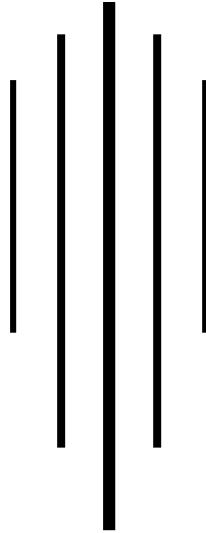


**Market Price Behaviour of Shares
of
Insurance Companies in Nepalese Securities Market**



A Thesis

Submitted By:

Govind Bahadur Khatri

Central Department of Management Kirtipur

T.U. Regd. No.: 7-2-303-15-2004

Campus Roll No.: 435/064

Submitted To:

Office of the Dean

Faculty of Management

Tribhuvan University

In partial fulfillment of the requirements for the degree of

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

Kathmandu: Nepal

November: 2011

RECOMMENDATION

This is to certify that the thesis

Submitted by:

GOVINDA BAHADUR KHATRI

Entitled:

**Market Price Behaviour Of Shares
Of**

Insurance Companies In Nepalese Securities Market

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

Dr Ramji Gautam
Thesis Supervisor

Prof .Dr. Balkrishna Shrestha
Chairman of Research Committee

Prof .Dr. Dev Raj Adhikari
Head of the Department

VIVA-VOCE SHEET

We have conducted the viva-voce examination of the thesis presented by

GOVINDA BAHADUR KHATRI

Entitled:

**Market Price Behaviour Of Shares
Of
Insurance Companies In Nepalese Securities Market**

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

Viva-Voce Committee

Chairman of Research Committee

Head of the Department

Member (Thesis Supervisor)

Member (External Expert)

ACKNOWLEDGEMENT

I express my profound gratitude to my respected supervisor, Dr. Ramji Gautam for his valuable guidance and perpetual inspection with perceptive comments, encouragement, generous treatment and kind support during the preparation of this dissertation despite of her very busy schedules.

I also extend my heartfelt thanks to Prof. Dr. Balkrishan Shrestha, Head of Research Department for his valuable suggestions in selecting the appropriate area of the study at the beginning.

My vote of thanks also goes to all the officials of various corporate bodies; NEPSE, SEBON, Beema Samiti and Insurance Companies who generously provided me required information and materials. Especially, I also owe indebtedness to Mr. P.K. Sharma, an official of SEBON for his altruistic help in accumulating the requisite data in all possible ways. Moreover, I sincerely thank to librarian of central library, Tribhuvan University and Public Youth Campus for making available various books and other materials as my requirement.

I am also especially thankful to my mother for her inspiration and my companions Mr. Sudarshan Shrestha and Mr. Deepak Gyawali for their valuable co-operation and assistance.

Needless to say, I retain responsibility for any remaining errors and defect of analysis or lack of clarity in this thesis.

Govinda Bahadur Khatri

Central Department of Management, Kritipur

T. U. Regd. No: 7-2-303-15-2004

Campus Roll No: 435

CONTENTS

Recommendation

Viva-Voce Sheet

Declaration

Acknowledgement

Contents

List of Tables

List of Figures

Abbreviations Used

CHAPTER ONE: INTRODUCTION	1-20
1.1 General Background	1
1.1.1 Concept of Insurance and Insurance Companies	2
1.1.2 A Brief Overview of Stock Market in Nepal	5
1.1.3 Nepalese Securities Market	6
1.1.3.1 Nepal Stock Exchange Ltd. (NEPSE)	7
1.1.3.2 Securities Board of Nepal (SEBON)	12
1.2 Significance of the Study	14
1.3 Statement of the Problem	15
1.4 Objectives of the Study	18
1.5 Limitations of the Study	19
1.6 Chapter Plan/ Scheme of the Study	20
CHAPTER TWO: REVIEW OF LITERATURE	21-60
2.1 Introduction	21
2.2 Conceptual Framework	22
2.2.1 Historical Development of Insurance	22
2.2.2 Development of Insurance in Nepal	25
2.2.3 Types of Insurance	26
2.2.4 Theoretical Analysis of the Study	29
2.2.4.1 Common Stock	30

2.2.4.2	Securities Market	31
2.2.4.3	Financial Intermediaries	34
2.2.4.4	Market Price of Shares	34
2.2.4.5	Buying and Selling of Stock	34
2.2.4.6	Market Size	34
2.2.4.7	Market Liquidity	35
2.2.4.8	Market Capitalization	35
2.2.4.9	Volatility	35
2.2.4.10	Stock Valuation	35
2.2.4.11	Capital Assets Pricing Model (CAPM) or SML	36
2.2.4.12	Capital Market Line (CML)	37
2.2.5	Classical Approach on Theory of Stock Price Behaviour	39
2.2.5.1	Fundamental Analysis	39
2.2.5.2	Technical Analysis	40
2.2.5.3	Efficient Market Theory	44
2.3	Review of Previous Studies	48
2.3.1	Review of Related Studies in Foreign Context	49
2.3.2	Review in Nepalese Context	54
CHAPTER THREE: RESEARCH METHODOLOGY		61-71
3.1	Introduction	61
3.2	Research Design	62
3.3	Population and Sample	62
3.4	Sources of Data	63
3.5	Data Analyzing Methods	64
3.5.1	Financial Tools	64
3.5.2	Statistical Tools	68
CHAPTER FOUR: DATA PRESENTATION AND ANALYSIS		72-100
4.1	Introduction	72
4.2	A Glimpse of Stock Market Trading	72
4.2.1	Behaviour of NEPSE Index	73

