FACTORS AFFECTING THE SHARE PRICE OF NEPALESE INSURANCE COMPANIES

A Thesis

Submitted

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CERTIFICATION OF AUTHORSHIP

I certify that the work in this thesis has not previously been submitted for a degree nor has it been submitted as part of requirements for a degree except as fully acknowledged within the text.

I also certify that the thesis has been written by me. Any help that I have received in my research work and the preparation of the thesis itself has been acknowledged. In addition, I certify that all information sources and literature used are indicated in the reference section of the thesis.

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Nabin Khatiwada

December, 2019

APPROVAL SHEET

We, the undersigned, have examined the thesis entitled FACTORS AFFECTING THE SHARE PRICE OF NEPALESE INSURANCE COMPANIES presented by Nabin Khatiwada candidate for the degree of Master of Business Studies (MBS) and conducted the viva voce examination of the candidate. We hereby certify that the thesis is worthy of acceptance.

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RECOMMENDATION LETTER

It is certified that thesis entitled FACTORS AFFECTING THE SHARE PRICE OF NEPALESE INSURANCE COMPANIES submitted by Nabin Khatiwada is an original piece of research work carried out by the candidate under my supervision. Literary presentation is satisfactory and the thesis is in a form suitable for publication. Work evinces the capacity of the candidate for critical examination and independent judgment. Candidate has put in at least 60 days after registering the proposal. The thesis is forwarded for examination.

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ABBREVIATIONS

CV	:	Coefficient of Variation
DPR	:	Dividend Payout Ratio
DPS	:	Dividend Per Share
DY	:	Dividend Yield
EPS	:	Earning Per Share
e_t	:	Error Terms
Ltd.	:	Limited
MBS	:	Masters of Business Studies
MPS	:	Market Price Per Share
MSS	:	Mean Sum of Square
MVPS	:	Market Value Per Share
NEPSE	:	Nepal Stock Exchange
NP	:	Net Profit
NSE	:	Nairobi Securities Exchange
PE	:	Probable Error
PER	:	Price Earning Ratio
SD	:	Standard Deviation
SEE	:	Standard Error of Estimate
TSS	:	Total Sum of Square
TU	:	Tribhuvan University

ABSTRACTS

This study examines the determinants of share price of insurance companies of Nepal listed on the Nepal Stock exchange Limited over the period of 2011/12 to 2017/18. Data were sourced from the annual reports of the sampled insurance companies and analyzed using regression model. The results revealed that earning per share and price- earnings ratios have the significant positive association with share price while dividend yield showed the significant inverse association with share price. The major conclusion of the study is that market price per share, earning per share, dividend per share, cash dividend ratio, dividend yield ratio, price earning ratio, correlation analysis and regression analysis are the most influencing factors in determining share price in Nepalese insurance companies.

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Investment plays a key role for the development of a country. Investment, in its broadest sense, means a commitment of money and resources that are expected to generate additional money and recourses In the future. The well understanding of investment requires the understanding of relationship between income, saving and investment, because investment is the result of interplay of these factors. Saving is not possible without earning, earning is not possible without investment and investment depends on the mobilization of savings either directly by savers or by financial intermediaries. Investments are made in assets. Assets, generally, are of two types. They are: real assets and financial assets. The investment in financial assets is called financial investment and the investment in real assets is called real investment (Bhalla, 2007).

The term ‘dividend’ has been defined under Section 2(35) of the Companies Act, 2063. The term “Dividend” includes any interim dividend. It is an inclusive and not an exhaustive definition. According to the generally accepted definition, “dividend” means the profit of a company, which is not retained in the business and is distributed among the shareholders in proportion to the amount paid-up on the shares held by them. Dividends are usually payable for a financial year after the final accounts are ready and the amount of distributable profits is available. Dividend for a financial year of the company (which is called ‘final dividend’) are payable only if it is declared by the company at its annual general meeting on the recommendation of the Board of directors. Sometimes dividends are also paid by the Board of directors between two annual general meetings without declaring them at an annual general meeting (Brigham, 2004).

Dividend decision is one of the most important decisions in modern corporate finance. The surplus profits of a concern can either be distributed as dividends to the shareholders can be retained in the business and used for further expansion activities. Therefore, the dividend decision has an influence on the investing and financing decisions of a company. Moreover, the fundamental objective of any financial decision is to maximize the wealth of the shareholders. So the major question that arises is how far the dividend policy of a company tends to maximize the wealth of the shareholders. There is no definite answer to this question. In fact, it is one of the most controversial and unresolved issues in corporate finance.

Nepal is a least developed country resulting lower per-capita income. However, in recent days, many reforms have been made in the financial sector of Nepal like liberalization of interest rates, creation of a basic regulatory framework and development of longer term government securities market. Participation of private sector in financial sector will play an important role in the economic development of the country.

In a capital market, all companies operate in order to generate earnings. Shareholders supply equity capital, expecting to share in these earnings either directly or indirectly. When a company pays out a portion of its earnings to shareholders in the form of a dividend, the shareholders benefit directly. If instead of paying dividends, the company retains the funds to exploit other growth opportunities, the shareholders can expect to benefit indirectly through future increase in the price of their stock.

Thus, shareholders' wealth can be increased through either dividends or capital gains. The policy of a company on the division of its profits between dividend and retention is known as dividend policy. All aspects and questions related to payment of dividend are contained in a dividend policy. The wealth maximization objective in the long run can be achieved only by maintaining adequate funds for investment. Financing growth can be considered as a secondary objective of dividend policy. Therefore, the company should forecast the future need for funds and determine the amount of retained earnings available after payment of dividends (Pradhan, 2009).

Dividend refers to that portion of a company's net earnings which is paid out to the shareholders. Dividend serves as a simple, comprehensive signal of management's interpretation of the company's recent performance and its future prospects. The improved corporate dividend practice is thus an essential means to solve the problem of asymmetric information between management of newly established Nepalese companies and Nepalese investors who have invested their funds therein.
Dividend policy is defined as the policy of allocating the earning between the dividend and retention. In practical dividend is payable whenever the board of directors declares to pay whether it might be monthly, semi-annually or annually. Today, insurance companies have gained vital trust of the public. Banking industry offers a wide range of services encompassing the needs of public in different walks of life. At present a large number of insurance companies are operating in Nepal (Thapa, 2017).

The dividend payout ratio may be different but the common dividend payout (D/P ratio) is 40% as different studies reveal. Keeping all these things into consideration, it could be said that, the actual owner of the companies are not treated rightly by not giving sufficient and reasonable dividend. The main focus of the study is to examine the practice adopted by the Life Insurance Corporation Nepal Limited, Nepal Life Insurance Company Limited and Premier Insurance Company Limited in regards to the dividend policy. But for whole purpose different others studies are going to be done i.e. comparison of earnings per share (EPS), yearly cash dividend per share (DPS), dividend payout ratio (DPR),price earnings ratio (P/E ratio), market price per share (MPPS), comparison of total earnings, change in number of share, ratio between dividend per share to earnings per share. In the same way, this study will be focus on priority for decisions on the basis of financing decisions, investment decisions and dividend decisions of different financial year of Life Insurance Corporation Nepal, Nepal Life Insurance Company Limited and Premier Insurance Company Limited. The study also focus on theoretical subjects like as major forms of dividend (i.e. cash dividends and stock dividends), the different theory of dividends dividend policies review from the different National and International book Author.

1.2 Statement of the Problems and Research Questions

In order to analyze the dividend policy of Life Insurance Corporation Nepal Limited, Nepal Life Insurance Company Limited and Premier Insurance Company Limited, the dividend payout ratio (DPR) has been used as the indicator of the dividend policy adopted by LICN, NLIC AND PIC. Dividend payout ratio, dividend yield and dividend per share are commonly used as indicators for the nature of dividend policy. The current study considers DPR as the indicator of dividend policy due to the fact that, out of these three measures; DPR only considers the dividend payment in relation to the income level (Rafique, 2012). Moreover, the previous researchers have used DPR as the measure of dividend policy (Rozeff, 1982; Lloyd et. al, 1985; Amidu and Abor, 2006; Sur and Majumdar, 2012). In the present study DPR is measures as a ratio of cash dividend to net profit after tax.

Dividend policy is not well-known subject or practice by a large numbers of financial communities even today. From the past many years it has been tried to see the relevant and practicable dividend policy in the firms of all over the world. In content of Nepal, companies have followed some kinds of dividend policies like residual dividend policy, stable dividend policy, and regular plus. That is the reason; it can be said that dividend policy is not matching with the earnings made by the forms.

But all the same time, it is the truth that many scholars have not been able to define simple and conclusive relationship between dividend policy and market price of the stock. Some experts believe to have positive relationship but other believes no relation at all. The dividend payout means payout that manager following to decide the size and pattern of cash distribution to shareholders over time. The various financial considerations present a difficult situation to the management for coming to a decision regarding dividend distribution. The analysis of the determinants of corporate dividend policy belongs to the core issues in modern financial theory (Benerjee, 2004).

Many researchers try to uncover the issue regarding the determinants of dividend payout since joint stock enterprises came into existence and still there is no an acceptable explanation for the observed dividend behaviour of firms (Bopkin, 2016).

The capital market of Nepal is just in the way of developing, investors are investing in new companies without having the perspective analysis of those companies. In popular practice of Nepal when the firm earn big earnings they retain more and when they do not have good figure of earnings, companies announces high dividend to protect their image in the capital market. Studying the dividend trend of Life Insurance Corporation Nepal, Nepal Life Insurance Company Limited and Premier Insurance Company Limited, it can be proved as these companies had paid more dividend than the previous year. It is because the secompanies wanted to increase the perception value to protect the image in the capital market. However, pertinent question arises as to what extent these findings are still relevant in the present day context. Many changes have taken place after the completion of these studies.

In order to verify these results, this study analyses the properties of portfolios formed on dividends and examines the dividend policy and distributions practices applied by Life Insurance Corporation Nepal, Nepal Life Insurance Company Limited and Premier Insurance Company Limited, for this sample will be taken from the various insurance companies operating in the country. Thus, this study deals with the following issues:

i. What are the dividend practices followed by Nepalese insurance company?
ii. What is the relationship between dividend per share and market price per share in Nepalese Insurance Companies?
iii. What is the association between earning per share and market price per share in Nepalese Insurance Companies?
iv. Does dividend payout ratio effect on market price per share of Nepalese Insurance Companies?
v. What is the relationship between price earnings ratio and market price per share of Nepalese Insurance Companies?

1.3 Objectives of the Study

The main objective of the study is to find out the appropriate dividend policy distribution practices followed by LICN, NLIC AND PIC. Specifically, following objectives can be taken into consideration.

i. To analyze the relationship of dividend per share, earning per share, dividend payout ratio and dividend yield on market price per share in Nepalese Insurance Companies.
ii. To examine impact of dividend per share, earning per share, dividend payout ratio and dividend yield on market price per share in Nepalese Insurance Companies.
iii. To analyze market price per share, earning per share, dividend payout ratio, dividend yield and price earnings ratio of Nepalese Insurance Companies.

1.4 Significance of the Study

For the management of any organization, examination of the relationship between dividend and market price of share may become important guideline in setting suitable dividend policy. In context of Nepal, investors are still compelled to invest without proper analysis of company due to lack of information. This study is significant to those rational investors who want to invest their money as per their required trade off of risk and return. Likewise, management of banks and insurance companies can also analyze the dividend policy adopted by other companies and adopt the optimal policy in their company. This study will be useful to the university students who are curious to know about the status of LICN, NLIC AND PIC its growth, issue and challenges for the development. Dividends can be defined as the distribution of earnings (past or present) in real assets among the shareholders of a firm in proportion to their ownership (Horne, 2004).

As dividend is one of the crucial factors in every organization and dividend policy decision is one of the most important decisions. There are a small number of researchers conducted on the topic of dividend policy of sample companies. So I have made this humble attempt to fill the research in an approachable manner. This study might serve to be important information for these concerns. I believe that LICN, NLIC AND PIC insurance will be benefited more since the study is conducted on their dividend policy. Other financial institutions and public limited companies will also be benefited. It is also believed that it will provide valuable inputs for future research scholars. Due to lack of enough financial knowledge of investors their investments either hit or miss in shares. It is necessary to clarify conceptions about the return that results from investing in securities. So the study of the dividend policy is important. Finally, the dividend policies of the sample companies are of great interest to the several outsiders they are customers, financial agencies, stockbrokers, interested person and scholars. I believe that except above, those insurance companies will be benefited more since the study is conduct on their dividend policy.

