e. EPS and ROA), Risk, liquidity and the dependent variable is dividend practice.

Three life insurance companies were taken as sample for the study. Secondary data are used for data collection. Financial statements of ten years from 2070/71 to 2079/80 of three life insurance companies are considered for data collection. Different statistical and financial tools are used for the data analysis. Descriptive statistics is done in descriptive analysis. At last, inferential analysis is done through correlation and regression which helped to determine the level of significance of dividend practice with Dividend Payout ratio of previous year, Leverage, profitability, risk and Liquidity. The study reveals NLIC as the best performer amongst the three companies as it has performed better in 4 factors among 7 factors considered. Dividend payout ratio of previous year, leverage and EPS are the most influencing factor of dividend practices because they are significant on the study of life insurance companies in both correlation and regression analysis.
In conclusion, Nepalese firms have to give priority in Dividend payout of previous year, leverage and EPS for taking dividend decision. At the same time, it will also help all the stakeholders like shareholders, promoters, general public, managers and the researchers to make their decision accordingly relating to dividend practice.

CHAPTER I
INTRODUCTION

1.1 Background of the study

A firm's goal in the capital market is to make money. One of the most important things for running a business is profit. Profit, which is derived from a variety of sources, is the return on investment. The two main sources of capital are debt capital supplied by the general public and share capital. Since businesses primarily rely on share capital that is offered to the public, equity capital earns a dividend in return as opposed to debt capital, which has a set rate of return. For this reason, the dividend is essential to luring and keeping shareholders as investors for the company's capital (Thapa, 2021). Businesses struggled to decide whether to reinvest earned money to support business development or distribute it as a dividend to shareholders (Birhanu et al., 2023). Businesses may generate money in a number of ways, but one important option is through the sale of stock capital to shareholders. Investors in the firm do so with the hopes of earning a profit. Dividend is the reward that a company gives to its shareholders. In other word, dividend is the parts of earning which is distributed among shareholders. Dividend decision is one of the important decisions for any profit making firm. In the theoretical context, dividends have been both a core topic and a controversial area of finance since the dividend irrelevance theory proposed by Miller and Modigliani (1961). Dividend payout is the portion of net income which is paid to the shareholders of the firm.

The primary practice that aids in resolving the shareholder problem is the firm's dividend policy. The dividend payout ratio, which shows the percentage of profits given to shareholders in the form of dividends relative to the total amount of profits retained by the firm, is an important metric in corporate finance (Hoang et al., 2020; Nam, 2019). Typically, the business gives its shareholders a percentage of its earnings. In the business world, choosing the best dividend policy is seen as a crucial decision.

Even with a great deal of study on dividend practice, a complete knowledge of the variables influencing dividend practice and their interactions remains to be determined.

Numerous studies that are part of the body of research already in existence contend that institutional and stock market variations cause the dividend distribution of businesses to fluctuate across national borders. Decisions on dividends are made after giving great thought to a variety of aspects, including financial and legal ones. This is due to the impossibility of creating a dividend policy that is appropriate for every company. Depending on corporate factors, dividend decisions vary from firm to company (Marsy, Sakr & Amer, 2018). Businesses can finance themselves through external or internal funding sources. Retained profits and depreciation are examples of internal sources, whereas fresh borrowings and stock issues are examples of external sources. The dividend choice is whether or not to utilize a portion of the profit (retained profits) to finance an investment. The capital structure decision establishes how much external financing should be borrowed and how much should be raised in the form of new stock. The amount of dividend that the firms' management choose to pay to owners of common shares is often up to them, although they are constrained in their choices by things like cash resources availability, debt covenants, and regulatory restrictions. Because of this, a lot of empirical research will document differences in dividend behavior between businesses, nations, eras, and dividend types. A company's dividend policy varies annually and throughout organizations globally since it is a measure of the company's performance (Mazouz et al., 2023).

In general, dividends and the difference between the purchase price and selling prices of shares are the sources of income for investors (capital gain). As owners, investors anticipate either a significant annual gain or a little, consistent dividend. It is anticipated that the dividend will increase shareholders' well-being (Ritha & Koestiyanto, 2013).

A company's dividend policy results from splitting its net earnings into retained earnings and dividend payments. Dividend policy was listed as one of the ten most challenging unresolved issues in financial economics by Brealey and Myers (2005). The corporation uses its retained earnings, which we sometimes refer to as internal sources, for long-term growth. The amount of earnings that investors get as a return on their investment is known as the dividend. The choice of whether to distribute earnings or to keep and

reinvest them is known as dividend policy. Many financial factors influence dividend distribution decisions, which puts management in a challenging position when making these decisions.

The complete managerial process of figuring out how much net income will be distributed as dividends and how much net profit the business can sustain is known as dividend practice. This gave rise to several contradictory ideas. According to Miller and Modigliani's (1961) dividend irrelevance argument, a company's stock price and value are unaffected by its dividend policy; in other words, the dividend policy itself is not relevant to the matter at hand. According to Gordon and Lintner's (1962) "bird in the hand" hypothesis, investors are more certain about dividend payments and receipts than they are about capital gains. According to the signaling theory (Alzomaia & Al Khadiri, 2013), a company's dividend fluctuations serve as a signal to investors about the company's future.

Numerous studies have tried to examine dividend policy. The board of a firm typically decides on the dividend policy, but it's vital to note that there are several notable exceptions to this norm. Companies are required by law to provide their shareholders a minimum proportion of their earnings in certain nations, such as Brazil and Chile (Brealey et al., 2008). Another exception is that covenants, which specify that a business must pay lenders (bondholders) before raising dividend payments, may be imposed by bondholders in the bond contract (DeFond & Jiambalvo, 1994). Dividend policy can also be used to reduce agency expenses. Given that the wealth of the company's shareholders might influence managerial prosperity, management must well understand dividend policy.

In general, dividends and the difference between the purchase price and selling prices of shares are the sources of income for investors (capital gain). As owners, investors anticipate either a significant annual gain or a little, consistent dividend. It is anticipated that the dividend will increase shareholders' well-being (Ritha & Koestiyanto, 2013). Since investors base their investment decisions on a firm's dividend policy, the dividend

policy affects the proportion of equity capital in a firm's capital structure (Thapa, 2021). Dividend decisions have important ramifications and broad effects in addition to having an immediate impact on a company's profitability. Making a balance is increasingly important to managers. between the expectations of the owners and develops an enduring succession (Thapa, 2021). Decisions on dividends are made after giving great thought to a variety of aspects, including financial and legal ones. This is due to the impossibility of creating a dividend policy that is appropriate for every company. In light of business concerns, dividend decisions vary from firm to company. The dividend policy decisions are influenced by a number of elements, including the current ratio, the dividend payout from the prior year, return on equity, return on asset, company size, leverage, and price earnings ratio, among others.

The dividend payout ratio, which also shows the percentage of earnings that have to be given out as cash dividends, reflects the company's dividend policy. The ratio of dividends paid out to retained earnings from net profit is displayed. The management of the firm must take into account any circumstances that may have an impact on the dividend policy that the company has established.

Company Act 2074 governs the declaration and payment of dividends by firms in Nepal. The rules governing the declaration and distribution of dividends by Nepal's banks and finance businesses are found in the Bank and Financial Institutions Act 2074 and the Unified Directives 2074 published by the Nepal Rastra Bank. According to the rules of Companies Act 2074, dividend payments may only be made from the fiscal year's earnings in which the annual general meeting passed the resolution authorizing the payment of dividends. Similar to this, before declaring cash dividends to shareholders, the Bank and Financial Institutions Act 2074 and the Unified Directives issued by Nepal Rastra Bank require meeting capital requirements, paying preliminary expenses or losses, and creating reserve funds (Adhikari, 2014). A primary goal of every corporation is to maximize shareholder wealth, which may be accomplished through capital appreciation

and dividend distribution (Raj et al., 2021). As such, one of the key facets of the company's financial policy is its dividend policy. However, because it is dependent on every other financial and non-financial aspect of the company, it is not an autonomous decision. The conclusion was reached after taking into account certain firm-related features and variables. Dividend practices worry investors as well as management (Thapa, 2021).

Therefore, the goal of this study is to determine if the findings from earlier research on dividend determinants and their impact on dividend distribution still hold true when considering Nepali life insurance businesses.

1.2 Problem statement

Despite years of theoretical and empirical inquiry, the dividend practice is still a contentious issue. However, dividend payments are not a recent development; for most businesses, paying out dividends to shareholders has been a customary practice for hundreds of years (Baker, 2009). However, there are many of instances where businesses succeed without giving their investors a dividend. The return on a shareholder's investment contain the dividends obtained and the capital gain or loss throughout the time of share held. According to Anuar et al. (2023), a company's dividend policy varies annually and among organizations globally since it is a measure of the company's performance. Consequently, one of the crucial components of shareholders' return is a dividend policy. Miller and Modigliani (1961) initiated the first discussion over the significance of dividend practices. They came to the conclusion that in a world with flawless capital markets, dividend payments have no impact on the firm's value and are thus meaningless. However, because the market isn't perfect, academics have created a variety of theories to explain why a company would pay dividends in order to account for the reality of imperfect markets. In an example given by Baker and Powell (2000), managers of established businesses with extremely steady cash flows may decide to allocate surplus cash flow to endeavors or purchases that have insufficient net present value if the companies pay out too little in dividends. However, excessive cash dividend payments to high-growth companies may limit their financial flexibility and drive them to

forgo worthwhile investment possibilities. In each of these scenarios, the company will suffer. Despite the fact that a lot of study has been done to answer the dividend conundrum.

There has been a lot of study done on dividend practice, but the elements that affect dividend policy and their interactions are still not fully understood. Financial theory has placed a great deal of emphasis on the idea that corporate dividend policies are irrelevant in perfect capital markets; but, in the actual world, where imperfect markets exist, dividend policies also give rise to a great deal of controversy. Dividend policy appears to be a significant difficulty because of the existence of asymmetric information, agency issues, taxes, and transaction costs. An

Numerous theoretical and empirical studies have attempted to pinpoint the factors that influence company dividend policy. However, opinions on the variables influencing the company distribution policy remain divided as of now. When it comes to emerging capital markets, the issue gets much more convoluted (Marsy, Sakr & Amer, 2018).

According to Fitri et al. (2016), there hasn't been any empirical research done on the dividend policy in ECMs from the perspective of corporate finance yet. Research into additional factors influencing dividend practices, such as the effect of agency cost, information and investments, taxes, and company capital structure, will be further encouraged by ongoing financial reforms in emerging nations and the veracity of data that has been provided. This indicates that a great deal more study on the dividend policy in ECMs is required. This study attempts to provide a summary of the dividend policy in an ECM, the Nepal Stock Exchange (NEPSE), where the factors influencing a company's payout choice are not well-documented. Determining the variables influencing the dividend policy in the financial and non-financial sectors listed on the Nepal Stock Exchange is the aim of the research.

Though a great deal of research has been done on established country financial markets, very less has been done on emerging capital markets. The emerging capital market differs

greatly from the developed one in several ways. They are smaller and more erratic, less information-efficient, and frequently have a more recent origin. Other features that set ECMs apart from these mature markets include ownership structure, unsystematic risk and dividends, company governance, and capital gains taxes (Marsy & Heba, 2018).

Numerous studies have been identified that explain the connection between a variety of variables and the dividends paid to shareholders by the firm. However, despite the fact that a large number of studies have been carried out, the findings suggest that there are some variations within nations with respect to the variables that affect dividend distributions. For instance, in his research on the factors influencing dividends in the US, Rozeff (1982) discovered a significant inverse correlation between payments and risk. These findings run counter to a 2011 research conducted in the UK by Al Shabibi and Ramesh. The analysis found a positive correlation between the company's riskiness and its dividend distributions. Research on the factors influencing the dividend payout ratio of private insurance was done by Chali et al. in 2023.

Businesses in Ethiopia. The factors influencing Ethiopian private insurance firms' dividend payment ratios were investigated in this study. The findings suggested that older companies with substantial premium income accumulate bigger dividends, whereas more leveraged and quickly expanding companies pay smaller dividends. In contrast to earnings per share, cash flow, sales growth, liquidity, institutional ownership, sponsor ownership, individual ownership, risk, age, relative tax, return on assets, investment opportunity, and retained earnings, Islam & Adnan (2022) argued that retained earnings, leverage, and size were significant factors in determining dividend payouts. According to Dhungana et al. (2024), the size of the firm and the liquidity ratio significantly influence the dividend payment ratios in Nepalese commercial banks. In a nation like Nepal, where the capital market is still developing and not much research has been done, it becomes even more crucial. Due to its two opposing consequences and disparate interests, issues with dividend practice are having a significant influence. Businesses have two obligations: on the one hand, they must raise money to support capital structure improvements and expand their operations; on the other hand, they must provide

dividends to promote shareholder wealth. In order to optimize the company's stock price, an optimal dividend policy strikes a balance between the present distribution and the company's potential for future development (Margaretha, 2005). Within the Nepalese environment, several firms are making sufficient profits, but they are failing to pay out cash dividends on time, and vice versa. In the context of Nepal, dividend distribution is not consistent at all. They are not allocating dividends in a proportionate manner. Given the paucity of research in Nepal on dividend practices, particularly the variables influencing them, it is imperative to establish a comprehensive understanding of the interplay between theories and practices within the Nepalese context. Thus, the purpose of this study is to investigate Nepali life insurance firms' dividend policies.

