FACTORS AFFECTING FINANCIAL PERFORMANCE OF INSURANCE COMPANIES OF NEPAL

A Thesis

By

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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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Bishnu Priya Subedi

RECOMMENDATION LETTER

It is certified that thesis entitled "**Factors Affecting Financial Performance of Insurance Companies of Nepal** " submitted by Bishnu Priya Subedi 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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APPROVAL SHEET

We, the undersigned, have examined the thesis entitled **"Factors Affecting Financial Performance of Insurance Companies of Nepal"** presented by Bishnu Priya Subedi, a 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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ABBREVIATIONS

CV	:	Coefficient Variation
EIC	:	Everest Insurance Co. Ltd.
GLICL	:	Gurans Life Insurance Company Ltd.
GWP	:	Gross Written Premium
HGI	:	Himalayan General Insurance Co. Ltd
IAP	:	Insurance association of Pakistan
LEV	:	Leverage Ratio
LGIL	:	Lumbini General Insurance Co. Ltd.
LICN	:	Life Insurance Co. Nepal
NEPSE	:	Nepal Stock Exchange
NLG	:	NLG Insurance Company Ltd.
NLIC	:	Nepal Life Insurance Co. Ltd.
NLICL	:	National Life Insurance Co. Ltd.
NRB	:	Nepal Rastra Bank
PIC	:	Premier Insurance Co. Ltd.
R.B.S	:	Rastiya Beema Sansthan
ROA	:	Retun of Assets
ROE	:	Retun of Equity
SD	:	Standard Deviation
SIC	:	Sagarmatha Insurance Co. Ltd
SICL	:	Shikhar Insurance Co. Ltd.
SLICL	:	Surya Life Insurance Company Limited
SPSS	:	Statistical Package for the Social Sciences (SPSS
TA	:	Total Assets

Abstract

The purpose of this study has to investigate the factors (size, leverage, liquidity and age) that influence the financial performance of insurance companies in Nepal. The study has analyzed over a seven-year period from 2010/11-2016/17 of 12 insurance companies in Nepal. This study has used connivance-sampling method to select the companies. Statistical Package for Social Sciences (SPSS) and excel applications has utilized to describe the data and determine the extent used and this has through descriptive analysis of means, standard deviations, and CV. inferior research design has utilized via regression analysis to determine the relation between the dependent variable and the independent factors. The information has displayed by use of tables and graphs.

In correlation Analysis, there is negative correlation between SIZE and liquid Ratio with ROA & ROE and statistically significant at 0.05 level with 2-tailed test. There is Positive between LEV with ROA & ROE and statistically significant at 0.05 level with 2-tailed test. There is Positive correlation between AGE with ROA & ROE and statistically insignificant at 0.05 level with 2-tailed test. In Multiple regression, the coefficient of multiple shows ROA and ROE are influenced by the joint effect of AGE, Liquid, SIZE, LEV where R2 of ROA and ROE are 0.239 and 0.237 respectively. It means that the dependent variable higher predicted with less error from the independent variable than multiple regression that is about 76.1% and 76.3% of the variations in ROA and ROE of sample companies are accounted for by other factors not capture by the model. The independent variables (AGE, Liquid, SIZE, and LEVERAGE) are significant in explaining the variance in firms' performance in Nepal. In others words a P-value that is almost equal to 0.000 (p-value=0.000) in ROA and ROE. This invariably suggests clearly that simultaneously the explanatory variables are significantly associated with the dependent variable. Hence, Liquidity, Size and Leverage of insurance companies significantly affect to performance of insurance companies. So these factors should analyze carefully to improve the performance of companies.

CHAPTER - I
INTRODUCTION

1.1 Background of the Study

Financial System is a base for development of every country economy. Financial System is a set of institutional arrangement through which financial surplus in the economy are mobilized from surplus units and transfer to the deficit units. Financial System is includes financial institutions, financial markets, financial instruments and regulations and law (Mayo, 2004). It mediates between the short-term perspective of investors by transforming the size, maturity and the risk characteristics of assets. A financial system, thus, enhances economic growth by both increasing the saving ratio and reducing the capital output ratio by reducing the cost of transaction and by facilitating trade, leading to specialization in production (Thapa,2014). Investment Banking houses, Commercial banks, financial Services corporations, Savings and loan associations, Mutual Saving Banks, Credit unions, Life insurance Companies, Mutual funds etc are the example of financial institutions (Brigham & Earnhardt, 2014), Which play intermediary role in financial system.

Insurance companies are one of the most important non-banking financial institutions. Insurance is a means of protection from financial losses. It is a form of risk management primarily used to hedge against the risk or contingent uncertain losses. Insurance companies reveal an importance for businesses and because individuals compensate losses and put them in positions, where they were before they occur. In addition, insurers provide economic and social benefits for companies such as, loss prevention and reduction of anxiety (Derbali & Jamel, 2018). Insurance can be defined as a service that provides a benefit upon the occurrence of a risk. Delivery, usually financial, may be for an individual, association or business in exchange for a perceived contributions or premiums (Derbali, 2014). Thus, insurance is economic sector, which includes the design, production and marketing of this type of service.

The need to be safe and protect from danger threatening property and the physical integrity of a person is inherent in human nature. This need has increased in flow of goods and services in the country economy through the insurance (Zouhaier, 2014). For economic development, investment are necessary, investments are made out of

savings**.** By insurance, the savings are channeled to investment projects, which are the main driving force for country development. The processes that take place in a country have supported for country economy (Ungur, 2016). Insurance companies provide unique financial services to the growth and development of every economy. Such specialized financial services range from the underwriting of risks inherent in economic entities and the mobilization of large amount of funds through premiums for long-term investments. Thus, Insurance Company is a major instrument for the mobilization of savings of people. These savings are channelized into investment for economic growth. Insurance serves a number of valuable economic functions that are largely distinct from other types of financial intermediaries (Rao & Srinivasulu, 2013). Hence, Insurance Good performance is very essential to country as well as companies itself.

Company performance is very essential to determine success of any organization. Performance is the function of the ability of an organization to gain and manage the resources in several different ways to develop competitive advantages (Iswantia & Anshoria, 2007). Financial performance is a measure of an organization; earnings profit appreciation in value, which can be observed through rise in organization share price. Insurance performance is normally expressed in net premium earned, profitability from underwriting activities, annual turnover, returns on investment and return on equity. Due to several reasons, Nepalese insurance market has not been effective and efficient (Nepal, 2012). Although, the expansion of insurance market during last two decades is found satisfactory comparing to the previous four decades growth rate. To measure the growth of insurance activities some parameters are considered such as Premium collection, investments, tax revenue to government (Ghimire, 2013).

A well-developed and evolved insurance industry is a boon for economic development as it provides long- term funds for development (Ahmed, Ahmed & Ahmed, 2010). But In Nepal, The insurance doesn't have a long history. Modern insurance company began from 1947 A.D. Due to lack of awareness, people were not serious about the significance of different aspects of insurance. This resulted in people suffering heavy losses during accidents. The first insurance company was named as "Maal Chalani ra Bima Company" which was later renamed as "Nepal insurance and Transport Company" in 1959 and further renamed as "Nepal Insurance Company

Ltd". In 1968, the government of Nepal established "Rastriya Bima Sasthan" under the Company act. Beema Samiti (Insurance Board) is an autonomous body, established to develop, systemize, regularize and regulate the insurance business of Nepal under Insurance Act, 1992" (Insurance Board of Nepal). Insurance company collects funds as premium method in accordance to their nature and corporate objectives. According to National board of Nepal, 36 companies had registered within 2018 November.

In Nepal, the rapid development of financial markets, banks and insurance companies are facing intense competition. Traditional performance management appears to be insufficient to meet the needs of strategic development financial institutions. There was a good performance of many sectors such as banking sector; the insurance sector does not react to the growth as like banking sectors of Nepalese economy. The overall financial performance of insurance companies in Nepal is somehow weak expect for some companies which accomplished some revenues (Kumar, 2013).

Financial performance of insurance company can measure by using different variables and prospective. The economy of Nepal is characterized by lower per capital income, lack of sufficient infrastructure for development high population higher population growth rate. In such condition, this study tries to examine empirically the impact of firm-specific characteristics (size, leverage, liquidity and age) on the profitability of insurance companies in Nepal with entitled "Factors Affecting Financial Performance of Insurance Companies of Nepal".

1.2 Statement of the Problems

After the established of democracy, Nepal Government has adopted economic liberalization. Many more financial institutions including insurance company established in the country as a result. Nepal Government tried to develop the financial market with faire competition. As a result, many more old companies faced the increasing competition in their existing market. Financial factor is the key element of any firm to its successful running. The present study evaluates a modest attempt to analyze financial performance of Insurance Company Ltd. in the current situation. The total Business Volume of Nepalese Insurance Company is very low portion of world insurance Market. The increase of re-insurance premium indicates that Nepalese Insurance market has not increased its risk bearing capacity. Major part of

total investment is made in the government securities and fixed deposit shows that Nepalese Insurance management seems risk averter and has not paid attention to make effective investment portfolio. In such situation, this study tries to address the following research questions.

1. What is the effect of leverage on financial performance of Nepalese Insurance Company?
2. What is the effect of Liquidity on financial performance of Nepalese Insurance Company?
3. What is the effect of Company's age on financial performance of Nepalese Insurance Company?
4. What is the effect of Company's size on financial performance of Nepalese Insurance Company?

1.3 Purpose of the Study

The main objective of the study is to Factors Affecting Financial Performance of Insurance Companies of Nepal. Other objectives are as under:-

1. To examine the effect of leverage on financial performance of Nepalese insurance companies
2. To determine the effect of liquidity on financial performance of Nepalese insurance companies
3. To identify the effect of company's age on financial performance of Nepalese insurance companies
4. To identify effect of company's size on financial performance of Nepalese insurance companies

1.3 Significance of the Study

This study is useful in a number of ways. This study assists the insurance company to identify the focus on improvement of performance. Most of the researches done on the insurance companies are targeted in performance appraisal. Those studies were not sufficient in bringing the factors affecting of insurance companies and impact on performance .Thus, this study carries great significance. This study is important for the individuals who are interested in knowing the condition of the insurance companies. The management of the selected insurance companies also can take

suggestion from this study. Therefore, this study is significant. The main significances of the study are as follows:

1. It can help shareholders, professionals related with insurance, and investors to know about the factor affecting of financial performance of insurance companies in Nepal
2. Students and teachers can also be benefited by the study.
3. It can help the policy makers of the insurance to take good decision through the recommendation of the study.
4. The study also assists government to frame national policy by considering such determinants. The study will also bridge the literature gap as it will be used by upcoming researchers.

1.4 Limitation of the Study

Every study is done under some constraints and limitations. Similarly, this study cannot be exception and free from limitations. The accuracy of this study largely depends upon the data and statements provided by the sample-listed companies. The study implies the following limitations:

1. The study is based on the data of Seven years i.e. from FY 2010/11 to 2016/17.
2. The study is primarily based on the data available in published annual reports.
3. Non-availability of the various reference or sources act constraints for the study.
4. Sample size is small. Therefore, finding may not be generalization to all listed companies.
5. These Analysis methods do not attempt to capture these qualitative values. How should one quantify the value of a brand, the size of its customer base, or a competitive advantage.

1.5 Chapter Plan

On this research, the study is carried out in different stages and procedures, as it needed. As well as study organized on following chapters in order to make the study easy to understand.

Chapter- I Introduction

This chapter covers background of the study, focus of the study, statement of the problem, objectives of the study, significance of the study, limitations of framework and review of the major studies. It gives an overview of the related literature done in the past related to this study.

Chapter-II Literature Review

This Chapter is the brief review of literature related to this study. It includes a discussion on the conceptual framework and review of the major studies and research gap. It gives an overview of the related literature done in the past related to this study.

Chapter- III Methodology

This chapter deals with the methodology followed to achieving the objective of the study, which include research approach, sampling procedure, and research instruments, collection of data and data analysis tools and techniques.

Chapter- IV Results

This chapter deals with presentation, analysis and interpretation of data, collected from various sources. It also includes the major finding of the study.

