FACTORS AFFECTING SHARE PRICE IN INSURANCE COMPANIES

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 not researched and submitted the final draft of dissertation **FACTORS AFFECTING SHARE PRICE IN INSURANCE COMPANIES** The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor has it been proposed and presented as part of requirements for any other academic purposes. The assistance and cooperation that I have received during this research work has been acknowledged. In addition, I declare that all information sources and literature used are cited in the reference section of the dissertation.

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REPORT OF RESEARCH COMMITTEE

Ms. Barsha Shrestha has defended research proposal entitled **" Factors Affecting Share Price in Insurance Companies "** 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 Rishi Ram Pantha Submit the thesis for evaluation and viva-voce examination.

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APPROVAL SHEET

We, the undersigned, have examined the thesis entitled **"Factors Affecting Share Price in Insurance Companies"** Presented by Barsha Shrestha 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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Barsha Shrestha

Researcher

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ABBREVIATIONS

DPR	:	Dividend payout ratio
DPS	:	Dividend per share
DYR	:	Dividend yield ratio
EPS	:	Earning per share
LIC	:	Life Insurance Corporation Ltd.
Ltd.	:	Limited
MPS	:	Market price per share
N	:	Number of Respondents
NALIC	:	National Life Insurance Company Ltd.
NELIC	:	Nepal Life Insurance Company Ltd.
NEPSE	:	Nepal stock exchange
NRB	:	Nepal Rastra Bank
PER	:	Price earning ratio
SEBON	:	Security board of Nepal
Sig.	:	Significance
SLIC	:	Surya Life Insurance Company Ltd.
SPSS	:	Statistical Package for Social Scientists
Std.	:	Standard

ABSTRACT

The valuation and performance of insurance companies' shares are influenced by a spectrum of factors, encompassing both industry-specific elements and broader economic indicators. This abstract aims to delineate these crucial factors that significantly impact share prices within the insurance sector. The core profitability of an insurance company depends on its underwriting discipline. A robust underwriting performance, characterized by prudent risk assessment and pricing, contributes to sustained profitability, thereby positively influencing shareholder confidence and share prices. Insurance companies often generate a substantial portion of their income through investments in various financial instruments. Fluctuations in interest rates, market volatility, and the overall performance of these investments can directly impact an insurer's financial health and subsequently influence share prices.

The regulatory landscape greatly influences insurance companies. Changes in regulations, compliance requirements, or legislative reforms can affect operational costs, product offerings, and market competitiveness, thereby impacting investor sentiment and share prices.

The frequency and severity of insurance claims directly impact an insurer's financial stability. Higher claim payouts or unexpected spikes in claims due to unforeseen events (natural disasters, pandemics, etc.) can adversely affect profitability, leading to a decline in share prices. Economic cycles, interest rates, inflation, and overall market trends play a pivotal role in determining the performance of insurance stocks. Market downturns or economic recessions can lead to reduced consumer spending capacity, impacting premium growth and ultimately affecting share prices. The competitive dynamics within the insurance industry can affect market share, pricing strategies, and innovation. A company's ability to adapt, innovate, and maintain a competitive edge influences investor perceptions and, consequently, share prices.

Understanding and analyzing these multifaceted factors is crucial for investors, analysts, and stakeholders aiming to comprehend the complexities inherent in valuing insurance companies' shares. A comprehensive assessment of these elements can provide valuable insights into predicting and interpreting fluctuations in share prices within the insurance sector.

CHAPTER I
INTRODUCTION

1.1 Background of the Study

By encouraging capital formation and boosting economic growth, the stock market contributes significantly to economic development. This market's securities trading helps savers and capital users by transferring wealth, sharing risk, and pooling funds. money can move from reserves to the most profitable investments to generate economic activity. Investors consider the share prices of firms when deciding which shares to purchase. According to theories, there is a correlation between shifts in financial basic indicators and shifts in share prices (Nisa & Nishat, 2022).

This speaks to the ability of an insurance provider to precisely determine risks and establish rates. Lower claims payouts are the product of good underwriting, and this may boost earnings and stock values. In order to make money, insurance firms frequently invest their premiums. Interest rate fluctuations may have an impact on their investment income, which may then have an impact on company profitability and stock values. Regulations that change can have an effect on how insurance businesses operate, their financial performance, and ultimately their stock prices. Examples of these changes include modifications to insurance legislation or compliance requirements (Neupane, 2018).

The financial health of an insurer is greatly impacted by the volume and severity of insurance claims. Unexpectedly high claims can put a pressure on reserves and profitability, which might hurt stock values.The demand for different insurance products and the volume of sales of insurance may be influenced by economic variables such as GDP growth, employment rates, and consumer spending, which can also have an impact on stock prices. Market share and pricing tactics may be impacted by the level of competition in the insurance sector. Increasing competition might affect stock prices and put pressure on profits. Insurance companies often have substantial investment portfolios. Changes in asset values due to market conditions can affect their overall financial health and, consequently, their stock prices(Bista, 2006).

Natural disasters or other large-scale catastrophic occurrences may result in a surge in claims for insurance firms, which might have an effect on their financial stability and perhaps stock prices. Investor trust is impacted by the management team's skill and strategic direction. Stock prices can be positively impacted by strong leadership.

Insurance firms may be benefited by and disrupted by technological developments. Using new technology may enhance services and operational effectiveness, which can raise stock values(Matthew, 2019).

Investors evaluating the possible performance of insurance business stocks must comprehend these elements and their interactions. Furthermore, unanticipated occurrences or outside events may have an influence on stock values, therefore it's critical to regularly assess the state of the market as a whole. Investors are highly interested in the success of organizations, especially insurance corporations, in the realm of finance and investments. When it comes to helping people and businesses manage risk, insurance firms are essential. As part of their business strategy, they charge policyholders premiums in return for offering protection against a range of risks, including liability, health problems, and property damage (Modigliani, 2020).

The life insurance industry in Nepal is experiencing steady growth and development, with several key players making significant contributions to the market. Here is an overview of the current status of four major life insurance companies in Nepal. Life Insurance Co. Nepal, commonly known as LICN, is actively trading on the Nepal Stock Exchange (NEPSE). The company's financial metrics show a substantial market capitalization and regular dividend distribution. Despite facing market fluctuations, LICN continues to be a significant player in Nepal's life insurance sector. Nepal Life Insurance Co. Ltd. is one of the largest life insurance companies in Nepal. In the fiscalyear 2079/80, NLIC collected Rs. 142.57 billion in premiums, showing a growth of 2.84% compared to the previous year. The company has a paid-up capital of Rs. 52.16 billion, with gross claims amounting to Rs. 58.98 billion, reflecting a 12.25% increase from the previousSuryaJyoti Life Insurance Co. Ltd. offers a variety of insurance products, including endowment plans, whole life plans, money-back plans, and term life insurance tailored to different customer needs. The company emphasizes providing financial protection and security to policyholders and their families .National Life Insurance Co.

Ltd. is also a significant entity in the Nepalese life insurance market. It provides various life insurance policies and has shown consistent performance in premium collection and policy issuance. The company's financial health and market presence contribute to its reputation as a reliable life insurer in Nepal. Overall, the life insurance industry in Nepal is marked by increasing premium collections, rising claims payments, and expanding policy coverage. The industry's growth is supported by a broader range of insurance products and an increasing number of policyholders, including a notable rise in foreign employment term life insurance policies. As the sector continues to grow, it faces challenges and opportunities in improving insurance penetration and service quality across the country Management is compelled to turn to the capital market for extra funding by paying dividends. Increased dividends can directly benefit shareholders by limiting the amount of free resources that management may utilize inefficiently. Some analysts think that management chooses to lower agency expenses by paying dividends (Easterbrook, 2021).Because these parties have a comparative advantage over the bondholders in monitoring the firm's activities, investment bankers, accountants, and other market experts closely examine its operations every time it wants to raise new cash. The value of a company may rise if dividend payments are followed by fresh funding since this might reduce monitoring expenses (Rao, 2020).

The effectiveness of dividends as signals has several causes. Since dividend payments must be sent to shareholders' accounts, they are supported by physical currency. The company needs to raise this money from inside or persuade the financial markets to provide it. Furthermore, dividend choices are often focused on the future, whereas financial statements record past achievement (Asquith and David, 2019). Dividends provide the benefits of simplicity and visibility in addition to credibility. Many other announcements focus on details and are also rather complicated.

A firm may pay out dividends to its shareholders in the form of cash, shares, or both. For the sake of their good name, some businesses gave out their whole earnings as dividends, while others kept the entire amount for reinvestment and only paid out a portion of it. The share price of insurance companies, like any other publicly traded company, is influenced by a myriad of factors. These can be broadly categorized into macroeconomic factors, industry-specific factors, company-specific factors, and market sentiment. Understanding

these factors is crucial for investors, analysts, and stakeholders who aim to make informed decisions.

The overall economic health of a country, often measured by GDP growth, can significantly impact insurance companies. Economic growth leads to higher disposable income, increasing the demand for insurance products.

Insurance companies, particularly life insurers, rely heavily on investment income. Higher interest rates can lead to higher investment returns, boosting profitability. Conversely, lower interest rates can squeeze margins.

Inflation can increase the cost of claims, particularly in property and casualty insurance. Higher inflation means higher replacement and repair costs.
Insurers may raise premiums to keep pace with inflation, but this could also affect demand if the cost becomes too high for consumers.

Changes in regulations, such as solvency requirements, reserve requirements, and consumer protection laws, can impact operational costs and profitability.

Corporate tax rates and other fiscal policies directly affect net earnings.
The ratio of claims paid to premiums received is a critical metric. Higher loss ratios can indicate poor underwriting practices and affect profitability.

This ratio, which includes both loss and expense ratios, indicates overall underwriting performance. A combined ratio above 100% suggests a loss from underwriting activities. Insurance companies often purchase reinsurance to mitigate risk. The cost and availability of reinsurance can significantly impact an insurer's financial stability and profitability.

Intense competition can lead to price wars, affecting profit margins. Companies with significant market share or unique product offerings might better withstand competitive pressures. Technological advancements and innovative insurance products can attract customers and enhance profitability. Consistent revenue growth and high profitability can positively influence share prices. Key financial metrics include earnings per share (EPS),

return on equity (ROE), and profit margins. Strong capital reserves enhance an insurer's ability to withstand shocks and meet regulatory requirements. Effective leadership and strategic decision-making are critical. The reputation and track record ofthe management team can influence investor confidence. Strong governance practices can mitigate risks and ensure long-term stability.

Natural disasters, pandemics, and other large-scale events can lead to significant claims, impacting profitability. Insurers with effective risk management strategies are better positioned to handle such events. Broader market trends and investor sentiment towardsthe insurance sector can influence share prices. Positive sentiment can drive up prices,while negative sentiment can lead to declines. Public announcements, earnings reports, mergers and acquisitions, and other significant events can lead to volatility in share prices. Analyst recommendations and target price adjustments can impact investor behavior. Favorable ratings typically boost share prices, while downgrades can lead todeclines. The overall liquidity of the stock market can affect share prices. Higher liquidity generally leads to more stable prices, while lower liquidity can result in higher volatility. Indices such as the S&P 500 and global economic indicators can also impactinvestor sentiment towards insurance stocks.

Understanding these factors helps stakeholders navigate the complexities of investing in insurance companies and predict potential movements in share prices.

1.2 Problems Statement

Despite the growth and potential of the insurance industry in Nepal, there is a lack of comprehensive studies that identify and analyze the factors affecting the share prices of insurance companies. Investors often face challenges in making informed decisions dueto insufficient data and analysis on what drives the fluctuations in share prices. This study aims to fill this gap by systematically examining the key factors influencing shareprices of insurance companies in Nepal. The goal of equity capital investments made by shareholders is to increase their wealth. The type of returns that shareholders anticipate from their investment is known as a dividend. Nonetheless, choosing a payout is still a crucial and contentious aspect of management work. There have long been debates over the impact of dividend policies on share prices. However, there is currently no single, definitive finding about the connection between dividend payments and share market

price(Modigliani, 2020).