The following inquiries are the focus of the research:

i. How do life insurance firms feel about paying out dividends?
ii. Does the dividend policy have any bearing on the prior year's DPR, leverage, profitability, risk, or liquidity?
iii. What effect do the prior year's DPR, leverage, profitability, risk, and liquidity have on Nepal's life insurance firms' dividend policy?

1.3 Objectives of the study

This study's primary goal is to look at the connection between the dividend policy and the criteria that the firm has chosen. Nonetheless, the following are the precise goals:

i. To evaluate life insurance firms' dividend situation.
ii. To determine the dividend relationship with DPR of previous year, leverage, profitability, risk and liquidity.
iii. To investigate how Nepalese life insurance firms' dividend practices are affected by the DPR from the prior year as well as liquidity, profitability, risk, and leverage.

1.4 Hypotheses

The research questions listed above have led to the development of the following theories. Therefore, the purpose of this study is to evaluate the following theories:

Hypothesis H1: The prior year's dividend distribution had a big influence on dividend

practices. Hypothesis H2: The Company’s leverage significantly affects its dividend policy.

Hypothesis H3: Dividend practices are significantly impacted by a company's profitability.

Hypothesis H4: The Company’s risk has a big influence on dividend policy.

Hypothesis H5: Dividend practices are significantly impacted by a company's liquidity.

1.5 Rationale of the study

According to Anur et al. (2023), dividend practice has emerged as a crucial concern for corporations as it pertains to the finance and investment choices that a company takes. Determining and evaluating the dividend policy of the company is crucial for all parties involved in the business to make informed decisions on investments, management, regulation, and service use. Therefore, the goal of this study is to bridge the knowledge gap and address concerns regarding dividend practices among various firm stakeholders and scholars. These are some of the factors that make this study significant:

i. This study presents a chance to further knowledge of the factors influencing the dividend policies of Nepali life insurance firms.

ii. This study will assist in giving managers other perspectives when making decisions about dividend practices, and investors and shareholders when making decisions about investing and/or reinvesting.

iii. This study is essential to determining the main factors influencing life insurance firms' dividend practices. Additionally, it makes it possible to maintain and enhance business and investment selections.

iv. This study could be useful to the government in enforcing, supervising, and keeping an eye on policies.

v. In conclusion, this study is pertinent to identifying the variables influencing dividend practices within the framework of Nepalese life insurance firms and also contributes to identifying the key variables influencing dividend practices within the framework of Nepal.

1.6 Limitations of the Study

The following are the main drawbacks:

i. To reveal the factors influencing dividend payout ratio, this research has only used three life insurance firms that are listed on the Nepal Stock Exchange as a sample.
ii. The study's temporal scope is restricted to the years 2070–2071 and 2079–2080.
iii. The secondary sources of data used in this study are financial annual reports, journals, and publications.
iv. Despite the fact that there are several additional factors influencing dividend practice, this study has chosen to focus on five independent criteria.

CHAPTER II
LITERATURE REVIEW

There are three sections in this chapter. Several dividend-related ideas are explored in the first part, which is devoted to theoretical study. The research pertaining to dividend practices were evaluated in the second part, which dealt with the empirical evaluation. Finally, the last section discusses the research deficit in this field of study that relates to dividend practice. The goal of examining the literature is to get some knowledge in a certain field, identify any fresh contributions, and obtain inspiration for creating a research strategy. For this chapter, a variety of relevant books, journals, research papers, and articles have been reviewed.

2.1 Theoretical review

A dividend is a payment made to a company's shareholders as a thank you for their initial and ongoing investments. One consideration when choosing a company's funding is dividend distribution. The management must determine over time what proportion of profits will be distributed as dividends. They save the remaining amount for future internal business usage. It serves as the business's internal source of funding. According to dividend theories, the management's choice to distribute earnings as dividends has an impact on the company's value. It also has an impact because of how frequently and how much dividends are distributed throughout time.

Forms of dividend

The company's stockholders receive dividend payments in a variety of formats. Normally, dividends are paid in cash, but in situations where the business is unable to do so, it uses other methods of dividend distribution to keep investors satisfied. These dividends include those on stocks, scrip, bonds, properties, and so on. However, the majority of businesses in Nepal pay dividends in the form of cash and stock (bonus share). The primary dividend formats are shown below.

- ✓ **Cash dividend**

  A cash dividend is a part of earnings that is given to the business owner in cash as a return on their equity investment. If the business doesn't have enough money when the dividend is due payment, the business tries to set up money, which will be controlled by borrowing. When a corporation has a steady dividend policy, it creates a cash budget that outlines the amount of money needed to cover the company's monthly dividend payments. When a cash dividend is paid, the company's reserve and cash accounts will be depleted. As a result, when the cash dividend is paid, the company's net value and total assets are both decreased. Most of the time, the market price of a share decreases by the amount of the paid cash dividend (Pandey, 1995).

- ✓ **Stock dividend**

  A stock dividend is when new shares are distributed to current owners in lieu of cash. A distribution of shares to current owners in addition to or instead of a cash dividend is known as a stock dividend. The number of shares rises when stockholders get dividends, but they are distributed among current shareholders according to their percentage of ownership (Hasting, 1995). It has no bearing on who owns the business. Shares are increased via stock dividends.

- ✓ **Scrip dividend**

  The corporation may issue scrip or notes guaranteeing dividend payments within the maturity term if it does not have enough cash on hand to pay dividends. In lieu of cash, the corporation offers to pay scrip dividends. These payouts might have interest attached to them or not. The corporation pays its investors when it has enough cash on hand.

  Property dividend

  A dividend that is paid out in assets or property rather than cash is referred to as a property dividend. If the firm possesses assets that are superfluous or unneeded for running its operations, they are dispersed as property dividends.

- ✓ **Bond dividend**

  It is preferable for a business to issue bonds with a fixed interest rate when it has sustained higher profits. However, there ought to be more restrictions on bond issuance. For current investors, it comes in the form of a bond dividend.

Leading dividend theories

Businesses consider several different aspects while determining the nature of their dividend policy. Experts in finance are attempting to include these elements into theories on dividends, which explain how a company's value is impacted by its payout policy. The following are prominent dividend theories that support the implementation of dividend policies:

- ✓ **Relevance theory of dividends**

The link between the amount of dividends paid and the value of business shares—which were determined by two primary elements, net income generated and dividend payout—was supported by the theory of relevance of dividend, which was advocated by Lintner (1956) and Gordon (1956). An indication of dividend distribution for the preceding fiscal year was the last component. Through a series of twenty-eight interviews with managers of American corporations regarding the choice of dividend distribution, Lintner (1956) did groundbreaking work in this sector and discovered that payments were the primary basis for decisions regarding dividend policy. The author also came to the conclusion that, in a situation when resources are few, favored corporations borrow money rather than reducing dividend payments by ensuring dividend policy stability across different economic activities.

- ✓ **Modigliani-Miller dividend irrelevance theory**

Even though it was developed more than 50 years ago, one of the most significant dividend hypotheses was given in 1961 by Franco Modigliani and Merton Miller, and it is still regarded as one of the most reputable theories. The idea altered the perception of dividends held by scholars and practitioners alike when it was introduced in the paper "Dividend policy, growth, and the valuation of shares." It also served as a new standard. Before the release of Modigliani- Miller‘s dividend irrelevance hypothesis the common perception was that dividends were substantially connected to the value of the company (Baker. 2009). As the theory's name implies, it claimed that in ideal capital markets, a company's dividend policy is unaffected by its worth and is unaffected by whether it pays out large or little dividends. Three criteria are used by Modigliani and Miller (1961) to describe the ideal capital

market:

- ✓ A perfect capital market is one in which no actor has an information advantage and where all players have equal access to costless information. No actor's size on the market allows them to influence a security's market price. The idea that there are no taxes or transaction charges means that all players may compete on the market under the same terms was another crucial one.
- ✓ Rational conduct posits that all market participants would rather have greater wealth than less. Additionally, it makes the assumption that it makes no difference how the actors get their increased wealth—through dividend payments or capital gains from their stocks.
- ✓ Perfect certainty refers to the knowledge that all market participants possess, knowing the future return on each investment. As a result, one may assume that there is just one kind of security, or what Modigliani and Miller call stocks.

Regarding the aforementioned assumptions, the dividend payments lose significance as the corporation needs to issue new shares to generate the necessary capital before it can pay dividends. According to Modigliani and Miller (1961), as new stocks are issued, their price will decline in proportion to the dividend payments. This downward trend in stock price and dividend payments will cancel each other out. For instance, if the business distributes a dividend of 10 SEK, each share that a shareholder owns will get 10 SEK. However, because more shares are being issued in order to raise cash, the stock price will also drop by 10 SEK, meaning that owners will still be in a favorable position regardless of the dividend.

Additionally, Modigliani and Miller contend that the stockholders had the ability to create their own custom payouts. For instance, if the shareholder desired a 2 percent dividend but the firm did not pay any, he may sell 2 percent of his shares and make his own dividend. Of course, the contrary was also true: if the corporation pays a dividend that is more than what the shareholder desires, he can utilize the excess payout to purchase more stock (Brigham & Houston 2011). The irrelevance hypothesis is predicated on the two previously presented arguments, which suggest that shareholders should not care whether they get dividends or capital gains. This ultimately leads to the

shareholders' unwillingness to pay a premium for dividend-paying stocks, which renders the dividend debate moot. Modigliani and Miller (1961) employed a variety of calculations to arrive at the conclusion that the firm value at time t is equal to in order to explain the irrelevance of dividends.
Where,

V(t) = Value at time t
P(t) = Stock price at time t X(t) = Total net profit at time t
I(t) = Investments or increase of physical holding at time t

Given that all of the justifications in the formula are independent of dividends and that dividends do not explicitly appear among the arguments, this suggests that the firm's worth is independent of its payout practices. As can be seen from the formula above, the only variables that impact a company's worth are its stock price, its net profit, investments, and its estimated future value based on ideal market assumptions. The key claim made by Modigliani and Miller in support of the dividend irrelevance hypothesis is that only "real" factors—rather than financial illusions of any kind—can impact a firm's value in a perfect market environment. Modigliani and Miller define real variables as the firm's business risk, investments policy, and asset earning potential (Modigliani & Miller, 1961). As a result, the dividend distribution strategy selected has no impact on the stock price of a firm today or the overall return to shareholders.

The talks above demonstrated that in a perfect capital market, a company's dividend distribution practices have no impact on its worth. several studies were carried out to evaluate the veracity of Modigliani and Miller's claims, and several scholars have both accepted and disagreed with the claims. According to Black and Scholes (1974), there is no correlation between dividends and stock returns because corporations may modify dividend payments to suit the preferences of tax-induced investors. This finding corroborated the findings of Modigliani and Miller. The dividend irrelevance theory's claims were also backed by a well-known study by Miller and Scholes (1978), which claimed that dividends had no impact on the value of the business even if capital gains

and dividends were taxed at separate rates under the US tax code.

The goal of this study is to determine how many elements, including the business's earnings, relate to the dividend payout ratio of the company. It will investigate if the earnings (ROE) of a company and the dividend payment ratio are significantly correlated. It is feasible to draw the conclusion that dividends may increase profit if there is a significant correlation between profit and dividend payments. It is vital to test the link since Modigliani and Miller claim that dividends have no effect on earnings.

- ✓ **The "Bird in Hand" Theory**

The "bird in hand theory" represents the opposing viewpoint to Modigliani and Miller's dividend irrelevance argument, which holds that payouts have an impact on the company's value. First proposed by Lintner in 1956, the hypothesis has received support from a number of scholars, including Gordon in 1959 and 1962. Since it is one of the most recognized and respected dividend theories, we consider that it is of vital value to include it in the study and even though it was produced for more than 50 years ago it still offers a standard for current dividend research. All studies that contend that dividends have a positive correlation with the value of the firm are collectively referred to as "bird in hand." The adage "a bird in the hand is worth more than two in the bush" serves as its foundation. In terms of money, the idea states that investors are more likely to purchase stocks that offer a present dividend than those that hold onto earnings with the intention of paying out dividends in the future. This is a result of the significant level of uncertainty surrounding future dividend payments and capital gains. Compared to capital gains, current dividends are more predictable since the stock price is more unpredictable due to market factors rather than manager discretion (Keown et al., 2007). Gordon's (1962) dividend model is predicated on the subsequent hypotheses.

o The business has no external financing and is entirely equity funded. Retained earnings are used by the business to finance all investments.

o The retention ratio and the internal rate of return on capital are both constant.

o The business will always exist.

Gordon's model's fundamental presumptions center on the concept of comparing what is currently accessible to what could become available in the future (Khan & Jain, 2008). It

is predicated on the idea that uncertainty about capital gains and future dividends increases with distance from the present. Due to the high level of uncertainty, there is no assurance that the investor would accrue a greater return, even though capital gains in the future may offer a larger return than the present dividends (Gordon 1962). Investors are reluctant to put money into firms whose dividend payments are some distance off because of the correlation between duration and risk. As a result, an investor would be prepared to pay more for companies that offer current dividends. For firms which do not pay current dividends, the investor would apply a greater discount rate in order to discount the earnings and the value of these companies should thus be lower than the companies who pay current dividends (Khan & Jain, 2008). The following graphic serves as an illustration of this, showing that as the amount of earnings kept by the corporation rises, so does the discount rate. Naturally, the contrary is also true: businesses that pay current dividends have smaller levels of retained earnings, which lowers the discount rate and raises the firm's worth. The primary justification offered by Lintner (1956) for rejecting the bird in hand hypothesis is that the majority of businesses follow an optimal payout ratio when it comes to borrowing. Changes in the company's earnings are the main cause of departures from the ideal payout ratio; if the profit rises, the dividend payment should also rise proportionately (Myers & Bacon, 2004). However, the company's payouts are also impacted by future earnings uncertainty. The corporation may reduce the dividend payment ratio as a hedge against declining future earnings if the assessed risk for the future is higher than the risk for the present (Friend & Puckett, 1964). Opponents of the argument that the bird in hand ignores significant aspects have heavily criticized the theory. According to Keown et al. (2007), the theory is refuted by stating that increases in current dividends actually have the opposite effect of what is expected, as the managers are forced to issue more stock in order to raise the necessary capital if dividend payments are increased. As a result, paying dividends just shifts the risk from existing to new owners. However, despite the fact that the hypothesis has certain limitations Keown et al. (2007) contend that despite the theory's shortcomings, it is nonetheless necessary to include since a large number of financial institutions and private investors believe that dividends are significant.