1.5 Limitations of the Study

It is not a comprehensive study. There are some limitations of the study. The major limitations of the study are as follow:

i. This study is based on the five year data starting from 2013/14 to 2017/18. The result may vary with inclusion of data before 2013/14 and after 2017/18.
ii. Besides there are 26 insurance companies, only Life Insurance Corporation Nepal Limited, Nepal Life Insurance Company Limited and Premier Insurance Company Limited are taken for the study. Result may differ if other Insurance Companies such as Met Life Insurance Company, Shikhar Insurance Company. Limited.
iii. Secondary data are only taken for the study. This study does not consider primary survey of data.

1.6 Organization of the Study

The study has been organized in to five chapters. The titles of these chapters are listed below:

Chapter I: Introduction

The chapter deals with subject matters of the study consisting background of the study, focus of the study, statement of the problem, objectives of the study, significance of the study, limitations of the study and organization of the study.

Chapter II: Literature Review

This second chapter consists of theoretical review of the studies, empirical review of the studies and research gap.

Chapter III: Methodology

This unit presents research design, sources of data, population and sample and method of analysis used in the study.

Chapter IV: Results

This chapter includes financial analysis, correlation analysis, regression analysis and major findings of the study.

Chapter V: Conclusion

The fifth chapter is the final chapter of the study which consists of summary of the four entire chapters. The chapter tries to fetch out a conclusion of the study and attempts to offer recommendations for the improvement of the future performances of Life Insurance Corporation Nepal Limited, Nepal Life Insurance Company Limited and Premier Insurance Company Limited.

CHAPTER II
LITERATURE REVIEW

An argument in dividend decision is the major concern to the different companies. Specifically, the factors affecting dividend decision are major arguments among the companies. In an attempt to answer this argument, academics and practitioners developed a number of theories which have been subjected to empirical test. The academic literature has been very helpful to provide clear guidance on practical issues. Literature review section is being carried out which consists of valid and authentic books, articles and reports concerning past studies on dividend policy.

2.1 Theoretical Review of the studies

The policy of a company on the division of its profits between distribution to shareholders as dividend and retention for its investment is known as dividend policy. All aspects and questions related to payment of dividend are contained in a dividend policy. There is a reciprocal relationship between retained earnings and cash dividends. If retained earnings are kept more by the company less will be the dividend paid and if retained earnings are kept less more will be the dividend paid.

Modigliani and Miller (1961) the most comprehensive argument for the irrelevance of dividend payout has been made by Franco Modigliani and Metron Miller in 1961.The study state that value of firm is determined by the earning power of the firm's assets or its investment policy and that the manner in which the earnings stream is split between dividends and retained earnings do not affect this value. The assumption of this study is Perfect capital market in which all investors are rational. This theory ignores flotation costs on securities issued by the firm and taxes.The irrelevance theory also assumes that there are no brokerage fees or capital gains taxes. Critics of the dividend irrelevance theory note that none of its assumptions are realistic. Both companies and investors are required to pay income tax. There are also flotation and transaction costs that affect investor behavior. This allows critics to claim that in reality a company's dividend policy affects the value of the company, its capital structure, and investor behavior.

Gordon and John Lintner developed the bird-in-hand theory as a counterpoint to the Modigliani-Miller dividend irrelevance theory. The dividend irrelevance theory maintains that investors are indifferent to whether their returns from holding stock arise from dividends or capital gains. Rather they prefer a more certain dividend today to a more uncertain capital gain tomorrow.

Under the bird-in-hand theory, stocks with high dividend payouts are sought by investors and, consequently, command a higher market price. The bird in hand is a theory that postulates that investors prefer dividends from stock to potential capital gains because of the inherent uncertainty associated with capital gains. Based on the adage, "a bird in the hand is worth two in the bush," the bird-in-hand theory states that investors prefer the certainty of dividend payments to the possibility of substantially higher future capital gains. According to the bird in hand theory, investors prefer receiving dividends now rather than capital gains later.

The *tax preference theory* states that some investors prefer long-term capital gains to current dividend yield and will pay more for the stock of a firm that plows back its earnings into capital-appreciating projects instead of paying these earnings out as dividends. Taxes (and the time value of money) are the basis of this preference since stock price appreciation is taxed more favorably than dividend income.The theory reflects the fact that nobody likes taxes. The time value of money relationship means a dollar of capital gain due at some point in the future will be taxed at a later date than a dollar of dividends paid today. This reduces the tax-adjusted cost of the capital gain below that of the dividend.

The **residual theory of dividends** suggests that the dividend paid by a firm should be viewed as a *residual* – the amount left over after all acceptable investment opportunities have been undertaken. A residual dividend policy is also highly volatile, but for some investors, it is the only acceptable dividend policy that a company should have. In a residual dividend policy the company pays out what's left after it pays for capital expenditures and working capital needs. This approach is volatile, but it makes the most sense in terms of business operations. Investors don't want to invest in a company that justifies its increased debt with the need to pay dividends. Finally the firm will pay dividends only if there is more earnings than needed to support the firm's target capital budget spending program As the word residual suggests, dividends are what's left over after the firm has paid all its bills and undertaken all profitable (i.e., positive NPV) investment projects. Therefore, under a residual dividend policy scheme, the distribution for any period will equal net income less the firm's *target equity ratio,* times its planned total capital spending program. The reason the target equity ratio is used is so that the dollars spent on the firm's planned capital spending program will be financed so as to maintain the firm's value-maximizing target capital structure.

Gordon (1962) conducted a research regarding the interesting approach relating the market value of the firm to dividend policy. He holds that investors have a strong preference for present dividends to future capital gains under the condition of uncertainty. This is relevant theory similar to the Walter's model. In this study, it is explained that "the investors prefer present dividend rather than future capital gains". According to him market value of a share is equal to the present value of an infinite stream of dividends to be received by the shareholders.

Walter (1963) administered a research regarding dividend policies and a stock price argues that the choice of dividend affects the value of the firm. According to him, firm's cost of capital and internal rate of return are the determining factors that decide upon the dividend policy. The main point which he emphasized is that there is a significance relationship between the internal rate of investment project and market rate demanded by the investor. This study emphasized that dividend policy can be used to maximize the wealth position of stockholders. This study assumes that firm finances all investment through retained earnings. That is debt or new equity is not issued. All earnings are either distributed as dividends or reinvested internally immediately. This study assumes firm’s internal rate of return(r) and cost of capital (k) are constant.

A dividend policy is the policy a company uses to decide how much it will pay out to shareholders in the form of dividends. Some research and economic logic suggests thatdividend policy may be irrelevant (in theory), but many investors rely on dividends as a vital source of so vital income.Corporations need to use different forms of dividend in view of the objectives and policies which they implement. The major forms of dividends are cash dividends and stock dividends (Walter, 1987).

A cash dividend is money paid to stockholders, normally out of the company's current earnings or accumulated profits. All dividends must be declared by the board of directors, and they are taxable as income to the recipients. Long-term investors who want to maximize their gains should consider reinvesting their dividends. Most brokers offer a choice to reinvest or take cash dividends (Crosse, 1998).

Thus, shareholders expectation can be fulfilled through either capital gains or dividends. Since dividends would be more attractive to stockholder, one might think that there would be tendency for corporations to increase distribution of dividends. But one might equally pressure that gross dividends would be reduced somewhat, with an increase in net after tax dividends still available to stockholders and increase in retained earnings for the corporation (Benerjee, 2004).

That well-being can be partially measured by the dividend received, but a more accurate measure is the market value of stock Shareholders usually thinks that the dividend yield is less risky than capital gain. Dividends refer to that portion of a company’s net earnings which are paid out to the shareholders. Dividend is generally paid in cash. Therefore it reduces the cash balances of the company. Dividend policy affects the financial structure, the flow of funds, corporate liquidity, and investors’ attitudes. Thus, it is a central decision area related to policies seeking to maximize the value of company’s common stock (Herbert, 2004).

Dividend decision is one of the major decisions of managerial finance. It is in the sense that the company has to choose between distributing profits to shareholders and plugging them back into the business. The decision depends upon the objective of the management for wealth maximization. The firm will use the net profit for paying dividends to the shareholders, if the payment will lead to maximization of the wealth of the owners. If not, it is better to retain them to finance investment programs (Joshi, 2007).

It is therefore, a wise policy to maintain a balance between shareholders' interest with that of corporate growth from internally generated funds. The funds that could not be used due to lack of investment opportunities should be better paid as dividends, since shareholders have investment opportunities to employ elsewhere. Financial management is therefore concerned with the activities of corporation that affect the well-being of stockholders (Anthoni, 2007).

Shareholders expect two forms of return from the purchase of common stock. These are capital gains and dividends. Capital gain may be defined as the profit resulting from the sale of common stock. The shareholders expect, at same point, a distribution of the company's earnings in the form of a dividend. From mature and stable corporations, most investors expect regular dividend to be declared and paid on the common stock. This expectation takes priority over the desire to retain earnings to finance expansion and growth (Gitman, 2008).

A company's board of directors announces a cash dividend on a declaration date, which entails paying a certain amount of money per common share. After that, a record date is established, which is the date on which a firm determines its shareholders on record. Also, stock exchanges or other appropriate securities organizations determine an ex-dividend date, which is typically two business days before the record date. An investor who bought common share prior to-dividend date is entitled to the announced cash dividend (Cheney &Mosses, 2009).

Cash dividend refers to the portion of earnings paid as cash to the investors in proportion to their share of the company. Both the total assets and net worth of the company are reduced when the cash dividend is distributed. The market price of the share drops in most cases by the amount of cash dividend distributed. The firm has to maintain adequate balance of cash for the payment of cash dividend otherwise fund to be borrowed for this company paying stable dividend. To what extent cash dividend is popular and adopted by companies in Nepal may be an interesting study (Cheney &Mosses, 2009).

A stock dividend is a payment in the form of additional shares of stock instead of cash. For example, a 10 percent stock dividend would mean that each shareholder was given one share of stock for every ten shares already owned. Under a two-for-one stock split, each shareholder would be given one additional share of stock for every share already owned, thus doubling the number of shares owned by each shareholder. The effects of a stock dividend or a stock split is no change in the firm’s assets or liabilities or in shareholders’ equity (assets less liabilities) and there is fall in per share earnings, book value, and market price, and an offsetting rise in the number of shares held by each shareholder (Francis, 2009).

The stable dividend policy is the easiest and most commonly used policy. The goal of the policy is to aim for steady and predictable dividend payouts every year, which is what most investors are seeking. When earnings are up, investors receive a dividend. When earnings are down, investors receive a dividend. The goal is to align the dividend policy with the long-term growth of the company rather than with quarterly earnings volatility. This approach allows the shareholder to have more certainty around the amount and timing of the dividend (Khadka, 2013).The primary drawback of the stable dividend policy is that, in booming years, investors may not see a dividend increase.

By contrast, under the constant dividend policy, a percentage of the company's earnings are paid every year. In this way, investors experience the full volatility of company earnings. If earnings are up, investors get a larger dividend; if earnings are down, investors may not receive a dividend. The primary drawback to the method is the volatility of earnings and dividends. It is difficult to plan when dividend income is highly volatile).

2.3 Empirical Reviews of the Studies

At the time of this thesis writing following article, newspaper and previous study are studied for fulfillment of prescribed objectives.Many researchers have analyzed their dividend policy of NLIC, LICN and PIC finding in their research paper in this subject through investment policy of commercial insurance companies.In this subject, effort has been made to examine and review some of the related articles published in different economic journals. Bulletin of World Bank, dissertation papers, newspapers and researchers view.

Van Horne andDonald (1971) conducted a more comprehensive study in dividend policy and new equity financing. The main objective of the study is to highlight the combined effect of dividend policy and new equity financing decision on the market value of the firm's common stocks. For the purpose of study, two industries viz. 86 electric utility firms included on the computing utility database and 39 firms in the electronics and their electric component industries listed on the computing industrial data tape in 1968 were selected.