There is no doubt that shareholders would anticipate a large dividend when a company generates high profits. However, earnings are also seen as a source of funding for the business. Retaining earnings has a number of benefits for the company, including a lower leverage ratio, increased activity, and higher profits in subsequent years. On the other hand, if a company pays dividends, it might need to raise money through the capital market, which could reduce the ownership and control of current shareholders. The firm's risk characteristics will be impacted if it raises debentures or takes out loans. As aresult, there are several aspects of dividend theories, practices, and policies to take into account(Khan, 2011).

An essential component of a nation's business development is its capital market. Even though Nepal's capital market is still in its infancy, Nepalese investors have been making significant investments in recently founded businesses, particularly in the financial sector. This trend is expected to continue until the investors are happy with the choices the companies' management has made. The most alluring feature ofinvesting in shares of different firms for investors is their dividend yield. While dividends do impact the firm's value, management has limited ability to enhance shareholder wealth unless they understand the precise nature of this influence. Therefore, it is important that management comprehend how the dividend policy impacts the company's market value, stock price, or shareholders' wealth position.

Thus, this research is guided by the following questions:

1. What is the state of EPS, DPS, DPR, DYR and PER on MPS of listedinsurance companies?
2. What is the relationship of MPS with other financial indicators such as EPS,DPS, DPR, DYR and PER of listed insurance companies?
3. Is there any effect of EPS, DPS, DPR, DYR and PER on MPS of listedinsurance companies?

1.3 Objectives of the Study

The general objective of the study is to analyze the factors affecting share price in Insurance companies of Nepal

The specific objectives are as follows;

1. To compare the financial ratio of the sample insurance companies in Nepal
2. To examine the relationship among EPS, DPS, DPR, DYR and PER insurance companies in Nepal
3. To analyze the effect of DPS, EPS, DPR, DYR and PER on MPS of insurance companies.

1.4 Rationale of the study

A dividend provides stockholders with a source of income. The goal of investing in shares for shareholders is to enhance their wealth position and obtain significant returns. The dividend strategy works effectively to draw in new capital, keep the ones you already have, and satisfy them. It also helps to keep the goodwill and desired control over the firm's management.

Therefore, it's essential to have a comprehensive understanding of the return on stock investments. This argument is extremely important and will go a long way toward filling the gap. Its goal is to give investors and the corresponding companies that are used as samples vital information. The importance of the study can be pointed out as follows:

- This research work provides the vital information about the impact of dividendon market price.
- The suggestion and recommendation given by this study would be helpful for further researchers, investors.
- This study might be helpful management and policy maker in setting andmaking a suitable dividend policy.
- This study may be useful to government for policy making, controlling, and monitoring.

1.5 Limitations of the Study

The limitations of the study are:

1. The data of only 10 fiscal years are taken for the studies from 2013/14 to2022/23. Only four insurance companies are taken as sample for the study.
2. There are many factors that affect the dividend decision and valuation of thefirms. However, only those factors related to dividend would be considered in this study.
3. Time frame is limited to carry out microscopic study on the topic, thusthe study may not reveal the exact results.
4. Only limited sample have been taken which may surely lacks accuracy. .

CHAPTER II
LITERATURE REVIEW

A survey of the literature related to the research field is given to the reader in this chapter. Thus, a survey of pertinent material from books, journals, articles, theses, and other research projects pertaining to the prior study is included in this chapter.

2.1 Conceptual review of literature

"Investment, financing, and dividend decisions are the three main decisions that a business must make in order to perform its financial tasks. An ideal mix of the three will provide value, hence each must be taken into account in light of the firm's goal (Van Horne, 2022).

A percentage of earnings that is given to shareholders as compensation for their share capital investment are referred to as a dividend. It is the recurring payment given to shareholders as a way of making up for the risk associated with their investment and its utilization. Determining how much of the company's revenues will be held in-house and how much will be paid to shareholders is a crucial component of dividend policy. The main source of funding for the company's expansion is retained earnings. However, as dividends tend to boost owners' present wealth, they may be seen favorably from their perspective (Eling & Schmeiser, 2010).

There are two distinct perspectives that might influence the company's dividend policy. The company's net earnings may be regarded as a source of long-term funding when the choice to pay a dividend is viewed as a financing decision. This strategy will only pay dividends when the company lacks viable investment possibilities. However, due to defects and uncertainty in the market, shareholders can place a larger value on near-term payouts than they would on future dividends and capital gains. Therefore, the market price of the share may be greatly impacted by the dividend payment. Shares with higher dividends are worth more, whereas those with lower payouts are worth less(Cummins, Dionne, Gagné, & Nouira, 2008).

The majority of investors anticipate receiving a dividend each year in addition to receiving a price when they sell their shares. The anticipated eventual stock price include both a capital gain and the returns from the initial investment. Investors will realize a capital gain if the stock is sold for more than they were originally paid. As a result, shareholder Anticipate a gradual rise in the common stock's market value.

They also anticipate the company to make money in the form of dividends at the same time such that a dividend or capital gain can satisfy the owners. "Therefore, the actionsof the business that impact investors' well-being are of significance to financial managers. Dividends received can be used as a proxy for well-being, but stock marketvalue provides a more reliable indicator (Weston, 2020).

Macroeconomic Factors

Economic Growth: Economic growth is a fundamental determinant of the insurance sector's performance. When the economy grows, individuals and businesses are more likely to purchase insurance products, leading to higher premium income for insurers. Studies suggest a positive correlation between economic growth and insurance company profitability, which in turn positively influences share prices (Hussels, Ward, & Zurbruegg, 2005).

Interest Rates: Interest rates significantly impact the investment income of insurance companies, as they often invest in fixed-income securities. Changes in interest rates affect the returns on these investments, thereby influencing the overall profitability and share prices of insurers (Bohnert, Gatzert, & Kolb, 2014). For instance, rising interest rates can enhance investment income, while falling rates can diminish it.

Inflation: Inflation affects the cost structure of insurance companies, particularly in terms of claims and operational expenses. Higher inflation can lead to increased claim payouts and higher administrative costs, thereby reducing profitability and negatively impacting share prices (Eling & Schmeiser, 2010).

2.Regulatory Environment

Government Policies and Regulations: The regulatory framework within which insurance companies operate has a profound impact on their financial performance. Regulatory

changes, such as capital requirements and solvency regulations, can influence the stability and profitability of insurers. Positive regulatory reforms can enhance investor confidence and share prices, while stringent regulations may increase compliance costs and reduce profitability (Klein, 2012).

Compliance Costs: The costs associated with regulatory compliance can affect the financial health of insurance companies. High compliance costs can reduce net profits, potentially leading to lower share prices. Empirical research indicates that while stringent regulations ensure market stability, they can also impose significant financial burdens on insurance companies (Cummins, Tennyson, & Weiss, 1999).

3. Industry-Specific Factors

Claims Experience: The frequency and severity of insurance claims directly impact the profitability of insurance companies. High claim frequencies and severe claims can deplete reserves and reduce net income, negatively affecting share prices (Swiss Re, 2014). Effective claims management and risk assessment are therefore crucial for maintaining profitability.

Reinsurance Costs: Reinsurance serves as a risk management tool for insurance companies, allowing them to mitigate potential losses from large claims. The cost and availability of reinsurance can influence the financial stability and profitability of insurers. Higher reinsurance costs can reduce profitability, while adequate reinsurance coverage can enhance stability and investor confidence (Cummins, Dionne, Gagné, & Nouira, 2008).

Competition: The competitive landscape of the insurance industry affects pricing strategies, market share, and profitability. Intense competition can lead to price wars and reduced profit margins, negatively impacting share prices. Conversely, a favorable competitive position can enhance profitability and share prices (Porter, 1980).

4. Company-Specific Factors

Financial Performance: Key financial indicators such as revenue growth, profit margins, and return on equity (ROE) are critical determinants of an insurance company's share price. Strong financial performance signals a healthy and profitable company, boosting

investor confidence and share prices (Adams, Burton, & Hardwick,2003).

Management and Governance: The quality of management and corporate governance practices plays a vital role in the success of insurance companies. Effective managementand strong governance frameworks can enhance operational efficiency and profitability, positively influencing share prices (Krause, Semadeni, & Cannella, 2014).

Product Mix and Innovation: The diversity and innovation of insurance products offeredby a company can drive growth and profitability. Companies that innovate and offer a broad range of products are better positioned to meet customer needs and capture market share, positively affecting share prices (Liedtke, 2007).

5. Market Sentiment and External Events

Investor Sentiment: Market perceptions and investor sentiment significantly influence share prices. Positive news, such as strategic partnerships or innovative product launches, can boost investor confidence and share prices, while negative news can havethe opposite effect (Baker & Wurgler, 2006).

External Events: Events such as natural disasters, political instability, and economic crises can have substantial impacts on the insurance sector. These events can lead to higher claim volumes or create market uncertainties, affecting share prices. Insurance companies' ability to manage and mitigate these risks is crucial for maintaining investor confidence and stable share prices (Cummins, Doherty, & Lo, 2002).

2.2 Theories of share price

The Efficient Market Hypothesis, proposed by Eugene Fama in the 1970s, asserts that share prices reflect all available information at any given time. According to EMH, it is impossible to consistently achieve higher returns than the market average through stock picking or market timing because stock prices always incorporate and reflect all relevant information. All past trading information is reflected in stock prices.All publicly available information is reflected in stock prices.All information, both public and private, is reflected in stock prices (Botchwey, 2014).

Fundamental analysis is ineffective because all public information is already priced in. Insider information is the only potential source for achieving abnormal returns, under strong form efficiency.

2. Fundamental Analysis

Fundamental analysis involves evaluating a stock's intrinsic value by examining related economic, financial, and other qualitative and quantitative factors. This approach assumes that share prices can be mispriced in the short term but will eventually reflectthe true value of the underlying company.Analysts look at income statements, balancesheets, and cash flow statements to assess a company's performance.Macroeconomic factors such as GDP growth, interest rates, and inflation are considered.Management quality, competitive position, and product offerings are analyzed.Investors can achieve excess returns by identifying undervalued or overvalued stocks(Cummins, Dionne, Gagné, & Nouira, 2008).

3.Technical Analysis

Technical analysis involves studying past market data, primarily price and volume, to predict future price movements. This approach is based on the belief that historical trading activity and price changes can indicate future price trends.cAnalysts look for patterns such as head and shoulders, flags, and double tops.Tools like moving averages, relative strength index (RSI), and MACD are used to identify trends and market sentiment.Investors can exploit patterns and trends in stock prices to achieve abnormal returns.Market psychology and behavioral factors are considered important in price movements(Cummins, Dionne, Gagné, & Nouira, 2008).

4. Dividend Discount Model (DDM)

Theory Overview: The Dividend Discount Model values a stock based on the present value of its expected future dividends. This model is grounded in the belief that dividends are the primary return for shareholders and are indicative of a company's financial health.Assumes dividends will grow at a constant rate indefinitely.The intrinsic value of a stock is the sum of all expected future dividends discounted back to their present value.Stocks are valued based on expected future cash flows.Higher dividends or growth in dividends result in higher stock valuations.

5. Capital Asset Pricing Model (CAPM)

The Capital Asset Pricing Model, developed by Sharpe, Lintner, and Mossin, explainsthe relationship between systematic risk and expected return on assets, particularly stocks. It is used to determine a theoretically appropriate required rate of return of an asset. Measures the stock's sensitivity to market movements. The return on a risk-free asset, typically government bonds. The expected return of the market minus the risk- free rate.
Expected Return=Risk-Free Rate+β×(Market Return−Risk-Free Rate)Expected Return=Risk-Free Rate+β×(Market Return−Risk- Free Rate)Investors require higher returns for taking on additional risk.The model helps in portfolio management and asset pricing.

6. Arbitrage Pricing Theory (APT)

Developed by Stephen Ross, Arbitrage Pricing Theory is a multi-factor model for asset pricing. Unlike CAPM, which considers only one factor (market risk), APT considers multiple factors that might influence an asset's return. Includes economic factors such as inflation, interest rates, and industrial production assumes that arbitrage opportunities will lead to price corrections. It provides a more comprehensive framework for understanding asset returns. It can be used to identify mispriced assets based on various macroeconomic factors.

2.3 Factors influencing dividend policy

Numerous factors affect a company's dividend policy. Certain factors impact the type of payout, while others influence the amount. The main elements influencing dividend policy are as follows: legal provisions, firm's financial condition, need to repay debt, constraints imposed by loan holders, estimated rate of return, stability of earnings, shareholder personal tax, etc.