The bird in hand hypothesis, which opposes Modigliani and Miller's dividend irrelevance argument, is explained in the section above. Among other things, it states that businesses with larger earnings distribute their dividends to their shareholders at a higher rate. Given that this viewpoint differs from Modigliani and Miller's, it would be worthwhile to investigate whether businesses that make more money distribute their profits to their shareholders as dividends. Subsequently, the author will examine the relationship between the dividend payout ratio and a variety of company-selected criteria. We will look at whether hypothesis—the bird in hand theory or Modigliani and Miller's dividend irrelevance theory—is more appropriate for the market under study because profit is one of the variables that will be put to the test.

- ✓ **Residual Theory of Dividends**

  The foundation of the residual theory is the idea that dividend payments won't happen until the business has made the best possible investment choice. As a result, fewer investments will be able to be funded by the issuance of additional shares or borrowed capital. Nevertheless, the cost of this capital is incurred at a higher rate than that of own equity. The dividend policy is viewed as residual, and dividends as waste. It is the investing policy that affects the return rather than the dividend policy. However, as long as the return is at least as much as what the market demands, investors don't care how the return is considered (Salsa, 2010).

- ✓ **Signaling Theory**

  The signaling hypothesis of dividends was first proposed by Lintner (1956), who found that changes in dividend payments typically resulted in changes to the price of a company's shares. Despite supporting the idea that dividends are irrelevant, Modigliani and Miller (1961) also noted that, in the actual world—which does not assume flawless capital markets—dividends have a "information content" that might influence the stock's market price. The signaling idea was further developed by other academics, and it is now regarded as one of the most significant dividend hypotheses. One of the most well-known research on signaling ideas was given by Bhattacharya (1979), who suggested that those dividends may serve as a signal for anticipated future cash flows. An rise in dividends is a sign that management anticipates future cash flows to be higher. The study is predicated on the supposition that outside investors possess incomplete knowledge about the future

cash flows and capital gains of the organization. The idea that dividends are taxed more heavily than capital gains is another crucial one. According to Bhattacharya (1979), corporations would decide to pay dividends under these conditions notwithstanding the tax disadvantage associated with them in order to reassure shareholders and outside investors.

According to Baker et al. (2009), there was some degree of unreliability in a company's financial data and future prospect reports. These sorts of data did not accurately depict the lucrative future commercial prospects of a corporation. The corporation had to come up with additional strategies to persuade outside investors about future cash flows and profitability because they lacked complete knowledge about the firm's profit prospects. As a result, encouraging signals like rising dividends give prospective investors hope. Despite the fact that dividends are subject to a higher tax rate than capital gains, investors are ready to pay this higher tax rate since dividends provide a signal to investors about the value of the stocks. Due to their signaling power, dividends have the potential to completely change inefficient markets into flawless ones with optimal information efficiency.

Many studies have been carried out to determine if the signaling theory is applicable in real-world situations, and there are differing views on this matter. The signaling theory was supported by empirical findings presented by Asquith and Mullins (1983). They contend that a rise in dividend payments generally results in a rise in the wealth of shareholders. Furthermore, according to Asquith and Mullins, information found in dividends is not found in other information sources, such as accounting data. However, the signaling theory has several shortcomings that make it unsuitable for use in a variety of contexts, according to numerous academics. For instance, Pettit (1972) and Black (1976) claimed that there were less expensive ways to provide the same information to shareholders and that the informative value of dividends was overstated.

- ✓ **Pecking Order Theory**

Myers and Majluf revised this idea, which is sometimes referred to as the theory of order

or hierarchy (1984). Based on the idea that financing costs rise with asymmetric knowledge, the authors contend that businesses should prioritize current funding sources since they are less expensive to utilize than issuing new bonds as debt. Managers can get business funding from three hierarchical sources: domestic financing, debt, and equity as a last option (Myers, 1984; Fama & French, 2002). As noted by Myers (1984), the payout ratio has a negative relationship with both investment and financial leverage, and this model does not explain how dividends are distributed. Nevertheless, it must be taken into account when making dividend decisions. Instead than being subject to oversight and evaluation by the outside market, managers keep their earnings in order to fund their investments and distribute lesser dividends to shareholders.

- ✓ **Catering Theory**

  Baker and Wurgler (2004) presented a novel hypothesis for satisfying the "needs of dividends" of investors, often known as the catering theory. According to the research, investors would buy company shares if the corporate governance satisfied their needs. This idea states that if investors' demands for dividend payments, no matter how irrational or fair, are met, the stock price of the business will rise. Put another way, no corporation that pays dividends will start paying out when it notices that its stock will be worth more in the marketplace. Baker and Wurgler conducted tests on this notion, which was based on the theory of psychological behavior of investors.

- ✓ **Client Effect**

  In the 1970s, scholars and researchers introduced a new factor to the debate over dividend policy: the impact of taxes. They came to the conclusion that investors face a tax disadvantage from dividends as they are subject to a higher tax rate than capital gains, which lowers the net rate of return. Contrary to the information given, DeAngelo et al. (2009) contend that certain investors have a preference for dividend-paying companies; investors' opinions on the identical alternatives vary, and this preference is known as the clientele effect. This impact was first described by Modigliani and Miller (1961), who claimed that corporations create their own "clientele" through their dividend policies, with each investor selecting the company based on their preferences and requirements. The tax brackets in which investors are situated determine their preferences; those in lower tax rates are more likely to favor high dividends, and vice versa.

- ✓ **Agency Theory**

One of the more reputable dividend ideas is the agency hypothesis, which has generated a great deal of discussion among academics. Jensen and Meckling (1976) produced one of the most important studies on agency costs. The study offered a fresh perspective on the agency problem, and Jensen and Meckling's work is the standard by which most studies on agency costs are measured. A cost that emerges between the principals (stockholders) and the agents (management) is what they refer to as the agency cost. wherein the principals appoint and assign agents with specific authority in order to optimize their own riches. They go on to say that the only assets that may be utilized as claims against the corporation are stocks and bonds Only creditors and stockholders may thus be considered principals. In addition to presenting a well-known study on agency costs, Jensen and Meckling defined what an agency cost is. On the other hand, several academics have been working to build the theory, and they did not offer a comprehensive confirmation on the impact of agency cost on dividend policy.

Another research on agency costs was provided by Easterbrook (1984), and the results corroborate those of Rozeff (1982) and Jensen (1976). Easterbrook looked at the possibility of using dividend distributions to reduce the amount of money that managers and investors had to pay for agencies. According to Easterbrook, managers' inclinations for risk aversion and cost monitoring have an impact on an organization's agency expenses. The expenses paid by the shareholders to keep an eye on the management and stop them from pursuing their own interests rather than increasing the value of the stockholders' equity are referred to as the monitoring cost. Managers' inclinations toward risk aversion are the second source of agency costs. The issue is that the majority of shareholders only care about systematic risk, which diversification cannot remove, since their portfolios are diversified. Unlike shareholders, managers typically have a significant portion of their own wealth invested in the firmTherefore, the managers' personal wealth is severely impacted if the business is unproductive or even declares bankruptcy. As a result, the management will be less willing to take on risk than the shareholders are, and as a result, they may pass up potentially highly valuable projects.

Easterbrook (1984) asserts that dividend payments to shareholders can lower these two forms of agency cost. Easterbrook goes on to say, nonetheless, that businesses should only pay dividends in order to lessen agency conflicts since dividends are useless in and of themselves. According to Easterbrook (1984), unexpected changes in profits should have an impact on dividends. For this reason, we have included profits as one of the company-selected criteria that we will employ in the research.

Jensen's (1986) free cash flow hypothesis is another explanation for the agency cost. According to Jensen, agency expenses grow as free cash flow does. Because in order to stop the management from making unproductive investments like empire building or excessive spending, the shareholders must exercise more oversight. This may be explained by the positive relationship that exists between the company's size and its management enumeration strategy (Murphy, 1985). Jensen contends that businesses should distribute excessive amounts of free cash flow to shareholders as dividends in order to avoid disputes of this nature between managers and stockholders. If not, the management could prioritize advancing their own goals over increasing shareholder value. In order to ascertain if Jensen's theory is relevant to the NEPSE market, we will examine the relationship between the free cash flow and the dividend payment ratio of the firm in our research.

Legal provision regarding Dividend practice in Nepal

A few legislative provisions regarding dividend payments in Nepal are made under the Company Act 2063. These clauses can be interpreted as follows:

Section 140: The following are this section's subsections and dividends.

Subsection 1: Dividends are must be paid to shareholders within 45 days after the decision to pay them, with the following exceptions. Case any law forbids the distribution of dividends.

a) Should the dividend right be contested?

b) If, for reasons outside of anyone's control and without the company's fault, dividends are unable to be paid out within the previously specified time frame.

Subsection (2): If dividends are not paid out within the time frame specified in subsection (1), interest at the specified rate will be added.
According to Section B, the only individual who is eligible for a dividend is the one whose name is on file in the register of current shareholders at the time the dividend is declared.

The aforementioned regulations show that Nepalese law forbids the buyback of shares, which goes against financial theory. It is unknown why this type of restriction was included.

2.2 Empirical Review

Researchers have focused a lot of effort in the last few decades on figuring out what influences business dividend policies. Numerous theories have been proposed by finance academics on the variables that could influence a company's dividend policy. Some of these hypotheses, for instance, are agency explanations, tax preference, and signaling. To explain dividend behavior, other scholars have created and empirically tested a number of theories. To find out the key factors influencing corporate dividend behavior, some surveyed company management. Owing to the substantial amount of theoretical and empirical research on dividends, the discussion that follows concentrates on a few behavioral models and surveys on company payout policies. Regarding dividend, the conclusions reached by various researchers have differed. There is no correlation between a company's market value and its dividend distribution policy, according to Miller and Modigliani (1961), who are regarded as pioneers in the field. The market value of the company was determined to be independent of the dividend distribution policy. Many other researchers reached quite different conclusions at the same time. In their research, Pruitt and Gitman (1991) found that risk significantly influenced a firm's dividend policy. According to their opinion, a company with comparatively steady earnings is frequently able to accurately forecast what its future earnings will be. They said that compared to companies with variable earnings, such a company was more likely to pay a larger share of its earnings. The correlation between beta and dividend payout was shown to be statistically significant negative in three further studies: Rozeff (1982), Lloyd et al.

(1985), and Colins et al. (1996). These results also suggested that companies with higher levels of market risk would pay dividends at a slower pace. Gordon (1963) asserts that a company can increase its market value through dividend payments. Investors were informed about the dividend distribution demonstrates the company's profitability and investment potential (Alli et al., 1993). According to Michaely and Swaminathan's (2002) explanation, as a company ages, fewer viable initiatives become available, and earnings decline. The corporation boosted its dividend payments to stockholders as investment prospects declined and the requirement for resources decreased.

Regarding dividend practices in underdeveloped or emerging economies, the findings were not entirely consistent. Kania and Bacon (2005) used financial data from over 10,000 publicly listed companies to study the effects of profitability, growth, risk, liquidity, and expansion on a corporation's dividend choice or policy. This study found that profitability, growth, risk, and liquidity all had a substantial impact on the dividend payout ratio. According to Twaijry's (2007) research, Malaysia's developing markets have historically and going forward adopted a dividend strategy. Profit had an impact on dividends as well; the larger the firm, the higher the dividend payout. Four criteria have been identified by Nizar and Al-Malkawi (2008) in their research on the dividend payment policy of the Jordanian companies: the profitability of the firm, the financial leverage, the number of years of operation, and the internal holding rate of management. Between 2001 and 2006, Ahmed and Javid (2009) gained knowledge regarding the dividend payment policies of non-financial businesses listed on the Karachi stock exchange. They corroborated Linter's notion that the company's dividend policy objectives are determined by its profits per share (EPS) for both the current and prior year. The incidence of dividend payments was positively impacted by profitability, market liquidity, and internal ownership percentage; the dividend payout rate was negatively impacted by market capitalization and firm scale. Using panel data regression, Ahmed and Javid (2009) investigated the dividend payments made by policy makers to 320 non-financial businesses listed on the Karachi Stock Exchange between 2001 and 2006. The study's findings confirmed that non-financial Pakistani firms that are listed rely on their prior dividend payments and current profits per share to choose when to pay

dividends. But compared to Dividends are typically more reliant on current profits than the distribution from the previous year. It was discovered that a highly lucrative business could have more consistent free cash flow, which allowed it to pay out larger dividends. Additionally, it was discovered that dividend payments were unaffected by the company's growth.

