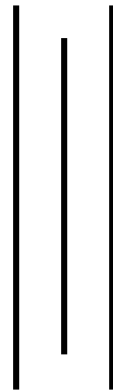


**RISK, RETURN & PORTFOLIO ANALYSIS OF COMMON
STOCK OF INSURANCE COMPANIES**

By
DEEPA LAXMI PRADHAN
Shankar Dev Campus
T.U. Regd. No. 7-1-11-418-2000
Campus Roll No # 126/2062

A Thesis Submitted to:
Office of the Dean
Faculty of Management
Tribhuvan University



*In partial fulfillment of the requirement for the degree of
Masters of Business Studies (M.B.S.)*

Kathmandu, Nepal
June, 2009

RECOMMENDATION

This is to certify that the thesis

Submitted by:

DEEPA LAXMI PRADHAN

Entitled:

RISK, RETURN & PORTFOLIO ANALYSIS OF COMMON STOCK OF INSURANCE COMPANIES

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

.....

(Campus Chief)

Meera Gautam

(Thesis Supervisor)

.....

Rita Maskey

(Thesis Supervisor)

.....

Prof. Dr.Kamal Deep Dhakal

VIVA-VOCE SHEET

We have conducted the viva-voce of the thesis presented

by

DEEPA LAXMI PRADHAN

Entitled:

RISK, RETURN & PORTFOLIO ANALYSIS OF COMMON STOCK OF INSURANCE COMPANIES

*And found the thesis to be the original work of the student and written
according to the prescribed format. We recommend the thesis to
be accepted as partial fulfillment of the requirement for*

Master Degree of Business Studies (M.B.S.)

Viva-Voce Committee

Head, Research Department
Member (Thesis Supervisor)
Member (Thesis Supervisor)
Member (External expert)

TRIBHUVAN UNIVERSITY

Faculty of Management

Shanker Dev Campus

DECLARATION

I hereby declare that the work reported in this thesis titled "**RISK, RETURN & PORTFOLIO ANALYSIS OF COMMON STOCK OF INSURANCE COMPANIES**" submitted to Shankar Dev Campus, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Masters Degree in Business Studies (M.B.S.) under the supervision of Meera Gautam and Reeta Maskey.

.....

DEEPA LAXMI PRADHAN

Researcher

T.U. Registration No. : 7-1-11-418-2000

Campus Roll No. : 126/062

ACKNOWLEDGEMENT

This research work has been completed by my sole efforts. Many have made contributions in different ways to bring out it in this shape. I am thankful to Tribhuvan University, Faculty of Management for providing me such an opportunity to experience the practical knowledge of my subject. While preparing this thesis, I was encountered with different realities and facts of real world.

First of all, I consider it my privilege and fortune to get an opportunity to work under the supervision of Ms. Meera Gautam and Ms. Reeta Maskey. I gratefully acknowledge and would like to express my heartfelt thanks for their support by providing their valuable time, advice and cooperation to me. I'm also extremely grateful for the support and cooperation provided by family, friends and colleagues of my organization to bring out thesis in this form.

I'm also grateful and would like to express my heartfelt thanks to Mr. Suraj Pradhan my brother and Mr. Umang Shrestha for helping me in computerization of this thesis.

I'm also thankful to the personnel of SEBO/N for providing me with necessary reports, booklets and other information. Similarly I would like to thank librarians of Shankar Dev Campus for providing various books, theses and other publications.

Deepa Laxmi Pradhan

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

LIST OF ABBREVIATIONS

	Page
Chapter I	
INTRODUCTION	1-16
1.1 General Background	1
1.1.1 Investment	1
1.1.2 Components of Investment	3
1.1.3 Investment Process	5
1.1.4 Portfolio	7
1.1.5 Insurance companies in Nepal	7
1.1.6 Functions of Insurance Companies	9
1.1.7 Focus of the Study	10
1.2 Statement of Problem	10
1.3 Objectives of the Study	12
1.4 Significance of the Study	13
1.5 Hypothesis of the Study	14
1.6 Limitation of the Study	15
1.7 Organization of the Study	15
Chapter II	
REVIEW OF LITERATURE	17-54
2.1 Introduction	17
2.2 Conceptual Framework	17
2.2.1 Common Stock	17

2.2.2	Security Market	21
2.2.3	Market Price of the Share	22
2.2.4	Profit Maximization or Wealth Maximization	23
2.2.5	Stock Valuation	24
2.2.6	The Expected Rate of Return on Common Stock	25
2.2.7	Risk on Common Stock	27
2.2.8	Capital Assets Pricing Model (CAPM)	36
2.2.9	Capital Market Line (CML)	41
2.3	Portfolio Analysis among Multiple Assets	43
2.3.1	Efficient Frontier of Markowitz Model	44
2.3.2	Capital Market Line (CML) and the Market Portfolio	44
2.4	Review of Previous Studies	46
2.4.1	Foreign Context	47
2.4.2	Nepalese Context	49
2.4.3	Review of Masters Theses	52
2.5	Research Gap	54

Chapter III

RESEARCH METHODOLOGY	55-63	
3.1	Research Design	55
3.2	Population and Sample	55
3.3	Data Collection Techniques	56
3.4	Data Analysis Tools	56