Legal requirements

A firm is under no legal obligation to deliver dividends. Nonetheless, there are legal restrictions on how dividends can be distributed. In general, we discover the following three dividend payout rules.

The net profit rule

According to the net profit rule, dividends may be paid from either current or historical

earnings. It should be acknowledged, therefore, that dividend payments in excess of the total of previous cumulative earnings and present earnings were not feasible.

The capital impairment rules

According to this regulation, the company cannot pay dividends from its paid-up capital as doing so would negatively impact the company's equity base and jeopardize the interests of its creditors. The fundamental goal of this guideline is to preserve an adequate equity foundation in order to safeguard creditors' claims.

Insolvency Rule

A company is deemed insolvent if its liabilities are more than its assets or if it is unable to make its current payments. It is illegal for the company to pay dividends if it is bankrupt.

Firm's Liquidity Position

Additionally impacted by the firm's liquidity condition is the dividend distribution. Retained profits are not kept in cash; instead, they are reinvested into the company's assets, even if the balance sheet indicates that there are adequate earnings. This might prevent the company from being able to pay cash dividends.

Repayment Need

The company employs a variety of debt financing options to meet its investment requirements. At the maturity, these loans must be paid back. When it comes to repaying debt, the company typically has two options: either it may issue new securities to cover the debt at maturity, or it can set aside money from earnings specifically for repayment (Bhattarai, 2014).

Restriction Imposed by Debt Holders

Debt holders have the ability to place limitations on the company's ability to pay dividends. The restrictions could state that the company cannot pay dividends from past retained earnings that are recorded in the company's books prior to fulfilling the terms of the debt contract, or they could state that the preferred stock holders have restricted the company from paying any dividends on common stock until the company has paid the full amount of dividends that have accrued on preferred stock.

Expected Rate of Return

The anticipated rate of return on investment affects the dividend payout amount as well. A company would rather keep its earnings for reinvestment than to pay out cash dividends if it can predict a greater rate of return on its investment.

Stability of Earnings

A company is more likely to pay a greater dividend than one with more variable earnings if its earnings are generally steady. Because it is less confident about its earnings in the future, the company with unpredictable earnings would rather keep more of its present earnings.

Desire for Control

The current management of the company might not want to issue more common stock when the need for extra funding arises because they are afraid of losing control over the company's management.

Access to the Capital Markets

It is not necessary to retain more retained earnings if a company can easily access capital markets to raise more finance. Nonetheless, smaller and recently founded businesses typically have trouble obtaining outside funding from the financial market.

Stockholders' Individual Tax Situation

Due to the greater tax on dividend income, shareholders of a closely held corporation choose a comparatively lesser cash payout. Closely held company investors in higher personal tax brackets favor capital gains over dividends.

It takes more than just the items listed above to establish a good dividend policy. It is necessary to take into account several more insights and factors. These include shifting governmental policies, the likelihood of future corporate expansion, the age and maturity of firms, the informative value of dividends, and so on.

2.4 Empirical Review

Empirical review of literature has been conducted from many articles, papers, thesis etc. which are as follows;

Pradhan (2004) found that lower leverage ratios are found in stocks with higher dividends per share relative to market price. The ratios of DPS to market price and interest coverage have a positive association. There is a positive correlation between turnover ratios and dividend payout. Positive correlation exists between liquidity and dividend distribution. Profitability and dividend payout have a positive association. Positive correlations exist between DPS and MFS, and the stocks with lower dividend payments have more changeable liquidityand leverage ratios. For the stock that pays larger dividends, there is greater variation in earnings, asset turnover, and interest coverage.

Bhattarai (2005) came to the conclusion that there is a positive correlation between split percentage of shares, current profit, and cash flow. The relationship's degree is almost ideal. There is no set standard for payout ratio adoption, and it has been found that payout ratio and share valuation are negatively correlated. All things considered, the corporations have never paid a consistent dividend. A few businesses have raised their dividends consistently. If investors are reasonable, such a dividend hike has a significant effect on share pricing; unfortunately, Nepalese firm management has not yet recognized this. The pace of inflation has decreased in recent years, and the The share's market price is rising. The companies, however, are unable to give investorsthe required rate of return. There was a negative correlation between the share price andthe required rate of return for investors. Shareholders have forfeited income opportunities in an effort to maximize returns, but firms have not been able to offer returns that come close to matching the risk-free rate of return.

Timilsina (2005) studied the relationship between dividends per share and stock price.to determine the impact of the dividend policy on stock prices. to ascertain if changingthe dividend policy or payout ratio may increase the stock's market value. To describe

the price behavior, the study used simultaneous equation models developed by Friend and Puckett (1964). The study's findings indicated that there is a positive association between stock price and dividend per share for the sample businesses. Depending on the industry, dividends per share have different effects on share prices. Any modifications to the dividend policy or dividend per share may result in an increase inthe share's market price. There is no significant relationship between stock price and retained earnings per share. The lagged earning price ratio and stock prices arenegatively correlated.

Manandhar (2006) found a strong relationship between shifts in the dividend policy as shown by payouts per share and shifts in trailing earnings. Dividends and dispersed delayed profits are related. It is discovered that there is a substantial difference betweenthe overall percentage change in dividends and the change in EPS during the research period. All things considered, dividend payouts increased in 66.6% of situations where EPS increased and decreased in 33.3% of cases where EPS decreased. It is shown that Nepalese corporate firms have followed the practice of maintaining constant dividend payment per share or increasing it regardless of change in EPS, as indicated by the total proportion of constant and raise dividend distribution of 78.33% of the cases. Put another way, forms are reluctant to cut back on dividend distributions. In general, it is seen that Nepalese corporate firms are reluctant to cut dividends; instead, they would prefer to keep the dividend at a level that is constant or higher in order to take advantage of the information and signaling effects that the dividend provides about the firm's continued performance and progress, strong financial position, favorable investment climate, lower risk, and ability to maintain a dividend rate. In the end, this raises the market price of the stocks on the stock exchange.

Gautam (2006) came to the conclusion that all commercial banks' average EPS and DPS are adequate. The analysis shows that while EPS and DPS fluctuate significantly,dividend per share is generally more consistent across the sample institutions. Despite the strong profitability and prospects, no commercial bank appears to be governed by a clearly defined dividend policy. The financial institution's shares are traded frequently and the cost of goods is rising. Compared to other industries like manufacturing and commerce, commercial banks are a strong group of profit-making businesses. The study's most startling conclusion is that not a single commercial bank in its sample had a dividend

strategy that was well defined. Conversely, there appears to be a strong correlation between expansion program earnings and dividends.

Adhikari (2006) drew attention to the disparities between the financial standing of corporations that pay large and low dividends. Higher liquidity is found in equities with higher dividends per share relative to book value per share. In addition, it is less predictable than stocks with smaller payouts. All other things being equal, high dividend paying corporations have a somewhat better financial condition than low dividend paying ones. Another intriguing finding is that the impact of dividends on stock prices varies across the finance and non-finance industries. The correlation between dividends and stock price is favorable. Dividend payout and earnings before taxes have a negative correlation with net value. Higher profitability is shown in stocks with bigger DPS to book value per share ratios. Shareholders in Nepal are not genuinely apathetic when it comes to dividend payments or non-payments. One of the main conclusions is that the market price of the share rises in response to earnings announcements.

Khatiwada (2007) found the average shareholder return was unaffected by the disclosure of earnings and dividends. With the exception of Nepal SBI Bank Ltd., other banks did not give shareholders an unusually high return. A positive abnormal return was obtained by the shareholder from NBL, SBI, and Grindlays.

Basnet (2008) provided justification for the claim that dividend payments from Nepalese listed businesses are not a consistent or alluring occurrence. The corporations don't follow a reliable or dependable dividend policy. Several variables, some more significant than DPS, impact the market price of banking shares and the overall value of organizations. Different corporations' share prices are impacted by changes in dividend per share in different ways. In every industry, the DPS and EPS have a positive correlation. It implies that if the EPS increases, so will the DPS: The listed firms' market value per share (MVPS) exceeds their net worth per share (NWPS). Between MP and NWPS, there are significant differences. This circumstance amply demonstrates that investors are not matching the share's book value to its market value.

Rijal (2008) concluded the main goal of stock investment is dividend income. However, stockholders may get dividends in the form of capital gains and dividends. A large

distribution meets the requirement for dividends, but a rise in the stock's market price boosts capital gains. As a result, the companies maintain a healthy balance between dividend payments and EPS retention. Few listed businesses in Nepal have been consistently giving their shareholders dividend payments. Moreover, businesses have not been adhering to a consistent dividend distribution strategy. However, the listed companies in Nepal have not been able to deliver equitabledividends due to the low dividend payment ratio. But commercial banks are likewise not an exception in this sense. The study comes to the conclusion that there are other factors besides cash dividends that influence share price. However, there are other variables that also affect share price volatility, such as earning potential, bonus shares, dividend decision information value, etc. Share price fluctuations in an imperfect market mechanism such as the Nepalese Share Market are also significantly influencedby security brokers, other market makers, and the rumors they disseminate in the market.

Even so, the research that were previously stated deal on dividend behavior in Nepal. Itis therefore imperative to confirm the continued validity of their results. In the past several years, there have been numerous further developments in the Nepalese context.Therefore, a new investigation of the dividend policy of Nepalese corporations is required. This research attempts to analyze the dividend policy of Nepalese corporations using the most recent data for various companies.

Bista (2008) emphasized that banks and industrial firms do not adhere to any particular dividend policy. Over the chosen firms' eras, DPR are changing. MPS swings in future price; it does not adhere to any one pattern. There isn't a distinct EPS trend across the firms. The market price per share and book value per share varies significantly.

Adhikari (2009) came to the conclusion that high dividend paying corporations and low dividend paying companies had different financial positions. Longer dividend-to-book value ratios indicate more liquidity for the equities. It is more volatile than stocks with smaller dividend payments. If all else stays the same, the financial standing of high dividend paying corporations is often superior to that of low dividend paying ones. Another intriguing finding is that the impact of dividends on stock prices varies acrossthe finance and non-finance industries. The correlation between dividends and stock price is favorable. The dividend distribution and earnings before to conversion to net worth are

negatively correlated. Higher DPS to book value per share ratio stocks indicate more potential for profit. The majority of respondents believe that informing shareholders about the company's success is the primary reason for providing a cash dividend. Shareholders in Nepal are not genuinely apathetic when it comes to dividendpayments or non payments. One of the main conclusions is that the market price of shares rise in response to earnings announcements.

Jha (2010) emphasized the bank, insurance, and financial industries' dividend policies.
To examine how dividends relate to other significant variables. The study's principal conclusions are: To deter market imperfections, the Nepalese government's NRB, SEBON, and NEPSE should exercise caution. Businesses should have a long-term strategy for adopting an appropriate dividend policy. The dividend per share has varied greatly, despite the fact that earnings have not been rising. Bonus share distribution needs to be pre-evaluated. An appropriate information discloser to investors is required.

Bhattarai (2011) explained that there is no set dividend policy followed by banks or industrial enterprises. Over the chosen firms' eras, DPR are changing. MPS swings in future price; it does not adhere to any one pattern. There isn't a distinct EPS trend across the firms. The market price per share and book value per share varies significantly.

Gautam (2011) came to conclusion that the average earnings per share of the two banks are bothrespectable, but the dividend per share is much below par. The dividend payout is inconsistent, and its growth rate is also not constant. The DPS and D/P rate of the two banks do not significantly differ from one another, however the EPS is not consistent.

R.R. Gautam (2006) To adhere to precisely specified dividend plan, as its absence seriously impairs the convenience of many other financial industries. Whendeciding what dividends to pay out, banks should take investors' expectations and interest into account.

Budhathoki (2012) realized that the average earnings per share (EPS) of the banks under investigation is positive. However, the coefficient of variation shows that the EPS is inconsistent. The average dividend per share (DPS) indicates that dividend payments are irregular. The banks' Dividend Payout Ratio (DPR) is not steady, according to the DPR

research. The average market price demonstrates the significant degree of volatility.