Ritha and Koestiyanto (2013) looked examined the variables influencing the dividend payout ratio of firms that were listed between 2007 and 2009 on the stock exchange. The findings demonstrated that leverage had a favorable and substantial impact on the dividend payout ratio, suggesting that higher overall debt helps shareholders by increasing income. It was discovered that profitability had a substantial and adverse impact on dividend payments. The dividend payout was significantly and negatively impacted by the company's growth rate. These findings suggested that big businesses with rapid expansion were not making the most of their ability to pay dividends to shareholders; instead, money might have been more readily accessible to boost overall assets, which would have benefited the business's operations. In his study, Badu (2013) employed both fixed and random effects to investigate the factors influencing the dividend payment policy of listed financial institutions in Ghana. He conducted the analysis using panel data from the chosen firm, which covered the years 2005 to 2009. The findings revealed a statistically significant and positive correlation between age and liquidity, but not a statistically significant correlation between dividend payments, profitability, and collateral. Consequently, the age of the company, collateral, and liquidity were the main factors influencing the dividend policy of financial institutions in Ghana. Using a panel data regression model, Alzomaia and Al-Khadiri (2013) investigated the variables influencing the dividend paid by the firm to investors on the Arabian Stock Exchange between 2004 and 2010. The findings indicated that the company's choice to raise or lower the amount of dividends was significantly influenced by its profitability as well as its prior dividend rate. A positive correlation suggested that, given the high payout level from the previous year, corporations were prepared to boost dividend payments as profitability rose. Although not statistically significant, the company's growth was shown to have a negative influence, suggesting that firms with

growth potential were more likely to reduce payouts. Since the study's results were not statistically significant, it is not possible to demonstrate a negative correlation between the debt to equity ratio and the dividend payout ratio.

Kuzuku (2015) looked at the elements at the firm level that affected an emerging market company's choice to declare dividends. He had looked at eight-year panel data from the Turkish stock market (Borsa Istanbul) covering the years 2006–2013. Financial leverage, size, growth rate, age, profitability, ownership structure, and P/E ratio were all shown to be statistically significant, according to the findings. Leverage, growth rate, profitability, and family control had negative relationships with dividends; on the other hand, there were favorable relationships with size, age, and P/E ratio. As a result, businesses were more likely to keep more of their earnings if they had greater debt ratios, faster growth rates, or larger earnings. Hosain (2016) conducted research on Bangladesh's listed private commercial banks that are part of the Dhaka Stock Exchange Limited. The fixed effect regression model was employed in this study to examine the link between dividend payout and dividend determinants. The study was conducted within the restricted timeframe of 2005 to 2015. The findings demonstrated that while debt and profitability had a negative impact on the dividend payout ratio, liquidity, firm growth, and dividends paid out the prior year had a favorable and substantial impact. The ownership structure, business size, and firm risk had no direct impact on dividend distributions. The factors influencing the dividend payment ratio of listed businesses at the Jakarta Islamic Index were examined by Fitri et al. (2016). The study looked at how the Jakarta Islamic Index's listed companies fared in terms of dividend payout ratio (DPR) from 2009 to 2014. It also looked at the impact of Return on Assets (ROA), Debt to Equity Ratio (DER), Assets Growth, and Dividend Payout Ratio in a Year Before (DPRt-1). Annual reports gathered from the Indonesia Stock Exchange were used in this study. Panel data regression analysis was the methodology employed in this study, with models selected that made use of the common effect model. The results demonstrated that ROA and DPR had a favorable and substantial impact on Dividend Payout Ratio one year prior. Additionally, the data demonstrated that the asset growth to dividend payout ratio had a considerable negative impact. Yet the data also revealed that the Debt to Equity Ratio had no

discernible impact on the Dividend Payout Ratio. Dividend Payout Ratio from Previous Year (DPRt-1) was the most important factor influencing the dividend payout ratio.

Thapa (2021) investigated the effects on the dividend payment ratio of 19 Nepalese commercial banks of five widely used dividend determinants: net profit, cash flow, size, market to book value, and slack. Secondary data from the yearly financial statements of the banks listed on the Nepal Stock Exchange was used in this investigation. Five fiscal years' worth of observations, totaling 95, were taken into consideration. Regression analysis and a casual comparative study design are the methods employed. The market to book value and slack factors had a favorable and significant impact on the dividend payment ratio, according to the data. The outcome further demonstrated how size has a favorable impact on the dividend payment ratio.

In their study, "A Study of the Banking Sector of Bangladesh," Islam and Adnan (2022) employed a structural equation modeling approach to investigate the factors that influence dividend policy. The factors influencing banks' judgments about dividend distribution were examined in the study. The empirical research was conducted using a panel dataset of 22 banks that were listed on the Dhaka Stock Exchange (DSE) between FY 1999 and FY 2018. Structural equation modeling was used to infer the outcomes (SEM). The results indicated that while earnings per share, cash flow, sales growth, liquidity, institutional ownership, sponsor ownership, individual ownership, risk, age, relative tax, return on assets, investment opportunity, and retained earnings were insignificant when making a dividend decision, retained earnings, leverage, and size were significant factors in determining dividend payouts. The results corroborated the theory that management uses dividend distributions as a signaling tool and that they have lessened the agency problem. Furthermore, because most of the factors that were determined to be significant in determining dividend policies in Bangladesh were in line with those established in developed economies, the results demonstrated that the majority of dividend policy theories that were traditionally based on developed markets can be applied to emerging market nations like Bangladesh.

A study on the factors influencing dividend policy: Evidence from Malasian Public Listed Companies was carried out by Anuar et al. in 2023. This study looked at the variables that affected the dividend policy choices made by Malaysian publicly traded corporations. For this study, a quantitative research approach was adopted, and a sample size of eighty-three (83) publicly traded firms in Malaysia was chosen based on yearly data from 2013 to 2017. The results showed that the dividend policy, as determined by the dividend payout ratio, is not significantly impacted by leverage or liquidity, as shown by the debt to equity ratio and current ratio, respectively. Additionally, this research offers fresh perspectives on business size, taxation, and profitability as determined by return on equity (ROE), corporation tax, and ln (total assets), all of which significantly positively correlate with dividend policy. Putra, et al. (2023) looked at a research that looked at factors influencing dividend policy for Indonesian non-cyclical consumer firms between 2016 and 2021. The findings indicated that a company's ability to distribute dividends increased with profitability and leverage, indicating that these factors had a major impact on those businesses' dividend policies. Likewise, there was a strong correlation between dividend practice and both profitability and leverage. Research on the factors influencing Ethiopian private insurance companies' dividend payout ratio was done by Chali et al. in 2023. By purposefully choosing eight private insurance businesses from a target population of sixteen, this study investigated the factors influencing the dividend payment ratio of private insurance companies in Ethiopia. The audited yearly financial reports of each chosen insurance company and NBE from 2007 to 2019 served as secondary sources of quantitative data for the study. The gathered information was subjected to a panel data random effect model analysis, yielding empirical results indicating that the dividend payout ratio is significantly impacted negatively by leverage, growth potential, and retained earnings, and positively by company age, gross premium, and delayed dividend. The dividend distribution is not significantly impacted by profit or inflation rate. The findings suggested that older companies with significant premium income accrue dividends at a faster rate than quickly expanding, highly leveraged companies, which pay dividends at a lesser rate.

Dhungana and colleagues (2024) conducted a study aimed at determining the factors that

influence the dividend payout ratios in commercial banks located in Nepal. This study investigated the variables affecting Nepal's commercial banks' dividend payment ratio. Secondary data served as the foundation for the study, which examined Nepal's commercial banks. Seven banks were chosen via quota sampling, and data were evaluated utilizing statistical techniques such as regression analysis in addition to descriptive and analytical study methodologies. The results showed that in Nepalese commercial banks, the liquidity ratio and bank size significantly positively affect the dividend payment ratios. Leverage, the capital adequacy ratio, and profitability ratios, on the other hand, show negligible correlations. Furthermore, notable distinctions were noted across the various types of banks in terms of dividend payout ratios, return on assets, leverage, and capital adequacy ratio. Larger bank sizes and greater liquidity ratios are correlated with higher dividend payment ratios, suggesting that these factors play a crucial role in determining the dividend policies of Nepalese commercial banks. To improve the dividend payout ratio, banks and other financial organizations may concentrate on controlling liquidity and growing their footprint.

Table 1

Summary of Empirical Review

S.N	Author(s)	Variables	Methodology	Major Findings
1.	Kania and Bacon (2005)	Dependent Variable: Dividend Policy Independent Variables: profitability, growth, risk, liquidity and expansion	Regression analysis was used to examine the relationship between these variables and the firms' dividend policies.	This study concluded that the dividend payout ratio was significantly affected by the profitability, growth, risk and liquidity.
2.	Twaijry (2007)	Dependend Variables: Company's dividend decisions and payout ratios. Independent Variables: Past Dividends, Future Prospects, Net Earnings, Cash Per Share, Share Book Value	Eight hypotheses were developed and tested using 300 firms randomly selected from the Kuala Lumpur Stock Exchange. Additional statistical analyses were presented.	The results suggested that current dividends are affected by their pasts and their future prospects. To a lesser extent dividends were associated with net

				earnings. Payout ratios (POR) were not found to have a strong effect on the company's future earning growth, but had some significant negative correlation with the company's leverage. Cash per share and share book value significantly and positively affect both DPS and POR.
3.	Nizar and Al-Malkawi (2008)	Dependent Variable: Dividend Payout Ratio Independent Variables: Profitability, firm size, growth opportunities, leverage liquidity, ownership structure and business risk	Correlation and multiple regression models along with sensitivity analysis was done with robustness checks.	There were four factors affecting this dividend policy, including: the profitability of the business, the financial leverage, the number of operating years, and the internal holding rate of managers.
4.	Ahmed and Javid (2009)	Dependent Variable: Dividend Payout Ratio Independent Variables: Profitability, firm size, growth opportunities, leverage. Liquidity, ownership structure and business risk	This study conducted a study to policy makers' dividend payment of 320 non-financial companies listed on Karachi Stock Exchange during the period from 2001 to 2006 with a panel data regression.	The research result supported that non-financial Pakistan companies listed rely on current earnings per share and dividend per share past to arrange the payment of dividends.

5.	Badu, (2013)	Dependent Variable: Dividend Payout Independent Variables: ROA, Growth, Firm Age, Non Linearity of Age, Ratio of Cash and cash eqivalent to Net Total Assets financial institutions, Ratio of Net Fixed Assets to Net Total Assets for Financial Institutions	This study used fixed and random effects model for research methodology. Panel data were used for the study.	The major determinants of dividend policy of financial institutions in Ghana were age of the firm, collateral and liquidity.
6.	Hosain(2016)	Dependent Variable: Dividend Payout Ratio Independent Variables: Leverage, Firm Size, Liquidity, Growth Opportunity, Firm Risk, Ownership Structure, Previous year's Dividend and Profitability	In this study, eight variables were considered as potential determinants of dividend payout policy. Both pooled ordinary least square (POLS) and dynamic panel regression model were run on a sample of ten listed private commercial banks of Dhaka Stock Exchange Limited in Bangladesh for the period of eleven years from 2005 to 2015. Fixed effect regression model was chosen to test the relationship between dividend determinants and dividend payout.	The results showed that dividend payout ratio were positively and significantly affected by liquidity, firm growth, and previous year's dividends but are negatively affected by leverage and profitability. Firm size, firm risk and ownership structure did not have a direct influence on the dividend payments.
7.	Fitri, et.al (2016)	Dependent Variable: Dividend Payout Ratio Independent Variables: ROA, Debt to Equity Ratio, Asset Growth and Dividend Payout Ratio a Year Before	This research used annual report that collected from Indonesia Stock Exchange during 2009-2014 periods. The method used in this research was panel data regression analysis and the chosen models that used common effect model.	The most significant variable that effecting Dividend Payout Ratio is Dividend Payout Ratio a Previous Year (DPRt-1).

8.	Thapa(2021)	Dependent Variable: Dividend Payout Ratio Independent Variables:Net Profit, Cash Flow, Size, Market to Bank Value and Slack	This study used secondary data collected from annual financial statements of the banks listed on the Nepal Stock Exchange. A total of 95 observations of the variables five fiscal years were considered. The method used casual comparative research design and regression analysis was conducted.	The results showed a positive and significant effect of two variables; market to book value and slack on dividend payout ratio. The result also showed the positive effect of size on the dividend payout ratio.
9.	Islam and Adnan (2022)	Dependent Variable: Dividend Payout Ratio Independent Variables: Lagged dividend payout ratio, Earnings per share, Cash flow, Sale growth, liquidity, Institutional ownership, Sponsor ownership, Individual ownership, Leverage, Risk, Age, Size, Relative tax, Return on assets, Investment Opportunity, Retained earnings to equity.	A panel dataset of 22 banks listed on the Dhaka Stock Exchange (DSE) from FY 1999 to 2018 was used for the empirical analysis. The results were inferred using structural equation modeling (SEM).	The findings showed that retained earnings, leverage, and size were important factors in determining dividend payouts, whereas earnings per share, cash flow, sales growth, liquidity, institutional ownership, sponsor ownership, individual ownership, risk, age, relative tax, return on assets, investment opportunity, and retained earnings were insignificant while taking dividend decision

10.	Anuar, et.al (2023)	Dependent Variable: Dividend Policy Independent Variables: Leverage, Liquidity, Profitability, Firm Size and Corporate Tax	Quantitative research method was chosen for this study and eighty-three (83) public listed companies in Malaysia were selected as a sample size based on annual data during 2013-2017. Multiple regression analysis was used to test research hypotheses. Other tests including Diagnostic test, Normality test, Multicollinearity test, Autocorrelation test, and Pearson's Correlation coefficient analysis were also conducted in this study.	This study also provide new insights into profitability, tax, and firm size which were measured by return on equity (ROE), corporate tax, and ln(total assets) have a significant positive relationship with dividend policy.
11.	Putra, Manuari, Raith and Putri, Andika (2023)	Dependent Variable: Dividend Policy Independent Variables: Profitability, Ownership, Leverage, Firm Value	This study used a purposive sampling technique with several criteria in order to obtain 8 samples of consumer non-cyclicals companies and the analysis technique used was PLS (Partial Least Square	This study found that the higher the profitability and leverage a company has, the higher its dividend distribution policy will be.
12.	Dhungana et al.(2024)	Dependent Variable: Dividend Payout Ratio Independent Variables: Liquidity, Capital Adequacy, Profitability, Leverage and Bank Size	The research was based on secondary data to analyze the commercial banks operating in Nepal. Quota sampling was employed to select seven banks, and data were analyzed using descriptive and analytical research designs, along with statistical tools like regression analysis.	The findings revealed that liquidity ratio and bank size had a significant positive impact on dividend payout ratios in Nepalese commercial banks.