Chapter- V Conclusions

This chapter covers on the results and findings obtained from chapter four and recommend some suggestions based on the findings made. Finally, references and appendices are also included at the end of the study.

CHAPTER -II
LITERATURE REVIEW

This chapter deals with theoretical aspect of the topic on factors affecting financial performance of insurance companies in Nepal. It provides the foundation for developing a comprehensive theoretical framework and knowledge of the status relevant to the field of research in order to explore the relevant facts for the reporting purpose .For this, NRB's directives, books, journals, articles, annual reports and some related research papers have been reviewed. This chapter has been, broadly classified into two sectors: theoretical perspective for conceptual review and review of related studies for development of research gap.

2.1 Conceptual review

This part deals with the conceptual and theoretical aspects of insurance, factors affecting to financial performance of insurance and insurance history as well as development in Nepal.

2.1.1 Meaning of Insurance

Insurance is related with risk. Risk is the main source of loss and insurance is the mechanism of covering such losses. Risk adverse people are interested to cover such loss through certain mechanism. The easiest way of handling risk is insurance. Insurance is an instrument to spread the losses caused by a particular risk over a number of people or distribution of risk among various people who are interested to accept risk return. Insurance is a functional and contract terms. It is a co-operative device to spread the loss caused by a particular risk over a number of persons, whose are exposed to it and who agree to ensure themselves against that risk (Mishra, 2003).

"It is quite hard to define insurance to satisfy every viewpoint of insurance. It may be defined as a system of combining many loss exposures with the cost of the losses being shared by all of the Participants" (Crane, 1980). "According to nature, characteristics and objectives of the insurance company, they are also referred to as financial intermediaries. Hence, insurance industry, a composite structure of insurance companies, is regarded as financial institution bearing very difficult characters among financial institutions and intermediaries. It may be an economic system of reducing risk through transfer and pending of losses. A legal method of transforming risk in a

contract of indemnity, a business institution providing many jobs in a free enterprise economy, a social device in which the losses of few are paid by many, or as actuarial system of applied mathematics" (Bickihaup,1983). Insurance works as a co-operative device to spread the loss caused by a particular risk over a number of persons who are exposed to it and who agree to ensure themselves against that risk. Insurance gives relief from the risk. It performs the task of paying compensation for financial loss under the insurance, in return of little fixed amount if loss or damage has taken place.

Insurance companies are capable of providing industrial finance, government finance or even personal finance. The performance of insurance companies are depends upon different factors such as age, size, leverage, liquidity etc. To understand life insurance we have to first understand the scheme of insurance. Insurance is a co-operative device to spread the loss caused by a particular risk over a number of persons who are exposed to it and who agree to insure themselves against the risk (Mishra, 2003). Under the plan of insurance, a large number of people associate themselves to share different types of risks attached to human life and property. The aim of all types of insurance is to make provision against such risks. In other words, it is a provision that a prudent man makes against inevitable contingencies, loss or misfortune .In this way, life insurance is a social device to share the risk of loss of life.

it means an agreement in which one party agrees to pay a given sum of money upon the happening of a particular event contingent upon duration of human life or property in exchange of the payment of a consideration. The person who guarantees the payment is called Insurer, the amount given is called Policy Amount, the person on whose life or property the payment is guaranteed is called Insured or Assured. The particular event on which the payment is guaranteed to be given may be Death or damaged. The consideration is called the Premium. The document evidencing the contract is called Policy (Murthy & Sarma, 2002).

They provide different finance through their own investment policy and pattern based upon their own corporate objective and nature of the line of insurance business. In the context of Nepalese insurance companies, they provide various insurance policies and charge premium under insured risk and nature. Insurance companies collect fund through various client (people and organization) as premium. Therefore, all the insurance companies are responsible for their client's interest. This study looks and analyses insurance company's premium collection and factors affecting to its

investment. Everyone pays a premium those who suffer a loss are paid a sum of equivalent to loss (loss according to the term of contract) and those who do not suffer loss by the premium paid. The protection against unforeseen events is purchased through a contract of insurance. From the above-mentioned definitions, it is clear that the insurance reduces the risk and provides financial security in return of payment of a certain amount. Hence, Insurance is a powerful weapon to manage risk (Ujjwal, 2018).

Risk

Risk means uncertainty about future losses, or in other word, the inability to predict the occurrence or size of loss. In general, risk can be defined as the probability of the occurrence of unfavorable outcomes. There are different meanings of risk. It can be defined as statistical terms and in insurance terms too. In the context of insurance, it takes uncertainty of occurrence of economic loss. Thus, people who want to safeguard lay insuring them to the insurance companies. Risk, as a term, will be the composite of perils, loss and hazard which are the intimate parts of the term risk (Dowrie & Fuller, 1985).

Peril

A peril is the cause of loss. Peril will be the matter that is capable of causing loss to the physical or human condition. Peril may be in the form of windstorm, explosion, collision, pre-mature death, accidents etc. (Van Horne, 1998). Thus, Perils cause the deviation in events from those that we expect. They are the immediate cause of loss.

Loss

Loss is an untimely decline in value or disappearance of value; it is the undesirable result of risk, usually in an unexpected or least relatively unpredictable manner (Van Horne, 1998)

Hazard

The acts or condition that increases the likelihood of a loss is termed as hazard. It may be the condition that may create or increase the chance of loss from a given peril. While perils are the direct cause of loss hazards are the underlying factors, which increase the probability of occurrence of loss. There are conditions, which are more hazardous than others e.g., working, as an electrician is a more hazardous occupation than that of a banker as it is more susceptible to accidents. Owning a property on the banks of one bank is more hazardous than a property in another banks as it is exposed

to the risk of damage due to floods. Similarly dealing in textiles is more hazardous than dealing in hardware as the risk of loss due to fire is greater.

Risk Management

After having the concept of risk, it is important to know about risk management. Risk management is the systematic and efficient handling of pure risks. In simple words, risk management is the planning, organizing, directing, controlling process of risk. In practice risk management is the device and process of decision making for either personnel or organizational risky situation.

"Risk management is a general management function that seeks to identify, assess and address the cause and effect of uncertainty and risk of an organization. The purpose of risk management is to enable an organization to progress toward its goals and objectives in the most desirable, efficient and effective path" (Williams & Young, 1997).

2.1.2 Premium of Insurance

Simply put, "premium" means payment. It is the amount of money you pay for life or property to insurance company in exchange for coverage. The payout itself (called a death or damaged benefit) is the amount of money the insurance company would pay if died or damaged of property. The insurance premium is defined as the amount of money the insurance company is going to charge you for the insurance policy are purchasing. The insurance premium is the cost of insurance. When people shop around for insurance, they may find different premiums charged for the cost of their insurance with different insurance companies and save a lot of money on insurance premiums, just by finding a company that is more interested in "writing the risk".

2.1.3 Operational Definitions and Assumptions

General Insurance: Type of insurance that deals with transfer of risk associated with properties and casualties is known as general insurance.

Non-life Insurance: Same as general insurance.

Insurance Policy: A type of legal documents issued by insurance company which clearly states the risk coverage and premium for the insured.

Claim: Demand for the payment by the insured for the loss sustained in accordance with the terms and conditions of the policy.

Insurance Business Portfolio: Seven major business portfolios of the Non Life Insurance Companies in Nepal. These portfolios have been accounted as per the legal rule of Beema Samiti.

Engg. & CAR: Engineering and Contractors' All Risk Insurance; one of the portfolio of Non Life Insurance Business in Nepalese Insurance Industry.

Return on Assets (ROA): A measure of profitability of any company calculated as Net income divided by Total Assets.

ROE (Return on Equity): A measure of profitability of any company calculated as Net income divided by Equity.

Balance Sheet: Balance sheet is a statement of assets, capital and liabilities of a company up to a given date. It depicts the true financial position of a company up to the end of the current accounting year. Thus, a balance sheet may be defined as a statement of assets, capital and liabilities of a company prepaid at a given date especially at the end of accounting year, in order to measure the true financial position up to that date. Balance sheet summarizes the assets, liabilities and owner's equity of a business at a moment in time, usually the end of the year or quarter, (Pandey, 1999).

Fixed Assets: As the name suggests, such assets are fixed in the sense that they are acquire to be retained in the business on a long-term basis to produce goods and services, and are not, for resale. They are, in a sense, long-term resources in that they are held for longer than one accounting period. Such assets are obviously of crucial significances as the future earnings/revenue/profits of firms are basically determined by them (Pandey, 1999).

Tangible fixed assets: They have a physical existence and generate goods and services. Included in this category of fixed assets are land, building, plants, machinery, furniture, and so on. They are shown in the balance sheet, in accordance with the cost concept, at their cost to the firm at the time they were purchased.

Intangible assets: They do not generate goods and services of assets directly. In a way, they reflect the rights of the firm. This category of assets comprises patents, copyrights, trade marks and goodwill. These assets confer certain exclusive rights on their owners. Patents confer exclusive rights to use an invention; copyrights relate to production and sale of literary, musical and artistic work; trade marks represents exclusive rights to use certain names, symbols, labels, designs, etc. Intangible fixed assets are also written-off over a period of time, (Pandey, 1999).

Current Assets: The second category of assets included in the balance sheet is current assets. In contrast to fixed assets, current assets are short-term in nature. As short-term assets, they refer to assets resources which are either held in the form of cash or are expected to be realized in cash within the accounting period or the normal operating cycle of the business. The term "operating cycle means the time span during which cash is converted into inventory, inventory into receivables/cash sales and receivable into cash. Conventionally, current assets designate assets which are held for a short period of time, usually not more than a year from the balance sheet. These are also known as liquid assets. Current assets include cash, marketable securities, accounts receivable (debtors), notes/bills receivables and inventory, (Pradhan, 2004).

Liabilities: The second major content of balance sheet is liabilities of the firm. Liabilities may be defined as the claims of outsiders against the firm. Alternatively, they represent the amount that the firm owes to outsiders i.e. other owners. The assets have to be financed by different sources. One source funds is borrowing-long -term as well as short-term. The firm can borrow a long-term basis from financial institution, banks or through bonds, mortgages, debentures, etc. The short-term borrowing may be in the form of purchase of goods and services on credit. These outside sources from which a firm can borrow are termed as liabilities, (Hempton, 1995).

Current Liabilities: The second type of liability is current liabilities. In contrast, to the long-term liabilities, such liabilities are obligations to outsiders repayable in a short period, usually within the accounting period or the operating cycle of the firm. It can be said to the counter part of the current assets (Pradhan, 2004). Conventionally, they are paid out of the current assets; in some cases, however, existing current liabilities can be liquidated through the creation of additional current liabilities. Included in this category are:

➢ Account payable
➢ Bill/Note payable
➢ Tax payable
➢ Accrued expenses
➢ Deferred income and
➢ Short-term bank credit.

2.1.4 Importance of Insurance

Insurance is a form of risk management primarily used to hedge against the risk of potential financial loss. Again insurance is defined as the equitable transfers of the risk of a potential loss, from one entity to another, in exchange for a premium and duty of care (Hempton,1995). Some Importance of Insurance Companies are as follows:

a. Provide Safety And Security

Insurance provide financial support and reduce uncertainties in business and human life. It provides safety and security against particular event. There is always a fear of sudden loss. Insurance provides a cover against any sudden loss. For example, in case of life insurance financial assistance is provided to the family of the insured on his death. In case of other insurance security is provided against the loss due to fire, marine, accidents etc

b. Generates Financial Resources

Insurance generate funds by collecting premium. These funds are invested in government securities and stock (Ghimire, 2013). These funds are gainfully employed in industrial development of a country for generating more funds and utilised for the economic development of the country. Employment opportunities are increased by big investments leading to capital formation.

c. Life Insurance Encourages Savings

Insurance does not only protect against risks and uncertainties, but also provides an investment channel too. Life insurance enables systematic savings due to payment of regular premium. Life insurance provides a mode of investment. It develops a habit of saving money by paying premium. The insured get the lump sum amount at the maturity of the contract (Hempton, 1995). Thus life insurance encourages savings.

d. Promotes Economic Growth

Insurance generates significant impact on the economy by mobilizing domestic savings. Insurance turn accumulated capital into productive investments. Insurance enables to mitigate loss, financial stability and promotes trade and commerce activities those results into economic growth and development (Ghimire, 2013). Thus, insurance plays a crucial role in sustainable growth of an economy.

e. Medical Support

A medical insurance considered essential in managing risk in health. Anyone can be a victim of critical illness unexpectedly. And rising medical expense is of great concern.