Dhungel (2012) studied how dividends affected the movement of Nepalese banks' and financial institutions' stock prices. In order to investigate the relationship between Market Price per Share (MPPS) and other financial indicators like Earnings per Share (EPS), Dividend per Share (DPS), and DPSBS (including bonus share), the research primarily focuses on secondary data that is obtained from websites and published material of five selected commercial banks. With a self-created questionnaire, primary data were also acquired from the owners of equity shares. One hundred bank employees and stockholders received the surveys. The questionnaire was designed to gather information about the actions of investors while buying equity shares on the secondary market.Just 40 samples completed the questionnaire and returned it in response to the request for samples. SPSS software was used to examine the data. The study's conclusions show that, for the majority of banks, dividends have little to no effect on share price. For a single commercial bank, there is a substantial association between MPPS and EPS and MPPS and DPSBS; however, in the other four banks, there was nosignificant link between these variables. However, in the majority of the instances, a positive but negligible association was seen. Due to the limited sample size, the results could not be generalized at this time, and further in-depth study on this topic is requiredin Nepal.

Khan (2012) studied about the impact of dividend announcements on Pakistan's chemical and pharmaceutical industry stock prices. From 2001 to 2010, a sample of twenty-nine firms listed on the KSE-100 Index is included.The study's findings are based on the Fixed and Random Effect Model, which is used on panel data to explain how dividends and stock prices relate to one another after adjusting for factors like earnings per share, profit after taxes, and return on fairness. The findings indicate that while Retention Ratio and Return on Equity have a negative, insignificant relationship with stock prices, Stock Dividend, Earnings per Share, and Profit after Tax have a significant positive relation with stock market prices and significantly explain variations in the stock prices of Pakistan's chemical and pharmaceutical sector. This essay goes on to demonstrate that the Dividend Irrelevance Theory does not apply to Pakistan's chemical and pharmaceutical industries.

Botchwey (2014) examined dividend payments and their impact on the share prices ofthe

companies in question. Whether to keep earnings for future investments or pay out a larger or less percentage as dividends is a common question faced by management. This has emerged due to management's need to meet the diverse demands of shareholders. The purpose of the study is to determine how dividend payments affect the share prices of certain listed firms on the Ghana Stock Exchange (GSE) and how they assist shareholders in making decisions about whether to keep or sell their investment of the 36 firms listed on the Ghana Stock Exchange, Eco Bank, Cal Bank, and AngloGold Ashanti were chosen at random for the study's purposes. Out of all the stockholders of the aforementioned firms, around sixty (60) respondents, or shareholders, were chosen at random. The questionnaire served as the main source of data, and the internet and periodicals such the Journal of Risk Finance, National Tax Journal, Journal of Finance, and Corporate Finance provided secondary data on dividend policy. It was discovered that as a company's dividend grows, the pressure on the share causes the share price to climb as well. This suggests that, all other things being equal, companies paying larger dividends will see an increase in share price due to increased demand for their shares, whereas those paying smaller dividends would see a decrease in share price.

Bhattarai (2014) showed the amount of stocks traded showed a changing tendency. Earnings and dividends were significant factors in the share price fluctuations. The price of stocks was mostly determined by signaling variables. Utilized primary and secondary data, there was use of statistical methods such test statistics, coefficient of determinants, regression analysis, and correlation analysis. To assess the amount of stocks exchanged on the secondary market, the securities market's movement, and investors' perspectives on the choice to invest in stocks. To examine the

Masum (2014) attempted to investigate the nature of the link between private commercial banks' stock market returns and dividend policies, as well as the extent to which stock returns may be explained by the dividend policies of individual banks during the same time period. Different dividend policy theories are tested with varying degrees of success and success across the globe. A number of other papers, both domestically and internationally, are examined in order to assess the impact of dividend policy on stock prices and to compare the findings of this study with those of previous studies. Because there is a huge sample size—all of the Dhaka Stock Exchange's listed commercial banks—the results are legitimate and dependable. After adjusting for variables such as

earnings per share, return on equity, and retention ratio, which have positive relationships with stock prices and significantly explain variations in share market prices, the panel data approach is used to explain the relationship between dividends and stock prices. In contrast, dividend yield and profit after tax have negative, negligible relationships with stock prices. The study's overall findings show that dividend policies significantly raise stock prices.

Paudel (2014) realized that the primary goal of the research is to determine if MPS of listed firms exist, particularly for the companies that have been specifically chosen forthe study, and how much risk is associated with investing in their common stock. The association between MPS and the several financial metrics of the tested organizations is not consistent. Based on average data over the last five years, MPS of six financial institutions shows a substantial positive association (greater than expected) with important financial indicators including EPS, NWPS, and DPS. The efficiency of the Nepalese stock markets is insufficient to ascertain MPS based on individual financial performance. The share market price in Nepal does not necessarily reflect the financial performance of a firm on the stock exchange. The future financial indications will define the value of the share price; regrettably, the stock market is not predicated on the basis of accurate information about the firm.

Khatiwada (2014) used tests like the serial correlation test as statistical tools, the researched also employed the filter rule, a technical trading strategy, to analyze the data. The researched discovered that the standard deviations of price fluctuations for every single stock are more than the average. As a result, the empirical frequency distribution often has a flatter contourthan the normal distribution. The majority of the findings from the serial correlation analysis of thirty stocks are incredibly huge and well insulated from zero.

The outcomes of the serial correlation tests and the runs test findings are also in agreement. It was discovered that the actual number of runs is not regularly distributed when the run test was examined by lengths. As a result, the sequence of consecutive price movements in the Nepalese stock market has a considerable influence. Comparably, the filter test results shown that a challenging mechanical trading rule may outperform the average market return. Since the majority of the filter's trades outperformed the buy and

hold strategy, the results of the test and serial correlation aresupported. Thus, he came to the conclusion that the price changes of today are not a fair result of the price changes of yesterday.

Almumani (2018) determined the quantitative elements influencing the share prices of the banks listed on the Amman Stock Exchange. These variables (dividend per share, earning per share, size, price earnings ratio, book value, dividend payout ratio, and market price) were taken into consideration in this study. To measure the individual and combined effects of explanatory variables on the dependent variables, ratio analysis, correlation, and linear multiple regression models were employed. The empirical findings demonstrated a positive link between the dependentvariable (market price of shares) and the independent factors (EPS, DPS, size, P/E ratio,and book value per share). The findings of the regression analysis demonstrated a substantial and positive link between market price of share and EPS, BV, P/E ratio, and DPS.

Memon et al., (2019) studied the effect of dividend policy on market values of businesses' stocks in Pakistan's nonfinancial industries from 2006 to 2015. Seventy-seven non-financial companies listed on the KSE (PSX) provide the data. The results of the regression model showed that dividend payout had a large positive influence on stock market values, but dividend yield had a considerable negative impact. The outcome ofthe control variables demonstrated that the stock market is significantly positively impacted by increase in assets, profits, sales, size and prices while liquidity, leverage and profit after tax have no significant impact on stock market prices during our study period. Therefore, all outcomes of this research signify that the dividend policy have a significant impact on market prices of stocks in Pakistan.

Dhakal (2020) assessed the qualitative and quantitative factors influencing the price of NEPSE stock, with a particular focus on commercial banks; to ascertain the impact of book value, P/E ratio, and earning per share on the price of the stock; to investigate the separate effects of dividends and earning per share on the price of the stock; to analyze the market trendsof market price per share using financial indicators; and to investigate the impact of share price fluctuation. According to this study, the performance of commercial banksvaries greatly in terms of how MPS relates to EPS, DPS, and BVPS. The EPS and BVPS are shown to have a strong correlation with the MPPS. Based on the

study of theoriginal data, The Nepal Stock Exchange is located. Earnings per share, book value, dividend payments, price-earnings ratio, and bank paid-up capital are examples of internal variables that impact share prices. In a similar vein, the market price of a shareis influenced by other environmental factors. The share price is influenced by several environmental variables, including political pressures, NRB policy, SEBON performance, and government instability. Since NEPSE is still in its infancy, it has little bearing on return on assets, retention ratios, bank non-performing loans, cash reserve ratios, or funding costs. After analyzing the secondary and primary data, the following conclusions have been achieved. It was found that the major findings of the study show that the market price per share has high degree of positive relationship with EPS, BVPSand DPS. Earnings, book value, dividend payment, paid up capital, price earnings ratio, and political stability are the major factors affecting the share price in NEPSE, according to the respondents of the survey. Cost of capital, retention ratio cost of equity,market liquidity, and change in management does not significantly affect the share pricein NEPSE.

Neupane (2021) aimed to examine the moving average of thestock prices of Nabil Bank, Standard Chartered Bank, and Everest Bank. Additionally, the study sought to ascertain the relative strength analysis of these banks and the relationship between the stock prices of a selected group of commercial banks (Nabil Bank, Standard Chartered Bank, and Everest Bank) and the NEPSE index. The examination of primary and secondary data yielded the study's key conclusion. The key results have been used to draw the conclusion. This research came to the conclusion that the commercial bank should follow the central bank's instructions basedon the observation and analysis of the aforementioned facts. A bank should have the best policies in place to collect deposits from different accounts. The primary means bywhich commercial banks survive in the market is through deposits. Due to the fact that loans are essential to the existence of commercial banks, banks should exercise extreme caution while making investments in various industries. Commercial banks will have a difficult time collecting deposits on time in the future if they do not implement solid deposit mobilization practices. Thus, there is also a chance of bankruptcy. To avoid insolvency, banks should invest their funds in a variety of portfolios following a thorough analysis of the project. Bank investment concentration in a small number of firms increases the risk of default. While diversification is necessary for all business establishments, commercial banks place a great deal of emphasis on it. Compared to other business establishments, commercial banks place a great deal of

importance on the diversification of their deposit investments since they utilize the funds for their ownpurposes. Finally, it may be stated that banks are critical to the country. It supports national capital formation, which is the most crucial component of economic expansion.

Matthew (2022) investigated the impact of dividend payments on the market values of shares in Nigeria. Panel estimate using ordinary least squares approaches serves as the model definition for the data analysis. The empirical findings of the panel least squares analysis by the researchers indicate a positive relationship between market price per share and dividend per share, indicating that an increase in dividends per shareboosts the market price per share of listed companies. However, dividend yield has no discernible positive impact on the market prices of shares of quoted companies inthat the market prices per share and dividend payment ratio of specific NSE companies aredirectly correlated.

The study also showed that there are notable differences in the movement of the share prices of the chosen companies. While these differences could theoretically be explained by supply and demand, in reality they could be caused by a variety of other exogenous and endogenous factors, including political circumstances, institutional constraints, corporate managerial choices, psycho-social factors, and economic policies. Thus, it came to an end and suggested that, on average, profits continue to be the most important factor in determining dividend payments; as a result, earnings have a big impact on the market value of publicly traded companies in Nigeria and throughout the world. There are notable disparities in the share market values of Nigerian listed corporations that may be explained by factors such as dividend payment, dividend per share, dividend yield, dividend payout ratio, and earning per share. The government needs to help byloosening regulations that pose a risk to businesses' goals, such as maximizing shareholder value.

Ranaweera (2023) realized that the price of share is influenced by various internal and external factor. Internal factors are those dependent on the company such as ROE and EPS. The external factors are raw material pricing, economic trends, inflation, interest rate, exchange rate and other factors that are beyond the firm’s control. Both kind of factors may influence the investor’s futures expectations and risk taking ability and as a result they take their investment decisions. This study aimed to examine the factors affecting share prices in finance companies in Sri Lanka for the period of five years from

2017 to 2022.For that purpose researchers selected the dependent variable as share price while the independent variables are EPS, ROE, Interest rate, inflation and exchange rate.

2.5 Summary of Empirical review

In this following table, summary of articles and past unpublished thesis has been shown.