2.3 Research Gap

The aforementioned research undoubtedly made a little contribution to our understanding of how insurance firms behave in the Nepalese stock market. They undoubtedly left an effect on the secondary market in Nepal and other relevant areas that have been beneficial. But because of the shortcomings in their investigation, their conclusions are not entirely justified. The majority of the research used secondary data. As such, they are unfinished and unnecessary in the current situation. Thus, the requirement for updated primary data collecting emerges.

Research on the variables influencing dividend prices in Nepal have also been conducted, although most of these research have focused on the Nepalese stock market and have not taken investor behavior and decision-making into account. Behavioral aspects, however, also play a big role in investing decisions. Additionally, not many studies have been conducted in the field to use factor analysis to determine the elements that most impact investment decisions.

Similar to other aspects, there are a lot more that might be included in the discussion of this issue; however, the Nepalese stock market is expanding, and not much study has been done to determine the elements that influence investment decisions. Studies are being conducted more in Nepal's commercial banks exclusively at the same time. Apart from commercial banks, very little study has been done. There's always more to learn about the subject and issues to consider.

CHAPTER III
RESEARCH METHODOLOGY

There are six parts in these chapters. The research design section provides an explanation of the study design. The population, sample, and sampling technique utilized in this investigation are explained in the second part, which is titled Population Sample and Sampling Design. The next part, "Nature and Source of Data Collection," provides information on where the study's data came from. The data gathering technique is covered in detail in the fourth part, which also provides an explanation of the study's methodology and the length of time it took. The approach of analysis, which is covered in the fifth part, describes how the data is analyzed to reach a conclusion or discovery. The research framework and definition of the variables, which presents the theoretical framework and provides an explanation of the variables utilized in the study, is the last chapter.

3.1 Research design

Because financial and statistical techniques are used to analyze life insurance firms in order to meet the research objectives, this study is quantitative in character. The study was conducted using a descriptive research approach, which entails seeing and characterizing the subject matter objectively and without exerting any kind of influence. The link and effect of leverage, profitability, risk, liquidity, and DPR from the prior year on the dividend of life insurance firms in Nepal have been assessed using a causal study methodology. To ascertain the salient features of the dependent and independent variables, descriptive statistics are computed, and hypothesis testing is carried out to derive study conclusions. The calculation of correlation is used to ascertain the relationship between variables. It is determined that the fixed effect panel regression model is suitable for evaluating the hypotheses.

3.2 Population sample and sampling design

Three life insurance firms that have submitted an annual report for at least 10 years comprise the research's sample, and the population of the study consists of fourteen life

insurance businesses until September 2024. Based on their establishment, life insurance was chosen for this investigation. Three insurance companies that were founded during Nepal's medieval insurance development era have been chosen for this study. Rastriya Beema Sansthan, Nepal's first life insurance business, was founded in 2024 B.S. Between 2055 and 2065, the majority of life and non-life insurance businesses were founded. Three insurance businesses that were founded at that time were used in this study. The sample firms chosen for the study, which employs the purposive sampling approach, are listed below.

Insurance Companies

i. Nepal Life Insurance Company Limited
ii. Life Insurance Corporation Nepal
iii. Asian Life Insurance Company

3.3 Nature and sources of data collection

For the study, financial statements are used. For this study, secondary sources of data are employed. Information was gathered from the following sources:

- Financial documents provided by the insurance companies in their websites.
- Websites of sharesansar.com.

3.4 Data collection procedure

Using insurance company data for the ten-year period from 2070/71 to 2079/80, a panel data analysis is performed to investigate the factors impacting the dividend distributions. Since the investigation was quantitative in nature, that method was used. The study's variables are secondary annual data, mostly gathered from life insurance firms' annual reports.

3.5 Method of analysis

An analysis strategy is created in order to analyze the data and turn it into information that is meaningful. Organizing, tabulating, doing statistical analysis, and creating interferences are the steps involved in data analysis. SPSS and MS-Excel were used to

code and input the secondary source data. Coding is followed by descriptive and inferential analysis to ascertain the connection between the independent and dependent variables.

Descriptive analysis

Descriptive statistics were employed in this study's descriptive analysis. The mean, standard deviation, number of observations, and lowest and maximum values of life insurance businesses are examples of descriptive statistics.

Inferential analysis

Coefficient of determination (R2), regression analysis, and correlation analysis have all been employed in the study's inferential analysis. To examine the impact of each independent variable on dividend policy, the fixed effect and random effect models were used to punishment data. The author attempts to ascertain the most important element determining dividend practices as well as the degree of importance of independent variables with dividend policy. The following analysis is the main component of inferential analysis:

I. Correlation analysis

The degree to which two or more variables are connected to or correlated with one another may be measured using correlation. The Pearson product-movement coefficient, often known as the Pearson correlation and utilized in this work, is the most popular bi-variant correlation statistic. A perfect positive association between two variables has a correlation coefficient of +1, and a perfect negative relationship has a coefficient of -1. The most important factor in determining whether the correlation coefficient deviates from zero and is statistically significant is the sample size.

When it is said that y and x are associated, it indicates that and x are being handled in a fully symmetrical manner, according to Brooks (2008). It is thus stated that there is evidence for a linear relationship between the two variables and that movements in the two are on average related to an extent given by the correlation coefficient, without

implying that changes in x cause changes in y or that changes in y cause changes in x.

The degree to which dividend practices, the previous year's dividend distribution, liquidity, leverage, risk, and profitability are connected to one another is demonstrated in this study using correlation analysis.

II. Regression analysis

Regression analysis is utilized, according to Keller (2005), to forecast one's value based on other factors. Regression analysis essentially comes in two flavors: multiple regressions and simple linear regressions. Multiple regression technique is most suited in our circumstance because the study includes more than one independent variable. All company-selected parameters (independent variables) may be tested in a single multiple regression analysis test and compared to the dividend payout ratio (dependent variable). The test's regression equation was as follows:

$DPR_{i,t}=\beta_0+ \beta_1 DPR_{i,t-1}+ \beta_2 Leverage_{i,t}+ \beta_3 Profit_{i,t}+ \beta_4 Risk_{i,t}+ \beta_5 Liquidity_{i,t}+\varepsilon$ Where,

$DPR_{i,t}$= Dividend payout ratio for firm i at time t $DPRi_{i,t-1}$ = Dividend payout ratio for firm i at time t-1

$Leverage_{i,t}$= Leverage ratio (Debt to equity ratio) for firm i at time t

$Profit_{i,t}$= Profitability ratio (Return on Assets and Earning Per Share) for firm i at time t

$Risk_{i,t}$= Beta for firm i at time t $Liquidity_{i,t}$ = Liquidity ratio for firm i at time t ε = error variable

3.6 Research framework and definition of the variables

A theoretical framework is a collection of connected concepts that provide direction for a commercial venture or research undertaking. It is the framework that a research study's theory may be held or supported by.

Theoretical framework is shown below:

The research study's conceptual structure is depicted in Figure 1, with dividend practices serving as the dependent variable and the DPR from the prior year, leverage, profitability,

risk, and liquidity serving as the independent factors. The life insurance businesses included in the NEPSE form the basis of this analysis.

Independent Variables **Dependent Variable**

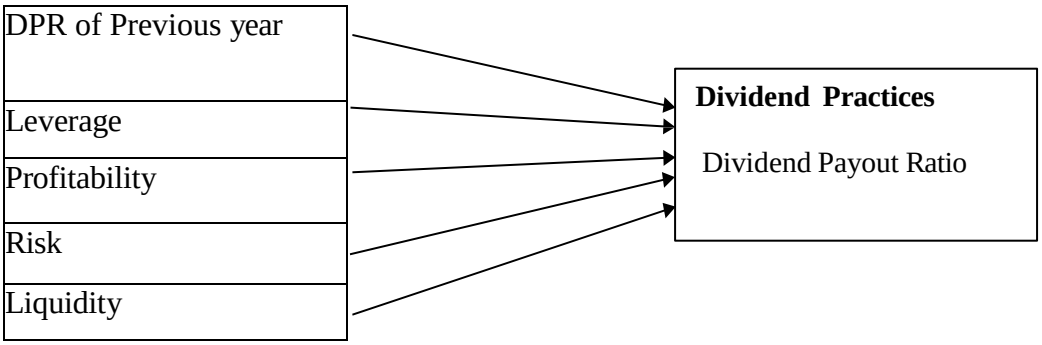

Figure 1 *Theoretical Framework of the Study*

Source: Fitri et.al (2016), Raj et.al (2021), Putra et.al (2023), Dhungana et.al (2024)

Variables

The following are the variables which are used for this study. They are:

Dependent Variable:

i. Dividend Practice

One of the most important choices made in corporate finance recently is dividend policy. A dividend is a payment made to shareholders from profits. It is anticipated that the dividend will increase shareholders' well-being (Ritha and Koestiyanto, 2013). Miller and Modigliani's (1961) research, which found that dividends are irrelevant in ideal capital markets, served as the impetus for the study on dividend practice. Nevertheless, subsequent studies that challenged the notion of a perfect market and proved the existence of flaws in the system, including information asymmetry, tax implications, and agency costs, found that dividend policy did, in fact, affect a firm's worth. In this study, the dividend payout ratio is used to assess dividend practice.

It is the percentage of profits allotted to stockholders. This study has focused on cash payments, despite the fact that there are other forms of dividend payments as well.

Dividend policy is still a contentious topic after years of theoretical and empirical investigation. Dividend policy was listed as one of the top ten most challenging unresolved issues in financial economics by Brealey & Myers (2005). This explanation agrees with Black's 1976 observation that the dividend image appears more and more like a puzzle with mismatched pieces the more closely we examine it. It is observed that whereas dividend policy in developing countries has received little to no attention, scholars have mostly concentrated on established markets. The findings from many researchers conducted up till recently about the variables influencing dividend practice do not exhibit consistency.

In this study, the dividend payout ratio is used to assess dividend practice. It is the part of net profits that the business distributes to its shareholders. Stated differently, it represents the portion of profits allocated to stockholders. It is measurable under:
Dividend Payout Ratio= (Cash Dividend/Net income)*100

Independent Variables

Dividend Payout Ratio of Previous Year: It is the percentage of net income that is given to the company's previous year's shareholders. According to Fitri et al. (2016), the dividend payout ratio from the prior year also has some impact on the dividend price this year. It is measured under:
Dividend payout ratio of previous year: Dividend Payout Ratio (t-1)

Leverage: The amount of debt compared to equity on the balance sheet of the firm is known as financial leverage. Leverage is a crucial measure of a company's financial health, but it is not frequently utilized to examine the link with the dividend payout ratio. Leverage is used in this study, though. After conducting an analysis in the United Kingdom, Al Shabibi & Ramesh (2011) discovered no meaningful correlation between the firms' dividend distributions and their leverage. This goes against the findings of Al-Kuwari's (2009) study, which showed a significant inverse relationship between leverage and the dividend payment ratio. It is quantified beneath:
Leverage = Total Debts / Total Shareholders’ Equity

Profitability: Profits serve as the foundation for the decision to pay dividends. Consequently, it makes sense to see profitability as a threshold variable, and the degree of profitability

as one of the most significant elements that might affect a company's dividend choice. Profitability is one of the primary criteria that has greatly, directly, and substantially impacted dividend policy (Al-Kuwari, 2009). ROA and EPS have been used as the profitability ratios in this study. The most significant component of a company's financial statement is its profit, which has been extensively studied in the past to ascertain how the company's dividend payment ratio relates to it (Amidu & Abor 2006; Hedensted & Raaballe 2006)

It is measurable under:
EPS=Total Income/Total no. of outstanding shares ROA= (Net Profit/Total Assets)*100
Risk: Both the dividend payment and price-to-earnings ratios are lower in riskier businesses (Friend and Puckett, 1964). Lower dividend payments are often made by riskier businesses (Ramli (2010); Ardestani et al. (2013); and Ranti (2013)). According to Amidu and Abor (2006), there is a negative correlation between risk and the dividend payout ratio. The risk of future cash flows to shareholders reduces when company pays out more as dividend from current income. Many previous studies have revealed that there exists a strong negative relationship between the level of riskiness and dividend payout ratio (Rozeff 1982) (Lloyd et.al 1985). It is measured by price earning ration:

P/E ratio= Price of Share / Earning per share

Liquidity: Divide current assets by current liabilities to get the answer. It shows the rupee amount of current assets that are available for each rupee amount of current obligations. This ratio evaluates an organization's short-term solvency. A key element influencing how cash dividends are distributed is an organization's liquidity or cash flow situation. Compared to companies experiencing a liquidity crunch, companies with greater liquidity had a higher likelihood of paying dividends (Kanwal and Kapoor (2008),

Ahmed and Javid (2009), Mehta (2012), and Saeed et al. (2014)). The dividend policy signaling theory (Ho, 2003) upholds this favorable association. Therefore, it is assumed that the company's liquidity will boost dividend payments. The quick ratio and current ratio are indicators of liquidity. The ratio of current assets to current liabilities is known as the current ratio.