Medical Insurance is one of the insurance policies that cater for different type of health risks. The insured gets a medical support in case of medical insurance policy.

f. Spreading of Risk

Insurance facilitates spreading of risk from the insured to the insurer. The basic principle of insurance is to spread risk among a large number of people. A large number of persons get insurance policies and pay premium to the insurer (Hempton, 1995). Whenever a loss occurs, it is compensated out of funds of the insurer.

g. Source of Collecting Funds

Large funds are collected by the way of premium. These funds are utilised in the industrial development of a country, which accelerates the economic growth. Employment opportunities are increased by such big investments (Hempton, 1995). Thus, insurance has become an important source of capital formation.

2.1.5 Value of Insurance

The most important of insurance is risk transfer. By purchasing am insurance policy, a business is able to protect itself against the financial losses, which it may incur due to the unforeseen occurrence of risk. Insurance enables the business to offset the know cost of premium against the risk of incurring losses that may vary widely from year to year .A business can obtain other benefits through purchase of insurance(Ghimire, 2013) . The benefits may be more than financial security. In many classes of non-life insurance, insurer's frequently carryout surveys and besides informing underwriters of the physical feature of the risk, the surveyor makes recommendations to reduce risk which may qualify for a reduction in the premium rate and improve risk profile. (Hempton, 1995)

2.1.6 History of Insurance

First Phase: Emergence of Marine Insurance

After the emergence of the concept of insurance, it was most commonly used for marine insurance. Therefore, marine insurance is the first modern form of insurance in the history of insurance. In 1300 A.D. the first insurance contract called: polizza was made in Italy. Later on, the word "policy" was developed from "polizza". The concept of marine insurance was commonly used in Lombard of Italy and in Venice in 14 century. In fact, the Lombard of Northern Italy had main role in bringing the international extension of marine insurance in England. Later the Jewish of Lombard were banished, and then settled in different countries of Europe, Hamsell (1999). The

name of street," Lombard street" of London was named after the name Lombard. At that time, this street was called the central point of the marine insurance. The significant role of Liyod institution for the development of insurance cannot be ignored. The underwriters who took the marine risk used to carry out the work of marine insurance, meeting personally in the coffee house of Edberd Liyod in the tower of street of England. Slowly the coffee house was successful to introduce itself as a centre of marine insurance. The Liyod institutions established in 1771 is the first institution to make formal marine insurance. Until now, this institution is the one of the most popular insurance company in the world, Hamsell (1999).

Second Phase: Development of Life Insurance

After the development of marine insurance, people used the concept of the insurance to provide security to their lives. To talk about the modern life insurance, by an associate 16 persons, the first life insurance policy of the world was issued in the name of a person named "William Gybbons" in 1583 A.D. It is recorded that insurance policy was issued for one year. One astronomer named: "Admand Heley" submitted a 'Mortal Table' in 1693 A.D. to the royal security. This mortal table was useful tool for calculating insured amount and the first time life insurance institution insured amount technology based on data. In 1744 A.D. passing the life insurance Act created the foundation of the modern insurance. Thereafter different laws later removed the defects that came to the business. Many companies were closed and some of them went and mixing or merging with another insurance company (Ghimire, 2013). There is no controversy that the Life Insurance Act 1870 was passed to control the operation of the life insurance business for protection of the customers, Hamsell (1999). Before the beginning of the 19 century many life insurance were that already established in the world. We find that the life insurance business in our neighboring country India had started with the establishment of the Mutual Association. In 1971, both life and the non life insurance were nationalized in India; as a result, the Life Insurance Corporation for life and general insurance company ltd for non life insurance were established. During the region of Elizabeth 1 the life insurance used to effect for only one year. After one year, it was not renewed, the insurance automatically used to be cancelled. However, the job of effecting long term insurance, started from 18 century has been increased continuously.

Third Phase: Emergence of Fire Insurance

In the history of insurance, the fire insurance comes after the life insurance. However, there is some controversy about it. In the opinion of some people, the concept of fire insurance had come after marines insurance. The function of the fire insurance was done in 14th century. The beginning of the fire insurance for the first time can be found in the municipality of the city of Hamburg in Germany in about 13 century, it is said that after the birth of life insurance the fire insurance was developed. In 1666 A.D. after the fierce incident, many buildings were turned into ash in England. It is known from the history of insurance that many people were in difficulties. So, the fire insurance was introduced with the main objective of the providing the financial protection to the people to save from the risk and the ruin, Hamsell (1999). In 1680 A.D. Nicholas Barbon started the fire business related with the fire insurance in England. The office of Barbon was called the fire office, later name as Phoenix Insurance Company was established with the development of the fire insurance today many people, industry and businesspersons are breathing the air of the pace.

Fourth Phase: Practice of Miscellaneous Insurance

After the fire insurance, many other types of insurance came in use. Thus, by such insurance policies man is trying to be protected from many types of risks. Under the miscellaneous insurance, fidelity guarantee insurance started from 1848, personal accident insurance from 1880 liability insurance from 1875, public liability insurance from 1877, burglar and house breaking insurance from 1903, motor insurance from 1911, and aviation insurance came in practice, earthquake insurance, the vocal of the male singer and female singer, model beauty as miscellaneous insurance.

2.1.7 Types of Insurance

 a) **Life Insurance**

Numbers of perils that may cause of health loss, income loss, professional liabilities, and death surrounds human being. Life insurance is a great invention of human civilization, which provides security against the risks. It is a mechanism of risk diversification and loss indemnification by pooling and spreading of risk among the large numbers of risk exposures. Life insurance provides financial security to dependents in case of premature death of breadwinners or termination of income of policyholders due to the dismemberment and permanent disability. Hamsell (1999) defines life insurance as a social device, which provides financial compensation for

the effects of misfortune. The payment is being made from the accumulated contributions of all parties participating in the scheme. There are two types of life Insurance as following:

i) Whole Insurance

Life insurance policy that covers the entire life is called whole insurance. This policy covers a policy holder against death during his whole life. This policy is a long term policy that insures the individual throughout his life.

ii) Term Insurance

Term insurance policy is the most common life insurance policy and it covers for a specified term. It protects a policyholder's life only until its expiration date and after that it expired as it is for certain period.

b) Non-Life Insurance

Non-life insurance is also called general insurance. Any insurance other than life insurance is known as non-life insurance. Because of its nature of measuring any risk in terms of money, it is also said as pure insurance. General insurance is the insurance of property and liable risk of insured against most specified cost that is premium (Ghimire, 2013). It also includes property insurance, liability insurance and others forms of insurance. General insurance is designed according to the customer necessity and it is very appropriate for covering any kind of uncertainty in future. It can play a vital role in building a progressive business by assuring their business activities. This will propel individuals and business sectors to take risk and be successful in future. There are different kinds of non-life insurance classified according to their nature, some of which are as follows:

i) Marine Insurance

The marine insurance is the oldest form of insurance. This insurance policy is focused on insuring the loss or damage involved during transportation of goods from the points of loading to unloading of the goods, essentially against loss or damage by peril of the sea and generally, through the hazards of transit (Derbali, 2014). Marine insurance can be classified into following categories:

- Hull insurance
- Cargo insurance
- Freight insurance
- Liability Insurance

ii) Fire Insurance

The insurance policy that covers loss and damages caused by fire is called fire insurance. It is a contract made to compensate a certain loss or damage during the policy period caused by fire (Derbali, 2014). These fire insurance policy provides the coverage against loss or damage caused by Accidental Fire and Lightening. However, on payment of additional premium Fire Insurance Policy can be extended to cover the loss or damage caused by other allied perils, which are as follows:

- Earthquake
- Riot and Strike Malicious Damage
- Terrorism
- Strom and Flood
- Typhoon
- Aircraft and Aerial Damage

iii) Aviation Insurance

Aviation insurance policy covers the loss and damage occurred in aircraft during flights, landing, and takeoffs. This insurance covers aircraft against accidental damage, war and allied risk, third party (including passenger and cargo) liability etc.

iv) Motor Insurance

This insurance policy helps by covering the losses and damages resulting due to accidents of vehicles. Automobile insurance policy generally covers property, liability, and medical expense according to the contract made between insurance company and insurer (Derbali, 2014).

v) Engineering Insurance

This insurance policy helps in covering losses and damages occurring in construction and engineering industries. It covers against damages caused in engineering equipment and plants during the construction stage

vi) Contractors' All Risk Insurance

This insurance provides indemnity to contractors for physical damage that may take place during the period of construction and also during certain period of maintenance to safeguard the interest of Principal, Contractors and Subcontractors in the policy (Derbali, 2014). This Policy broadly covers the risk of accidental physical loss or damage in respect of the contract works, during the execution of a civil project.

vii) Household Insurance

It is a combination of Fire and Burglary policy. This particular insurance is for the household property. The risks to household properly are manifold and very difficult to illustrate. However some of the common dangers to household property are:

- Fire dangers:
- Electrical malfunctioning:
- Burglary and Attempted Burglary:
- Natural calamities like Flood, Storm, Landslide etc

viii) Money and Transit Insurance

This type of insurance policy is generally required for bank and financial institution that are involved in receiving and sending cash from one place to another. It provides the indemnity of the cash loss during transit period (Batra,1999).

ix) Personal Accident Insurable Policies

The policy helps insurer by financially assuring against being handicapped or disability resulting from accident. This insurance policy is very important for any individual as it financially helps in times of need and incapability.

x) Fidelity Guarantee Insurance

The Fidelity guarantee insurance covers the loss and damages against the case of fraud and dishonesty. The owner of firm or organization gets the guarantee against the fraud or betrayal caused by the employees. There can be a big loss as valuable employees can misuse their position and involve in fraud (Batra, 1999).

There are others type of non life insurance such as product Liability Insurance, Public Liability Insurance and Professional Indemnity Insurance and Agricultural & Livestock Insurance.

2.1.8 Evolution of Insurance in Nepal

The history of insurance practices evolves with "Guthi System" which is the joint family culture that has been prevalent from ancient times in Nepal. This system has provided security and assistance to individuals and families in times of need. It is a kind of trust where lands and money are allocated from different sources for religious and charitable purposes. Hence, this trust was referred as Guthi and this money or lands were utilized for a needy purpose, which was called as a Guthi system.

In 1937, to meet the growing economic and social development Nepal Bank Limited was established as the first bank of the country. However, there were not any

Nepalese insurance company and Indian insurance companies were doing business here. To stop the strong presence of foreign insurance companies in local market, Nepal Insurance and Transport Company was establish under the ownership of Nepal Bank Limited in 1947. It was the first local insurance company ever established in Nepal.

To meet the demand of increasing need of modern insurance company, Nepal government established 'Rastriya Beema Sansthan Private limited'. Later, it was converted into Corporation in the following year under Rastriya Beema Sansthan Act, 1969. This is a government owned organization even now, and has been operating both life and non-life insurance business.

Beema Samitee was also established in 1968. "The word 'Beema' means 'Insurance' and 'Samiti' means 'Board' in Nepalese language. Hence, the word 'Beema Samiti' is synonymous to Insurance Board, which is constituted to systematize, regularize, develop and regulate the insurance business within the country under Insurance Act, 1992" (Insurance Board Nepal).

Expansion of insurance industry in Nepal took a greater pace during 1990s. Regulation and supervision of insurance industry comes under the core function of Insurance Board. The Insurance Act of 1992 aims to strengthen Insurance Board in systematizing, regularizing, developing and regulating the insurance business in Nepal. There are 27 insurance companies in Nepal. 9 are life insurance companies, 17 are non life insurance companies and 1 is re-insurance company. This study will cover 10 insurance companies, which are listed in Nepal Stock Exchange, which have completed their ten years of operation.