Table No. 1

Review matrix

Author	Variables	Methodology	Findings
Ranaweera (2023)	Earning Per Share, Return on Equity, Interest Rate, Inflation	Descriptive Statistics, Correlation Analysis, Regression Analysis	EPS and Inflation positively impact share price while ROE, Interest rate and Exchange rate showed a negative impact on share price.
Matthew (2022)	Dividend per share, Dividend payout ratio, Liquidity on profitability	Data analysis was done using descriptive statistics, Pearson correlation analysis, Regression analysis and T test	Investment ratio, current ratio and capital ratio has positive relation to return on assets. However total deposit ratio has negative impact on ROA.
Neupane (2021)	Dividend per share	This study used a descriptive research design and applied a quantitative research technique.	EPS and PER have negative relationship with the ROA andROE which indicates that increase in PER and EPS would increase the ROA and ROE.
Dhakal (2020)	Earning per share Dividend payout ratio	Secondary data based.Descriptive and regression analysis	Short term debt is profitable and long term and total debt is negatively related to profitability.

Khatiwada (2014)	Dividend per share Dividend payout ratio liquidity on profitability.	Based on secondary data. Least square method, correlation andregression analysis were used.	This study has been based on the various contributing factorsthat increase Assets Management level in insurances in Nepalese perspective and its effect on profitability position of the banks.
Paudel (2014)	Dividend per share	Descriptive and causal- comparative relationship research designs.Panel data analysis has been used.	The CAR, LDR, CRR, and bank size has been found to have a positiveeffect on banks' profitability, and non-performing loan ratio negatively affects banks' profitability.
Masum (2014)	Earning per share Dividend payout ratio	Descriptive and causal relationship research design. Based on secondary data.	The results indicated that banksize, liquidity management ratio, and capital ratio positively impacted the bank'sfinancial performance, while IR and AQ had a negative effect.
Botchwey (2014)	Dividend per share Dividend payout ratio	Data analysis was done using descriptive statistics,Pearson correlation, regression analysis, and t-test.	The findings indicated a strongpositive correlation between the dependent and independentvariables, with 61.5% explained by one variable and 38.5% by another.

Khan(2012)	Default Rate Ratio, Cost Per Loan Asset Ratio	This study used a descriptive research design and applied a quantitative research technique.	Capital adequacy and asset quality have a significant and negative effect on ROA. However, earning ability has a significant positive effect on ROA.
Bista (2008)	Loan Loss to Gross Loan Non-Performing Loan loss to Net Loan Impaired loan to Gross Loan	Concentration, regression, Herfindahl-HirschmanIndex, H-statistic and Lerner Index measures were used	Increasing pattern of capitalization and the decreasing trend of non-performing loan ratio. Competition in the loan market was found higher than deposit market competition.
Rijal (2008)	Return on Asset Return on Equity Cash Flow to Assets	Secondary data based descriptivestatistics model,	CAR and NPLR have negative and statisticallyno significant impact onfinancial performance (ROA).
Basnet (2008)	Non-Performing Loan Loan Loss to Net Loan Impaired Loan to Gross Loan	Based on secondary data. Least square method, correlation andregression analysis were used.	Low level of Liquidity has negative effect on ROA, ROE and NIM. Low leverage positively effect on ROA and NIM but negative effect on ROE.
Adhikari (2006)	Return on Asset Return on Equity	Secondary data based.Descriptive and regression analysis	CRR positively affects ROA and ROE. CAR has a positive effect on ROA but a negative effect on ROE.
Gautam (2006)	Dividend per share Dividend payout ratio	Secondary dataare used. The data is	Assets quality has negative effect on ROA whereas

		analyzedby using	positive with ROE. Cash deposit ratio has positive effect
Manandhar (2006)	Dividend per share Dividend payout ratio liquidity on profitability.	Descriptive statistics, correlation and regression. Analyze using MS excel.	DPS and IGSCA have a positive correlation with ROA,while CRR and CBBISD are inversely correlated with ROA. CR is inversely correlated
Timilsina (2005)	Dividend per share	Based on secondary data. Descriptive research design and regression model,	Investment ratio, current ratio and capital ratio has Positive relation to return on assets. However total deposit ratio has negative impact on ROA.
Bhattarai (2005)	Earning per share Dividend payout ratio	Based on secondary data. Regression model	EPS and PER have negative relationship with the ROA andROE which indicates that increase in PER and EPS would increase the ROA and ROE.
Pradhan (2004)	Dividend per share Dividend payout ratio	Secondary data and regression model.	Short term debt is profitable and long term and total debt is negatively related to profitability.

2.6 Research Gap

The purpose of this study is to draw some ideas concerning to the dividend policy and to see what new contribution can be made and to receive some ideas, knowledge and suggestions in relation. In this context, the previous studies can't be ignored because they provide the foundation to the present study. In other words, there has to be continuity in research. This continuity in research is ensured by linking the present study with the past research studies. The various financing decision are vital for the financial welfare of the

company. Dividend decision is one of the major decisions to bemade.

There are many study have been done related to dividend policy on banking sector but there is little study in insurance companies, so this study has try to fill up this gap. Analyzing how the underwriting performance of insurance companies, including their combined ratio (the ratio of claims and expenses to premiums), impacts their stock prices. A research gap could focus on understanding which specific underwriting metrics have a more pronounced effect on market valuation. Investigating how fluctuations in interest rates affect insurance companies' investment income and subsequently impact their share prices. A research gap could explore the differential impact based on the types of insurance products offered or the investment strategies adopted by companies. Examining the impact of regulatory changes (such as changes in insurance laws, accounting standards, or capital requirements) on insurance companies' stock prices. Research might delve into how differently sized companies are affected and how market perception adjusts over time Assessing the relationship between claims experience, reserve adequacy, and stock prices. Research might explorehow variations in claims patterns across different insurance lines or geographies affect market valuation and if there are gaps in understanding these correlations. Investigating how technological advancements, such as AI, IoT, and data analytics, impact insurance companies' competitiveness and subsequently influence their stock prices. A research gap could focus on the specific technological implementations that drive marketvaluation. Research could delve into how broader economic indicators, such as GDP growth rates, inflation, or unemployment, correlate with the performance of insurancecompany stocks.

This could involve identifying if certain economic conditions affect different types of insurance companies disproportionately. Analyzing how well insurance companies manage risks and maintain solvency affects market confidence and, consequently, share prices. Research could explore how perceptions of risk management practices influence stock valuation. Exploring the impact of market sentiment, investor perceptions, and behavioral biases on the valuation of insurance stocks. Research could focus on how news sentiment, investor sentiment indices, or social media discussions affect stock prices. Identifying and studying these factors, especially in a comparative or longitudinal context, may help bridge existing research gaps and offer deeper insights into the dynamics of share price movements in the insurance industry Matthew (2022).

Despite substantial research into the factors affecting share prices of insurance companies, several gaps remain that merit further exploration. These gaps provide opportunities for more nuanced and comprehensive understanding of the dynamics at play. Identifying and addressing these gaps can contribute to more effective investment strategies, regulatory policies, and corporate management practices. The rise of insurtech companies and digital transformation within traditional insurers has changed the competitive landscape. However, the specific impact of technologies such as AI, block chain, and big data analytics on shareprices remains underexplored. Research could focus on how these technologies influence underwriting efficiency, customer acquisition, and overall financial performance. As insurers increasingly rely on digital platforms, cyber security becomes critical. There is a gap in understanding how cyber security incidents and the robustness of cyber security measures affect investor confidence and share prices. While the impactof catastrophic events on claims is well-documented, there is less research on how long-term climate change affects the valuation of insurance companies. Studies could explore how insurers are adapting to climate risks and how these adaptations influencetheir financial stability and share prices.

The role of ESG factors in influencing investor decisions and share prices is gaining attention but remains under-researched in the context of insurance companies. How do insurers' ESG practices and sustainability initiatives affect their market valuation? With the globalization of financial markets, insurance companies operate across multiple regulatory environments. The impact of cross-border regulatory changes and international standards on share prices needs more comprehensive study. The effects of regulatory uncertainty and anticipated changes in regulations on the market valuation of insurance companies are not fully understood. How do insurers and investors react to potential regulatory shifts. Beyond traditional financial metrics like EPS and ROE, there is a need for research on the relevance and impact of non-traditional metrics, such as customer lifetime value, digital engagement metrics, and innovation indices on share prices. Comparative studies across different markets and economies can provide insights into how local economic conditions, market structures, and consumer behavior affect the share prices of insurance companies. The insurance needs of aging populations and their impact on life and health insurance sectors require further study.

The preferences and behaviors of younger consumers towards insurance products are not well-understood. Research could explore how these demographics influence the product offerings, marketing strategies, and share prices of insurance companies. The COVID-19 pandemic highlighted the vulnerabilities and resilience of the insurance sector. There is room for more detailed analysis on how such global health crises affect the financial performance and share prices of insurance companies, including long-term impacts.

Addressing these research gaps can provide deeper insights into the complex factors influencing share prices in insurance companies. This, in turn, can help investors make more informed decisions, policymakers craft better regulations, and companies adopt strategies that enhance their market valuation.

CHAPTER III
RESEARCH METHODOLOGY

The purpose of this chapter is to provide an explanation of the research techniques employed to achieve the study's stated goals. For this reason, this chapter includes information on study design, data sources, data collection techniques, demographic and sampling, instruments, instrument administration, and data analysis plans, among other topics.

3.1 Research Design

This study follows descriptive and causal comparative research designs have been used. Descriptive research design is a type of research design that aims to systematically obtain information to describe a phenomenon, situation, or population. More specifically, it helps answer the what, when, where, and how questions regarding the research problem rather than the why. A causal-comparative design is a research design that seeks to find relationships between independent and dependent variables after an action or event has already occurred.

3.2 Population and Sample

Population or universe refers to the entire group of people, events or things of interest that the researcher wishes to investigate. A sample is a representative portion of population which possesses all the characteristics that are exist in population.

The population for this study is limited to insurance firms that are listed in NEPSE, with a total of 4 listed life insurance companies. This is because the study is based on data from these businesses. However, there are 14 life insurance firms registered with BIMA SAMITI, the insurance industry's governing agency. The sample is done in accordance with the topic, which suggests that the study should be conducted among actively traded and dividend-paying life insurance firms. In total, four insurance firms are included by the research. In this study, the convenience sampling approach is employed. Convenience sampling is used due to the practical considerations of your study, such as time constraints and the ease of data collection. Since the four selected companies are readily accessible and provide necessary data, this method allows for efficient and effective

research within the given limitations. To summarize, the selection of the four listed life insurance companies on NEPSE using convenience sampling is driven by the availability of comprehensive and reliable data, the alignment with the study's objectives, regulatory transparency, and practical considerations of data collection. This approach ensures that the study can effectively analyze the financial performance and market behavior of significant life insurance firms in Nepal.

The samples selected are as follows:

- Life insurance Co. Nepal
- Nepal Life insurance Co. Limited.
- Surya Jyoti Life insurance Co. Limited.
- National Life insurance Co. Limited.

3.3 Sources of Data Collection

This study makes use of secondary data. The study employed the questionnaire approach using primary data. Through in-person visits, a structured questionnaire was created and given to the respondents. Subsequently, the replies were obtained from the participants, primarily via personal connections. For better comprehension, the results of the mean standard deviation analysis of the questionnaire data were displayed in tables and charts. The secondary data was gathered from a variety of sources, including annual reports covering the fiscal years 2013/14 to 2022/23, magazines and bulletins from the companies under investigation, pertinent information and data from publications by Bima Samiti, SEBON, NEPSE, and NRB, websites of the chosen companies, newspapers, earlier research, theses and dissertations, and previous studiesin the field.

3.4 Data Processing Procedure

The data analysis was conducted based on the existing data pattern. Many different approaches have been used, depending on how consistent and reliable the data are. First,the gathered data are properly formatted and arranged in a variety of tables and charts based on their kind. After thereafter, a variety of statistical and financial approaches were used. Subsequently, additional statistical analysis are employed to provide interpretations and explanations as needed.

3.5 Data Analysis Tools and Techniques

The analyses conducted in chapter four are reflected in this section. For the investigation, a number of statistical and financial instruments were employed. Data analysis will be carried out in accordance with the data pattern. The primary analytical techniques have been financial instruments, basic regression analysis, and multiple regression analysis. Financial and statistical methods would be used to determine the link between various study-related variables. In this study, the primary financial indicators—EPS, DPS, MPS, and P/E—as well as the statistical tools—mean, regression analysis, standard deviation, and coefficient of correlation—have all been computed.