Liquidity ratio= Current assets/ Current Liabilities

CHAPTER IV
RESULTS AND DISCUSSION

This chapter's goal is to do data analysis. The pertinent facts and information about insurance firms' dividend policies are provided and compared in this chapter. The dependent and independent variables' descriptive statistics are covered in the first section. Correlation and regression analysis are covered in the second section. Finally, a discussion and comparison of the results with the earlier literature are presented.

4.1 Descriptive Analysis

Descriptive statistics of the variables used in this investigation are included in the descriptive analysis. The fundamental characteristics of the data in a study are described using descriptive statistics. They offer concise synopses of the measurements and the sample. For this study, it contains the mean, standard deviation, lowest and highest values, and the total number of observations. Descriptive statistics were utilized for both descriptive analysis and further data analysis in order to ascertain the effects of liquidity, the dividend payment ratio from the previous year, leverage, risk, and profitability on dividend practices.

Descriptive Statistics of Life Insurance Companies

Five insurance businesses are included in the descriptive statistics of insurance companies. Together with the mean, standard deviation, and lowest and highest values for life insurance businesses, it also covers the whole observation. Five life insurance firms make up the study's sample, and it was conducted between 2070 and 2071 and 2079 and 2080.

Dividend payout ratio of selected life insurance companies

With a maximum dividend payout ratio of 70.50% and a low of 0%, respectively, NLIC's mean dividend payout ratio is 34.22%. The standard deviation of DPR is 23.87%. The standard deviation of DPR is 21.14%, and the mean dividend payout ratio of LICN is 19.66%, with maximum and minimum dividend payout ratio values of 70% and 0%,

respectively. With a maximum dividend payout ratio of 30.00% and a minimum dividend payout ratio of 0%, respectively, the mean dividend payout ratio of ALICL is 11.46%. The standard deviation of the DPR was 11.33%.

Higher dividend paying firms are regarded as superior businesses. When comparing the sample firms, NLIC appears to be doing better in terms of dividend payout ratio because its mean is the highest of the three, at 34.22%, whereas ALICL is doing worse.

Table 2

Descriptive Statistics of Dividend Payout Ratio

Year	**NLIC**	**LICN**	**ALICL**
2070/71	68.00%	30.00%	30.00%
2071/72	26.31%	26.32%	0.00%
2072/73	26.31%	26.10%	21.05%
2073/74	70.50%	12.63%	4.21%
2074/75	48.50%	70.00%	0.00%
2075/76	51.00%	10.53%	0.00%
2076/77	14.74%	21.05%	27.00%
2077/78	15.79%	0.00%	15.26%
2078/79	0.00%	0.00%	8.95%
2079/80	21.05%	0.00%	8.16%
N	10	10	10
Minimum	0.00%	0.00%	0.00%
Maximum	70.50%	70.00%	30.00%
Mean	34.22%	19.66%	11.46%
Std. Deviation	23.88%	21.14%	11.33%

Source: Appendix 1

Dividend payout ratio previous year of selected life insurance companies

The NLIC's dividend payout ratio for the prior year was 41.96% on average, with the highest and lowest values being 98.50% and 0.00%, respectively. The dividend payout ratio's standard deviation was 30.71%. The LICN's prior year's mean dividend payout ratio was 22.66%, with the highest and lowest values being 70.00% and 0.00%, respectively. The dividend payout ratio's standard deviation was 20.14%. The average dividend payout ratio for the prior year at ALICL was 10.65%, with the highest and lowest values being 30.00% and 0.00%, respectively. The dividend payout ratio's standard deviation was 11.88%.

Higher dividend payout ratio payers are seen as superior businesses. When comparing the sample firms, NLIC appears to have done better in terms of the dividend payout ratio from the prior year because its mean—which stands at 41.965%—is the highest of the three.

Table 3

Descriptive Statistics of Dividend Payout Ratio Previous Year

Year	**NLIC**	**LICN**	**ALICL**
2070/71	98.50%	30.00%	0.00%
2071/72	68.00%	30.00%	30.00%
2072/73	26.31%	26.32%	0.00%
2073/74	26.31%	26.10%	21.05%
2074/75	70.50%	12.63%	4.21%
2075/76	48.50%	70.00%	0.00%
2076/77	51.00%	10.53%	0.00%
2077/78	14.74%	21.05%	27.00%
2078/79	15.79%	0.00%	15.26%
2079/80	0.00%	0.00%	8.95%
N	10	10	10
Minimum	0	0	0
Maximum	98.50%	70.00%	30.00%
Mean	41.97%	22.66%	10.65%
Std. Deviation	30.71%	20.14%	11.88%

Source: Appendix 2

Debt to Asset Ratio (Leverage Ratio) of selected life insurance companies

The leverage ratio of NLIC is 89.65% on average, with maximum and minimum values of 93.56% and 82.01%, respectively, and a standard deviation of 3.78%. The leverage ratio of LICN is 94.60% on average, with maximum and minimum values of 95.33% and 93.31%, respectively, and a standard deviation of 5.91%. The leverage ratio of ALICL is 88.85% on average, with maximum and minimum values of 91.40% and 84.73%, respectively, and a standard deviation of 2.24%. Better firms are those with the lowest debt-to-asset ratio, or leverage ratio.

When comparing the sample firms, ALICL appears to be performing better in terms of the Debt to Asset Ratio (Leverage ratio) since its mean is higher than that of the other two companies—88.85%—while LICN is performing poorly because it's mean is higher than the other two companies—94.60%. When compared to the NLIC, ALICL is somewhat superior since their ratio appears to be similar.

Table 4

Descriptive Statistics Debt to Asset Ratio (Leverage Ratio)

Year	NLIC	LICN	ALICL
2070/71	91.15%	94.20%	84.73%
2071/72	91.79%	95.05%	87.48%
2072/73	89.75%	94.41%	86.87%
2073/74	82.01%	95.33%	91.34%
2074/75	84.46%	93.31%	90.59%
2075/76	88.10%	94.20%	87.15%
2076/77	90.90%	95.05%	88.50%
2077/78	91.29%	94.97%	90.07%
2078/79	93.56%	94.72%	90.37%
2079/80	93.46%	94.78%	91.40%
N	10	10	10
Minimum	82.01%	93.31%	84.73%
Maximum	93.56%	95.33%	91.40%
Mean	89.65%	94.60%	88.85%
Std. Deviation	3.78%	0.59%	2.24%

Source: Appendix 3

Earning Per Share of selected life insurance companies

The average earnings per share (EPS) for NLIC is 27.67, with highest and minimum EPS values of 56.67 and 2, respectively. The EPS standard deviation is 14.65. The average earnings per share (EPS) for LICN is 34.91, with the greatest and smallest EPS values being 100.81 and 10.11, respectively. The EPS standard deviation is 24.31. The average earnings per share (EPS) for ALICL is 12.03, with the greatest and lowest EPS values being 22.00 and -2.00, respectively. The EPS standard deviation was 6.63. Companies with higher earnings per share (EPS) are regarded as superior businesses. When comparing the sample firms, ALICL is performing poorly since its mean Earning Per Share (EPS) is the lowest among these three companies, at 12.03%, whereas LICN appears to be performing well because its mean is higher among these three companies, at 34.91%. When the ALICL ratio is compared to LICN and NLIC, it is much lower because it is greater than half of the latter two. If the ratios of LICN and NLIC are compared, there is a little variation in their EPS.

Table 5

Descriptive Statistics of Earning Per Share

Year	**NLIC**	**LICN**	**ALICL**
2070/71	56.67	29.60	14.41
2071/72	30.42	29.11	8.14
2072/73	41.83	30.06	14.77
2073/74	32.44	10.11	6.00
2074/75	25.31	100.81	-2.00
2075/76	24.00	20.76	15.00
2076/77	15.00	35.85	13.00
2077/78	24.00	35.17	17.00
2078/79	2.00	29.26	22.00
2079/80	25.00	28.40	11.94
N	10	10	10
Minimum	2.00	10.11	-2.00
Maximum	56.67	100.81	22.00
Mean	27.67	34.91	12.03
Std. Deviation	14.65	24.31	6.63

Source: Appendix 4

Return on Assets of selected life insurance companies

The average return on assets (ROA) of NLIC is 1.73, with the greatest and smallest ROE values being 3.06 and 0.10, respectively. The standard deviation of ROA is 0.83. The average return on assets (ROA) for LICN is 0.88, with the greatest and smallest ROA values being 2.86 and 0.33, respectively. The standard deviation of ROA is 0.75. The mean ROA of ALICL is 0.87 with 1.39 and -0.21 as maximum and minimum values of ROE respectively and the standard deviation of ROA is 0.45. When comparing firms, those with a greater Return on Assets are seen superior. When comparing the sample firms, NLIC appears to be performing better in terms of Return on Assets (ROA) since its mean is higher than that of the other two companies—1.73—while ALICL is performing poorly—its mean is the lowest—0.87%—among the three companies. When comparing the Return on Assets of ALICL and LICN to that of NLIC, both ratios appear to be lower. When comparing the ratios of ALICL and LICN, there is not much of a difference in return on assets.

Table 6

Descriptive Statistics of Return on Assets

Year	**NLIC**	**LICN**	**ALICL**
2070/71	3.06	0.33	1.39
2071/72	1.95	0.34	0.79
2072/73	2.46	1.05	1.08
2073/74	2	0.35	0.45
2074/75	2.31	2.86	-0.21
2075/76	1.72	0.52	1.15
2076/77	1.09	0.98	1.09
2077/78	1.54	0.89	1
2078/79	0.1	0.78	1.08
2079/80	1.11	0.66	0.88
N	10	10	10
Minimum	0.10	0.33	-0.21
Maximum	3.06	2.86	1.39
Mean	1.73	0.88	0.87
Std. Deviation	0.83	0.75	0.45

Source: Appendix 5

PE Ratio of selected life insurance companies

The NLIC PE ratio has a mean of 99.75, a maximum and lowest of 393 and 30.36, respectively, and a standard deviation of 105.69. The PE ratio of LICN is 86.60 on average, with maximum and minimum values of 213.00 and 16.09, respectively, and a standard deviation of 57.88. The PE ratio of ALICL is 107.44 on average, with maximum and minimum values of 277.98 and 25.00, respectively, and a standard deviation of 85.13. Companies with higher PE ratios are seen to be superior. When comparing the sample firms' PE ratios, ALICL appears to be performing better since its mean is higher than the other two—107.44—while LICN is performing poorly—its mean PE ratio is the lowest—86.60—among these three companies. When comparing the PE ratios of NLIC and LICN with ALICL, both ratios appear to be lower. When comparing the PE ratios of LICN and NLIC, there isn't much of a difference between them.

Table 7

Descriptive Statistics of PE Ratio

Year	**NLIC**	**LICN**	**ALICL**
2070/71	76.78	138.00	87.00
2071/72	94.87	96.00	124.00
2072/73	95.77	119.00	116.00
2073/74	66.21	213.00	231.00
2074/75	41.49	16.09	277.98
2075/76	37.00	77.08	25.00
2076/77	82.00	37.10	45.00
2077/78	80.00	66.59	80.00
2078/79	393.00	48.36	26.00
2079/80	30.36	54.76	62.39
N	10	10	10
Minimum	30.36	16.09	25
Maximum	393	213	277.98
Mean	99.75	86.60	107.43
Std. Deviation	105.69	57.88	85.13

Source: Appendix 6

Liquidity Ratio of life insurance companies

The greatest and minimum current ratio values are 1.10 and 12.56, respectively, while the standard deviation of the liquidity ratio was 3.58. The mean liquidity ratio of NLIC is 4.28. The greatest and minimum liquidity ratio values are 1.84 and 13.86, respectively, while the standard deviation of the liquidity ratio is 4.31. The mean current ratio of LICN is 5.01. The average liquidity ratio for ALICL is 5.72, with maximum and minimum values of 31.34 and 0.39, respectively, and a standard deviation of 9.28 for the liquidity ratio. When comparing companies, those with a liquidity ratio near 2 are considered superior. When comparing the sample firms, NLIC appears to be functioning well in terms of liquidity ratio since its mean is higher than the other two, at 4.28, while ALICL is performing poorly because its mean liquidity ratio is lower than the other two, at 5.72. When ALICL and LICN ratios are compared to NLIC's liquidity ratio, they both appear to be distant from 2. When comparing the liquidity ratios of LICN and ALICL, there isn't much of a difference.