Nishant (2002) surveyed a research on dividend policy and stock price volatility in Pakistan. This paper attempts to determine the impact of dividend policy on stock price risk in Pakistan. A sample of 160 listed companies in Karachi Stock Exchange is examined for a period from 1981 to 2000. The empirical estimation is based on a cross-sectional regression analysis of the relationship between stock price volatility and dividend policy after controlling for firm size, earning volatility, leverage and asset growth. Both dividend policy measures (dividend yield and payout ratio) have significant impact on the share price volatility. The relationship is not reduced much even after controlling for the above mentioned factors. This suggests that dividend policy affects stock price volatility and it provides evidence supporting the arbitrage realization effect, duration effect and information effect in Pakistan. This study concluded that Dividend policy affects stock price volatility and it provides evidence supporting the arbitrage realization effect, duration effect and information effect in

Pakistan. The study also stated that the responsiveness of the dividend yield to stock price volatility increased during reform period (1991-2000), whereas payout ratio measure is having significant impact only at lower level of significance. In overall period the size and leverage have positive and significant impact on stock price volatility. The size effect is negative during pre-reform period (1981-1990) but positive during

Sharma (2003)examined on dividend theories and practice on empirical analysis on joint venture banks of Nepal. It had chosen four sample banks; Standard Chartered Bank Ltd, NABIL Bank Ltd, Himalayan Bank Ltd and Investment Bank Ltd. The objectives of this study were to find dividend procedures followed by the Joint Venture Banks of Nepal (JVBs) in the context of Nepal. The aim of the study was also to find out ability and attitude of paying dividend and analysis of variance on the payment of dividend between banks with a similar profit range. Major factors affecting dividend policy of JVBs legal aspects, and shareholders consideration were analyze with analyzing practices of issuing bonus shares.

After conducting the different analysis the major findings showed that the high dividend paying firms are fund to be more financially in comparison to low dividend paying firms. The MPS was affected by dividend policy while change in DPS affects the share price of different firms differently. The study did not find dividend payment is as regular phenomena in Nepalese companies but still the major leading joint venture banks paying dividend (either cash or stock) regularly in order to meet the shareholder’s expectation. Dividend was not seen decreased and increased with accordance to the EPS. Net profit of the organization does not properly support the declaration of dividend. The findings of this study also concluded that the MPS is considerably higher than the actual net worth. This huge gap clearly indicated that investors do not have adequate knowledge about the actual financial status of the company. Managers preferred smooth dividend payments by moving only part way towards the target payout on each year. They tried to look into future when they set the payment.

Neupane (2004) conducted a study on determinants of stock price in Nepal stock exchange taking 11 sample organizations using various financial and statistical tools like standard deviation, correlation, regression analysis, t-test, Z-test. He concluded that in NEPSE, DPS, BVPS and EPS individually do not have consistent relationship with the market price of share, among the listed companies. The pricing behavior varies from one company to another. But EPS, BVPS and DPS, jointly have significant effect in market price shares. So, there may be other major factor affecting the share price significantly. NEPSE is in its primary stage, adopting open outcry system for stock trading and stock brokers lack professionalism to create investing opportunities in NEPSE. Commercial banking sector has dominated the overall performance of NEPSE. Manufacturing and processing, trading and hotel sector have weak performance. So, financial intermediaries are strong but their ultimate investment is suffering.

Pradhan (2005)estimated theeffects of dividends on common stock prices about the Nepalese evidence. It was based on the data collected from 29 companies from 1994 to 1999.The study is directed towards resolving the following issues in the context of Nepal:

i. Whether dividends or retain earnings are more attractive among Nepalese stockholders?
ii. What is the elasticity of dividends and/or retained earnings with respect to the market price per share? Is there any presence of economies of scale in dividend supply function?
iii. If the dividends and/or retained earnings increases by one percentage point, will market price per share increase by less than or more than unity?
iv. Whether the speed of adjustment through dividend payment or retained earnings between desired and actual share prices is slow of fast?

Tamang (2010)analyzedthe effect of dividend policy of commercial banks in Nepal which was prepared by Tamang with data taken from three commercial banks i.e. NIC, NABIL and BOK in 2010. The data were analysed for five years from 2005/06 to 2009/10 by using financial and statistical tools. The study also analyzed the relationship of dividend with MPS, EPS, Net Profit and Net Worth. This study stated that there is lack of rules and regulations that bind companies to pay dividend every year. Not only the companies do not have dividend policy but also the government does not have any clear policy towards dividend. Dividend pay-out ratio does not show any stability and co-ordination with other variables. These banks do not have any strategic dividend policy. The study finds that there is instability and inconsistency in dividend payment by the banks. Every year EPS and MPPS are highly fluctuating. Similarly market prices per share are also fluctuating. These short of fluctuation cause no faith from public towards the companies. Shareholders in Nepal are not conscious. Taking the advantages of unconscious shareholders, the company management does not show the commitment promised in prospectus.

Bista (2011)has make the research on impact of dividend on market price of shares of selected commercial banks of Nepal with the aim to highlight the various aspects of dividend pollicies and practices in Nepal and to analyze the variable such as DPS,DPR,Dividend yield and their relation with market value. Collecting the data from secondary source of year from 2006/07 to 2009/10, analyzed and made the study using financial and statistical tools.

MPS and DPS of commercial banks are fluctuating year by year.There exists negative relationship between dividend yield and MPS.At last multiple regression analysiso f MPS on EPS and DPS revealsthe positive relation between MPS with EPS and MPS with DPS.

Dhungel (2013) analyzed on impact of dividend on share pricing in commercial banks of Nepal. This was an empirical study on the five commercial banks listed in NEPSE. Empirical results show that among the total respondents, 87% of the share investor care for the financial health of the company before purchasing equity shares from the secondary market. Amongst the financial health all investors care for the profitability of the institution, of which around 75% of the respondents look for dividend per share.

The degree of relationship between MPPS and DPS is found to be positive in case of NABIL and HBL, whereas negative for NIBL, EBL, and LUMBINI. However, it is only significant in the case of NIBL. The result is somewhat unexplainable. On the other hand, the degree of relationship between MPPS and EPS seems to be highly positive in NABIL Bank but it is insignificant. However, it is significantly positive in case of HBL. The correlation coefficient between MPPS and EPS is insignificant, positive and moderate for LUMBINI, EBL, and NIBL. The correlation coefficient between MPPS and DPS is found to be positive for NABIL, EBL, and HBL however, it is only significant in case of HBL. Similarly, NIBL and LUMBINI have negative signs but these are again not significant.

On the whole it can be said that although there is mostly positive relationship between MPPS and EPS/DPS, mostly this is not significant. In countries like Nepal where financial sector is still in infancy and growing slowly, predicting dividend policy of bank is difficult and uncertain. It is also difficult to assume that most of the shareholders/investors decide rationally after looking at different indicators of the company they are investing in. However, the growing financial sector in recent years with the increasing number of financial institutions has increased the scope of examining dividend policy and contributing to recommended policy agenda that can help to improve the financial sectors. Investors are also required to go thoroughly through available data on the companies for their investment to be secure and provide lucrative returns.

Rana (2014) has study on impact of dividend on market price of share which was prepared by Rana with data taken from three commercial banks i.e. NABIL, SBL and NCC in 2014. The data were analysed for five years audited data from 2008/09 to 2012/13 by using financial and statistical tools. The study also analyzed the relationship of dividend with MPS, DPS, EPS, DPR, P/E ratio, DY, EY. This study concluded that there was positive relationship between dividend and MPS.

The EPS was to be considered for determining for dividend amount.The DPS analysis showed that there was not any consistency of dividend policy all in the sample banks.

Therefore, these banks need to create somehow payingreasonable DPS every year, i t was because higher DPS creates positive attitudeof shareholders and investors as t he psychological value of shareholders was alsovalued as the assets of banks.

Masum (2014)makes a research on dividend policy and its impact on stock price on commercial banks listed in dhaka stock exchange .This paper empirically estimated excess stock market returns for all the thirty banks listed in Dhaka Stock Exchange for the period of 2007 to 2011. Attempts were made to examine, what kind of relationship exists between dividend policy and stock market returns of private commercial banks in Bangladesh, and to what degree the returns on stocks could be explained by their respective dividend policy for the same period of time. Various theories related to dividend policy were tested in various parts of the world with different results and findings. Various other articles were reviewed, written in Bangladesh and abroad to see the significance of dividend policy on the stock prices and to compare the results of this research with those conducted earlier. Sample size was large i.e. all the listed commercial banks of Dhaka Stock Exchange so the results were reliable and valid. Panel data approach was used to explain the relationship between dividends and stock prices after controlling the variables like Earnings per Share, Return on Equity, Retention Ratio have positive relation with Stock Prices and significantly explain the variations in the market prices of shares, while the Dividend Yield and Profit after Tax has negative, insignificant relation with stock prices. Overall results of this study indicated that Dividend Policy had significant positive effect on Stock Prices.

The findings of research work states that return on equity and earnings per share have statistically significant positive impact on stock price and Profit after tax has a significant negative impact on Stock Market Prices of the commercial banks of Bangladesh. The empirical estimation based on the Fixed Effect and Random Effect Model show significant negative relation between Dividend Yield and Stock Price while Retention Ratio has a negative but statistically insignificant relationship with Stock Market Prices.This study also find out that in the last decade stock market of Bangladesh went through many changes and huge ups and downs were seen. The economic crisis of the world in year 2009-11 also affected the market adversely.It is also pertinent to mention that stock markets of Bangladesh are mainly speculative and capital gains are mostly sought by investors, particularly individual investors. Institutions and long term investors give due consideration to dividends and dividend polices of companies, which is a large and significant portion of the total investment in the stock markets.

Baker and Powell (2014) studied on dividend policy issues in regulated and unregulated firms: a managerial perspective. This paper outlines previous research on four explanations for and various factors influencing dividend policy; and reports a survey of senior managers in US listed companies to determine their views. It finds strong support for the signaling explanation and some support for the bird-in-hand, tax-preference and agency costs explanations, especially from regulated companies. It has ranked the perceived importance of 20 factors influencing policy and discusses the top five (future earnings, past dividends, share price, concern over false signals and cash flow); and the differences between regulated and unregulated companies.

Omid(2015) surveyed on a survey of management views on dividend policy in Iranian firms. The main purpose of the study was to investigate the views of chief financial officers (CFOs) of Iranian firms listed on the Tehran Stock Exchange about the factors influencing dividend policy in 2015. The paper aims to update and extend previous research on dividend policy to capture the determinants of the dividend policy of Iranian firms. For the accomplishment of the objective of the study, survey instruments were used as methodology to identify the factors that CFOs consider in formulating dividend policy, based on both theoretical and empirical works on dividends, to identify the factors that are most important in dividend policy of firms. The findings show that the most important determinants of a firm's dividend policies are the stability of cash flow, the availability of profitable investment opportunities, and stability of profitability. Also, industry type appeared to influence the importance that respondents placed on one determinant of dividend policy.

Kamat and Manasvi (2015) conducted a more detailed study on corporate dividend policy in India: Do Regulated and Unregulated Firms Behave differently. The purpose of this study was to investigated at an aggregate level of ownership (i.e. closely/largely held and regulated firms), and at disaggregate level across 20 industries to examine how Indian Private Corporate Sector appropriated its profits over 1961-2007 periods. Alternatively it is examined whether internal funds are a significant source of finance and the dynamics of relation between dividends relative to earnings across type of companies and industries. The prior research on relationship between industry and dividend policies are mostly focused on dividend behaviour of public limited and non-financial corporations with reference to developed capital markets alone. The study by Dhrymes and Kurtz (1964) on dividends of electric utilities is one of the foremost in this regard while other studies exclude regulated firms from their analysis with the common explanation that, the regulators directly or indirectly dictate how much dividends the firm can pay.

The focus is on providing extensive cross-sectional description on how Indian corporate sector firms in general have appropriated their profits over the period 1960-61 through 2006-2007 periods for purpose of analysis the data from Reserve Bank of India (RBI), emerging from two different dataset compilations namely the published data compendium by on the Private Corporate Business Sector in India-Selected Financial Statistics from 1950-51 to 1997-98 (All Industries) and published compendium on Selected Financial Statistics on Public Limited Companies 1974-75 to 1999-2007 (Selected Industries) consisting of industry level data respectively.