3.5.1 Financial Tools:

A brief explanation of financial tools used in this study is as follows:

Earning Per Share (EPS)

One of the elements influencing a company's dividend policy and stock price is earnings per share. The computation of earnings per share (EPS) can be useful in determining the earning capability of the company. The dividend and market price will both increase with higher EPS. In order to calculate the dividend and stock market price, it is thus assumed to be an independent variable. It is computed by dividing the total number of outstanding common shares by the earning available to the common shareholder.

Dividend Per Share (DPS)

DPS is the earnings that are given to shareholders as a percentage of EPS. It has an impact on stock market pricing as well. DPS will increase if EPS increases. The computation involves dividing the entire dividend disbursed to equity owners by the total quantity of equity shares.

Dividend Payout Ratio (DPR)

DPR shows the portion of profit that is held as a reserve and surplus for the company's expansion, as well as the portion that is dispersed as dividends. By dividing the DPS by the EPS, it is computed.

Dividend Yield Ratio (DYR)

This ratio shows the relationship between dividend per share and market value per share. It is calculated by dividend per share by market value per share.

Price Earnings Ratio (P/E Ratio)

This ratio reflects the market value per share for each rupee of currently reported EPS.It is calculated by dividing the market value per share by earning per share.

3.5.2 Statistical Analysis

The study's use of statistical analysis to display and interpret the data in a style that is helpful is crucial. When processing data, care was taken to ensure that it was correct and consistent with the information that was acquired. Several statistical approaches are used to evaluate the working conditions of employees in Nepalese commercial banks and to examine the variables influencing the employees' perceptions of their performance. The main uses of statistical techniques were to examine the distributionand trend of the data gathered via questionnaires and to assess the Hypotheses developed to meet the study's goal. Tables, charts, and diagrams were among the graphical tools used to show the distribution and tendency of the data. Graphs, tables, pie charts, mean, standard deviation, and percentage distribution were specifically employed for presentation and analysis in the descriptive research portion. Additionally, tables, mean, standard deviation, Pearson's correlations, and linear regression were added in the hypothesis testing section.

Mean or Average

A set of numbers represented by an average line. Stated differently, average refers to the amounts that are typical of the vast majority of quantities. The calculation of the sum of all variables divided by the total number of variables yields the most often used mean, known as the arithmetic mean or average. The arithmetic average of a variable is calledits mean.

Standard Deviation

Among the several measures of dispersion, the standard deviation (S.D.) is the most widely used and practical. It displays the ranges and magnitudes of deviations from the mean or center. It gauges the dispersion in absolute terms. Variability increases with larger standard deviation values and vice versa. It is the average sum of squares of the

observations' departures from the distribution's arithmetic mean, expressed as a positive square root.

Correlation Analysis

Among statistics, correlation is one of the most helpful. Stated differently, correlation is a statistical technique that quantifies the extent of a link between two variables. When the value of one variable appears to be connected to the value of another, two or more variables are said to be correlated. The degree of association between two or more variables is expressed by correlation. It gives us no information on the link between cause and effect. Positive or negative correlation is possible. The range of correlation is -1 to +1. A significant association exists between two variables when Pearson's correlation (r) is near to 1. This indicates a high correlation between changes in one measure and changes in another. There is a weak association between two variables when correlation (r) is near to zero.

Regression Analysis

A method of figuring out the statistical relationship between two or more variables in which a change in one or more independent variables influences and is related to a change in a dependent variable. A statistical technique called multiple regression is used to determine a criterion's value from a number of independent, or predictor, factors. It is the process of combining several variables at the same time to determine how and to what degree they influence a certain result. It may be applied to predict changes' implications or effects. One method for obtaining point estimates is to employ multiple linear regression analysis.

Regression model

Multiple linear regression analysis is used to predict the impact of independent variables on Market Price per Share. The equation for Impact of independent variables on Market Price per Share is expressed in the following equation:

$$\hat{Y} = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + e_i$$

Where,

$\hat{Y}$ = Market Price per Share (dependent variable)

X_1	=	Earning per share
X_2	=	Dividend per share
X_3	=	Dividend payout ratio
X_4	=	Price earning ratio
X_5	=	Dividend yield ratio
α	=	Constant
$\beta_1, \beta_2 \ldots \beta_5$	=	Regression coefficients of Factor 1 to Factor 5 respectively
e_i	=	Error term

This model helps to predict in what extent EPS and DPS affect market price of share. In Correlation and regression analysis, following statistics have been calculated and interpreted accordingly.

3.6 Conceptual Framework

The theoretical schema for this study, which illustrates the many elements influencingthe movement of market price per share, is presented in Figure 3.1. This structure showsthe market Earnings per share, dividends per share, dividend payout ratio, dividend yield ratio, and price earning as independent variables, and price per share as the dependent variable. The schematic depiction of the variables guiding our study topics is shown in the image below.

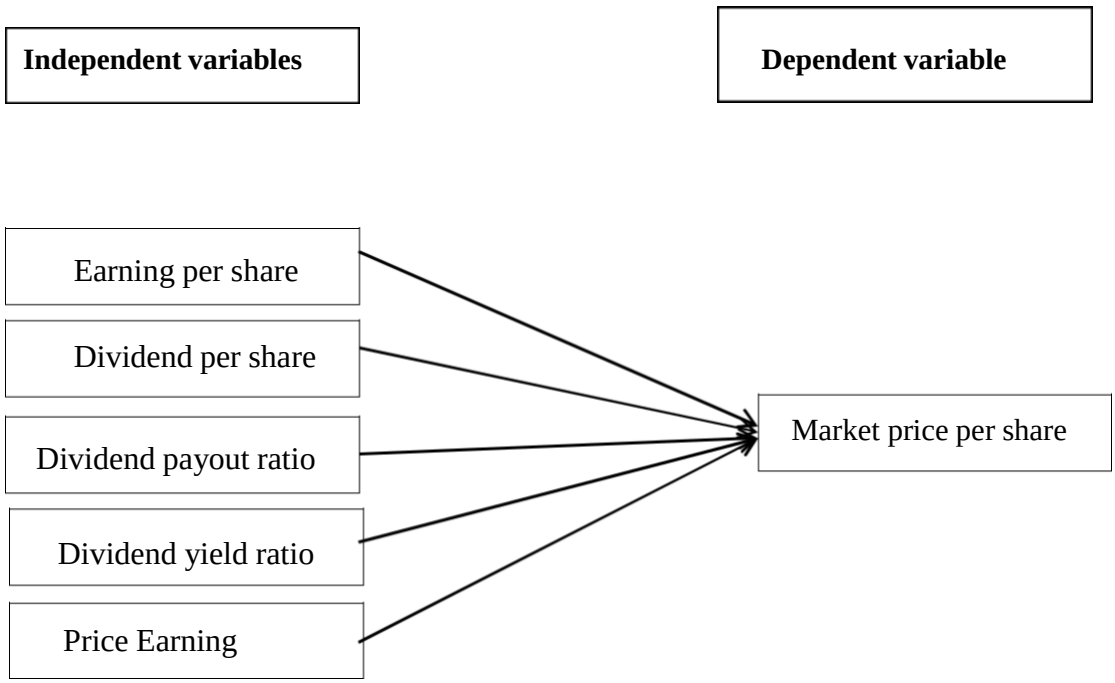

Figure No. 3.1 Theoretical framework

Source: Khan et al. (2011

Definitions of Variables

Earnings Per Share (EPS): This ratio indicates the portion of a company's profit allocated to each outstanding share of common stock. It's a fundamental measure of a company's profitability on a per-share basis.

Dividend Per Share (DPS): DPS signifies the portion of a company's earnings that is distributed to each outstanding share of common stock as dividends. It's a key component in understanding a company's dividend policy.

Dividend Payout Ratio (DPR): DPR signifies the percentage of earnings paid out as dividends to shareholders. It compares the dividends paid to the earnings generated and retained within the company.

Dividend Yield Ratio (DYR): DYR measures the relationship between the dividend per share and the market value per share. It helps investors assess the return they're receiving in the form of dividends relative to the stock price.

Price-Earnings Ratio (P/E Ratio): This ratio compares a company's current market price per share to its earnings per share. It's a widely used valuation metric that helps investors gauge the relative value of a stock and its growth prospects.

Each of these ratios provides unique insights into different aspects of a company's

financial health and its attractiveness as an investment. For instance, a high P/E ratio may indicate that investors expect strong future growth, while a high dividend yield might suggest a stable income for investors. These ratios are often used in combinationto get a comprehensive view of a company's performance and its stock valuation.

CHAPTER IV
RESULT AND DISCUSSION

The outcomes of the analysis produced throughout the data collecting procedure are covered in this chapter.

This chapter is analytical in nature, attempting to examine and assess the gathered facts.To achieve the goal of this study, the data is analyzed using a variety of presentation and interpretation techniques.

This chapter presents and compares the pertinent facts and information on the dividend policies of the chosen firms while keeping the study's goal in mind. First, an examination of the banks' dividend payout policies is conducted. Using the statistical methods discussed in the chapter, the influence of the dividend policy on share market price and the dividend's link to other important variables are analyzed in the second section of the chapter. The third section contains a hypothetical analysis. This is the main central nervous system, which helps to conclude the study through major findings,vital issues and recommendation. This chapter makes the proper linkage with other chapter.

4.1 Descriptive analysis of financial indicators and variables

The market price per share, earnings per share, dividend payout ratio, earning yield ratio, and dividend yield ratio of each sample insurance company for the period of 2013/14 to 2022/23 are all included in the descriptive statistics of this study and are displayed in a table. The sector-based comparison of insurance businesses and the classification of sample insurance companies are given with the use of descriptive analysis. To compare sectors, the average value of a sample of insurance firms is calculated for each sector. The average of each sector is indicated by the mean value.

4.1.1 Analysis of mean and standard deviation of LIC

The Descriptive study of each variable MPS, EPS, DPS, DPR, PER, DYR from fiscal year 2013/14 to 2022/23 of Life Insurance Corporation Ltd is shown below;

Table No. 1

Mean and standard deviation of LIC

Year	MPS	EPS	DPS	DPR	PER	DYR
2013/14	14.256	78.26	52.62	0.558	12.25	0.58
2014/15	12.36	82.62	51.26	0.54	11.25	0.045
2015/16	15.26	85.26	61.25	0.55	10.25	0.586
2016/17	1425.00	98.62	64.82	0.66	14.45	0.05
2017/18	1622.00	100.81	78.40	0.78	16.90	0.05
2018/19	2151.00	10.11	12.63	1.25	213.00	0.01
2019/20	3580.00	30.06	26.11	0.87	119.00	0.01
2020/21	2799.00	29.11	26.32	0.90	96.00	0.01
2021/22	4095.00	29.60	31.58	1.07	138.00	0.01
2022/23	3850.00	28.40	30.95	1.09	135.56	0.01
Mean	3253.67	54.45	45.14	1.10	122.15	0.02
SD	980.89	36.02	23.42	0.19	69.30	0.02

Source: Annual Reports of LIC from 2013/14 to 2022/23

The life insurance corporation limited's descriptive statistics are displayed in the following table. The lowest and maximum market price per share of LIC is Rs. 1425 and Rs. 4095, respectively. The highest EPS year is 2016–17, while the lowest EPS year is 2017–18. The dividend per share has a minimum of 12.63 and a maximum of 78.40. The greatest dividend payout ratio was recorded in 2017–18, while the lowest was in 2015–16. The price-earnings ratio is low in 2015–16 and high in 2020–21. Theaverage is 3253.67 for MPS, 54.45 for EPS, 45.14 for DPS, 1.10 for DPR, 69.30 for PER, and 0.02 for DYR.