Table 8

Descriptive Statistics of Liquidity Ratio

Year	**NLIC**	**LICN**	**ALICL**
2070/71	8.09	12.07	31.34
2071/72	12.56	13.86	7.43
2072/73	1.10	5.16	6.34
2073/74	1.24	2.39	2.25
2074/75	4.22	3.67	1.26
2075/76	4.97	3.19	2.66
2076/77	3.34	2.18	1.97
2077/78	3.25	3.18	2.13
2078/79	1.99	2.58	1.48
2079/80	2.01	1.84	0.39
N	10	10	10
Minimum	1.1045	1.838	0.39
Maximum	12.5646	13.86	31.34
Mean	4.277877	5.01225	5.725
Std. Deviation	3.578247	4.313583	9.27557

Source: Appendix 7

4.2 Correlation Analysis of Insurance Companies

The degree to which DPR (n-1), Debt to Assets Ratio, EPS, ROA, PE, and LR are associated with DPR from the sample for this section of the research is demonstrated by correlation analysis of life insurance businesses. Correlation statistics for life insurance firms are displayed in Table 9. According to this data, the dividend payout ratio of the prior year, the debt to asset ratio, the PE ratio, the liquidity ratio, and the EPS all had a positive association with the dividend payout ratio. Dividend Payout Ratio Previous Year: All other variables are not significant when compared to the dividend payout ratio, but EPS, ROA, and Debt to Asset ratio exhibit significant positive relationships and negative relationships, respectively, with the dividend payout ratio that is less than 0.05.

Table 9

Correlations Analysis of sample insurance companies

	DPR	
DPR	Pearson Correlation	1
	Sig. (2-tailed)	
DPR(n-1)	Pearson Correlation	.439
	Sig. (2-tailed)	.015
Debt to Asset Ratio	Pearson Correlation	-.364
	Sig. (2-tailed)	.048
EPS	Pearson Correlation	.658
	Sig. (2-tailed)	.000
ROA	Pearson Correlation	.776
	Sig. (2-tailed)	.000
PE ratio	Pearson Correlation	-.349
	Sig. (2-tailed)	.059
Liquidity Ratio	Pearson Correlation	.199
	Sig. (2-tailed)	.291

Source: Appendix 8

4.3 Regression Analysis of Insurance Companies

The R Square in the table below is 76.40%, which is close to 80%, indicating that the study is adequate and meaningful. Furthermore, only 23.60% of the dependent variable's change may be attributed to other factors that the research did not take into account.

Table 10

Model Summary

Model	R	R Square	Adjusted Square	RStd. Error of the Estimate
1	.8741	.7640	.7025	.1153

Source: Appendix 8

Table 11

Analysis of Variance (ANOVA)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.991	6	.165	12.412	.000
	Residual	.306	23	.013		
	Total	1.297	29			

Source: Appendix 8

Given that the significance threshold is less than 1%, Table 11 demonstrates that the association between the variables is very significant. As a result, the entire model is seen as important.

Regression Equation: Dividend Payout Ratio = β0+ β1 DPR(n-1) + β2 Debt to Asset Ratio+ β3 EPS+ β4ROA+ β5 PE Ratio + β6 Liquidity Ratio

β0= 2.746

β1= 0.226

β2= -3.109

β3= 0.009

β4= -0.013

β5= 0.000

β6= 0.002

According to the aforementioned regression equation, if the DPR(n-1) increases, the dividend payout ratio will also rise by 0.226 while the other variables stay the same, and vice versa. The dividend payout ratio will fall by 3.109 if other factors stay the same if the debt to asset ratio increases, and vice versa. The dividend payment ratio will rise by 0.009 in the event of an increase in EPS while other factors stay the same, and vice versa. The dividend payout ratio will drop by 0.013 if other variables stay the same if ROA increases, and vice versa. The dividend payout ratio will only slightly alter if the PE ratio increases while other factors stay the same, and vice versa. Additionally, the dividend payout ratio will rise by 0.002 if other factors stay the same if the liquidity ratio increases, and vice versa. Additionally, as their significant level is smaller than 0.05, the regression table above indicates that the DPR (n-1) and the Debt to Assets ratio and EPS have a significant link with the DPR.

Table 12

Regression coefficient of independent variables with dividend payout ratio

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	2.746	.955		2.877	.009
	DPR(n-1)	.226	.105	.269	2.154	.042
	Debt to Asset Ratio	-3.109	1.036	-.526	-3.001	.006
	EPS	.009	.003	.791	3.507	.002
	ROA	-.013	.071	-.049	-.187	.854
	PE ratio	.000	.000	.116	.929	.363
	Liquidity Ratio	.002	.004	.064	.608	.549

Source: Appendix 8

Test of Hypothesis as per Regression Analysis

The Debt to Assets ratio and EPS have a substantial influence on the Dividend Payout Ratio, according to regression analysis DPR (n-1), since their significance level is smaller than 0.05. However, as the significance threshold of ROA, PE ratio, and liquidity ratio is more than 0.05, their effects on the dividend payout ratio are negligible.

Table 13

Summary of the hypothesis testing

	Attributes	Remarks
1	There is significant impact of Dividend payout of previous year on Dividend payout ratio	Accepted
2	There is significant impact of Debts to Assets ratio on Dividend payout ratio	Accepted
3	There is significant impact of EPS on Dividend payout ratio	Accepted
4	There is significant impact of ROA on Dividend payout ratio	Rejected
5	There is significant impact of PE ratio on Dividend payout ratio	Rejected
6	There is significant impact of Liquidity ratio on Dividend payout ratio	Rejected

The lack of significance in the link between ROA, PE ratio, and liquidity ratio and dividend payout ratio in this research of insurance businesses in Nepal might have been caused by a variety of factors. Since life insurance is required by law to meet capital requirements as set out by the Nepal Insurance Authority, life insurance companies in Nepal are strengthening their reserves and capital over dividends. Furthermore, life insurance businesses frequently put long-term financial security and client confidence ahead of immediate financial gain. Because of this, they can give up on modifying payouts in accordance with short-term profitability in favor of keeping or growing reserve and capital. Therefore, the link between ROA and Dividend Payout Ratio is negligible.

The PE ratio is also appealing, but life insurance firms should prioritize long-term financial stability and regulatory compliance above short-term profitability when modifying dividends. This is because life insurance businesses need to improve their

capital and reserves. Finally, because life insurance contracts are meant to last a lifetime, life insurance firms frequently enjoy steady cash flows. In comparison to other factors, liquidity may not have as much of an impact on dividend decisions as other factors do. Furthermore, life insurance businesses must maintain a sizeable amount of their assets in reserve in order to comply with legal requirements for insurance reserves. The influence of liquidity on dividend decisions may be limited by these regulatory restrictions. However, more investigation is required to fully understand why there is no meaningful correlation between ROA, PE ratio, liquidity ratio, and dividend payout ratio.

4.4 Major findings

The data analysis and interpretation have led to the following conclusions:

i. NLIC has the greatest mean dividend payout ratio (34.22%), while ALICL has the lowest (11.46%). Since NLIC had the highest mean dividend payout ratio among the life insurance firms taken into consideration for the analysis, it did the best when compared to the other businesses.

ii. NLIC had the largest mean dividend payout from the previous year (41.96%), while ALICL had the lowest (10.65%). Since NLIC had the highest mean Dividend Payout of Previous Year among the life insurance evaluated for the study, it did the best when compared to the other companies.

iii. With 88.85%, ALICL has the lowest mean leverage ratio and 94.60%, LICN has the highest. Since ALICL had the lowest mean leverage ratio among the life insurance companies evaluated for the study, it did well when compared to the other life insurance companies.

iv. ALICL has the lowest mean earning per share (12.03), while LICN has the greatest mean income per share (34.91). Because LICN has the highest mean Earning per Share among the life insurance examined for the study, it fared best when we compared earning per share.

v. NLIC has the greatest mean Return on Assets at 1.73%, while ALICL has the lowest at 0.87%. Because NLIC had the greatest mean Return on Assets among the life insurance evaluated for the study, it fared rather well when compared to other options.

vi. With 86.60, LICN has the lowest mean PE Ratio and ALICL has the highest, at 107.44. Since LICN has the lowest mean PE Ratio among the life insurance evaluated for the study, it fared the best when compared to the other options.

vii. When compared to the other two life insurance firms, NLIC's mean liquidity ratio is 4.28, which is close to 2. Since NLIC is closest to 2, NLIC did the best when comparing the liquidity ratios of the life insurance firms that were taken into consideration for the study.

viii. According to the correlation data, the dividend payout ratio of the prior year, EPS, ROA, liquidity ratio, and debt to asset ratio all had positive relationships with the dividend payout ratio, while the dividend payout ratio of the current year had a negative link with the dividend payout ratio.

ix. The correlation data showed that dividend payout ratio of the previous year, EPS, ROA, exhibit significant positive relationships and Debt to Asset ratio exhibit significant negative relationships with the dividend payout ratio, and all other variables have negligible relationships with the dividend payout ratio.

x. The study's R Square is 76.40%, which is close to 80%, indicating that it is adequate and relevant. Furthermore, only 23.60% of the dependent variable's change may be attributed to other factors that the research did not take into account.

xi. Anova table shows the relationship between the variable is highly significant as the significance level is lesser than 1%. As a result, the entire model is seen as important.

xii. According to the regression equation, the dividend payout ratio will rise by 0.226 for every increase in the DPR(n-1) while the other variables stay the same, and vice versa. The dividend payout ratio will drop by 3.109 if other factors stay the same if the debt to asset ratio rises, and vice versa. The dividend payment ratio will rise by 0.009 in the event of an increase in EPS while other factors stay the same, and vice versa. The dividend payout ratio will drop by 0.013 if other variables stay the same if ROA increases, and vice versa. The dividend payout ratio will only slightly alter if the PE ratio increases while other factors stay the same, and vice versa. Additionally, the dividend payout ratio will rise by 0.002 if other factors stay the same if the liquidity ratio increases, and vice versa.

xiii. Regression analysis hypothesis testing revealed that DPR (n-1), EPS, and the debt to assets ratio all significantly affect the dividend payout ratio since their significance levels are smaller than 0.05. However, as the significance threshold of ROA, PE ratio, and liquidity ratio is more than 0.05, their effects on the dividend payout ratio are negligible.

4.4 Discussion

This study set out to examine the link between the dividend practice and certain parameters chosen by life insurance firms. This study looked at the effects of organizations' risk, liquidity, profitability, leverage, and dividend payment ratios from the prior year. The most important factor impacting dividend practices in Nepalese life insurance companies was found to be this research.

Three life insurance firms were used as a sample in this investigation. Three insurance companies that were founded during Nepal's medieval insurance development era have been chosen for this study. Using the purposive sampling approach, a sample of firms, including Asian Life Insurance Company, Life Insurance Corporation Nepal, and Nepal Life Insurance Company Limited, were chosen for the study. To obtain data, secondary data is employed. Three insurance businesses' ten-year financial statements spanning from 2070/71 to 2079/80 are taken into consideration for gathering data. The influence of the previous year's dividend payout ratio, leverage ratio, profitability ratio, risk, and liquidity ratio on the dividend policy of life insurance firms has also been investigated in this study. To ascertain the link between dividend practice and all other factors (prior year's dividend payout ratio, leverage, profitability, risk, and liquidity), hypotheses are generated. For the data analysis, several statistical and financial instruments are employed. In descriptive analysis, descriptive statistics are used. Ultimately, inferential analysis is carried out using regression and correlation, which aid in determining the degree of relevance of dividend practices in connection to leverage, profitability, risk, liquidity, and the dividend payout ratio from the prior year.

Out of the three firms, NLIC has outperformed in four of the six parameters that were taken into consideration. Among these three life insurance businesses, it has performed better in terms of dividend payout ratio, dividend payout ratio from the prior year, return on assets, and liquidity ratio. The correlation data also reveal that Dividend Payout ratio Previous Year, EPS and ROA shows significant positive relationship with Dividend Payout Ratio and Debt to Asset ratio shows significant negative relationship with Dividend Payout Ratio while all other variables are insignificant with Dividend Payout Ratio.

R Square is 76.40%, which is close to 80%, indicating that the study is adequate and pertinent. Because the significance threshold is smaller than 1%, the Anova Table demonstrates that the link between the variables is very significant. For this reason, the entire model is seen as important. Regression analysis-based hypothesis testing revealed that DPR (n-1),

Because their significance threshold is smaller than 0.05, the debt to assets ratio and EPS have a substantial effect on the dividend payment ratio. However, as the significance threshold of ROA, PE ratio, and liquidity ratio is more than 0.05, their effects on the dividend payout ratio are negligible.

Therefore, it was discovered that the Dividend Payout ratio from the prior year, the Leverage ratio (Debt to Assets ratio), and one of the profitability indicators (EPS) had a major influence on the dividend practice. The research of insurance businesses in Nepal suggests that the lack of substantial correlation between ROA, PE ratio, and liquidity ratio and dividend payout ratio might be attributed to legal requirements for capital and other reserves, as well as an emphasis on long-term stability. However, further investigation is required to reach the same result. As a result, while making plans for the dividend practice, things like the Dividend Payout ratio from the prior year, the Leverage ratio (Debt to Assets ratio), and one of the profitability determinants (EPS) must be taken into account.