Chapter IV

DATA PRESENTATION, ANALYSIS AND INTERPRETATION	63-102
4.1 Data Analysis of Individual Companies	63
4.1.1 Nepal Insurance Company Limited	63
4.1.2 Himalayan General Insurance Co. Ltd.	67
4.1.3 United Insurance Co. (Nepal) Ltd.	71
4.1.4 Premier Insurance Co. (Nepal) Ltd.	75
4.1.5 Everest Insurance Company Ltd.	79
4.1.6 Market Risk and Return	83
4.2 Inter Company Comparison	87
4.2.1 Market Capitalization of Individual Company	89
4.3 Inter Industry Comparison	92
4.4 Pricing Model	97
4.4.1 Analysis of Risk Diversification	98
4.4.2 Correlation	100
4.5 Major Findings of the Study	101

Chapter V

SUMMARY, CONCLUSION AND RECOMMENDATIONS	103-106
5.1 Summary	103
5.2 Conclusion	104
5.3 Recommendations	105

BIBLIOGRAPHY

ANNEXES

LIST OF TABLES

Table No.		Page
2.1	Stock Valuation Model	24
4.1	MPS and Dividend of Nepal Insurance Company Limited	64
4.2	Realized return, Standard Deviation and Expected Return of Nepal Insurance Company Limited	66
4.3	MPS and Dividend of Himalayan General Insurance Co. Ltd.	68
4.4	Realized return, Standard Deviation and Expected Return of Himalayan General Insurance Co. Ltd.	70
4.5	MPS and Dividend of United Insurance Co. (Nepal) Ltd.	72
4.6	Realized return, Standard Deviation and Expected Return of United Insurance Co. (Nepal) Ltd.	74
4.7	MPS and Dividend of Premier Insurance Co. (Nepal) Ltd.	76
4.8	Realized return, Standard Deviation and Expected Return of Premier Insurance Co. (Nepal) Ltd.	78
4.9	MPS and Dividend of Everest Insurance Company	80
4.10	Realized return, Standard Deviation and Expected Return of Everest Insurance Company	82
4.11	Calculation of Returns, S.D., Expected Returns and C.V. of Market	84
4.12	Beta Coefficient for Insurance Company	87
4.13	Expected return, S.D. and C.V. of each Company	88
4.14	Systematic and Unsystematic risk of individual company	89
4.15	Market capitalization at mid July 2008	90
4.16	Year-wise comparative movement of market capitalization (in Million)	91
4.17	Market capitalization of each Industry at Mid July 2008	92
4.18	Industry wise NEPSE index at closing date of F/Y	93
4.19	Expected Return, SD and CV of Industries	95
4.20	Equilibrium return, Expected return and price evaluation s	95
4.21	Portfolio risk and return	97
4.22	Correlation between each company	99

LIST OF FIGURES

Figure No.	Page
2.1 Relation between S.D. of portfolio and Number of securities in portfolio	32
2.2 The Capital Assets Pricing Model	40
2.3 The capital Market Line (CML) and other investment opportunities	42
2.4 Efficient Portfolio	45
4.1 Year-end Price Movement of common stock of Nepal Insurance Company Limited	66
4.2 Annual rate of return of Common Stock of Nepal Insurance Company Ltd.	68
4.3 Year-end Price Movement of common stock of Himalayan General Insurance Co. Ltd.	69
4.4 Annual rate of return of Common Stock of Himalayan General Insurance Co. Ltd.	71
4.5 Year-end Price Movement of common stock of United Insurance Co. (Nepal) Ltd.	73
4.6 Annual rate of return of Common Stock of United Insurance Co. (Nepal) Ltd.	75
4.7 Year-end Price Movement of common stock of Premier Insurance Co. (Nepal) Ltd.	77
4.8 Annual rate of return of Common Stock of Premier Insurance Co. (Nepal) Ltd.	79
4.9 Year-end Price Movement of common stock of Everest Insurance Company	81
4.10 Annual rate of return of Common Stock of Everest Insurance Company	83
4.11 Market Index Movements	85
4.12 Market Return Movements	85
4.13 Expected Return, S.D. and C.V. of each company	88
4.14 Market Capitalizations at mid July 2008	90
4.15 Year-wise comparative movement of Market Capitalization	91
4.16 Market Capitalization of each industry at July 15, 2003	93
4.17 Industry wise movement of market capitalization	94
4.18 Industry wise Expected Return, S.D. and C.V.	96

LIST OF ABBREVIATIONS

CAPM	- Capital Assets Pricing Model
CML	- Capital Market Line
Cov	- Covariance
CV	- Coefficient of Variation
DPS	- Dividend per Share
EICL	- Everest Insurance Company Limited
F/Y	- Fiscal Year
HBL	- Himalayan Bank Limited
HGICL	- Himalayan General Insurance Company Limited
HPR	- Holding Period Return
MPS	- Market Price per Share
NABIL	- Nepal Arab Bank Limited
NEPSE	- Nepal Stock Exchange
NICL	- Nepal Insurance Company Limited
OTC	- Over the Counter (market)
PICNL	- Premier Insurance Company Limited
SD	- Standard Deviation
SCBNL	- Standard Chartered Bank Nepal Limited
SEBO/N	- Security Board of Nepal
SML	- Security Market Line
UICNL	- United Insurance Company Nepal Limited