4.2.2	Trading Performance of Sample Stocks	74
4.3	Descriptive Analysis of Insurance Companies	75
4.3.1	National Life and General Insurance Company Ltd.	75
4.3.2	Himalayan General Insurance Company Ltd.	76
4.3.3	United Insurance Company Ltd.	77
4.3.4	Everest Insurance Company Ltd.	78
4.3.5	Premier Insurance Company Ltd. (Nepal)	80
4.3.6	NECO Insurance Company Ltd.	81
4.3.7	Alliance Insurance Company Ltd.	82
4.3.8	Sagarmatha Insurance Company Ltd.	83
4.4	Risk and Return Analysis	84
4.4.1	Standard Deviation	84
4.4.2	Coefficient of Variation	85
4.4.3	Beta Coefficient	86
4.4.4	Price Analysis	87
4.5	Relationship of MPS with Financial Indicators	88
4.5.1	The Correlation Coefficient	88
4.5.2	Regression Analysis	90
4.6	Run Test	91
4.6.1	Analysis by Three Different Runs	92
4.7	Major Findings	99
CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS		101-105
5.1	Summary	101
5.2	Conclusion	103
5.3	Recommendations	104

BIBLIOGRAPHY

APPENDICES

LIST OF TABLES

Table No.	Title	Page No.
1	Ownership structure of NEPSE	9
2	Listing rate of companies in NEPSE for different fiscal years	11
3	Stock Valuation Model	35
4	MPS, DPS, EPS, P/E Ratio, MBVR and NWPS of NLGICL	76
5	MPS, DPS, EPS, P/E Ratio, MBVR and NWPS of HGICL	77
6	MPS, DPS, EPS, P/E Ratio, MBVR and NWPS of UICL	78
7	MPS, DPS, EPS, P/E Ratio, MBVR and NWPS of EICL	79
8	MPS, DPS, EPS, P/E Ratio, MBVR and NWPS of PICL	81
9	MPS, DPS, EPS, P/E Ratio, MBVR and NWPS of NECOICL	82
10	MPS, DPS, EPS, P/E Ratio, MBVR and NWPS of AICL	83
11	MPS, DPS, EPS, P/E Ratio, MBVR and NWPS of SICL	84
12	Standard Deviation of Sampled Insurance Companies	85
13	Coefficient of Variation of Sampled Insurance Companies	86
14	Beta Coefficients of Sampled Insurance Companies	87
15	Valuation of Stocks of Sampled Insurance Companies	88
16	Correlation Analysis between MPS and Financial Indicators	89
17	Simple Regression Analysis of MPS on Financial Indicators	90
18	Share Trading for the Month of November- NLGIC	92
19	Share Trading for the Month of November- HGIC	93
20	Share Trading for the Month of November- UIC	94
21	Share Trading for the Month of November- EIC	95
22	Share Trading for the Month of November- PIC	96
23	Share Trading for the Month of November- NECOIC	97
24	Share Trading for the Month of November- AIC	98
25	Share Trading for the Month of November- SIC	99

LIST OF FIGURES

Figure No.	Title	Page No.
1	Number of Listed Companies	12
2.	The capital assets pricing model	37
3	The capital Market Line (CML) and other investment opportunities	38
4	Monthly Closing NEPSE index (Fiscal year 2004/05)	73
5	Yearly NEPSE Index	74
6	Expected Return on Market	74
7	Trading Performance of Sample Stocks	75
8	Share Price Movement- NLGIC	92
9	Share Price Movement- HGIC	93
10	Share Price Movement- UIC	94
11	Share Price Movement- EIC	95
12	Share Price Movement- PIC	96
13	Share Price Movement- NECOIC	97
14	Share Price Movement- AIC	98
15	Share Price Movement- SIC	99

ABBREVIATIONS USED

AIC	-	Alliance Insurance Company
CAPM	-	Capital Asset Pricing Model
CPI	-	Consumer Price Index
C.V.	-	Coefficient of Variation
DJIA	-	Dow Jones Industrial Average
DJTA	-	Dow Jones Transportation Average
DPS	-	Dividend Per Share
EIC	-	Everest Insurance Company
EPS	-	Earning Per Share
FY	-	Fiscal Year
HGIC	-	Himalayan General Insurance Company
HMG/N	-	His Majesty Government of Nepal
K_{avg}	-	Average Rate of Return
Ltd.	-	Limited
MPS	-	Market Price per Share
N	-	Number of Observations
NECOIC	-	NECO Insurance Company
NEPSE	-	Nepal Stock Exchange
NLGIC	-	National Life and General Insurance Company
NWPS	-	Net Worth Per Share
P/E Ratio	-	Price Earning Ratio
PIC	-	Premier Insurance Company
SEBON	-	Security Board of Nepal
SEC	-	Security Exchange Centre
SIC	-	Sagarmatha Insurance Company
SML	-	Security Market Line
S.D.	-	Standard Deviation
T.U.	-	Tribhuvan University
UIC	-	United Insurance Company