4.1.2 Analysis of mean and standard deviation of NELIC

The Descriptive study of each variable MPS, EPS, DPS, DPR, PER, DYR from fiscal year 2013/14 to 2022/23 of Nepal Life insurance company Ltd is shown below;

Table No. 2

Mean and standard deviation of NELIC

Year	MPS	EPS	DPS	DPR	PER	DYR
2013/14	950.00	22.35	32.45	1.45	42.50	0.03
2014/15	1120.25	21.32	31.23	1.52	40.25	0.25
2015/16	250.25	20.16	30.21	1.54	39.25	0.25
2016/17	9052	20.21	30.25	1.53	39.65	0.025
2017/18	1050.00	25.31	48.50	1.92	41.49	0.05
2018/19	2148.00	32.44	70.53	2.17	66.21	0.03
2019/20	4006.00	41.83	30.08	0.72	95.77	0.01
2020/21	2886.00	30.42	26.32	0.87	94.87	0.01
2021/22	4351.00	56.67	68.00	1.20	76.78	0.02
2022/23	4450.00	60.50	69.95	1.16	73.55	0.02
Mean	3306.83	44.92	57.64	1.58	81.86	0.03
SD	1319.51	11.53	17.87	0.53	22.03	0.01

Source: Annual Reports of NELIC from 2013/14 to 2022/23

The descriptive statistics of Nepal Life Insurance Company Ltd. are displayed in the following table. The maximum market price per share of NELIC is 4450, and the minimum MPS is950. The NELIC's highest and lowest earnings per share (EPS) yearsare 2021–2022, respectively. The dividend per share has a minimum of 26.32 and a maximum of 70.53. The dividend payout ratio is lowest in 2016–17 and highest in 2018–19. The average is 3306.83 for MPS, 44.92 for EPS, 57.64 for DPS, 1.58 for DPR, 81.86 for PER, and 0.03 for DYR.

4.1.3 Analysis of mean and standard deviation of SLIC

The Descriptive study of each variable MPS, EPS, DPS, DPR, PER, DYR from fiscalyear 2013/14 to 2022/23 of Surya Life insurance company Ltd is shown below;

Table No. 3

Mean and standard deviation of SLIC

Year	MPS	EPS	DPS	DPR	PER	DYR
2013/14	560.00	12.82	10.65	0.83	43.68	0.01
2014/15	500.26	14.25	11.26	0.84	42.15	0.12
2015/16	600.00	16.48	12.63	0.77	36.41	0.02
2016/17	500.30	14.25	11.25	0.77	35.26	0.25
2017/18	078.25	21.25	17.25	0.84	51.25	0.22
2018/19	1070.00	20.76	18.00	0.87	51.54	0.02
2019/20	856.00	26.49	11.00	0.42	32.31	0.01
2020/21	709.00	4.39	5.00	1.14	161.57	0.01
2021/22	750.00	8.76	0.00	0.00	85.63	0.00
2022/23	810.00	10.98	9.60	0.87	73.77	0.01
Mean	892.50	16.78	11.15	0.82	80.82	0.01
SD	170.09	7.34	5.72	0.37	45.09	0.01

Source: Annual Reports of SLIC from 2013/14 to 2022/23

The Surya Life Insurance Company Limited's descriptive statistics are displayed in the following table. The minimum MPS is while the maximum market price per share (SLIC) is 1070.560. The highest and lowest earnings per share of the SLIC are recordedin 2019/20 and 2020/21, respectively. The dividend is not paid in 2020–2021 and has amaximum of 18 per share. The year 2020/21 will have the highest dividend payout ratio, while 2020–2021 will see the lowest. The price-earning ratio is low in 2018–19 and high in 2019–20. The average MPS, EPS, DPS, DPR, PER, DYR, and DPS are 892.50, 16.78, 11.15, and 0.82, respectively.

4.1.4 Analysis of mean and standard deviation of NALIC

The Descriptive study of each variable MPS, EPS, DPS, DPR, PER, DYR from fiscalyear 2013/14 to 2022/23 of National Life insurance company Ltd is shown below;

Table No. 4

Mean and standard deviation of NALIC

Year	MPS	EPS	DPS	DPR	PER	DYR
2013/14	596.00	88.32	73.00	0.83	6.75	0.12
2014/15	2550.00	32.21	38.00	1.18	79.17	0.01
2015/16	245.26	31.25	37.25	1.25	6.75	0.15
2016/17	752.26	33.25	24.25	1.85	25.26	0.25
2017/18	187.25	24.265	31.25	1.84	74.25	0.48
2018/19	1840.00	25.88	32.00	1.24	71.11	0.02
2019/20	3300.00	26.40	26.00	0.98	125.05	0.01
2020/21	2300.00	24.71	14.21	0.58	93.09	0.01
2021/22	2600.00	25.62	19.60	0.77	101.48	0.01
2022/23	2800.00	27.85	21.60	0.78	100.53	0.01
Mean	2664.33	41.83	37.40	1.06	96.20	0.03
SD	837.15	23.00	19.16	0.23	36.76	0.04

Source: Annual Reports of NALIC from 2013/14 to 2022/23

The aforementioned table presents descriptive statistics for National Life Insurance Company Limited. It indicates that the minimum market price per share (MPS) is 596 and the maximum MPS is 3300. The highest and lowest earnings per share of the NALIC were recorded in 2015–16 and 2019–20, respectively. The lowest dividend pershare (DPS) is 14.21, while the highest is 73.

The greatest dividend payout ratio was recorded in 2017–18, while the lowest was recorded in 2019–20. 2018–19 is a high yearfor the price–earnings ratio, whereas 2015–16 is a low year. In 2015–16, the highest dividend yield is 0.12. The average is 2664.33 for MPS, 41.83 for EPS, 37.40 for DPS,
1.06 for DPR, 96.20 for PER, and 0.03 for DYR.

4.2 Inferential analysis of financial indicators and variables

The purpose of this section is to present the method for analyzing the empirical results,test the assumption or impact, built in previous chapter. Inferential statistics are procedures used that allow researchers to infer or generalize observations made with samples to the

larger population from which they were selected. It enables use of one or more samples of observations to infer values of a population. It produces new information by making predictions and generalizations based on samples. This section consists of two analysis tools which are:

4.2.1 Correlation analysis

The relationship between the several independent and dependent variables related to the research is ascertained using correlation analysis. Any two variables' linear correlation is measured. A positive correlation indicates that the link is positive in direction, with one rising in response to the other's growth. An rise in one while theother falls is revealed by a negative correlation, which is the opposite of the above. One statistical method for examining the link between six variables is correlation analysis. The correlation analysis is used to determine the link between MPS, EPS, DPS, DPR, PER, and DYR and shows if the association is significant or not.

Table No. 5

Correlation among financial indicators of sample insurance companies

		MPS	EPS	DPS	DPR	PER	DYR
MPS	Pearson Correlation	1					
EPS	Pearson Correlation	.654**	1				
DPS	Pearson Correlation	.538**	.703**	1			
DPR	Pearson Correlation	.225**	.269	.778**	1		
PER	Pearson Correlation	.486**	.086	-.003	-.051	1	
DYR	Pearson Correlation	.256*	.267	.703**	.860**	.361*	1

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

* Correlation is significant at the 0.05 level (2-tailed)

Source: Annual Reports of sample insurance companies from 2013/14 to 2022/23. The data in the table above demonstrates the strong connections that exist betweenmarket price per share, earnings per share, dividend payout ratio, earning yield, anddividend yield. High degree positive correlation (0.654) has been found between MPS and EPS. Similarly, there is 0.538, 0.225, 0.486, and 0.256 between MPS and DPS, DPR, and

DYR, respectively.

The market price per share has a positive correlation with many dividend variables, including earnings per share, dividend per share, payout ratio, price-earnings ratio, and dividend yield ratio. This indicates that the market price per share of Nepalese insurance businesses is positively impacted by all of these independent variables.

4.2.2 Regression analysis

Finding out more about the link between a number of independent or predictor variables and a dependent or criterion variable is the main goal of multiple regression analysis. Regression analysis is a statistical method used in statistical modeling to estimate the connections between variables. When examining the relationship between a dependent variable and one or more independent variables, it encompasses a wide range of modeling and analysis tools. Only the presence or absence of a strong link between two variables may be determined by a correlation study. However, even if a correlation coefficient shows that two variables have a significant association, it is impossible to pinpoint the precise nature of that relationship.

Multiple linear regression analysis is used to predict the impact of independent variableson Market price per share of Nepalese insurance companies. The equation for Impact of independent variables on Market price per share is expressed in the following equation:

$$\hat{Y} = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + e_i$$

Where,

$\hat{Y}$	=	Market price per share (dependent variable)
X_1	=	Earning per share
X_2	=	Dividend per share
X_3	=	Dividend payout ratio
X_4	=	Price earning ratio
X_5	=	Dividend yield ratio
α	=	Constant
$\beta_1, \beta_2 \ldots \beta_5$	=	Regression coefficients of Factor 1 to Factor 5 respectively
e_i	=	Error term

The results of model summary, analysis of variance (ANOVA) and beta coefficients of impact of independent variables like, EPS, DPS, DPR, PER and DYR on Market priceper share are presented in the following tables respectively:

Model summary of impact of independent variables EPS, DPS, DPR, PER and DYR on Market price per share of Nepalese insurance companies

Table 6

Model Summary

Model	R	R Square	Adjusted R	Std. Error of the Estimate
1	.646[a]	.498	.469	.32626

Predictors: (EPS, DPS, DPR, PER, DYR)

The coefficient of determination, or R-square, which is sometimes referred to as the model summary, can be used to explain variation. According to Table 4.6, the R- square value is 0.498, meaning that the independent variables account for 49.8% of the variation in the market price per share of Nepalese insurance firms. But in this study, 51.2% of the data remain unexplained. Put another way, this study has not taken into account other significant dividend-related factors linked to insurance businesses that are crucial for understanding dividend.

Similarly, adjusted R-square is 0.469 which means 46.9% variation in Market price per share is explained by the independents variables after adjusting degree of freedom (df). This shows moderate relationship between all variables of dividend and Market price per share. Model summary also indicates the standard error of the estimate of 0.32626 which shows the variability of the observed value of Market price per share from regression line is 0.32626 units.

Table 7

Impact of independent variables of dividend on market price per share(ANOVA)

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	7.548	7	1.078	10.131	.000[b]
	Residual	17.776	167	.106		
	Total	25.324	174			

Dependent Variable: Market price per sharePredictors: (EPS, DPS, DPR, PER, DYR)

The ANOVA yields a p-value of 0.000, which is smaller than the alpha value of 0.01. As a result, the connection between the dependent and independent variables may be accurately predicted by the model. Because of this, the market price per share variance may be largely explained by the independent variables earning per share, dividend per share, dividend payout ratio, price earning ratio, and dividend yield ratio. Stated differently, at least one of the five independent factors significantly influences the market price per share. Beta coefficients of impact of independent variables on marketprice per share.

Table 8

Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig
	B	Std. Error	Beta		
1 (Constant)	2.034	.362		5.614	.000
EPS	.173	.036	.312	4.764	.000
DPS	.162	.035	.172	2.613	.010
DPR	.068	.047	.109	1.440	.152
PER	.080	.056	.109	1.429	.155
DYR	.044	.122	.116	.606	.545

Sources: Annual Reports of sample insurance companies from 2013/14 to 2022/23

The results presented in Table 4.8 also summarizes the values of unstandardized beta coefficients (β_1, β_2… β_5) and the constant α with which the estimated equation for

Impact of independent variables on Market price per share can be written. Using the values of unstandardized beta coefficients and constant, we can write the estimated equation as follows:

$\hat{Y}$ =2.034 + 0. 173X_1 + 0.162X_2 + 0.068X_3 + 0.080X_4 +0.044 X_5 + e_i.

Where,

Y= MPS, X1= EPS, X_2= DPS, X_3= DPR, X_4= PER, X_5= DYR

In the regression analysis, the beta coefficients are used to explain the relativeimportance of the independent variables in contribution to the variance in dependent variables.

The results presented in Table 4.8, shows that EPS (β_1=0.173, p=0.000) carries the heaviest weight for Market price per share, followed by DPS (β_2=0.162, p=0.010), DPR (β_3=0.068, p=0.152), PER (β_4=0.080, p=0.155), DYR (β_5=0.044, p=0.545). The results showed that a one-unit increase in earnings per share would leadto a 0.173 unit increase in Market price per share keeping other variables constant. Similarly one unit increase in dividend per share factor would lead to a 0.162 unit increase in Market price per share, one unit increase in dividend payout ratio factor lead to a 0.068 unit increase in in Market price per share and so on. In conclusion, earnings per share, dividend per share, and dividend payout ratio dimensions have significant impact on market price per share.