Pandey (2016) has surveyed on impact of dividend policy on market price of share.The main objectives of the study can be listed as follows:

i. To identify the relationship between market price and other related financial indicators such as earning per share, dividend per share, net worth per share and dividend payout ratio.
ii. To highlight the dividend practices carried out by the sampled joint venture commercial bank in Nepal.
iii. To provide feedback to the policy makers and executives working in various commercial banks chosen for study based on findings of analysis.

This study finds that last decade stock market of Bangladesh went through many changes and huge ups and downs were seen. The economic crisis of the world in year 2009-11 also affected the market adversely. The average earning per share (EPS) of the bank under study shows a positive result. But the coefficient of variation indicates that the EPS of the banks are not stable. Among the banks under study, SCBNL has the highest average EPS and NSBL has the least with highest degree of fluctuation. The average DPS shows that there is no regularity in payment of dividend. The DPS is quite fluctuating. Among the banks under study, NBBL has the lowest average DPS and also the highest fluctuation in DPS. Among the banks under study, SCBNL has the highest average DPR and least fluctuation in the DPR. The result also shows that, NBBL has the lowest average DPR but highest fluctuation as indicated by highest CV.The average price-earnings ratio of NSBL among the banks under study is the highest and also highly unstable. The ratio for remaining banks is satisfactory and quite stable.There is lack of legal obligation that abides the companies to pay dividend when they are running at profit. The dividend per share is affected by earning per share, retention ratio, net profit and net worth per share differently in different banks. The extent of effect also differs in the banks.

Bokpin (2016) studied on investment opportunities, corporate finance, and dividend payout policy evidence from emerging markets.The purpose of this paper was to investigate the effects of investment opportunities and corporate finance on dividend payout policy. This issue is tested with a sample of 34 emerging market countries covering a 17-year period, 1990-2016. Fixed effects panel model is employed in estimation. The main findings of the study are; a significantly negative relationship between investment opportunity set and dividend payout policy is found. There are, however, insignificant effects of the various measures of corporate finance namely, financial leverage, external financing, and debt maturity on dividend payout policy. Profitability and stock market capitalization are also identified as important in influencing dividend payout policy. Profitable firms are more likely to support high dividend payments to shareholders. However, firms in relatively well-developed markets tend to exhibit low dividend payout policy.

Khaled and Mgbame (2017) surveyed ondividend policy and share price volatility: UK evidence. The purpose of this paper was to examine the relation between dividend policy and share price changes in the UK stock market. Multiple regression analyses were used to explore the association between share price changes and both dividend yield and dividend payout ratio. The main findings of the study are; a positive relation is found between dividend yield and stock price changes, and a negative relation between dividend payout ratio and stock price changes. In addition, it is shown that a firm's growth rate, debt level, size and earnings explain stock price changes.

Shrestha (2017) analyzed on dividend policy of commercial banks with respect to NIC, Nabil and BOK.There was on three selected commercial banks covered the period of 2008/09 to 2014/16.This research shows that none of the bank have well defined and appropriate dividend policy.Change in dividend per share and dividend payout ratio affect the share price differently in different banks. This study claims that relationship between DPS with EPS, net profit and net worth are Positive in all banks.

Rai (2018)make study on a comparative study on dividend practices of Himalayan and Nabil Bank.There was on ten selected commercial banks covered the period of 2008/09 to 2014/15. The study finds that there is direct relationship between DPS and EPS, DPS and MPS and DPS and CR of both banks but for HBL bank the correlation is positive while for the Nabil bank it is negative one. The average earning per share on Nabil is greater than HBL, which means Nabil is relatively more successful than HBL. The Nabil leads HBL in the sense that it has greater average dividend payout ratio and dividend percent than that of HBL.

Ansari (2018) has conducted a comparative study on dividend policy in Commercial Banks in Nepal by using secondary data. The objectives of the study were as follows:-

i. To examine the impact of dividend practices on market price of stock.

ii. To determine the impact of dividend policy on market price and other financial indicators.
iii. To conduct the financial position of the sample banks.
iv. The major findings of the study may be summarized as under:
v. There is not fixed consistency between financial variable i.e EPS, MPS, DPS, DPR, NW, PLE ratio EY and DY.
vi. Dividend practices of all sample banks are neither stable nor constantly growing. Haphazard way of distribution is growing trend is observed.
vii. Changes in DPS affect the market price per share differently in different banks.

Pradhan (2018)examined the effects of dividends on common stock prices: The Nepalese Evidence, This paper attempts to explain the effect of dividend payment and retained earnings on market price of share in the context of Nepalese companies. A majority of earlier studies conducted in USA mostly indicate that retained earning effect is more than the dividend effect given investment opportunities. A study of Indian evidence shows that their stock market has also started recognizing the impact of retained earnings. This paper investigates these implications in the context of Nepal and finds only limited support for it. The results indicate the customary strong dividend and very weak retained earnings effect on market price of share. The study shows a predominant influence of dividends and an absence of retained earning effect on share price. Dividends are found relatively more attractive among the Nepalese stockholders. They are therefore not indifferent toward dividend and retained earnings.

Joseph and Symon (2019)studied on effect of dividend policy on share price performance: A Case of Listed Insurance Companies at the Nairobi Securities Exchange, Kenya, International Journal of Accounting, Finance and Risk Management**.** The purpose of this study was to determine the effect of dividends policy on share price performance of insurance companies listed at the Nairobi Securities Exchange (NSE). This study was guided by the following objectives: to determine the effect of dividend payout on share price performance of insurance companies listed at the Nairobi Securities Exchange (NSE), to examine the effect of dividend yield on share price performance of insurance companies listed at the Nairobi Securities Exchange (NSE), to analyze the effect of earnings per share on share price performance of insurance companies listed at the Nairobi Securities Exchange (NSE) and to determine the effect of inflation on share price performance of insurance companies listed at the Nairobi Securities Exchange (NSE). This study was underpinned by two theories namely; Modigliani and Miller, and Gordon's Model. This study adopted a combination of descriptive design and historical research design. The target population was six insurance companies listed at the Nairobi Securities Exchange namely; Jubilee holdings ltd, Pan Africa Insurance holdings, Kenya Re-Insurance Corporation limited, Liberty Kenya Holdings, British American Investment company ltd and CIC Insurance groups. Secondary data was collected from the companies' past financial reports for ten year period between 2006-2018. Panel data was evaluated and analyzed using stat. Dynamic regression analysis was used to establish the relationship between dividend policy on share price of the listed insurance companies. This study established that dividend payout, dividend yield, earnings per share and inflation are jointly significant in predicting the value of share price. Therefore the study recommended that insurance firms should consider their dividend policy accurately since they have a great power on influencing share price, because they affect share price by making stocks prices move either up or down depending on dividends announced by management hence management should be prudently responsive in declaring dividends. Further, the study recommended that management of insurance firms should strive to declare higher dividends to spur share price upwards. The findings of this study benefits insurance firms and regulators like CMA, IRA and NSE in decision making. Further studies to be conducted regarding dividend policy on share price with expanded time frame on all listed companies at NSE.

Gupta (2019)has study on a comparative sturdy of Nepalese Commercial Banks.This sturdy takes in to consideration data of only five fiscal years from 2013/14 to 2017/18 five commercial banks are taken as sample. The objectives of sturdy are:

i. Does there any significant relationship between dividend and share prices of commercial banks?
ii. What are the effects of dividend policy, earning, asset growth, and leverage in stock price?
iii. Whether the dividend or retained earnings is more popular among Nepalese shareholders?
iv. What kind of dividend policy should be followed by Nepalese enterprise?

This study finds and summarize that among the sample banks, EPS of Nabil is in increasing trend whereas EPS of HBL is decreasing up to 2014/15 then increasing up to 2015/16 NSBI and NICA are increasing trend but only in 2015/16 is decreasing trend. Nabil was higher which indicate that better earning position.Standard deviation of HBL has lower, which shows higher degree of informality in comparison to other selected banks.Market value of the share is affected by dividend payment. The study also indicates that there is strong dividend payment and weak retained earning effect on the market price of the stock.

Dahal (2019)has conducted study on dividend policy practices a comparative study of Himalayan Bank and NIC Asia Bank. The selected commercial banks covered the period of 2011/12 to 2016/17. The objectives of the study were:-

i. To examine the impact of dividend policy on share price of stock.
ii. To find out major factors, which affect dividend policy of the related bank?
iii. To provide the suggestion and recommendation to concerned Banks.

This study finds that there are not any stable and consistent dividend payment practices. However, dividend payment of HBL is better in comparison with NICA.The analysis shows that no uniformity in dividend payment practices are followed by these banks. This is reason for unstable and inadequate dividends and unequal payout ratio.

2.3 Research Gap

The above studies are performed by different researchers. Their weakness and drawbacks are also mentioned there with. These studies will analyze the dividend determination of Life Insurance Corporation Nepal, Nepal Life Insurance Company Limited and Premier Insurance Company Limited. Usually the NLIC, LICN and PIC had Followed the irregular dividend policy but in increasing trend. In this study, it is tried to carry out the financial information from the NLIC, LICN and PICfinancial report like as total earnings, earnings by the NLIC, LICN and PIC in difference financial periods, percentage change in total earnings, and total numbers of shareholders who have the NLIC, LICN and PICshares of difference financial periods, actual EPS of NLIC, LICN and PICand its average. Inthis study I will analyze the cash dividend per share, dividend payout ratio, price earnings ratio, market value per share and market value per share and its impact on dividend policy.

This study try to put the Chief Executive Director's view towards the NLIC, LICN and PIC and dividend policy followed by NLIC, LICN and PIC. This study also put the views towards the dividend and it impacts on shareholders or investors. In second chapter this also try to clear the theoretical aspects like as major forms of dividends, dividend affects stock valuation, stock dividend and splits, corporate share repurchase, developing dividend policy, the information content of dividends, residual theory of dividend, residual income, factor affecting corporate dividend policy, factor affecting DPR, legal provisions regarding dividend practice and review from the national and international Authors.

Coming up with the dividend policy is challenging for the directors and financial manager of a company, because different investors have different views on present cash dividends and future capital gains. Another confusion that pops up is regarding the extent of effect of dividends on the share price. Due to this controversial nature of a dividend policy it is often called the dividend puzzle.

Various models have been developed to help firms analyze and evaluate the perfect dividend policy. There is no agreement between these schools of thought over the relationship between dividends and the value of the share or the wealth of the shareholders in other words.

CHAPTER III

METHODOLOGY

With a view to attain the overall objectives of the research, the research has been carried out following the systematic methodology. This chapter provides a description of the type of data and with the description of methods and procedures for analyzing data (Kothari, 2009).

3.1 Research Design

The structure of this research is constructed by both the descriptive designs and explanatory designs. Explanatory design is followed by review of past journals, books and annual reports as well as related schedules and consultation to suffice the qualitative and quantitative information regarding the stated objectives. Concurrently, descriptive design comprises a unique approach to this issue by using the simple regression model to identify the factors that influenced the dividend policy of the Nepalese commercial insurance companies to test the theoretical relation between dividends with variables namely earning per share, dividend per share, price earnings ratio, market value per share to book value per share ratios, net worth, its analysis and the practices of this bank (Adhikari, 2017).

3.2 Sources of Data

The required data has been collected from the "financial statement of listed companies published by Nepal Stock Exchange Limited. The related data are obtained from the annual reports published by concerned insurance companies. Besides this further data are collected from published and unpublished reports, journals, internet, thesis etc. This study is based on secondary data. Other necessary information was collected from various institutions.

3.3 Population and Sample

All listed insurance companies are popular and out of them three insurance companies Life Insurance Corporation Nepal Limited, Nepal Life Insurance Company Limited and Premier Insurance Company Limited are considered as the sample of the study.This study attempts to identify thee determinants of stock price in NEPSE and analyze the volatility in NEPSE. Up to the date there are 204 listed companies. Out of them, NEPSE classified 26 insurance companies operate in Nepal where 17 are non-life insurance companies and 9 are life insurance companies operate in Nepal.As this study is more concerned with analysis of recent trends the data of five years has been taken as sample for the study. So, how NEPSE index has been fluctuating for the last ten years, when did it reach its peak, what is its value when it reaches its peak, when did it fall to the lowest and what is the lowest value during the ten years period etc. has been considered to analyze the NEPSE index's behavior.