2.1.9 Development of Insurance in Nepal

Uncertain risks and losses are the hurdles of economic development of the nation. To overcome the risks and losses, insurance companies were realized to establish in 2004 B.S. in Nepal. Accordingly, Nepal Maal Chalani Ra Beema Company was established in 2004 B.S. under the ownership of Nepal Bank Limited. After the arrival of democracy in 2007 B.S. establishment of financial institutions was done in different planning period. To save the loss of property due to uncertain accidents and entrance of complex mechanical age etc. insurance company was realized to establish. According to this, Rastriya Beema Sansthan Pvt. Ltd. was established under company

act in 2024 B.S. It was converted into public company under Rastriya Beema Sansthan Act 2025. After that many insurance companies were established having different business types (life insurance business and non-life or general insurance business). Life insurance business sells life insurance, annuities and pensions products whereas non-life or general insurance business sells other types of insurance.

2.1.10 Factors to Affect the Financial Performance of Insurance Company

The financial performance of companies is a subject that has attracted a lot of attention, comments and interests from both financial experts, researchers, the public and the management of Insurance Company. Good Financial Performance shows the ability of Insurance Company to gain and manage its resources in several different ways to develop competitive advantage (Iswatia and Anshoria, 2007). Good Financial performance reflects management effectiveness and efficiency in making the use of a company's resources and this contributes to the economy at large (Batra, 1999). Generally, the Financial performance of insurance companies can be estimated by measuring their profitability, which is a relative measure of success for Insurance Company and it acts as a proxy of financial performance. In fact, it is an essential prerequisite for increasing the competitiveness of a company. In addition, profit attracts investors and improves the level of solvency, and thus, strengthens consumers' confidence. Without profits, insurers cannot attract outside capital to meet their set objectives in this ever changing and competitive globalized environment.

Generally, the Financial performance of insurance companies can be estimated by measuring their profitability, which is a relative measure of success for a business and it acts as a proxy of financial performance. One of the objectives when managing insurance companies is to attain profit (Chen and Wong, 2004).Yet, selecting out the most successful insurance companies has always proved to be a difficult task to many as a companies may have a high level of profitability, but at the same time be in a very bad situation regarding its liquidity. So, profits alone cannot be used to compare performance between different Insurance Companies hence profitability is suitably measured by financial ratios (Abate, 2012).. The Financial performance of a firm can be analyzed in terms of profitability, dividend growth, sales turnover, asset base, capital employed among others. Among them, Malik (2011) argued that return on assets (ROA) and return on equity (ROE) are the best measures of company performance. ROA measures the ability of an insurance company's management to

generate income by utilising company assets (Wen, 2010). It is a ratio that indicates profitability of an insurance company. An increasing trend of ROA indicates that the profitability of the company is improving. ROE is a financial ratio that measures the amount of profit a company earned relative to the total amount of shareholder equity invested. Thus, a higher ROE indicates that management is very effective in utilising shareholders' capital (Krawish, 2011). In this study ROA was used as a measure for the performance of an insurance company. This ratio can be directly computed by dividing net income by average total assets (Kieso and Warfield, 2001).

There is still debate among several disciplines regarding how the performance of firms should be measured and the factors that affect financial performance of companies (Liargovas & Skandalis, 2008). A single factor cannot reflect every aspect of a company performance and therefore the use of several factors allows a better evaluation of the financial profile of firms. Financial performance emphasizes on variables related directly to financial report. There are many variables which affect the financial performance of an organization. Some of them are Leverage, Liquidity, Age, Size, Management Competence index, Earning profitability, Reinsurance, Capital adequacy, Underwriting risk, Retention ratio, Equity capital etc. Among these variables, there are major variables important for study, which fits in context of Nepal. They are as under:

Liquidity

Liquidity refers to the company's ability to meet its short-term current obligations and provide measure of liquidity position. Higher liquidity would allow a firm to deal with unexpected contingencies and to cope with its obligations during periods of low earnings, (Liargovas and Skandalis, 2008). Liquidity from the context of insurance companies is a measure of the ability of an insurance company to pay liabilities such as payments for losses/benefits under insurance policies, which fall in a period less than a year. Having assets to cover liabilities is crucial as people can make claims at any time or there might be a national disaster causing large numbers of claims resulting in the company paying out large sums of money. Companies with more liquid assets are less likely to fail because they can realise cash even in very difficult situations. It is therefore expected that insurance companies with more liquid assets will outperform those with less liquid assets. Empirical evidence with regard to liquidity revealed almost inconsistent results. For instance, Ahmed and Usman (2011)

analysed the performance of insurance companies in Pakistan and found that ROA has a statistically insignificant relationship with liquidity. In contrast, Chen and Wong (2004) found that liquidity is an important determinant of financial health of insurance companies with a negative relationship.

Size of company

The size of the firm is also an important factor determining financial performance. Large companies can do better performance by exploiting economies of scale and scope. Therefore, company's size is equivocal on precise relationship between size and performance, (Majumdar, 1997). The size of an insurance company affects its financial performance in many ways. Large insurance companies normally have greater capacity for dealing with adverse market fluctuations than small insurance companies. They can easily recruit able employees with professional knowledge unlike small insurance companies. Also, large insurance companies have economies of scale in terms of the labour cost which is the most significant production factor for delivering insurance services thus being more efficient compared to small firms. In addition, small firms may have less power than large firms hence they may find it difficult to compete with the large firms particularly in highly competitive markets. Malik (2011) in his Pakistan study found that there is significantly positive association between the size of a company and profitability. The study indicated that profitability is more likely to improve by emulating industry best practice in terms of technology and management structure than by increasing the size. In this aspect, the empirical literature has not produced conclusive results.

Leverage

 Leverage ratios are also termed as Capital Structure Ratio. It is measured by the ratio of total debt to total equity. These ratios show the company's current debt paying ability. Leverage is measured by the ratio of total debt to equity. It shows the degree to which a business is utilizing borrowed money. Companies that are highly leveraged may be at risk of bankruptcy if they are unable to make payments on their debt, they may also be unable to find new lenders in the future. Insurance companies could prosper by taking reasonable leverage risk or could become insolvent if the risk is out of control. If a firm is profitable, then it is more likely that financing would be from internal sources rather than external sources. In other words, firms tend to use internally generated funds first and then resort to external financing. Adams and

Buckle (2003) provide evidence that insurance companies with high leverage have better operational performance than insurance companies with low leverage.

Inflation rate

The rate of inflation typically refers to changes in the overall level of prices within an economy. Few authors have documented the impact of the inflation rate on the non-life insurance industry. Darcy (1979) found that underwriting profits are correlated with the inflation rate. Deflation and high inflation each present significant risks to insurers. Payment of premiums by clients does not reflect inflation. However, payment of claims by a company might reflect inflation for example, the value of an asset insured might change price because of inflation resulting in the insurance company paying more. Doumpos and Gaganis (2012) analysed the performance of non-life insurers and found that macroeconomic indicators such as inflation and income inequality influence the performance of companies.

Company's size

The size of the firm is also an important factor determining financial performance. Large companies can do better performance by exploiting economies of scale and scope. Therefore company's size is equivocal on precise relationship between size and performance. (Majumdar, 1997). Firm size is one of the most acknowledged determinants of a financial performance (Beard & Dess, 1981). The causal relationships between size and financial performance have been widely tested with ambiguous results. Several studies suggest that a positive relationship exists between company size and financial performance. Bigger firms are presumed to be more efficient than smaller ones. The market power and access to capital markets of large firms may give them access to investment opportunities that are not available to smaller ones (Amato and Wilder, 1985). Firm size helps in achieving economies of scale.

Company's Age:

Several earlier studies (Batra, Lumpkin & Dess, 1999) argued that firm age has influence on its performance. Sorensen & Stuart (2000) argued that organizational inertia operating in old firms tend to make them inflexible and unable to appreciate changes in the environment. Older firms are more experienced, have enjoyed the benefit of learning are not prone to the liabilities to newness, and can therefore enjoy superior performance. Age could actually help firms become more efficient. However, old age may also make knowledge, abilities, and skills obsolete and induce

organizational decay (Agarwal and Gort, 2002). Examining the relation between firm age and financial performance would seem to be relevant for both theory and practice. If performance declines as firms grow older, it could explain why most of them are eventually taken over (Loderer, Neusser, and Waelchli, 2009).Age could actually help firms become more efficient. However, old age may also make knowledge, abilities, and skills obsolete and induce organizational decay (Agarwal and Gort, 2002). Sorensen & Stuart (2000) argued that companies age affect the firm's performance. They further argued that organizational inertia operating in old firms tend to make them inflexible and unable to appreciate changes in the environment.

2.2 Review of Previous Works

This part of the literature review is devoted to review of major previous studies relating to stock prices in detail. There are large numbers of studies in foreign and Nepalese context but only few of them are briefly reviewed below.

2.2.1 Review of Articles in Journals

Several empirical studies around the world have been conducted to measure the relationship between financial performance of insurance companies and internal and external factors. In most cases researcher come up with mixed results, some revealed a positive relationship between the variable other revealed the negative relationship while some other shows the contradictory results between study variables. These types of result show that the topic is still debatable hence, it is high time to measure such relationship in Nepal.

Malik (2011) conducted research on topic as *"Determinants of Insurance Companies Profitability: An Analysis of Insurance Sector of Pakistan."* This paper investigated the determinants of profitability in insurance companies of Pakistan. Specifically this examine the effects of firm specific factors (age of company, size of company, volume of capital, leverage ratio and loss ratio) on profitability proxied by ROA. A key indicator of insurance companies profitability is return on assets (ROA), defined as the before tax profit divide by total assets (TA). Profitability is dependant variable while age of company, size of company, volume of capital, leverage and loss ratio) are independent variables. The sample in this study includes 35 listed life and non-life insurance companies, which cover the period of 2005-2009. Secondary data obtained from the financial statements (Balance sheet and Profit/Loss account) of insurance

companies, financial publications of State Bank of Pakistan and Insurance Year Book that is published by Insurance association of Pakistan (IAP). The study adopted an explanatory research design. The findings show that there is no relationship between profitability and age of the company and there is significantly positive association between size of the company and profitability. The result also shows that the volume of capital is significantly and positively related to profitability. Loss ratio and leverage ratio showed negative but significant relationship with profitability.

Almajali, Alamro & Al-Soub (2012) conducted research on topic entitled as *"Factors Affecting The Financial Performance of Jordanian Insurance Companies Listed at Amman Stock Exchange".* This study aimed at investigating the factors that mostly affect financial performance of Jordanian Insurance Companies. The study population consisted of all insurance companies' enlisted at Amman stock Exchange during the period (2002-2007) which count (25) insurance company. The study adopted a Causal research design. The data collected was analyzed by using a number of basic statistical techniques such as T-test and Multiple- regression. The results showed that the following variables (Leverage, liquidity, Size, Management competence index) have a positive statistical effect on the financial performance of Jordanian Insurance Companies. The researcher recommended that a high consideration of increasing the company assets would lead to a good financial performance and there is a significant need to have highly qualified employees in the top managerial staff.

Omondi & Muturi (2013) has published the study on topic entitled *"Factors Affecting the Financial Performance of Listed Companies at the Nairobi Securities Exchange in Kenya"*. The study aimed to find out the factors affecting the financial performance of listed companies at Nairobi Securities Exchange in Kenya. The study adopted an explanatory research design and 29 listed firms (excluding listed banks and insurance companies) which have consistently been operating at the Nairobi securities exchange during the period 2006-2012 were sampled. Purposive sampling technique was used. Descriptive statistics (mean and standard deviation) and inferential statistics (Pearson correlation and multiple-regression) were used to analyze data. Pearson correlation was used to ascertain the interrelationship between the variables, whereas multiple-regression was used to assess the extent of the effect of the independent variables on the dependent variable. Study findings showed that

leverage had a significant negative effect on financial performance ($\beta 1$ = -0.289, $\rho < 0.05$). Findings also showed that liquidity had a significant positive effect on financial performance ($\beta 2$ = 0.296, $\rho < 0.05$). Company size had a significant positive effect on financial performance ($\beta 3$ = 0.480, $\rho < 0.05$). The study also revealed that company age had a significant positive effect on financial performance ($\beta 4$ = 0.168, $\rho < 0.05$). The study suggests that there is need to determine an optimal debt level that balances the benefits of debt against the costs of debt. The study also suggest that firms should expand in a controlled way with the aim of achieving an optimum size so as to enjoy economies of scale which can ultimately result in higher level of financial performance.