The study's findings are consistent with some earlier research conducted in other sectors and nations. The results of this analysis indicate that there is a substantial correlation between the previous year's dividend payout, the leverage ratio, and one profitability ratio variable—EPS—while the other factors are not significant. The results of this study are rather comparable to those of Putra et al. (2023), whose findings likewise show that profitability and leverage are important determinants influencing dividend practice. The sole difference was leverage, since leverage is important to dividend payment ratio whereas in the study of Ahmed and Javid (2009) it was not. Ahmed and Javid (2009) shown that EPS and Dividend per share past influences the dividend payout ratio. These two factors have been significant in this analysis as well. In a similar vein, Fitri et al. (2016) and Twaijry (2007) had demonstrated that the dividend payout ratio from the prior year had a substantial influence on dividend practice; this study also revealed a similar outcome. Furthermore, this study differs from Fitri et al. (2016) in that it finds that dividend practice is significantly impacted by other variables, such as leverage and profitability, whereas Fitri et al. (2016) found that only one factor—the dividend payout ratio from the prior year—was associated with dividend practice.

The majority of studies, including those by Kania and Bacon (2005) and Badu (2013), have shown liquidity as one of the key factors influencing dividend practices. However, the results of this study are different, which may be due to regulatory requirements for reserve maintenance and life insurance cash flow in situations where short-term obligations are lower. However, more research is needed in this area. When contrasting with dividend ideas, Comparing Signaling Theory to other theories, it is sufficiently similar. In order to persuade outside investors about future cash flows and profit, the corporation had to discover additional strategies because the investors' knowledge of the firm's profit potential was incomplete. As a result, encouraging signals like a rising dividend give prospective investors hope. The study's findings also indicate that the dividend payout ratio from the prior year is crucial. As a consequence, investors may depend on the dividend from the prior year to predict the success of the firm in the future, particularly when it comes to future dividend decisions.

CHAPTER V
SUMMARY AND CONCLUSION

This chapter focuses on providing an overview of the study, along with conclusions and suggestions based on the data. This chapter covers the main points of the study. A summary and conclusion have been created at the outset using the data. The gaps that were discovered as well as the contributing variables are also provided.

5.1 Summary

This study's primary goal is to look at the link between life insurance companies' dividend practices and some characteristics that are chosen especially to look at the influence of the businesses' dividend practice determinants. Five variables are chosen for the study based on the review of the literature. The study's dependent variable is dividend practice, whereas the independent factors include the dividend payout ratio from the prior year, leverage ratio, profitability ratio (such as EPS and ROA), risk, and liquidity. Three of the fourteen life insurance firms are used as the study's sample. With the use of prior research, conceptual reviews and empirical reviews with conceptual frameworks are produced with predefined linkages.

Data collecting involves the use of secondary sources. Three life insurance businesses' ten-year financial statements spanning from 2070/71 to 2079/80 are taken into consideration for gathering data. This study looked at how life insurance firms' dividend practices were affected by their previous year's dividend payout ratio, leverage ratio, profitability ratio, risk, and liquidity ratio. For the data analysis, several statistical and financial instruments are employed. In descriptive analysis, descriptive statistics are used. Ultimately, correlation and regression are used in inferential research to ascertain the degree of relevance of dividend practices in connection to leverage, profitability, risk, liquidity, and the dividend payout ratio from the prior year. Out of the three firms, NLIC has outperformed in four of the six parameters that were taken into consideration. Among these three life insurance businesses, it has done better in terms of dividend payout ratio, dividend payout ratio from the prior year, return on assets, and liquidity ratio. The

correlation data also show that, while all other variables are not significant when it comes to dividend payout ratio, previous year's dividend payout ratio, EPS, ROA, and debt to asset ratio all show significant positive relationships with dividend payout ratio. R Square is 76.40%, which is close to 80%, indicating that the study is adequate and pertinent. Furthermore, only 23.60% of the dependent variable's change may be attributed to other factors that the research did not take into account. Because the significance threshold is smaller than 1%, the Anova Table demonstrates that the link between the variables is very significant. As a result, the entire model is seen as important. According to the regression equation, if the DPR(n-1) increases, the dividend payout ratio will also rise by 0.226 while the other variables stay the same, and vice versa. The dividend payout ratio will fall by 3.109 if other factors stay the same if the debt to asset ratio increases, and vice versa. The dividend payment ratio will rise by 0.009 in the event of an increase in EPS while other factors stay the same, and vice versa. The dividend payout ratio will drop by 0.013 if other variables stay the same if ROA increases, and vice versa. The dividend payout ratio will only slightly alter if the PE ratio increases while other factors stay the same, and vice versa. Additionally, the dividend payout ratio will rise by 0.002 if other factors stay the same if the liquidity ratio increases, and vice versa. Regression analysis-based hypothesis testing revealed that the dividend payout ratio is significantly impacted by the DPR (n-1), EPS, and debt to assets ratio since their significance levels are smaller than 0.05. However, as the significance threshold of ROA, PE ratio, and liquidity ratio is more than 0.05, their effects on the dividend payout ratio are negligible. These three variables were insignificant due to fulfillment of regulatory requirement for capital and reserve and sustainable long term growth due to which dividend decisions haven’t been affected by those variables but further research have to be done to come to a proper conclusion.

Hence, Dividend Payout ratio of previous year, Leverage ratio (Debt to Assets ratio) and one of the variables of Profitability (i.e. EPS) are found to have significant impact on Dividend practice. Therefore, these factors have to be considered while planning for the dividend practice.

5.2 Conclusion

This study provides information on the correlation between the parameters chosen by life insurance firms and their dividend policies. The most important factors impacting dividend practice were the previous year's dividend payment ratio, the leverage ratio (also known as the debt to asset ratio), and one of the profitability variables (EPS), since they were shown to be significant in both correlation and regression analysis when studying life insurance businesses. Therefore, while making decisions about dividend practice, Nepalese enterprises must take into account the dividend distribution from the prior year as well as the debt to assets ratio and earnings per share (EPS). Information on the elements life insurance companies should take into account when forecasting future payouts is sent to them. Given that dividend practices have been compared to a puzzle, it was imperative to investigate the factors that influence a company's payout policy. As a result, investors attempting to forecast future dividends would learn some helpful information about which company's chosen criteria to consider. Managers may also use this study when making dividend practice since this might give useful information regarding which factors they need to consider when determining the dividend practice. This study has also contributed with theoretical knowledge since only few studies had previously been conducted in Nepal especially beside commercial banks. This study has therefore filled the research gap that previously existed and other academics may use the study as a benchmark case.

5.3 Implications

The following implications are suggested based on the research findings of this study to act as a framework for comparable future research projects:

i. The observation and sample sizes were rather modest. In order to decrease error and improve the acceptability of the results, more researchers should observe and sample from larger populations.

ii. Although there are several additional variables that might have an impact on dividend practice, this study has only chosen six independent variables. Therefore, in order to make the study more palatable, future researchers may include more factors.

iii. A high sample size may yield different results from an individual investigation of an inconsequential variable. So, more study has to take this into account.

iv. The most significant determinants of dividend practice that may assist managers, investors, and other stakeholders in businesses in making decisions are the dividend payment ratio from the prior year, the leverage ratio (the ratio of debt to assets), and the profitability ratio (EPS).

v. To examine the creative approaches that relevant stakeholders must implement, a comprehensive survey of insurance firms, including life, non-life, and reinsurance businesses, can be carried out individually.

vi. In addition to the elements taken into account in this study, more aspects may be taken into consideration for future research.

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APPENDIX

APPENDIX 1

Dividend Payout Ratio

Year	NLIC	LICN	ALICL
2070/71	68.00%	30.00%	30.00%
2071/72	26.31%	26.32%	0.00%
2072/73	26.31%	26.10%	21.05%
2073/74	70.50%	12.63%	4.21%
2074/75	48.50%	70.00%	0.00%
2075/76	51.00%	10.53%	0.00%
2076/77	14.74%	21.05%	27.00%
2077/78	15.79%	0.00%	15.26%
2078/79	0.00%	0.00%	8.95%
2079/80	21.05%	0.00%	8.16%

Source: Annual report of Life Insurance Companies

APPENDIX 2

Dividend Payout Ratio of Previous Year

Year	**NLIC**	**LICN**	**ALICL**
2070/71	98.50%	30.00%	0.00%
2071/72	68.00%	30.00%	30.00%
2072/73	26.31%	26.32%	0.00%
2073/74	26.31%	26.10%	21.05%
2074/75	70.50%	12.63%	4.21%
2075/76	48.50%	70.00%	0.00%
2076/77	51.00%	10.53%	0.00%
2077/78	14.74%	21.05%	27.00%
2078/79	15.79%	0.00%	15.26%
2079/80	0.00%	0.00%	8.95%

Source: Annual report of Life Insurance Companies

APPENDIX 3

Leverage

Year	NLIC	LICN	ALICL
2070/71	91.15%	94.20%	84.73%
2071/72	91.79%	95.05%	87.48%
2072/73	89.75%	94.41%	86.87%
2073/74	82.01%	95.33%	91.34%
2074/75	84.46%	93.31%	90.59%
2075/76	88.10%	94.20%	87.15%
2076/77	90.90%	95.05%	88.50%
2077/78	91.29%	94.97%	90.07%
2078/79	93.56%	94.72%	90.37%
2079/80	93.46%	94.78%	91.40%

Source: Annual report of Life Insurance Companies

APPENDIX 4

EPS

Year	NLIC	LICN	ALICL
2070/71	56.67	29.60	14.41
2071/72	30.42	29.11	8.14
2072/73	41.83	30.06	14.77
2073/74	32.44	10.11	6.00
2074/75	25.31	100.81	-2.00
2075/76	24.00	20.76	15.00
2076/77	15.00	35.85	13.00
2077/78	24.00	35.17	17.00
2078/79	2.00	29.26	22.00
2079/80	25.00	28.40	11.94

Source: Annual report of Life Insurance Companies

APPENDIX 5

ROA

Year	NLIC	LICN	ALICL
2070/71	3.06	0.33	1.39
2071/72	1.95	0.34	0.79
2072/73	2.46	1.05	1.08
2073/74	2	0.35	0.45
2074/75	2.31	2.86	-0.21
2075/76	1.72	0.52	1.15
2076/77	1.09	0.98	1.09
2077/78	1.54	0.89	1
2078/79	0.1	0.78	1.08
2079/80	1.11	0.66	0.88

Source: Annual report of Life Insurance Companie

APPENDIX 6

PE Ratio

Year	NLIC	LICN	ALICL
2070/71	76.78	138.00	87.00
2071/72	94.87	96.00	124.00
2072/73	95.77	119.00	116.00
2073/74	66.21	213.00	231.00
2074/75	41.49	16.09	277.98
2075/76	37.00	77.08	25.00
2076/77	82.00	37.10	45.00
2077/78	80.00	66.59	80.00
2078/79	393.00	48.36	26.00
2079/80	30.36	54.76	62.39

Source: Annual report of Life Insurance Companies

APPENDIX 7

Liquidity Ratio

Year	NLIC	LICN	ALICL
2070/71	8.09	12.07	31.34
2071/72	12.56	13.86	7.43
2072/73	1.10	5.16	6.34
2073/74	1.24	2.39	2.25
2074/75	4.22	3.67	1.26
2075/76	4.97	3.19	2.66
2076/77	3.34	2.18	1.97
2077/78	3.25	3.18	2.13
2078/79	1.99	2.58	1.48
2079/80	2.01	1.84	0.39

Source: Annual report of Life Insurance Companies

APPENDIX 8

Ratios of All Insurance Companies for Regression and Correlation Analysis

DPR	DPR(n-1)	Debt to Asset Ratio	EPS	ROA	PE ratio	Liquidity Ratio
0.68	0.99	0.91	56.67	3.06	76.78	8.09
0.26	0.68	0.92	30.42	1.95	94.87	12.56
0.26	0.26	0.90	41.83	2.46	95.77	1.10
0.71	0.26	0.82	32.44	2.00	66.21	1.24
0.49	0.71	0.84	25.31	2.31	41.49	4.22
0.51	0.49	0.88	24.00	1.72	37.00	4.97
0.15	0.51	0.91	15.00	1.09	82.00	3.34
0.16	0.15	0.91	24.00	1.54	80.00	3.25
0.00	0.16	0.94	2.00	0.10	393.00	1.99
0.21	0.00	0.93	25.00	1.11	30.36	2.01
0.30	0.30	0.94	29.60	0.33	138.00	12.07

0.26	0.30	0.95	29.11	0.34	96.00	13.86
0.26	0.26	0.94	30.06	1.05	119.00	5.16
0.13	0.26	0.95	10.11	0.35	213.00	2.39
0.70	0.13	0.93	100.81	2.86	16.09	3.67
0.11	0.70	0.94	20.76	0.52	77.08	3.19
0.21	0.11	0.95	35.85	0.98	37.10	2.18
0.00	0.21	0.95	35.17	0.89	66.59	3.18
0.00	0.00	0.95	29.26	0.78	48.36	2.58
0.00	0.00	0.95	28.40	0.66	54.76	1.84
0.30	0.00	0.85	14.41	1.39	87.00	31.34
0.00	0.30	0.87	8.14	0.79	124.00	7.43
0.21	0.00	0.87	14.77	1.08	116.00	6.34
0.04	0.21	0.91	6.00	0.45	231.00	2.25
0.00	0.04	0.91	-2.00	-0.21	277.98	1.26
0.00	0.00	0.87	15.00	1.15	25.00	2.66
0.27	0.00	0.88	13.00	1.09	45.00	1.97
0.15	0.27	0.90	17.00	1.00	80.00	2.13
0.09	0.15	0.90	22.00	1.08	26.00	1.48
0.08	0.09	0.91	11.94	0.88	62.39	0.39

Source: Annual report of Life Insurance Companies

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