Life Insurance Corporation

Life Insurance Corporation Nepal Limited (shortly called as L.I.C. Nepal) is one of the largest capitalized insurance companies of Nepal. The journey of L.I.C. Nepal had its genesis in 2000 when global insurance behemoth, Life Insurance Corporation of India, joined hands with Vishal Group, a dominant player of Nepal. 55% of ownership of the Company is held by L.I.C. of India, 25% by Vishal Group and 20% by general public in the form of equity. This way the essence of L.I.C. Nepal can best be described by the word "Glocal" i.e. a unique combination of global experience with local expertise. Life Insurance Corporation (Nepal) Limited having Registration No. 765-057/58, was incorporated under the Companies Act, 2053, on 27.12.2000. It has got the life insurance license from Insurance Board of Nepal (Beema Samiti) on 07.08.2001 and started operations from 01.09.2001.

Nepal Life Insurance Company Limited

NepalLife, established under the Company Act 2053 and Insurance Act 2049 as a public limited company on 2058/01/21 (04/05/2001). NepalLife is the foremost life insurance company established by private investors. The promoters of the company are a group of well known businessmen and business houses of Nepal. Within the sixteen years of operation the Company has set up an excellent business record and has a strong financial position. The company has an authorized capital of Rs.1,000 Crore and Paid-up Capital of Rs. 549.61 Crore. As on Asad 2076, the company has issued 11,10,688 conventional policies having total premium income of Rs.8,738 Crore and 15,15,769 Foreign Expatriate policies having premium income of Rs.407.85 Crore. Out of the total premium collected, the company has invested Rs.7,215 Crore as per guidelines of Bima Samiti. The company has insured itself with well-known reinsurance company "Hannover Re Life Reinsurance Company", Germany.

Premier Insurance Company Limited

Incorporated on 12th may 1994, Premier Insurance Company (Nepal) Limited has emerged as a renowned general insurance company of the second generation. The company has earned a reputation in the local and international insurance and reinsurance secors as well for its professionalism and services. Premier's success in the insurance and reinsurance business owes itself to the determination of its promoters to succeed. Comprised of prominent entrepreneurs, the promoters of the company have brought their experiences, entrepreneurial talent and leadership skills to add to the company's growth.

Premier's greatest strength is its people. In a business that begins and ends with people, Premier's human resources has huge responsibilities on it's shoulders. Regularly trained on the latest technology, Premier's staff provides effiecient service to its customers. They are also trained on developing innovative and custom-made products, better risk management solutions and quality service for maximum security to customers. The company's dedication to provide better customer service also reflects through its associations with leading insurance and reinsurance securities of the world rated, highly for claim payment capabilities by reputed agencies like Standard & Poor (S&P).

3.4 Methods of Analysis

For analysis of this study different financial and statistical tools have been used. By applying financial and statistical tools, the relationship between dividends with different relevant financial variables has been examined. The calculated results have been tabulated and compared and interpreted. Simple regression analysis has been used to study the influences of independent variables to dependent variables

3.4.1 Financial Tools

For analysis of this study different financial and statistical tools have been used.

Earning Per Share

Earning per Share(EPS) reflects the earning power of a company. It makes easy to compare past and present EPS of the company and compare with competitions. It is calculated by dividing total earnings available to the common shares holders by number of common share outstanding.

$$\text{EPS} = \frac{\text{Total earnings available to common shareholders}}{\text{Number of share outstanding}}$$

Dividend per Share

Dividend per Share (DPS) gives financial soundness of the company. Only financially strong companies can distribute dividend. It attracts investor to invest in shares of stock and maintains goodwill. It is calculated, by dividing net earnings pain to the common shareholders (after payment of preference dividend) by number of common share.

$$\text{DPS} = \frac{\text{Net earnings paid to common shareholders after payment of preference dividend}}{\text{Number of share outstanding}}$$

A portion of the earning is retained in the business.

Dividend Pay Out Ratio

Dividend payout ratio (DPR) is the raio of distribution of earnings to the shareholders and total earnings is dividend payout ratio. It is calculated in term of percentage. It is calculated by using the following formula.

$$\text{DPR} = \frac{\text{Dividend per share}}{\text{Earning per share}}$$

Price Earnings Ratio

The price-earnings ratio (P/E ratio) is the ratio for valuing a company that measures its current share price relative to its per-share earnings. The price-earnings ratio is also sometimes known as the price multiple or the earnings multiple.

The PE ratio can be calculated as:

PE Ratio = Market Value per Share / Earnings per Share

Dividend Yield

Dividend yield shows the return of investor in relation to current market price of share. Since DPS is only the amount per share distributed to stockholders, it cannot show the actual return of those shareholders, who has purchased the share from market in higher price than the book value. Therefore analysis of DY is important. It is the result obtained by dividing DPS by MVPS.

$$\text{Dividend Yield} = \frac{\text{Dividend per share}}{\text{Market val ue per share}}$$

Dividend Pay-out Ratio

The percentage of the profit on share that is distributed as dividend is called dividend pay-out ratio (DPR).DPR indicates the dividend policy of the insurance companies and it also informs the investment opportunities held with the company. High DPS indicates low growth rate and vice versa

It is the result obtained by dividing DPS by EPS.

$$\text{DPR} = \frac{\text{Dividend per share (DPS)}}{\text{Earning per share (EPS)}}$$

3.4.2 Statistical Tools

Statistics (as used in sense of data) are numerical statement of facts capable of analysis and interpretation and the science of statistics is a study of the principals and methods used in the collection, presentation, analysis and interpretation of numerical data in any sphere of inquiry .To conduct the study following statistical tools are being used (Chaudhary 2017).

i) Mean

The most popular and widely used measure of representing the entire data by the one value is known as average. Its value is obtained by adding together all times and the summation of times is divided by the number of sampled periods. If the past items of the sampled periods are X_t number of periods are n , then Mean is defined as follows:

$$\text{Mean (X)} = \frac{\sum X}{N}$$

Where, $\sum X$=sum of the variable 'X'

N=No of observation

ii) Standard Deviation

The standard deviation (SD) is an important and widely used measure of dispersion. The measurement of the scatterings of the mass of figure in a series about an average is known as dispersion. The greater the value of dispersion, greater the standard deviation. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of a series; a large standard deviation means just the opposites it is denoted by the letter σ(Silwal, 2018).

$$\text{SD } (\sigma) = \sqrt{\frac{1}{N}\sum(X-\overline{X})}^2$$

Where,

N = Number of observations

X = Expected return of the historical data

iii) Coefficient of corrélation (r)

This statistical tool has been used to analyze, identify and interpret the relationship between two or more variables. It interprets whether two or more variables are correlated positively or negatively. Statistical tool analyses the relationship between those variables and helps the selected insurance company to make appropriate investment policy regarding to profit maximization and deposit collection; fund mobilization through providing loan and advances (Silwal, 2018).

For the purpose of decision-making, interpretation is based on following term:

- When r = 1, there is perfect positive correlation.
- When r = -1, there is perfect negative correlation.
- When r = 0, there is no correlation.

Karl Pearson's Correlation coefficient(r) can be obtained as:

$$r= \frac{n\sum xy-(\sum x)-(\sum y)}{\sqrt{n\,(\sum x^2)-(\sum x)^2}\times\sqrt{n\,(\sum y)^2-(\sum y)^2}}$$

Where,

n = number of observations in series X and Y

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

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

$\sum X^2$ =sum of squared observations in series X

$\sum Y^2$ = sum of squared observations in series Y

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

iv)Probable Error

Probable error (PE) is measured for testing the reliability of an observed value of correlation coefficient. It is computed to find the extent to which it is dependable. If correlation coefficient is greater than 6 times P.E the observed value of r is said to be significant, otherwise nothing can be concluded with certainty. But if the calculated (r) is less than the PE correlation is not at all significant. It is calculated by using following formula:

$$\text{Probable Error (PE)} = 0.6745 \times \frac{(1-r^2)}{\sqrt{n}}$$

Where,

PE (r) = Probable error of correlation coefficient

r = Correlation coefficient

n = Number of observations

v) Regression Analysis

Regression is the statistical tool which is used to determine the statistical relationship between two or more variables and to make estimation or prediction of one variable on the basis of the other variables. In other words, regression is that statistical tool with the help of which the unknown value of one variable can be estimated or predicted on the basis of known value of the other variable. Thus, regression determines the average probable change in one variable based on a certain amount of change in another (Silwal, 2018).

This study has applied the regression equation as follows:

$MPS = B_0 + B_1 DPS + B_2 EPS + B_3 DPR + B_4 DY + B_5 PE + e_t$

Where, MPS= market price per share

EPS= earnings per share

DPS= dividend per share

DPR= dividend payout ratio

PE = price earnings

e_t= error terms

B_0, B_1, B_2, B_3, B_4 and B_5 are regression coefficient

CHAPTER IV
RESULTS

This chapter provides systematic presentation and analysis of the data. These secondary data was gathered exclusively from annual report. In this chapter, the collected data are presented, analyzed and interpreted following the research methodology dealt in the third chapter. The relevant data and information regarding dividend policy of insurance companies are presented and analyzed comparatively. The chapter begins with the descriptive analysis of Market price per share, Earnings per share, Dividend per share, Dividend yield, and Price earnings ratio analysis of the sample insurance companies and then explanatory and hypothetical analysis is followed. The financial as well as statistical tools are used for the comparison of the financial indicators. At the end of this chapter correlation and regression analysis of the sample insurance companies are done and data are presented in a systematic tabulated form.

4.1 Financial Analysis

4.1.1 Market Price Per Share

Stock prices change every day as a result of market forces. Once trading starts, share prices are largely determined by the forces of supply and demand. A continuous rise in prices is known as an uptrend, and a continuous drop in prices in called a downtrend. Sustained uptrend form a "bull" market and sustained downtrends are called "bear" markets. Share price is closing price of the stock of a firm in Nepal Stock Exchange for selected period.

Market price of share is that value of stock, which can be received by firm or equity holders selling it in capital market. The capital market determines MPS. The market price per share depicts the perception of the market relating to the performance of a company. MPS is the current price at which the stock is traded.

Table 4.1

Analysis of MPS of Insurance Companies

Years	LICN	NLIC	PIC
2008/09	680	1108	138
2009/10	580	770	157
2010/11	415	566	161
2011/12	870	785	190
2012/13	1320	1425	300
2013/14	4095	2148	124
2014/15	2799	4006	892
2015/16	3580	2886	450
2016/17	2151	4351	2205
2017/18	1622	1425	1690
Total	18,112.00	19,470.00	6,307.00
Mean	1,811.20	1,947.00	630.70
SD	1,305.69	1,367.58	741.59
CV	72.09	70.24	117.58

***Source: Annual Report of LICN, NLIC and PIC* (2008/09 to 2017/18)**

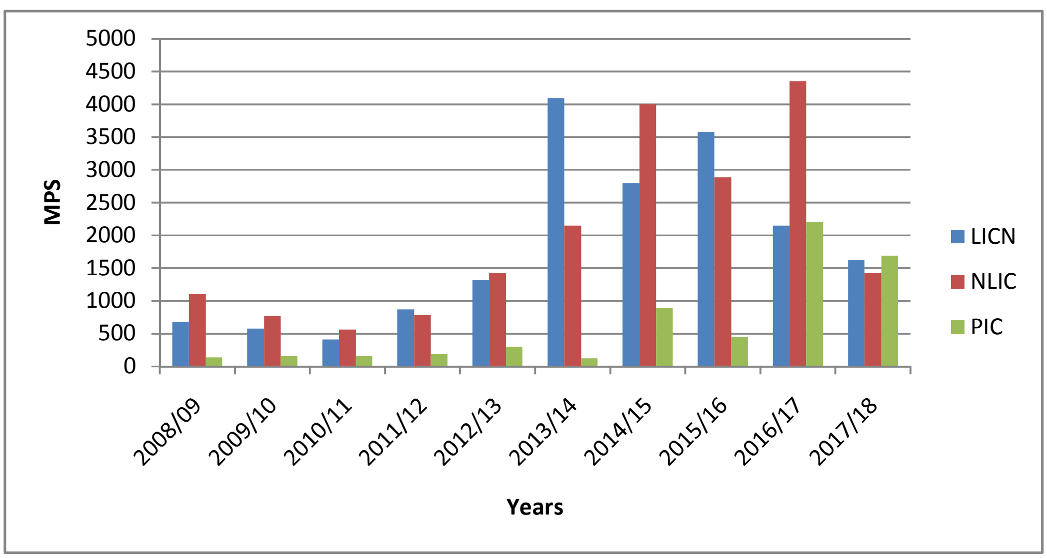


Figure* 4.1.: *Analyses of MPS of Insurance Companies

Table 4.1 and Figure 4.1 shows the audited data of market price of share of insurance companies for the period of 2008/09 to 2017/18. The table shows that Nepal Life Insurance

Company has the highest average MPS and Premier Insurance Company Ltd. has the lowest one. Reviewing the SD, Premier Insurance Company Ltd. has the least variability in MPS. The Coefficient of Variation of Life Insurance Corporation Nepal Ltd. is lowest. High SD and CV show high risk of fluctuation in MPS and vice-versa.