Kumar (2013) conducted research entitled *"Testing Financial Performance of Nepalese Life Insurance Companies by CARAMELS Parameter."* This paper assesses the financial performance and soundness of Life insurance companies in Nepal on the basis of CARAMEL parameters during 2007/08 to 2011/2012. The study adopted an Analytical research design. Quantitative analysis shows the mix results but this is not enough to obtain the true and fair picture of the financial health of insurers since qualitative factors also play vital role on its financial soundness. The study provides detail summary of financial performance of each company for 2011/12 and brief and aggregate overview over the five years period under the different dimensions: Capital adequacy, Assets quality, Reinsurance and Actuarial issues, management soundness, Earnings, profitability, and liquidity. Conclude that the financial status of the life insurance companies from different six aspects give the mix results. Past trend of capital adequacy ratio was not good. Assets quality, in term of receivables, the situation is in improving way. Reinsurance and actuarial base, Risk Retention Ratio is improving from 80% to 97% and the net technical reserves ratio matched its reserves with net premium. Management soundness of insurers had been improving as both were in upward direction. Earnings and profitability point of view, Return on Equity was in decreasing trend, which may discourage the investors to hold the share. There is ray of hope since expenses ratio, investment income to investment assets ratio, liquidity position also in improving direction.

Mehari & Aemiro (2013) studied on in their article entitled "*Firm Specific Factors That Determine Insurance Companies' Performance in Ethiopia.*" This study investigated the impact of firm level characteristics (size, leverage, tangibility, Loss

ratio (risk), growth in writing premium, liquidity and age) on performance of insurance companies in Ethiopia. Return on total assets (ROA) - a key indicator of insurance company's performance- is used as dependent variable while age of company, size of the company, growth in writing premium, liquidity, leverage and loss ratio are independent variables. The sample includes 9 insurance companies over the period 2005-2010. The audited annual reports (Balance sheet and Profit/Loss account) of insurance companies were obtained from National Bank of Ethiopia (NBE) and insurance companies' annual publication reports. The results of regression analysis reveal that insurers' size, tangibility and leverage are statistically significant and positively related with return on total asset; however, loss ratio (risk) is statistically significant and negatively related with ROA. Thus, insurers' size, Loss ratio (risk), tangibility and leverage are important determinants of performance of insurance companies in Ethiopia. But, growth in writing premium, insurers' age and liquidity have statistically insignificant relationship with ROA.

Lee (2014) expressed in his article on topic "*Effects of Firm Specific Factors and Macroeconomics on Profitability of Property Liability Insurance Industry in Taiwan*." This article investigates the relationship between firm specific factors and macroeconomics on profitability in Taiwanese property-liability insurance industry using the panel data over the1999 through 2009 time. The study adopted an Descriptive research design. Using operating ratio and return on assets (ROA) for the two kinds of profitability indicators to measure insurers' profitability. The results show that underwriting risk, reinsurance usage, input cost, return on investment (ROI) and financial holding group have significant influence on profitability in both operating ratio and ROA models. The insurance subsidiaries of financial holding group compared with other insurance companies, showing lower profitability. In addition, economic growth rate has significant influence on profitability in operating ratio model but insignificant influence on profitability in ROA model. The findings contribute to insurance operation in the property-liability insurance industry and should be of interest to regulators, investors and policyholders.

Kwaning, Awah & Michael (2015) conducted a research on *"Factors Affecting Financial Performance of Non-Life Insurance Companies in Ghana."* The objective of this study was to assess the factors affecting the financial performance of Non-Life Insurance companies in Ghana. The period 2009 to 2013 financial

years of ten Non-life insurance companies were considered in this study. Purposive sampling was adopted in selecting the 10 non-life insurance companies out of the 26 companies registered as at the end of 2014. The study identified four key performance indicators; Investment to Total Assets, Investment Yield, Return on Assets (ROA) and Return on Equity (ROE). The study revealed that the non-life insurance industry in Ghana has realized a steady growth in their investment that is made out of the total assets. There was a study growth of the ROA. It was also found out that there was slightly weak correlation between Return on Assets (ROA) and Gross Written Premium (GWP), Size, Claims, Liquidity and Leverage. Conversely, Return on Assets (ROA) has a negative correlation with claims and a positive correlation with Gross Written Premium (GWP), Size, Liquidity and Leverage. Furthermore, all the factors strongly predict ROA with Liquidity being the strongest predictor. The outcome of the study may guide insurance managers with applied knowledge for determining factors that affect firms' performance. The study recommends that insurance companies in Ghana should look beyond local market and strategically expand their operations to other geographical markets and sectors of the economy in order to increase their size and premium.

Oktiani, Priyarsano & Andati (2015) conducted research entitled as *"Firm Specific Factors And Macroeconomic Determinants of Life Insurance Companies' In Indonesia."* This paper is to analyze the firm-specific factors and macroeconomic determinants of life insurance companies' profitability in Indonesia using panel data during the period 2010 to 2014. The study adopted an explanatory research design .The study examines the firm-specifics factors consist of size of company, equity capital, premium growth, risk based capital ratio, leverage ratio and liquidity ratio, while macroeconomic factor is inflation rate. The findings indicate negative and significant influence of premium growth and risk based capital on profitability; and significant positive influence of equity capital, liquidity ratio, leverage ratio and size of company on profitability. Additionally, results reveal that inflation rate is not significantly influence the profitability of life insurance companies. The other finding is companies that have good level of total assets, equity capital, leverage ratio and liquidity ratios tend to have good achievement ROA ratio. Companies should be able calculating technical reserves appropriately, construct the

optimal portfolio in order to be able to generate maximum profits and streamline expenses operating expenses to maintain the achievement of good profitability**.**

Berteji & Hammami (2016) has conducted research on topic *"The Determinants of the Performance of the Life Insurance Companies in Tunisia."* In this study, researcher examined the impact of the characteristics of the company (size, leverage, tangibility, risk, growth, liquidity and age) on the performance of 8 life insurance companies in Tunisia all along a period of 10 years (ranging from 2005 to 2014). Analysis of the results of a regression on panel data indicates that the variables size, age and premium growth measured by ROA ratio (Return on Asset) are the most important determinants of the insurance companies performance. The performance of insurance companies is not statistically significant with such variables as leverage, tangibility, liquidity and risk.

Kripa & Ajasllari (2016) has conducted research on topic *"Factors Affecting the Profitability of Insurance Companies in Albania."* The importance of this topic further enhanced when dealing with insurance companies because: 1) insurance companies' transfers risk in the economy 2) provide a mechanism to promote savings 3) promote investment activities. The growing importance of insurance companies in Albania and the importance of profitability as one of the key performance metrics of a company are the reasons why we decide to write this paper. The variation of profits between insurance companies over the years, within a country, leads to believe that internal factors play a major role in determining profitability. Researcher has taken under study the impact of growth rate, liabilities, liquidity, fixed assets, volume of capital and company size on the profitability of insurance companies. The methodology used is based on quantitative methods and the data are provided by reliable sources such as annual reports of insurance companies. Researcher has taken under study 7 companies, including non-life and life insurance companies, from 2008-2013. The results of the paper show that factors such as growth rate, liabilities, liquidity and fixed assets are the main factors affecting the profitability of insurers, where the growth rate is positively associated with profitability, while liabilities, liquidity and fixed assets are negatively correlated. Company size and the volume of capital are positively correlated with the profitability of insurance companies', but their impact is statistically insignificant

2.2.2 Review of Previous Theses

There are some researches carried out by different researchers in this topic in Nepal. Here are some of the reviewed thesis, which can help us to understand about their objectives, used statistical tools and major findings of the study.

Shrestha (2014) had conducted a research on changing investment portfolio of to *"Analyze the Investment Portfolio Holding Pattern and Its Effect to Financial"* performance of R.B.S. He found, the dominant part of total volume of investment portfolios in development bonds of Nepal Government and a very negligible figure of total investment in share of other companies, due to his fact, the portfolio is a dominant part.

The major objectives of the study are:

- To examine the government policy to investment portfolios of insurance
- To analysis, the education affects investment portfolios of insurance.

The major findings of the study are:

- The government properties including corporation is insured to Government Company in priority basis, it is difficult to pursue in such corporation and government offices, so the environment is not very positive.
- Only lip service from government, the economic growth of the country is very slow. People cannot afford to pay insurance premium.
- The sense for insurance unawareness and unconscious mass is very high. Thus, insurance business is very challenging.

Aryal (2016) had conducted a research on, *"Premium Collection Evaluation the Financial Performance of NIC Ltd."* He had attempted to provide independent views of the financial performance of NIC and focusing on the challenges ahead of NIC. The major objective of the study is to evaluate the financial performance of NIC Ltd.

The major objectives of study are:

- To highlight various aspect relating to financial performance of Nepal Insurance Company Ltd
- To study the trend of premium collection and payment of claim and utilization of available resources
- To provide a package of suggestions and possible guidelines to improve (he insurance business based on the finding of the study

The major findings of the study are:

- The company's outstanding premium in the 10 years period jumped from Rs. 2.38 million in 2046/47 to Rs. 30.11 million in 2055/56.

- The re-insurance premium is increasing trend except in FY 2047/48. The average outstanding re-insurance premium in FY2046/047 is Rs. 11.48 million and Rs. 37.98 million in FY 2055/56.

- The total claim to net premium ratio come to the highest 38.65% in FY 2055/56 and to the lowest 10.16% in FY 2046/47, taking the deviation from average ratio of 10 years during the study period, i.e. 11.85%.

Giri (2017) had conducted a research on, *"A Comparative Financial Analysis of Nepal Insurance Company and National Life and General Insurance Company Limited".*

The major objectives of the study are:

- To evaluate the liquidity position of both insurance companies

- To evaluate the General Insurance Company and Nepal Insurance Company for the year

- To review the recent financial position and make suggestion to remove obstacles in making decision regarding financial management

The major findings of the study are:

- Premium collection of both life and non life insurance shows growing trend of this business in the recent year of the study period.

- The net profit percentage of Nepal Insurance Co. Ltd. is found better than Nepal Life and General insurance Company Ltd. nut the liquidity position of both companies are found better.

- Current assets turnover ratio of NLGI followed decreasing trend, which is the indication that he efficiency of utilizing current asset deteriorated over the period due to negligence of management. The average turnover on current assets on NIC was 24 paisa where as NLGI's return was 15 paisa.

Khadka (2018), had conducted a research on, "*Insurance Industry in Nepal; A Comparative Study on Premium Collection and Investment Pattern*" where he uses both primary and secondary sources of data. The period covered was for 2012/013 to 2016/17. The basic objective of this thesis was to examine how far the different insurance premium are collected and invested them properly.

The major objectives of the study are:

- To examined the trend and pattern of investment and premium collection.
- To analyze the management opinion instance to premium collection & investment.
- To analyze the current situation of the Nepalese insurance business

The major findings of the study are:

- The premium collection rate of Nepalese insurance industry has been fluctuating trend.
- The insurance industry has not consisted in the investment proportion and various investment sector and investment portfolio too.

2.3 Theoretical Framework and Hypothesis

Financial statement analysis allows managers, investors and creditors as well as potential investors and creditors to reach a conclusion about recent and current status of corporation. Some main variables affecting financial performance of companies are as under

Figure 1 : Theoretical Framework

Source: (Almajali, 2012:276)

Hypothetical answers to the study problem and its questions

Hypothesis 1

H11: There is significant effect for SIZE on Financial Performance (Return on Assets) of Insurance Companies of Nepal.