4.3 Major Findings

The life insurance corporation limited's descriptive statistics are displayed in the following table. The lowest and maximum market price per share of LIC is Rs. 1425 and Rs. 4095, respectively. The highest EPS year is 2016–17, while the lowest EPS year is 2017–18. The dividend per share has a minimum of 12.63 and a maximum of 78.40. The greatest dividend payout ratio was recorded in 2017–18, while the lowest was in 2015–16. The price-earnings ratio is low in 2015–16 and high in 2020–21. The average is 3253.67 for MPS, 54.45 for EPS, 45.14 for DPS, 1.10 for DPR, 69.30 for PER, and 0.02 for DYR.

The descriptive statistics of Nepal Life Insurance Company Ltd. are displayed in the following table. The maximum market price per share of NELIC is 4450, and the

minimum MPS is950. The NELIC's highest and lowest earnings per share (EPS) yearsare 2021–2022, respectively. The dividend per share has a minimum of 26.32 and a maximum of 70.53. The dividend payout ratio is lowest in 2016–17 and highest in 2018–19. The average is 3306.83 for MPS, 44.92 for EPS, 57.64 for DPS, 1.58 for DPR, 81.86 for PER, and 0.03 for DYR.

The Surya Life Insurance Company Limited's descriptive statistics are displayed in the following table. The minimum MPS is while the maximum market price per share (SLIC) is 1070.560. The highest and lowest earnings per share of the SLIC are recordedin 2019/20 and 2020/21, respectively. The dividend is not paid in 2020–2021 and has amaximum of 18 per share. The year 2020/21 will have the highest dividend payout ratio, while 2020–2021 will see the lowest. The price-earning ratio is low in 2018–19 and high in 2019–20. The average MPS, EPS, DPS, DPR, PER, DYR, and DPS are 892.50, 16.78, 11.15, and 0.82, respectively

Finding out more about the link between a number of independent or predictor variables and a dependent or criterion variable is the main goal of multiple regression analysis. Regression analysis is a statistical method used in statistical modeling to estimate the connections between variables. When examining the relationship between a dependent variable and one or more independent variables, it encompasses a wide range of modeling and analysis tools. Only the presence or absence of a strong link between two variables may be determined by a correlation study. However, even if a correlation coefficient shows that two variables have a significant association, it is The coefficient of determination, or R-square, which is sometimes referred to as the model summary, can be used to explain variation. According to Table 4.6, the R- square value is 0.498, meaning that the independent variables account for 49.8% of the variation in the market price per share of Nepalese insurance firms. But in this study, 51.2% of the data remain unexplained. Put another way, this study has not taken into account other significant dividend-related factors linked to insurance businesses that are crucial for understanding dividend.

The ANOVA yields a p-value of 0.000, which is smaller than the alpha value of 0.01. As a result, the connection between the dependent and independent variables may be accurately predicted by the model. Because of this, the market price per share variance

may be largely explained by the independent variables earning per share, dividend per share, dividend payout ratio, price earning ratio, and dividend yield ratio. Stated differently, at least one of the five independent factors significantly influences the market price per share. Beta coefficients of impact of independent variables on market price per share.

In the regression analysis, the beta coefficients are used to explain the relative importance of the independent variables in contribution to the variance in dependent variable. The results presented in Table 4.8, shows that EPS (β_1=0.173, p=0.000) carries the heaviest weight for Market price per share, followed by DPS (β_2=0.162,p=0.010), DPR (β_3=0.068, p=0.152), PER (β_4=0.080, p=0.155), DYR (β_5=0.044,p=0.545). The results showed that a one-unit increase in earnings per share would lead to a 0.173 unit increase in Market price per share keeping other variables constant. Similarly one unit increase in dividend per share factor would lead to a 0.162 unit increase in Market price per share, one unit increase in dividend payout ratio factor lead to a 0.068 unit increase in in Market price per share and so on. In conclusion, earnings per share, dividend per share, and dividend payout ratio dimensions have significant impact on market price per share.

4.5 Discussion

The market price per share of life insurance firms in Nepal and dividend dimensions such as DPS, EPS, DPR, DY, and P/E were shown to be interrelated in this study. Since the stock market is all about dynamism, investors and fund managers have frequently faced the challenge of correctly anticipating stock prices in order to generate respectable returns. Liquidity is an advantage of investing in shares, and you can beat the market and make a lot of money. However, forecasting share prices is a very difficult undertaking. It has been demonstrated that both intrinsic and extrinsic variables may exert influence over stock price movement, and share price movement is independent of both factors. Using multiple regression analysis and descriptive statistics this study investigates the factor affecting the stock price. The study has chosen DPS, EPS, P-E ratio and dividend yield as the major variable of stock price with the sample size of 4 life insurance companies in Nepal.

According to the findings, the variables DPS and P-E ratio are significant drivers of stock price and have a direct impact on it. Similarly, dividend yield and earnings per share have

a major beneficial impact on stock price. Thapa (2019) and other researchers also discovered a substantial positive relationship between price to earnings ratio (PER), dividend per share (DPS), and earning per share (EPS). with relation to share price. Ghimire and Mishra (2018) said in a similar manner that the variables DPS and P-E ratio are important factors that directly influence stock price. Based on the discussion, it can be concluded that a variety of factors affect market share prices, with the three primary drivers being price to earnings ratio (PER), dividend per share (DPS), and earning per share (EPS). Thus, while making stock market investments, investors must take into account all of the aforementioned aspects.

CHAPTER V
SUMMARY AND CONCLUSIONS

This last chapter provides an overview of the study's implications, conclusion, and research summary. Three parts provide a summary of the whole chapter. The study anda broad summary of the research findings are provided in the first one. The study's conclusion is derived in the second part, and some recommendations are made in the third.

5.1 Summary

The primary goal of the research project is to identify the variables influencinginsurance firms' share prices. Several literatures on dividend policy and dividend variables have been examined in order to provide a solution to this topic. One of the three main choices made by the financial management is the dividend policy. The amount of the company's net earnings that is distributed to shareholders as a return on their investment is known as the dividend. The organization's operations and success are impacted by the dividend choice. Dividends are a useful instrument that may be utilized to both retain and attract new investors. Others contend that the uncertainty issue causes dividend policy to impact value. The dividend payment is influenced by anumber of factors, including the needs and preferences of the investors and the financial institution's demand for funding for the possible investment. The dividend choice has an impact on the organizational structure of the corporation. On the other side, investors might use it as information. One of the decisions that affects share price is the dividend. These institutions were able to flourish because the first financial institutions that were founded were unable to fulfill the demands of the market for credit and could not provide the necessary environment for their operations to progress toward a growing position. The market price of a share will rise above net worth, and investors anticipateto receive a large dividend as a percentage of profits. Thus, paying dividends to shareholders is a good method to win over investors' trust and persuade them to buy stock.

The primary focus of this study is the dividend payment techniques currently used by listed corporations. The primary focus of the study is on the variables that impact

insurance firms' share prices. The most unstable dividend payout ratio is the random payout ratio. Typical procedure for businesses in Nepal, businesses don't keep enough cash on hand to pay dividends. Therefore, it addresses certain specialized goals, such as determining the correlation between other financial indicators and the suitable dividend plans for various insurance providers.

By gathering and computing the earning per share, dividend payout ratio, dividend yield, earning yield, and price earning ratio, the link between dividends and stock prices has been studied. Many additional analyses are carried out to determine the proper link between the dividend and other variables that impact the payout in order to make the research trustworthy. Utilizing statistical approaches, the regularity of dividend distribution across several corporations is also examined.

5.2 Conclusions

The primary goal of the research was to determine how much the market share prices of four selected life insurance firms in Nepal were impacted by dividend policy elements, such as DPS, EPS, and others, and how much of an impact these factors had on share prices during the course of the study. The study's findings show that a number of factors are taken into account before paying dividends to shareholders. These include dividends paid to preferred shareholders, dividends paid in prior years, amounts paid by competing companies, net earnings for the period, reserve fund balance, and investment opportunities.

Few listed businesses in Nepal have been consistently giving their shareholders dividend payments. Moreover, businesses have not been adhering to a consistent dividend distribution strategy. The aforementioned key findings lead this study to the conclusion that, in the Nepalese environment, insurance businesses' earnings and dividend payouts are seen adequate, since they are somewhat higher than those of manufacturing and financial sectors. However, the listed firms in Nepal have not been able to deliver equitable dividends due to the low dividend payment ratio. Regarding dividend payments, none of these corporations have acceptable or well-defined policies. The lack of substantial correlation found between DPS and other factors suggests that none of these firms have a

stronger dividend policy. The study comes to the conclusion that there are other factors besides cash dividends that influence share price. However, there are other variables that also affect share price volatility, such as earning potential, bonus shares, dividend decision information value, etc.

The security brokers, other market makers, and the rumors they spread in the market have an imperfect role in the Nepalese Share Market. Additionally important part in the variation of share price. When the company's earnings exceed the fixed costs that must be reimbursed to the lenders, the leverage impact is positive. The market price of shares is positively impacted by the dividend policy. Even while the economy, governmental regulations, the engineering industry's prospects, and market forces all contribute to share price changes, one crucial factor is dividend policy, which should be optimized to maximize shareholder wealth. Consequently, it is recommended that the corporation adjust its current dividend policy and procedures to optimize share market value while maintaining growth potential.

5.3 Implications

The following conclusions are suggested for future research on additional sector benefits based on the research findings of this study. An investigation of the variables influencing the share price movement of Nepali insurance firms is necessary. It is thus advised that investors and portfolio analysts make use of the information on the aspects that they should take into account when making investment decisions and forecasting future dividends, based on the study's findings. Before choosing an investment choice, consumers must take into account the variables when choosing dividend-paying companies.

It is also suggested that while determining the dividend, the insurance company's board of directors and directors of the finance department take into account which elements have a larger determining influence. The study's findings advise that before making investments or determining the dividend policy, investors, the board of directors, and the head of the finance department of Nepalese insurance firms should take dividend announcements, EPS, P/E ratios, and DPR into account. This will assist in determining the most efficient, effective, and acceptable dividend distribution choice for businesses, as well as whether to maintain retained earnings for debt settlement, future initiatives, or dividend decisions.

Due to the shortcomings of regression and correlation models, Wilcoxon Signed Rank Test; other models can be used to explain the various relationships between EPS, P/E, DPR and the value of the firms. Since, there are qualitative characteristics such as the political factors, legal factors. Similarly, quantitative factors like company size, age, goodwill, market to book value, CEO tenure, CEO duality among others which can influence the share price apart from the dividend, a study should be carried to determine their combined effect and their relationship with the share price.

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ABSTRACT The valuation and performance of insurance companies' shares are influenced by a spectrum of factors, encompassing both industry-specific elements and broader economic indicators. This abstract aims to delineate these crucial factors that significantly impact share prices within the insurance sector. The core profitability of an insurance company depends on its underwriting discipline. A robust underwriting performance, characterized by prudent risk assessment and pricing, contributes to sustained profitability, thereby positively influencing shareholder confidence and share prices. Insurance companies often generate a substantial portion of their income through investments in various financial instruments. Fluctuations in interest rates, market volatility, and the overall performance of these investments can directly impact an insurer's financial health and subsequently influence share prices. The regulatory landscape greatly influences insurance companies. Changes in regulations, compliance requirements, or legislative reforms can affect operational costs, product offerings, and market competitiveness, thereby impacting investor sentiment and share prices. The frequency and severity of insurance claims directly impact an insurer's financial stability. Higher claim payouts or unexpected spikes in claims due to unforeseen events (natural disasters, pandemics, etc.) can adversely affect profitability, leading to a decline in share prices. Economic cycles, interest rates, inflation, and overall market trends play a pivotal role in determining the performance of insurance stocks. Market downturns or economic recessions can lead to reduced consumer spending capacity, impacting premium growth and ultimately affecting share prices. The competitive dynamics within the insurance industry can affect market share, pricing strategies, and innovation. A company's ability to adapt, innovate, and maintain a competitive edge influences investor perceptions and, consequently, share prices. Understanding and analyzing these multifaceted factors is crucial for investors, analysts, and stakeholders aiming to comprehend the complexities inherent in valuing insurance companies' shares. A comprehensive assessment of these elements can provide valuable insights into predicting and interpreting fluctuations in share prices within the insurance sector. Keywords: Market Share Price, Earning