NLIC has the highest average MPS among the listed insurance companies which is Rs 1947. Its SD is Rs 1367.58 and CV is 70.24 percent. This CV is the second highest CV showing that the insurance company has the moderate fluctuation in terms of MPS amongst other two insurance companies.

LICN falls in second position in respect of average MPS i.e. Rs. 1811.20. Its SD is 1305.69 and CV is 72.09 percent. The CV of this insurance company indicates that there is a 40 percent chance of fluctuation in MPS.

The average MPS of PIC is Rs. 630.70, which is in the last position according to the average MPS. Its SD is 741.59 and CV is 117.58. Its MPS fluctuates by 117.58 percent as denoted by its CV. This CV is the highest CV showing that the company has the highest fluctuation in terms of MPS amongst other two insurance companies.

By looking at table 4.1 it can be seen that LICN and NLIC are performing well in the market. It shows that these companies are able to fulfil market expectations.

4.1.2 Earning Per Share

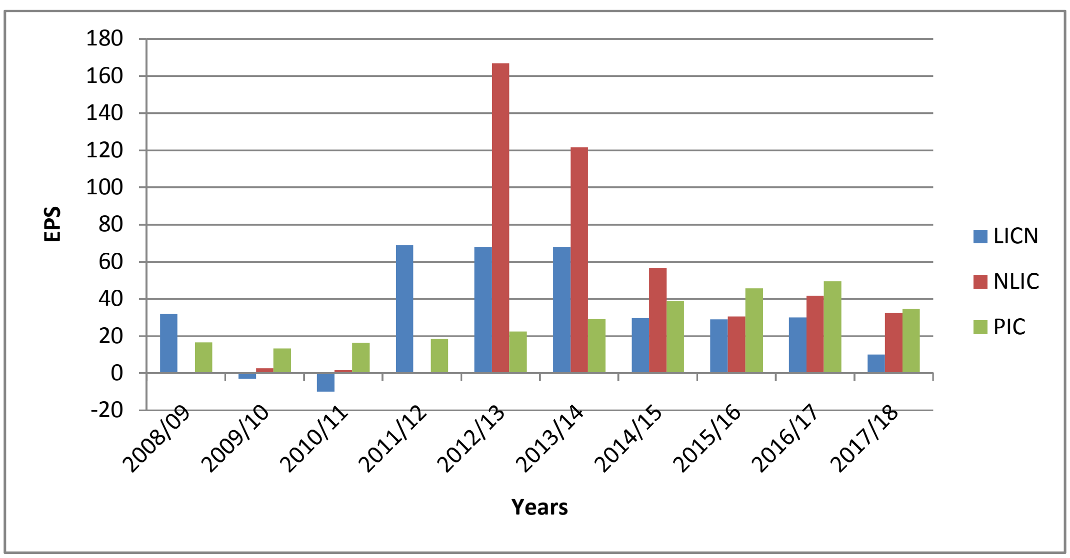
Earnings per share (EPS) are one of the most important financial indicators, which measure the earning capacity of a firm. The EPS generally influences the share price in positive direction. It measures the profit available to the ordinary shareholders on a per share basis. EPS is calculated by dividing net income available to the common stockholders by the total number of common shares outstanding.

Table 4.2

Analysis of EPS of Insurance Companies

Years	LICN	NLIC	PIC
2008/09	32	0	16.51
2009/10	-3	2.67	13.37
2010/11	-10	1.68	16.34
2011/12	69	0	18.5
2012/13	68	166.85	22.45
2013/14	68	121.51	29.18
2014/15	29.6	56.67	39.05
2015/16	29.11	30.42	45.63
2016/17	30.06	41.83	49.42
2017/18	10.11	32.44	34.75
Total	322.88	454.07	285.20
Mean	32.29	45.41	28.52
SD	28.76	56.70	13.08
CV	89.09	124.87	45.85

***Source: Annual Report of LICN, NLIC and PIC* (2008/09 to 2017/18)**



Source: Annual Report of LICN, NLIC and PIC*(2008/09 to 2017/18*)

Figure 4.2 Analyses of EPS of Insurance Companies

Table 4.2 and Figure 4.2 show the earning per share of the insurance companies audited data for the periods 2013/14 to 2017/18. From the above table it is clear that NLIC has the highest average EPS of Rs. 45.41 whereas PIC has the lowest which is Rs. 28.52. LICN has second position in EPS of Rs. 32.29 and its SD is 28.76 and CV is 89.09 percent. This indicates 89.09 percent fluctuation in EPS. PIC has the least variability in EPS as its CV is 45.85 percent. NLIC has the highest variability in EPS ranging as its CV is highest at 45.85 percent. Without considering the rate of fluctuation the analysis of EPS cannot be completed. For this we can observe the co-efficient of variation (CV). It can be observed that the CV of the sample insurance companies ranges from 45.85 percent to 124.87 percent. This implies that there is high fluctuation in the EPS of two companies LICN and NLIC which demonstrates the performance has low level of consistency.

The profitability of a company affects the market price of the stock and the ability of the company to pay dividends. The profitability ratios indicate how well management is using the resources as its disposal to earn a return on the funds invested by shareholders and various other groups.

EPS is one of the tools which measures profitability of a firm. It measures the profit available to the ordinary shareholders on a per share basis. Analysing the EPS of all the three listed insurance companies, we found that NLIC has the highest EPS of all insurance companies in all the five years looking at the average EPS. The average EPS of PIC being the lowest among these companies indicates that this company is also not performing well comparatively.

4.1.3 Dividend Per Share

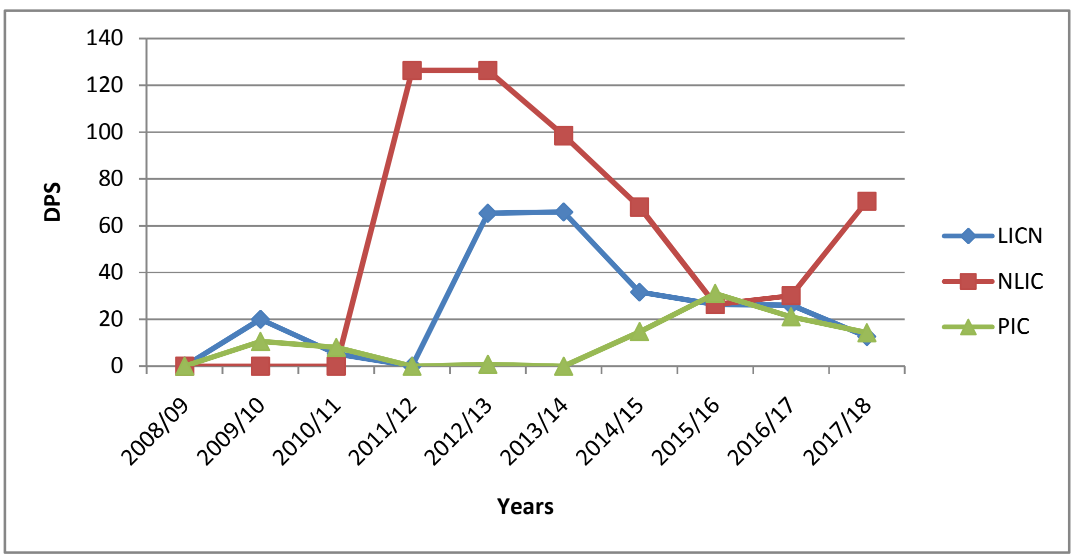
Dividend per share (DPS) is that amount, which is paid to common shareholders on a per share basis. DPS shows what exactly the ordinary shareholders receive. Dividends per share are the amount of dividend that a publicly-traded company pays per share of common stock, over their reporting period that they have issued. If dividends per share go up, it is often a signal that the firm is performing well financially. It is calculated by dividing the dividend to equity shareholders by the total number of equity shares.

Table 4.3

Analysis of DPS of Insurance Companies

Years	LICN	NLIC	PIC
2008/09	0	0	0
2009/10	20	0	10.53
2010/11	5.26	0	8
2011/12	0	126.32	0
2012/13	65.26	126.32	0.79
2013/14	65.79	98.5	0
2014/15	31.58	68	14.73
2015/16	26.32	26.32	31.02
2016/17	26.11	30.08	21.05
2017/18	12.63	70.53	14.23
Total	252.95	546.07	100.35
Mean	25.30	54.61	10.04
SD	23.92	50.54	10.51
CV	94.55	92.56	104.69

***Source: Annual Report of LICN, NLIC and PIC* (2008/09 to 2017/18)**



***Source: Annual Report of LICN, NLIC and PIC* (2008/09 to 2017/18)**

Figure 4.3 Analyses of DPS of Insurance Companies

Table 4.3 and Figure 4.3 show the dividend per share of insurance companies audited data from the year 2008/09 to 2017/18. It is clear to see that average DPS of NLIC is the highest of Rs. 54.61 dividend per share whereas PIC has the lowest of average dividend per share of Rs. 10.04. LICN has the second highest dividend per share of Rs. 25.30 in average. It has SD of 23.92 and CV of 94.55 percent which shows that there is a chance to increase or decrease in dividend payment by 61 percent.

PIC has lowest average DPS. It has Rs 10.04 average DPS. Its SD is 10.51 and CV is 104.69 percent which is the highest fluctuation showing that it has least consistent DPS which shows that there is a chance to increase or decrease in dividend payment by 104.69 percent. From the table we can see that in the five years NLIC has the highest amount of dividend paid per share while PIC has paid the least amount and comparing about to consistency among these three companies NLIC is more consistent because it has lowest CV and PIC is more inconsistent because it has highest CV.

4.1.4 Cash Dividend Payout Ratio

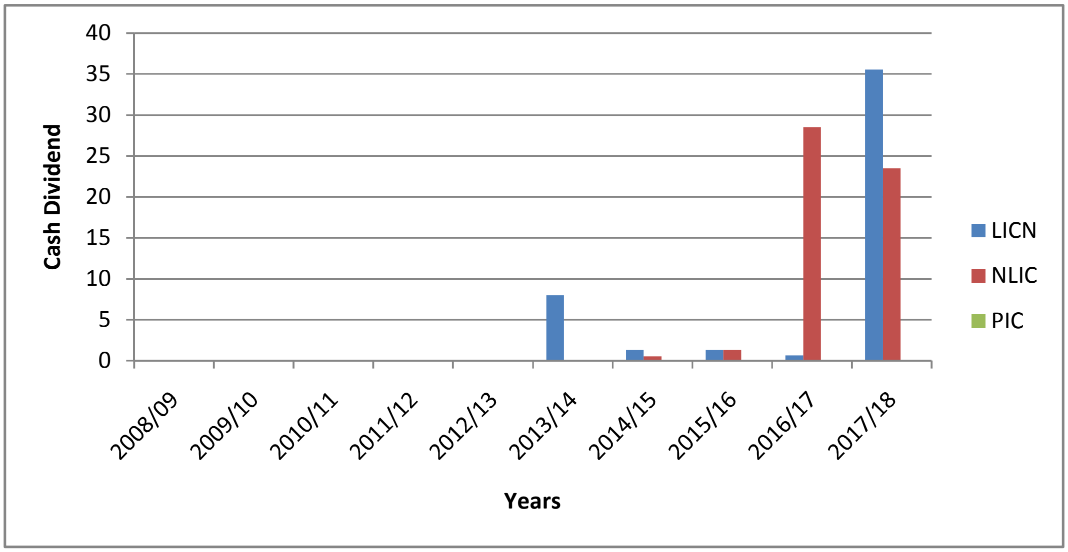
Cash Dividend payout ratio (DPR) indicates the percentage of actual earnings of the company received by the ordinary shareholders. It is calculated by dividing the cash dividend per share to ordinary shareholders by the earning per share (EPS).