Hypothesis 2

H12: There is significant effect for SIZE on Financial Performance (Return on Equity) of Insurance Companies of Nepal.

Hypothesis 3

H13: There is significant effect for LEVERAGE on Financial Performance (Return on Assets) of insurance companies of Nepal.

Hypothesis 4

H14: There is significant effect for LEVERAGE on Financial Performance (Return on Equity) of insurance companies of Nepal.

Hypothesis 5

H15: There is significant effect for Liquid ratio on Financial Performance (Return on Assets) of insurance companies of Nepal.

Hypothesis 6

H16: There is significant effect for Liquid ratio on Financial Performance (Return on Equity) of insurance companies of Nepal.

Hypothesis 7

H17: There is significant effect for AGE on Financial Performance (Return on Assets) of insurance companies of Nepal.

Hypothesis 8

H18: There is significant effect for AGE on Financial Performance (Return on Equity) of insurance companies of Nepal.

2.3.1 Research Gap

Insurance is an important part of financial sector. There are many research which have been carried out on banking sector, but having a part of financial system insurance sector has given less priority by researchers. There are limited research base literatures written in Nepalese context. Some researchers has done crucial job of finding financial performance of insurance companies of Nepal but no any previous research work focusing on factors affecting financial performance of insurance companies' of Nepal is found. So, it is believed that this study will fulfill the gap, which had been made by the earlier researcher. Researcher has taken sample of twelve insurance companies listed in NEPSE, which predict the relationship between Size (Total Assets), LEVERAGE (Current Liabilities/ Total Assets), Liquidity (Total Current Assets / Total Current Liabilities) and Age with ROA as well as ROE. Moreover, in this study, statistical tools such as correlation coefficient and multiple regression analysis have been used. Hence, this study differs from other researches in terms of sample companies, data presentation as well as statistical and financial tools used for interpretation and analysis of data. Keeping in view the above research gap, this research aims at detail testing of factors, which affect financial performance of insurance companies of Nepal by using data from the period 2010/11-2016/17

CHAPTER - III
METHODOLOGY

Research methodology is a systematically way to solve the research problem. It refers to the various sequential steps that are to be adopted by a researcher during the course of studying the problem with certain objectives. This chapter refers to the Overall research method from the theoretical aspect to the collection and analysis of data. This study covers quantitative methodology in a greater extent and use the descriptive part based on both technical aspects and logical aspect. This research tries to perform a well- designed quantitative research in a very clear and direct way using both financial and statistical tools. Details research methods are described in the following heading:

3.1 Research Design

Generally, research design is the plan, structure and strategy of investigation conceived to obtain answer to research questions and to control variance. In order to make any type of research a well- set research design is necessary to fulfill the objective of the study. Generally, research design means definite procedure and techniques, which guide to study and provide ways for research viability. It is arrangement for collections and analysis of data. To achieve the objective of this study, descriptive and inferior research design has been used. Some financial, Statistical tools have been applied to find factor affecting financial performance of insurance companies of Nepal.

3.2 Population and Sampling

This study is analytical in nature and using secondary data for the purpose of empirical evaluation of Factors Affecting Financial Performance of Insurance Companies of Nepal. Sample size of this study is based on 27 listed Insurance Companies of Nepal stock exchange and collected 7 years (20010/11-2016/17) annual data of all twelve sample Insurance Companies. Thus, the populations in this study are all Insurance Companies listed in NEPSE. Twelve Insurance Companies have been selected for sample as per convenience sampling. Thus, sample Insurance Companies are as follows:

SN	Name of Insurance Companies	Symbol	Date of operation
1.	Sagarmatha Insurance Co. Ltd	SIC	1996
2.	Lumbini General Insurance Co. Ltd.	LGIL	2005
3.	Premier Insurance Co. Ltd.	PIC	1994
4.	Shikhar Insurance Co. Ltd.	SICL	2004
5.	Gurans Life Insurance Company Ltd.	GLICL	2008
6.	Life Insurance Co. Nepal	LICN	2001
7.	National Life Insurance Co. Ltd.	NLICL	1988
8.	Nepal Life Insurance Co. Ltd.	NLIC	2001
9.	Surya Life Insurance Company Limited	SLICL	2008
10.	Everest Insurance Co. Ltd.	EIC	1994
11.	Himalayan General Insurance Co. Ltd	HGI	1993
12.	NLG Insurance Company Ltd.	NLG	1988

Source: Annual Reports of Sample Companies

3.3 Sources of Data

The study mainly base on secondary data. Some sources of data are annual report of respective company, Beema Samiti, NEPSE, websites of respective Insurance Company and, websites of NRB.

3.4 Data collection and Processing Procedure

The data has been acquired from the annual reports of respective insurance companies and put them in a sheet. Then data are entered into the spreadsheet to work out the financial ratios and prepare necessary figures, according to the need and requirement of the study. For this purpose, collected data will be processed using computer programs like Ms Excel and statistical software SPSS (version20) Statistics tool as per the necessity. The collected data focuses on following variables: - company's leverage, company's liquidity, Company's age, company's size and Return on assets. Regression analysis and T- test has used to investigate the impact of independent variables on dependent variable. Return on equity has used to evaluate financial performance.

3.5 Data analysis Tools and Techniques

Several tools and techniques and used to analyze Secondary data collected from various sources for obtaining the logical conclusion. The following financial as well as statistical tools have been used to analyze the data:

3.5.1 Financial Data Analysis Tools

Financial Tools are those, which are used for the analysis and interpretation of financial data. Those tools can be used to get the precise knowledge of a business, which in turn are fruitful to explore the strengths and the weakness of the financial policies and strategies. In order to complete the purpose of the study, the ratio analysis has been used. In this study, different ratios are calculated and analyzed, which are given below:

Return on Assets (ROA)

Every financial institute has their own assets and ROA shows the productivity of these assets. It measure how efficiently the assets are utilized in the financial organization. This ratio judges the effectiveness in using the total fund supplied by the owners and creditors. Higher ratio shows the higher return on the resources available and vice-versa. It is calculated in terms of relationship between net profit and assets.

$$\text{Return on Assets (ROA)} \ = \frac{\text{Net Profit after Tax}}{\text{Total Assets}} \ \times \ 100$$

Return on Equity (ROE)

Since, shareholders are entitled to the residual profits; ROE shows the relationship between net income and shareholders' fund. This ratio indicates the firm's ability of generating net income per rupee of shareholders' fund. The main objective of computing this ratio is to analyze how effectively the funds supplied by shareholders' have been utilized. This ratio is of great interest to the present as well as the future prospective shareholders and also of great concern to management which has the responsibility of maximizing the owners' welfare. This ratio can be computed by using following formula:

$$\text{Return on Assets (ROE)} \ = \frac{\text{Net Profit after Tax}}{\text{Total Share holder Equity}} \ \times \ 100$$

Liquidity Ratio

Liquidity ratios are devices to judge the company's ability to meet its short-term current obligations and provide measure of liquidity position. There shouldn't be the condition of lower and higher liquidity. Lower liquidity indicates the failure of meeting the company's current obligations and adverse result. In the context of examining liquidity position of the corporation, only one liquidity ratio has been computed, that is current ratio. Current ratio is the measurement of a short-term solvency to show the availability of current assets expressed in rupees for every one

rupee of the current liability. It is computed by dividing total current assets by total current liabilities. It can be expressed as:

Current Ratio = Current Assets/Current Liabilities

The standard of this ratio is generally accepted as 2:1. A relatively high current ratio means the company is able to meet its short-term obligations and vice-versa.

Leverage Ratio

The leverage ratios are also termed as capital structure ratio. They are computed in order to get insight in the long-term financial status of the company. These ratios show the company's current debt-paying ability. The owners, creditors and outsiders are interested in firm's debt-paying ability. If the company is high levered, then the firm will face difficulties to raise funds, not only from the creditors but also from the owners too. The owners of the company may take advantages if the firm raises funds through the debt. In such case, they lose control over funds. In Nepal Insurance company's haven`t right to collect the fund them from debt so the leverage ratio is calculated as follows:

Leverage Ratio= Current Liabilities/ Total Assets

3.5.2 Statistical Tools

Statistical methods are the mathematical technique used to facilitate the analysis and interpretation of numerical data secured from groups of individuals or groups of observations from a single individual. The figures provide detailed description and tabulated as well as analyze data without subjectivity, but only objectivity. The results can be presented in brief and precise language and complex and complicated problems can be studied in very simple way. It becomes possible to convert abstract problems into figures and complex data in the form of tables. So, for this study following statistical tools are used

Average/Mean

Average, in general, is calculated by adding all the numbers of all observations and dividing by the total number of observations. It is in fact, a value, which is represented to stand for whole group of which it is a part, as typical of all the values in the group.

Standard Deviation

The standard deviation (σ) is the other measure of investment risk. It is absolute measures of dispersion. The smaller the standard deviation the lower will be the

degree of risk of the stock. In other words, a small standard deviation means a high degree of uniformity of the observations as well as homogeneity of a series and vice versa. The formula for calculating the standard deviation is:

$$Standard\ Deviation = \sqrt{\frac{1}{n}\sum(x-\bar{x})^2}$$

Coefficient of Variation

The coefficient variation (CV) is the other useful measure of risk. It is the standard deviation divided by the expected return, which measures risk per unit of return. It provides a more meaningful basis for comparison when the expected returns on two alternatives are not the same. If investors believe that the rate of return should increase as the risk increase, then the coefficient of variation provides a quick summary of the relative trade-off between expected return and risk. It is hence used to compare the variability between two or more series.

$$Coefficient\ of\ Variation\ (CV) = \frac{\sigma}{\bar{x}}$$

Karl Pearson's Coefficient of Correlation

"Karl Pearson's Coefficient of Correlation is a statistical tool for measuring the intensity or magnitude of linear relationship between the two variables series. Karl Pearson's measure, known as Pearson Correlation Coefficient between two variables (Series) X and Y, usually denoted by 'r(X, Y)' or 'rxy' or simply 'r' can be obtained as

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

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 product of observations in series X and Y

The value of correlation coefficient 'r' lies between -1 to 1.

If r = 1, there is perfect positive relationship. If r = -1, there is perfect negative relationship. If r = 0, there is no correlation at all (*Gupta; 1999).

3.5.3 Multiple Regression Analysis

Multiple regression analysis consists of two or more independent variables. It derives an equation, which provides estimates of the dependent variable from values of the

two or more independent variables. It obtains a measure of the proportion of variance in the dependent variable, which is explained by the independent variable, and a measure of error involved in using the regression equation as a basis for estimation using this regression equation as a basis for estimation of the dependent variable.

Multiple regressions are based on a set of assumptions that have to be met before running the regression analysis and some tests have been done before interpretation of the result is made. This is required to ensure that the results are what they appear to be. The assumptions underlying the multiple regressions are: normality, referring to the shape of the data distribution; homoscedasticity, which requires that dependent variables exhibit equal levels of variance across the range of explanatory variables; linearity association between variables; and absence of correlated errors

There are four principal assumptions, which justify the use of linear regression models for purposes of prediction i.e. linearity of the relationship between dependent and independent variables, independence of the errors (no serial correlation, homoscedasticity and normality of the error distribution. If any of these assumptions is violated then the forecasts, confidence intervals, and economic insights yielded by a regression model may be (at best) inefficient or (at worst) seriously biased or misleading (Wooldridge, 2013).

Normality

Many researchers believe that multiple regressions require normality. This is not the case. Normality of residuals is only required for valid hypothesis testing, that is, the normality assumption assures that the p-values for the t-tests and F-test will be valid. Normality is not required in order to obtain unbiased estimates of the regression coefficients. OLS regression merely requires that the residuals (errors) be identically and independently distributed. Furthermore, there is no assumption or requirement that the predictor variables be normally distributed. If this were the case, than we would not be able to use dummy coded variables in our models (Wooldridge, 2013).