Table 4.4

Analysis of Cash Dividend Ratio of Insurance Companies

Years	LICN	NLIC	PIC
2008/09	0	0	0
2009/10	0	0	0
2010/11	0	0	0
2011/12	0	0	0
2012/13	0	0	0
2013/14	8	0	0
2014/15	1.32	0.52	0
2015/16	1.31	1.31	0
2016/17	0.63	28.5	0
2017/18	35.53	23.5	0
Total	46.79	53.83	0.00
Mean	4.68	5.38	0.00
SD	11.11	10.94	0.00
CV	237.49	203.19	#DIV/0!

Source: Annual Report of LICN, NLIC and PIC (*2008/09 to 2017/18*)



Source: Annual Report of LICN, NLIC and PIC(*2008/09 to 2017/18*)

Figure 4.4 Analysis of Cash Dividend Ratio of Insurance Companies

Table 4.4 and Figure 4.4 shows the cash dividend pay-out ratio (DPR) of insurance companies. From the above table it is clear that NLIC has the highest average Cash DPR of 5.38 percent. The SD is 10.94 percent and 203.19 percent of CV indicates low level of risk in dividend payments because it has the lower CV in comparison to LIC insurance company. Likewise, LICN has 4.68 percent average Cash DPR ratio. It is the second highest average Cash DPR among the three listed insurance companies. The SD is 11.11 while it has a CV of 237.49 percent showing second lowest fluctuation in its dividend payment.

The SD of PIC is zero while the CV is zero percent that show the highest fluctuation or deviation in the Cash DPR. This indicates high risk of getting lower dividends which shows insecurity to investor from the earning side. High DPR in one hand indicate less future growth and in the other hand it provides positive indications to market.

4.1.5 Dividend Yield

DY for a stock relates the annual dividend to share price. Typically, companies with good growth potential retain a high proportion of earnings and have a low dividend yield, whereas companies in more mature industries pay out high portion of their earnings and have a relatively high dividend yield.

Table 4.5

Analysis of DYR of Insurance Companies

Years	LICN	NLIC	PIC
2013/14	4.98	6.91	0.00
2014/15	0.77	1.56	1.65
2015/16	0.94	0.91	6.89
2016/17	0.72	0.75	0.95
2017/18	0.58	3.28	0.84
Total	7.99	13.42	10.34
Mean	1.60	2.68	2.07
SD	1.89	2.57	2.76
CV	1.19	0.96	1.33

***Source: Annual Report of LICN, NLIC and PIC*(2013/14 to 2017/18)**

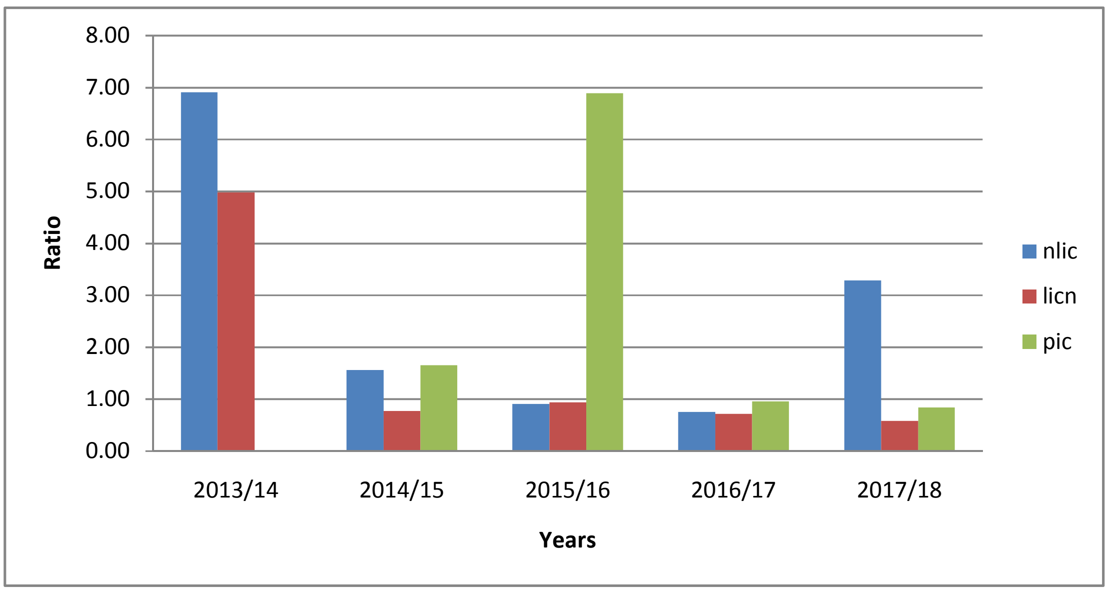


Figure 4.5 Analysis of DY of Insurance Companies

Table 4.5 and Figure 4.5 show the dividend yield of insurance companies audited data for the period of five year starting from 2013/14 to 2017/18. From the above table it is clear that NLIC has the highest average dividend yield and LICN has the lowest one.

PIC has fluctuating trend in its dividend yield. It started from 0 in year 2013/14 and increased to 1.65 in 2014/15 than after it has dividend yield of 6.89, 0.95and 0.84 in year 2015/16,2016/17 and 2017/18 respectively with the average of which is the second highest average DY among the selected insurance companies. The SD of DY under the period of study is 2.76. The coefficient of variation shows that there is a fluctuation of 2.76 percent in DY of PIC which is the highest fluctuation under the study.

The average DY of LICN, during this period of study is 1.60 percent. It stayed within the range of 0.58 percent to 4.98 percent. The SD of DY is 1.89 whereas the coefficient of variation is 1.19 percent which is the second lowest fluctuation under the study.

NLIC has the third highest average DY of 2.68 noted during the period of the study. It has the DY range between 0.75 percent to6.91 percent during the period of the study. The SD of the DY is 2.57. The CV of 0.96 percent indicates that there is the lowest fluctuation in the DY of NLIC during the period of the study in comparison to other companies.

From the above data and calculation, it can be seen that the DY range of the companies under study is between zero percent and 6.91percent. If compared, NLIC has the most consistent DY in comparison to other insurance companies during the period of the study.

4.1.6 Price Earnings Ratio

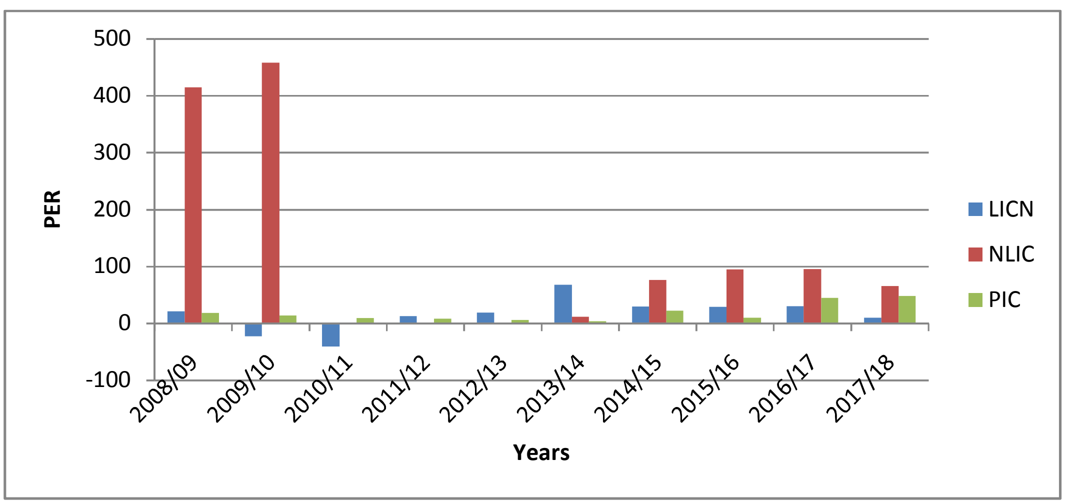
Price-earnings ratio (PE) is also called the earnings multiplier. Price-earnings ratio is the ratio between market price per share and earnings per share. In other words, this represents the amount which investors are willing to pay for each rupee of the firm’s earnings. The P/E ratio measures investor’s expectation and market appraisal of the performance of the firm. The higher P/E ratio implies the high market share price of a stock given the earning per share and the greater confidence of investor in the firm’s future. This ratio is computed by dividing earning per share to market price per share.

Table 4.6

Analysis of P/E Ratio of Insurance Companies

Years	LICN	NLIC	PIC
2008/09	21	414.98	18.17
2009/10	-23	458.33	14.21
2010/11	-41	0	9.57
2011/12	13	0	8.49
2012/13	19	0	6.15
2013/14	68	11.73	4.25
2014/15	29.6	76.78	22.85
2015/16	29.11	94.87	9.86
2016/17	30.06	95.77	44.62
2017/18	10.11	66.21	48.63
Total	155.88	1,218.67	186.80
Mean	15.59	121.87	18.68
SD	30.01	170.73	15.77
CV	192.51	140.10	84.41

***Source: Annual Report of LICN, NLIC and PIC* (2008/09 to 2017/18)**



***Source: Annual Report of LICN, NLIC and PIC* (2008/09 to 2017/18)**

Figure 4.6 Analysis of P/E Ratio of Insurance Companies

Table 4.6 and Figure 4.6 show that the average PE ratio of LICN during this period of study is 15.59. It has the second highest average P/E ratio. It is within the range of (41) and 68. The

SD of P/E ratio is 30.01 whereas the coefficient of variation of 192.51 percent indicates the fluctuating nature of PE ratio in LICN.

NLIC has the highest PE ratio of 121.87 ranges between 0 and 458.33 during the period of the study. The SD is 170.73 and the fluctuation of 140.10 percent in the P/E ratio is seen during this period. It has moderate CV in comparison to other companies which indicate that the company has the moderate fluctuation in P/E ratio among the companies under study during the period.

PIC has the P/E ratio of 18.68 which is the lowest average P/E ratio in comparison to other insurance companies during this period. The range between P/E ratios is 4.25 and 48.63. The SD is 15.77. The fluctuation of 15.77 percent in the P/E ratio is seen during this study. It has the highest level of fluctuation of P/E ratio in comparison to other companies under study during the period.

From the above calculations, NLIC has the highest average P/E ratio and PIC has the lowest. The CV indicates that among the companies under study during the period, NLIC has highest consistency in P/E ratio whereas the P/E ratio of PIC is fluctuating than other companies.

4.2 Correlations Analysis

The overall correlation between MPS, DPS, EPS, Cash DPR, DY and PE Ratio can be calculated and described as follows:

Table 4.7

Correlations Analysis of MPS, DPS, EPS, Cash DPR, DY and PE Ratio

Basis	MPS	DPS	EPS	DPR	DY	PE
MPS	1					
DPS	0.286	1				
EPS	0.041	0.914	1			
DPR	0.788	0.723	0.475	1		
DY	-0.071	0.896	0.919	0.441	1	
PE	0.893	0.097	-0.048	0.661	-0.165	1

Source: Appendix-II

The highest correlation has been observed to be 0.919 between EPS and DY. It indicates the existence of very high level of correlation between earning per share and dividend yield of the three sample insurance companies. The lowest correlation of –0.071 has been observed between Market Price per Share and Dividend Yield (DY). The market price of share is positively related to earnings per share, dividend per share, price earnings ratio and cash dividend payout ratio. But, market price per share is negatively related with dividend yield.

The result shows that higher the earnings per share, higher would be the market price of share. Similarly, higher the dividend per share, higher would be the market price of the share. The result also shows that higher the price earnings ratio, higher would be the market price of share. The result also shows that higher the dividend yield; lower would be the market price of share. Similarly, higher the EPS, higher would be the DPS, DPR and DY. The result also shows that higher the P/E Ratio, lower would be the DY.

4.3 Regression Analysis

This section of the study basically deals with regression results from various specifications of the models to examine the impact of dividend policy on share price for secondary data obtained from 15 observations. In this section, an attempt also has been made to test the validity of the model through statistical test of significance such coefficient of determination (R^2). In general, the purpose of analysis of variance (ANOVA) is to test for significant differences between means.

MPS is the dependent variable and EPS, DPS, DPR, P/E Ratio, DY are the independent variables. The regression result of MPS with DPS, EPS, DPR, and PE Ratio is presented in the following table. Since the correlation between MPS and DY was found to be either negative or insignificant, the regression equation has removed the independent variable of DY. The regression equation based on the outcomes of the correlation coefficients of sample companies has been re-formulated as follows:

$MPS= B_0+B_1DPS+B_2EPS+B_3DPR+B_4DY+B_5PE+e_t$

Where, dependent variable, MPS= Market Price per Share

Independent variables, EPS, DPS, DPR, and PE

EPS= earningsper share

DPS= dividend per share

DPR= dividend payout ratio

PE Ratio= price earnings ratio

e_t= error terms

The overall regression between dependent variable MPS on independent variables DPS (cash+bonus), EPS, Cash DPR, DY,PE Ratio can be calculated and described as follows:

Table 4.8

Regression analysis of DPS, EPS, DPR, DY and PE on MPS Insurance Companies

S.N.	Variable	B	t value	p value	R square	F	Prob of F
1	MPS (constant)	741.032	2.942	0.016	0.922	33.967	0.000
2	DPS	52.583	2.936	0.017			
3	EPS	-18.971	-1.913	0.088			
4	DPR	-7.921	-0.807	0.44			
5	DY	-199.468	-2.691	0.025			
6	PE Ratio	-23.668	4.267	0.002			

Source: Appendix III

The regression coefficient is positive for DPS with 52.583, that means 1 percent increment in DPS results 52.583 percent increment in MPS and vice versa.
The beta coefficient is negative foe EPS with 18.971 which implies that 1 percent increment in EPS results 18.971 percent decrease in MPS.

Beta coefficient is negative for DPR, DY and PE Ratio with 7.921, 199.468 and 23.668 respectively. It means 1 percent increment in DPR results 7.921 percent decrease in MPS and accordingly.

P-value of DPS is 0.017, EPS is 0.088, DY is 0.025 and PE Ratio is 0.002 have 0 which is smaller than level of significance α (0.10) so it is found that the regression model is statistically fitted. This means that DPS, EPS, DY and PE Ratio have significant effects in explaining the changes in MPS of all three insurance companies.

But p-value of DPR is 0.44 which is greater than level of significance α (0.10) which means that the DPR has no significant effect on MPS in all three insurance companies.
The value of R square is 0.922 signifies that DPS, EPS, DPR,DY and PE Ratio are 92.20 percent responsible to change MPS.

4.4 Findings

i. The MPS of all three insurance companies have experienced all increasing and decreasing trends. Highest market price per hare of NLIC is Rs. 4006 in 2014/15 and lowest is Rs. 138 in 2008/09 of Premier Insurance Company Limited. The MPS of LICN and NLIC is on an increasing trend in all the considered fiscal year except the last audited fiscal. However, the MPS of PIC has the trend of fluctuating in either direction. Lowest CV of NLIC is 70.24 than other two insurance company which shows that more consistency than others

ii. The EPS of all three insurance companies have seen all increasing and decreasing trends by years. Comparing about last three audited fiscal years (i.e. 2015/16, 2016/17 and 2017/18) all insurance companies EPS situation was on a decreasing trend except for PIC. Earning price per share of NLIC is 166.85 highest and lowest in 2008/09 which value is 0. And LICN is negative EPS in 2008/09 to 2011/12 and slightly increasing and reached 45.85 in 2018/19.

iii. The DPS of all three insurance companies have seen both increasing and decreasing trends by years. Regarding the last three year's DPS, the DPS of LICN and NLIC has decreased over years. However, PIC has not given cash dividend for two fiscal years and has provided dividend on the last audited fiscal year. Hence, the DPS has been in fluctuating trends.

iv. The DPR of LICN and NLIC is 0 in the first year, has been increasing upto fourth year and has decreased in the fifth year. PIC has 0 DPR in the first year, the DPR has increased in the second year and has decreased to 0 in the third and fourth year and has increased in the final year.

v. The DY of all the selected insurance companies is 0 in the first year. The DY of LICN has increased in the second year and is in decreasing trend upto fourth year and has increased slightly in the fifth year. The DY of NLIC has increased in the second year and is in decreasing trend upto the fifth year. However, the DY of PIC has been in fluctuating trends.

vi. There was increasing trends of PE Ratio in LICN upto fourth year and the ratio has decreased in the fifth year. Similarly, the PE Ratio of NLIC is in increasing trend in last four years (i.e. 2014/15, 2015/16, 2016/17, 2017/18). But in case of PIC there was fluctuating trends of PE Ratio in the last four years.

vii. It is concluded that there is a high degree of positive correlation between MPS and PE Ratio of all three insurance companies.

viii. It indicates the existence of very high level of correlation between earning per share and dividend payout ratio of the three insurance companies in comparison with overall variables.

ix. Since the correlation between MPS and DY was found to be either negative or insignificant, the regression equation has removed the independent variables of DY.

x. In the study MPS is dependent variable and DPS, EPS and PE Ratio are the independent variable. Since from the regression analysis between MPS on DPS, EPS and PE Ratio in all three insurance companies, the p-value is significant that's why the regression model is statistically significant.

xi. In the insurance companies the value of R square is significant that is why DPS, EPS and PE Ratio are responsible to change MPS. The regression value of R square is 0.922 and F-test is 33.967 and probable error is 0.

CHAPTER V
CONCLUSIONS

This chapter gives a summary of key findings of the study presented according to the objectives of the study. In addition, the major conclusions based on analysis made in previous chapter are discussed in separate section of this chapter which is followed by some implication and recommendations. The theoretical and managerial contributions, limitations and avenues for future research are also discussed.

5.1 Discussion

The stock market is one of the most important sources for companies to raise money. Stock market plays a crucial role in the financial system. This paper is complementary study to determine the effect of dividend policy on market price of share. Dividend policy is a major financial policy of organization which determines not only the sustainability and growth but also reflects the image of the organization in the market. The dividend policy decision affects the operation and prosperity of the organization because it has the power to influence other two decisions of the organization i.e. capital structure decision and investment decision. An investor expects two types of return namely capital gain and dividend by investing in equity capital or ordinary share. So, payment of dividend to shareholder is an effective way to attract new investors and maintain present investors. It is important to have clearly defined and effectively managed dividend policy so as to fulfil the shareholders' expectation and corporate growth.

The study primarily focuses on the dividend policy of the insurance companies in Nepal. It analyses the relationship of dividend policy with the different variables, especially market price of share and it also shows the dividend policy of the sample insurance companies and its impact on the different variables.

In the 'Introduction Chapter' the subject matters of the study, background of insurance companies, statement of the problem, objectives of the study and importance of the study has been described.

Literature review section included discussions on the conceptual framework on dividend. It reviews the major studies relating with dividend decision of several authors and from the several books and journals.

Research methodology chapter explained dividend behaviour of insurance companies in Nepal. It includes introduction, research design, selection of sample, sources of data collection, limitation of the study and method of analysis of financial tools and statistical tools.

Presentation and analysis of data sought to fulfil the objectives of the study by presenting the data and analyzing them with the help of various statistical tools followed by the methodology. Last chapter included summary and conclusions on the basis of which the recommendation section presents suggestions to the studied insurance companies.

5.2 Conclusions

From this study, it has been concluded that there is not a single financial indicator that has a dominated role to determine MPS. One financial indicator that has significant role in the fixation of MPS for one company is not significant for another company. Dividend practices of all sample financial institutions are neither stable nor constantly growing. Haphazard way of distribution in growing trend is seemed to be in practice. On the basis of the findings from the data analysis, the following conclusions have been drawn in line with the study objectives and comparisons have been made studies whenever relevant. The study shows that average MPS of the insurance companies indicate quite high level of fluctuation. NLIC has the highest average MPS while PIC has the lowest. Among the insurance companies under study, the MPS of PIC has high fluctuation. The average DPS shows that there is regularity in payment of dividends of all studied insurance companies except PIC. The DPS is fluctuating but the amount of fluctuation is not much significant. NLIC has the highest average DPS among the insurance companies under study; PIC has the lowest average DPS. The average Earning per Share (EPS) of the insurance companies under study shows a positives result. But the co-efficient of variation indicates that the EPS of the insurance companies is not stable. Among the companies under study, NLIC has the highest average EPS and LICN has the second highest average EPS. PIC has the least average EPS with least degree of fluctuation.

The analysis of DPR also shows that DPR of the insurance companies are not stable. Among the companies under study, LICN has the highest average DPR. The result also shows that, PIC has the lowest average DPR and has the highest fluctuation as indicated by the highest CV. The average dividend yields of the insurance companies are also low. Among the companies NLIC has the highest dividend yield and PIC has the lowest. Besides, the dividend yield of PIC is highly fluctuated and LICN is less fluctuated as indicated by CV. The average price earnings ratio of LICN among the insurance companies under study is the highest with the most unstable price earnings ratio. The lowest price earnings ratio is that of PIC. The MPS of all three insurance companies has a negative correlation with its DPS. However, the overall correlation of MPS with DPS, as depicted in the correlation matrix is positive. Similarly, there exists a positive correlation between DPS and EPS of all three selected insurance companies. The MPS of LICN and NIC has a low degree of negative correlation with EPS. However, the MPS of PIC is positively correlated with its EPS. The MPS of LICN and NLIC is positively correlated with DPR but the MPS of PIC is negatively correlated with DPR. The MPS is negatively correlated with DY in all three insurance companies. The MPS of all three insurance companies has high degree of positive correlation with PE Ratio. Since, the correlation between MPS and DY was found to be either negative or insignificant; the regression equation has removed the independent variables of DY. So, MPS is dependent variable and EPS, DPS, DPR and PE Ratio are independent variable taken in this regression analysis for different insurance companies. The probable of F or p-value is lower than level of significance α (0.10). So, it is concluded that the regression model is statistically fitted.

5.3 Implications

The findings of the study reveals that market prices of the equity shares are overvalued when compared to the earnings per share, which is the primary indicator of the financial status of the concerned financial institution. Based on the major findings of this study, some recommendations have been made so as to overcome some shortfalls regarding the issue of the insurance sector.

i. The insurance companies should have their long-term policy/strategy regarding the adoption of suitable dividend policy, i.e., it should adopt either a stable dividend policy and constant payout ratio, or low regular plus extra dividend policy.

ii. The studied insurance companies should follow either a static or growing dividend payment policy, as there is inconsistency in their dividend payments over the fiscal years. Failing to do so may create a public misconception about the organization regarding its financial position. Due to high degree of risk and uncertainty, the market price per share may be adversely affected.

iii. The regulatory authority should pay attention to formulating a proper mechanism or framework regarding the insurance companies' dividend payment that would prescribe certain provisions and rules regarding the percentage of earnings as payment of dividend.

iv. Efforts should be made to educate share investors since the access to internet in Nepal is quite low. It is recommended that Nepal Stock Exchange and Securities Board take on other measures such as printing leaflets and other information brochures to educate the share investors. The presence of rating agencies and disclosing the ratings of financial institutions on a regular basis can also help strengthen the equity market, as the market prices for high rated institutions would increase when compared to those having low level of ratings.

As this study is based solely on secondary data and has not considered the external factors such as investment climate, economic growth, growth of the financial system and other variables, it is recommended that a detailed study is carried out to observe the market price behaviour in Nepal. More sophisticated statistical tools can be used to make findings more reliable and valid across different industry sectors. Therefore, in order to reach more critical mass, there is a huge scope of the study and future studies. So, it is recommended for the future researchers to include those observations carefully.

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