Multicollinearity

When there is a perfect linear relationship among the predictors, the estimates for a regression model cannot be uniquely computed. The term collinearity implies that two variables are near perfect linear combinations of one another. When more than two variables are involved it is often called multicollinearity, although the two terms are often used interchangeably. The primary concern is that as the degree of

multicollinearity increases, the regression model estimates of the coefficients become unstable and the standard errors for the coefficients can get wildly inflated. In this section, we will explore some Stata commands that help to detect multicollinearity. We can use the vif command after the regression to check for multicollinearity. vif stands for variance inflation factor. As a rule of thumb, a variable whose VIF values are greater than 10 may merit further investigation (Wooldridge, 2013).

Autocolleration

In statistics, the Durbin–Watson statistic is a test statistic used to detect the presence of autocorrelation (a relationship between values separated from each other by a given time lag) in the residuals (prediction errors) from a regression analysis. Durbin-Watson (DW) statistics is the ratio of sum of squares of successive differences of residuals to the sum of squares of errors. As a rule of thumb, if the DW statistic is less than 2, there is evidence of positive serial correlation (Büyüksalvarcı and Abdioğlu, 2011).

Tests of Reliability

Coefficient of Determination

"The coefficient of determination between the two variable series is a measure of linear relationship between them and indicates the amount of one variable which is associated with or accounted for another variable. It gives the percentage variation in the dependent variable that is accounted for by the independent variable. Moreover, it gives the ratio of the explained variance to the total variance and it is given by square of the correlation coefficient, i.e.'r^2'" (Gupta; 1999). Thus,

$$R^2 = \frac{Explained\ Variance}{Total\ Variance}$$

Coefficient of Regression

The coefficient 'b', which is the slop of line of regression of Y on X is called the coefficient of regression of Y on X. It represents the increment in the value of the independent variable Y for a unit change the value in value of the independent variable X. In other words, it represents the rate of change. The convenient way to calculate the value of 'b' is as: $b = \frac{n \sum xy - \sum x \sum y}{N \sum x^2 - (\sum x)^2}$

Similarly, the value of Y-intercept can be computed as:

$$a = \frac{\sum X^2 \sum Y - \sum X \sum Y}{N \sum X 2 - (\sum X).^2}$$

Standard Error of Estimate

The regression equations enable us to estimate the value of the dependent variable of the dependent variable for any given value of the independent variable. With the help of regression equations, perfect estimations are impossible.

In such a case, standard error of estimate is used to measure the reliability of the estimating equation. The standard error of estimate is similar to the standard deviation. Both of these are measure of dispersion. The standard deviation measures the dispersion of a set of observations about the mean. The standard error of estimate, on the other hand, measures the variability, of scatter, of the observed values around the regression line. There are two standard error of estimate namely standard error of estimates namely standard error of estimate of Y on X and standard error of estimate of X on Y (Pant & Chaudhary, 2055)

The formula for calculating the standard error of estimate of Y on X is defined by;

$$S_{xy} = \sqrt{\frac{\sum(y - y_2)}{n-2}} \text{ and } S_{xy} = \frac{\sum y_2 - a\sum y - b\sum xy}{n-2}$$

T- Test

T-test, commonly known as Student's T-Distribution, is used when sample size is equal to or less than 30, the parent population from which the sample is drawn is normal, the population standard deviation is unknown. In order to test the significance of an observed sample correlation coefficient, the following procedure has been applied:

The following formula is used to test an observed sample correlation coefficient:

$$t = \frac{r}{\sqrt{1-r^{2x}}} * \sqrt{(n-2)}$$

Where, r = simple correlation coefficient

N = number of observation

Statistical Significance Testing

In statistical significance testing the p-value is the probability of obtaining a test statistic at least as extreme as the one that was actually observed, assuming that the null hypothesis is true. One often "rejects the null hypothesis" when the p-value is less than the predetermined significance level which is often 0.05 or 0.01, indicating that the observed result would be highly unlikely under the null hypothesis. Many common statistical tests, such as chi-squared tests or Student's t-test, produce test statistics which can be interpreted using p-values.

The p-value is a key concept in the approach of Ronald Fisher, where he uses it to measure the weight of the data against a specified hypothesis, and as a guideline to ignore data that does not reach a specified significance level (Wooldridge, 2013).

3.5.4 Model Specification

The multiple regression model used to analyze financial performance of sample Companies. The model will be as follows;

$$ROE= \alpha 1 + \beta 1(\text{Liquidity Ratio})+ \beta 2(\text{Age})+ \beta 3(\text{Size})+ \beta 4(\text{Leverage })+ \varepsilon$$

$$ROA= \alpha 1 + \beta 1(\text{Liquidity Ratio})+ \beta 2(\text{Age})+ \beta 3(\text{Size})+ \beta 4(\text{Leverage })+ \varepsilon$$

Where;

α = Intercept

ε = Error term where i is cross sectional and t time identifier

CHAPTER–IV
RESULT

Data analysis and major findings is the most important chapter of this study. For the purpose of study and analysis, secondary are used. Based upon the data analysis and study, major finding are concluded. This data presentation and analysis chapter is separated into two parts, as Descriptive Analysis and inferior research design through financial tools and statistical tools. It has been already mentioned the methodology to be in third chapter. This chapter has been focused on the Factors Affecting Financial Performance of Insurance Companies of Nepal. It considers various variables that are important and import on the Return on Assets and Return on Equity of Sample companies.

4.1 Descriptive Analysis

General descriptive analysis of the various factors affecting performance of the non life insurance companies are as follow

4.1.1 Net Income of Insurance Companies

It is the company's total earning or profit. Net Income is calculated by taking revenues and adjusting for the cost of doing business, depreciation, interest, taxes and other expenses. Net income varies greatly from company to company because net income is measured in Amount and companies vary in size.

Table 4.1: Net Income of Sample Companies

SN	Mean	SD	CV
SIC	166,926,918.19	70,817,578.78	0.42
LGIL	87,008,361.29	65,399,099.46	0.75
PIC	84,739,343.86	70,095,902.67	0.83
SICL	173,365,427.14	123,773,192.51	0.71
GLICL	41,619,971.12	19,368,812.85	0.47
LICN	238,890,656.00	154,975,935.44	0.65
NLICL	250,374,587.57	122,571,605.74	0.49
NLIC	647,967,766.71	354,054,191.78	0.55
SLICL	60,178,009.86	51,544,882.51	0.86
EIC	29,128,215.57	51,021,005.76	1.75
HGI	73,827,765.14	71,832,333.24	0.97
NLG	158,243,433.71	64,677,557.17	0.41

Source: Annex 1

Figure 2 : Net Income of Sample Companies
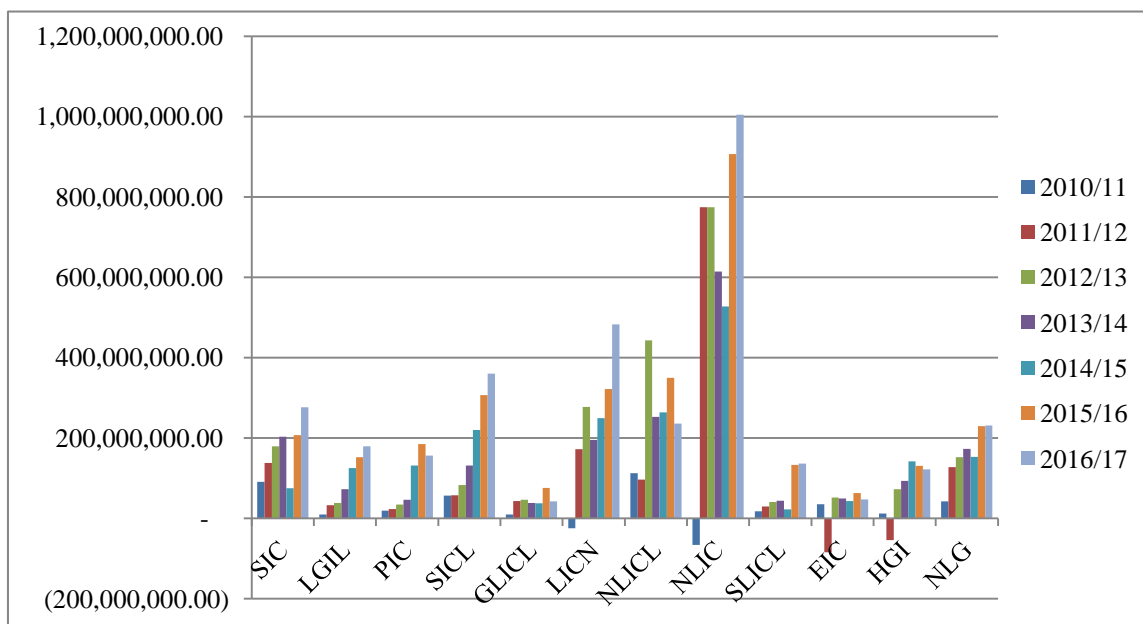
Source: Annex 1

Table 4.1 refers Net Profit of sample Insurance companies listed in Nepal. NLICL, NLIC and LICN have highest Net Profit among other sample companies and GLICL, EIC & SLICL seems lowest in Net Profit. The average net Profit of NLIC is Rs. 647,967,766.71, which is highest in absolute figure and EIC is lowest i.e. Rs. 29,128,215.57. All sample companies Profit is increasing trend, which is shown in figure 2. It means earning generating capacity of every insurance company is increasing every year. Although, there are LICN, NLIC, EIC and HGL have experienced the loss in first and second year during study period. Net income of LICN, NLIC, EIC and HGL seems excellent to cover all loss of 1st and 2nd year paid by the company in last remaining study period. Hence, overall Net profit patterns of companies seem good. But there is difficult to find which insurance companies have the consistent net income in absolute terms. So CV is calculated to find the highly consistent sample company in generating net profit. As per Table 4.1, NLG has highly consistently net income during sample period due to lowest CV and EIC has lowest inconsistently net income during sample period due to highest CV i.e. 1.75.

4.1.2 Shareholder Equity

Shareholders' equity referred to as the owner's residual claim after debts have been paid, is equal to a firm's total assets minus its total liabilities. Found on a company's balance sheet, it is one of the most common financial metrics employed by analysts to

assess the financial health of a company. Shareholders' equity represents the net or book value of a company. In other words is the net amount of a company's total assets and total liabilities, which are listed on a company's balance sheet. In part, shareholders' equity shows how much of a company's operations are financed by equity. Shareholders' equity is an important metric in determining the return being generated versus the total amount invested by equity investors.

Table: 4.2 Share Holder Equity of Sample Companies

SN	Mean	SD	CV
SIC	737,048,296.86	339529498.7	0.46
LGIL	441,118,853.00	260641669.8	0.59
PIC	438,767,283.71	296886311.9	0.68
SICL	784,001,895.57	595702837.1	0.76
GLICL	1,891,721,850.40	1207941780	0.64
LICN	18,615,363,181.86	10410924712	0.56
NLICL	11,874,034,455.43	4722693559	0.40
NLIC	22,712,929,507.43	14207502200	0.63
SLICL	1,178,326,833.71	1273798074	1.08
EIC	290,412,896.14	82874707.14	0.29
HGI	438,365,447.71	253830513.9	0.58
NLG	690,596,175.43	392844225.6	0.57

Source: Annex 3

Figure 3 : Shareholder of Equity of Sample Companies
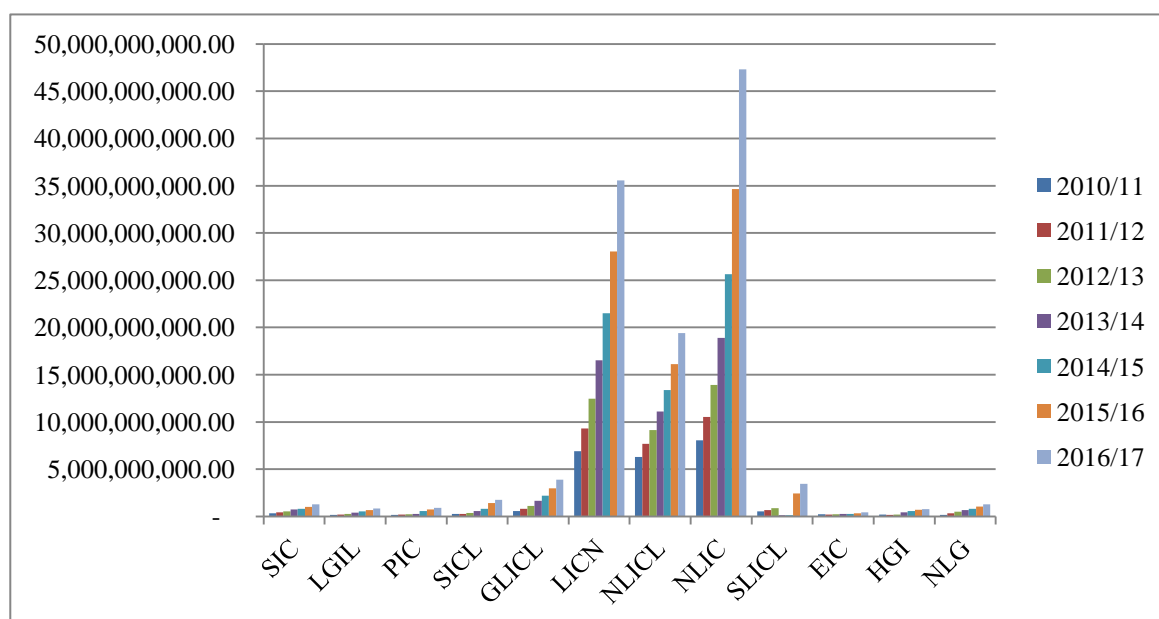
Source: Annex 3

Table 4.2 and figure 3 shows patterns of shareholder equity of sample Insurance companies listed in Nepal. The average of Shareholder equity of LICN and NLIC are 18,615,363,181.86 and 22,712,929,507.43 respectively, which are highest among the sample companies. It means this company has highest risk bearing capacity. In others words, this company has highest ability is able to protect itself against the financial losses in comparison with others sample companies.

As per the figure 3, capitals of each insurance company are increasing trend but ratio of increasing is not consistent among the companies. Although, companies are becoming stronger in term of capital. In table 4.2, the average of capital and SD are presented in Absolute term. So there is difficult to find the consistently increase of shareholder equity. So CV is calculated to find the highly consistent sample company in further generating of equity capital. As per Table 4.2, ECI has highly consistently equity capital during sample period due to lowest CV and SLICL has lowest inconsistently equity during sample period due to highest CV i.e. 1.08.

4.1.3 Current Assets

The term current assets represents all the assets of a company that are expected to be conveniently sold, consumed, utilized or exhausted through the standard business operations which can lead to their conversion to a cash value over the next one year. Current assets include cash, cash equivalents, accounts receivable, stock inventory, marketable securities, pre-paid liabilities and other liquid assets. Current assets are important to businesses because they can be used to fund day-to-day operations and to pay for the ongoing operating expenses (claims).

Table 4.3 :Current Assets of Sample Companies

SN	Mean	SD	CV
SIC	1,568,665,041.74	676,926,676.09	0.43
LGIL	816,526,111.86	443,456,210.17	0.54
PIC	784,604,759.29	520,822,009.92	0.66
SICL	1,357,926,420.86	873,062,743.00	0.64
GLICL	1,830,662,365.13	1,226,573,323.11	0.67
LICN	9,237,821,827.57	7,211,042,899.89	0.78
NLICL	6,726,909,794.57	2,919,208,151.93	0.43
NLIC	13,480,961,714.86	11,373,786,359.60	0.84
SLICL	952,816,210.86	691,920,392.69	0.73
EIC	597,374,865.43	110,029,575.84	0.18
HGI	930,220,794.00	414,814,506.86	0.45
NLG	1,251,061,363.71	490,690,427.90	0.39

Source: Annex 4

Figure 4 : Current Assets of Sample Companies
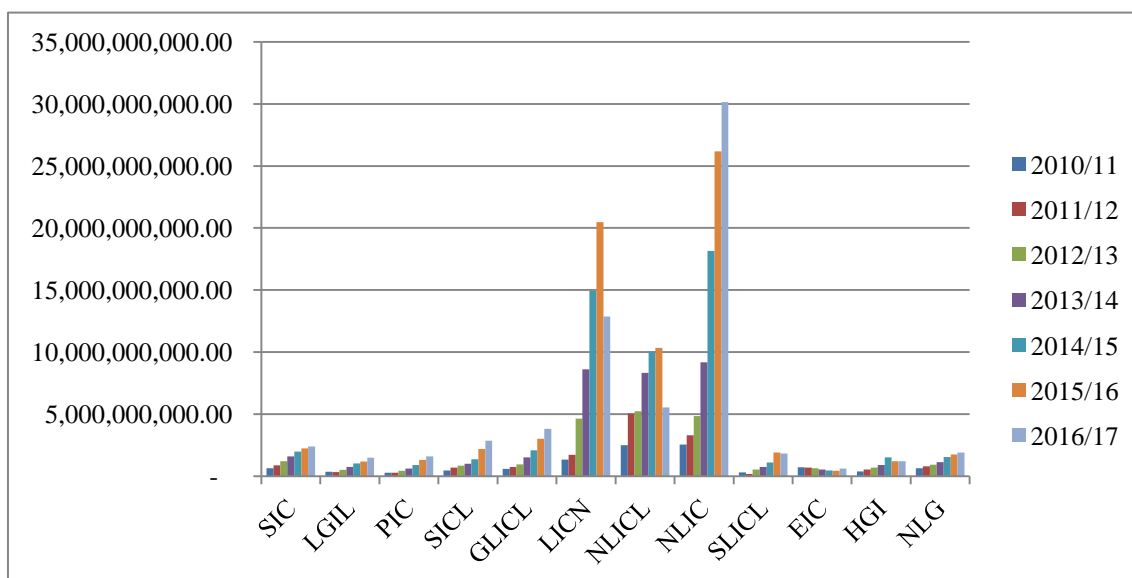
Source: Annex 4

As per the table 4.3, the average of Current Assets of NLIC, LICN and NLICL are Rs. 13,480,961,714.86, 9,237,821,827.57 and 6,726,909,794.57 respectively, which are highest current assets among the sample companies. It indicates that these companies are strong in situation to manage the insurance risk. However, if these companies are investing more funds in current assets in comparison of risk occurrence probability, it will decrease the capacity to generate more return after investing the long-term assets. Figure three, shows that NLIC has increased in investment of current assets each year. It shows NLIC take aggressive strategic in current assets. However, the trend of investment in Current assets of LICN and NLICL is fluctuating trend. It shows that this company has not taken the strategic like as NLIC. Both companies' current assets have decreased in last fiscal year 2016/17. This situation may arise due to compensation for policyholder after the earthquake of 2015. As per table 4.3, the average of Current assets of EIC, PIC, LGIL are Rs. 597,374,865.43, 784,604,759.29 and 816,526,111.86 respectively, which are lowest current assets among the sample companies. It indicates these conditions may harmful for these insurance companies. Risk is uncertain, accident can happen any time, and companies may not be able to provide the compensation to policyholder immediately in accident like as earthquake. In other words, If companies have not enough current assets to convert into liquid assets (cash), they can`t meet obligation and create problems in such situation. So

generally, insurance companies must invest more funds in current assets instead of fixed assets (long-term investment).

As per the figure 4, current assets of eight insurance companies are increasing trend but ratio of increasing is not consistent among the companies. In table 4.3, the average of current assets and SD are presented in Absolute term. So there is difficult to find the consistently increase of Current assets. So CV is calculated to find the highly consistent sample company in current assets. As per Table 4.3, ECI has highly consistently Current assets during sample period due to lowest CV and LICL has lowest inconsistently of Current assets during sample period due to highest CV i.e. 0.78

4.1.4 Current Liabilities

Current liabilities are a company's debts or obligations that are due within one year or within a normal operating cycle. Furthermore, current liabilities are settled by the use of a current asset, such as cash, or by creating a new current liability. Current liabilities appear on a company's balance sheet and include short-term debt, accounts payable, accrued liabilities, and other similar debts. Another condition is that the item will use cash or it will create another current liability. Since current liabilities are typically paid by liquidating current assets, the presence of a large amount of current liabilities calls attention to the size and prospective liquidity of the offsetting amount of current assets listed on a company's balance sheet. Current liabilities may also be settled through their replacement with other liabilities, such as with short-term obligation.

Table 4.4: Current Liabilities of Sample Companies

SN	Mean	SD	CV
SIC	1,144,660,376	453,454,474	0.40
LGIL	565,097,433	246,662,443	0.44
PIC	532,005,120	301,436,774	0.57
SICL	973,440,476	385,545,263	0.40
GLICL	177,267,326	70,035,235	0.40
LICN	1,088,365,722	619,028,447	0.57
NLICL	836,636,453	211,702,666	0.25
NLIC	1,749,912,227	808,640,700	0.46
SLICL	193,515,150	160,477,236	0.83
EIC	566,153,549	159,647,326	0.28
HGI	766,088,008	365,273,200	0.48
NLG	858,450,581	177,833,103	0.21

Source: Annex 5

Figure 5 : Current Liabilities of Sample Companies
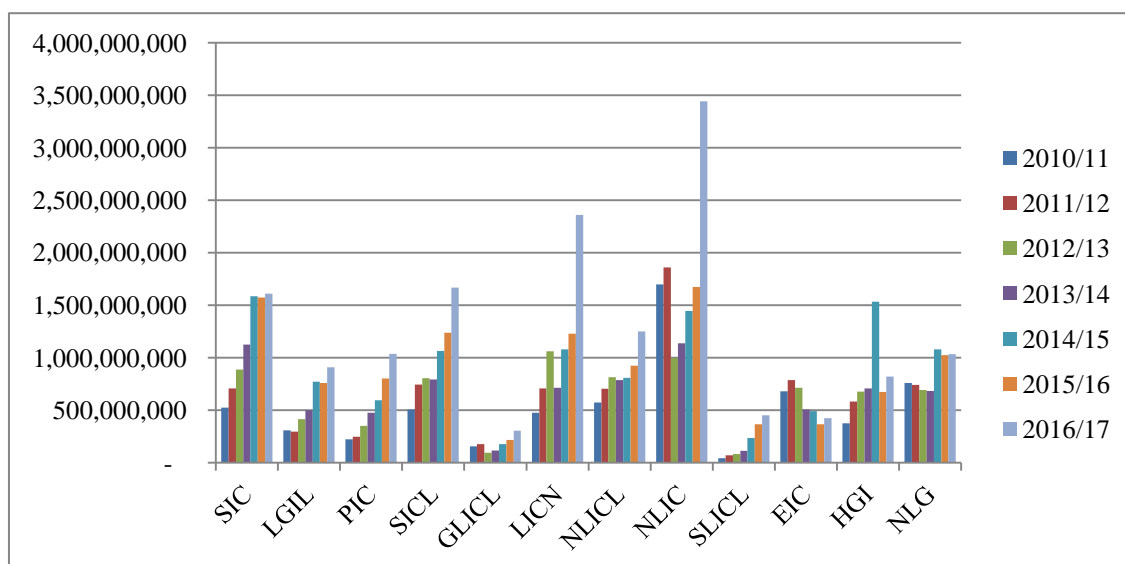
Source: Annex 5

Table 4.4 and figure 5 shows patterns of Current Liabilities of sample Insurance companies listed in Nepal. The average of Current Liabilities of NLIC, SIC and LICN are 1,749,912,227.00, 1,144,660,376 and 1,088,365,722 respectively, which are highest among the sample companies. It means this company has liabilities that should be settled within a year. Highest liabilities are burden for company if repayment or repay capacity is weak. Therefore, advantage or disadvantage of liabilities of company depends upon the repayment source or current assets. As per the figure 5, each company's current liabilities are increasing in trend. But LICN and NLICL have increased in last year and EIC and HGI is in fluctuation trend. As per the figure, Current Liabilities of each insurance company are increasing trend but ratio of increasing is not consistent among the companies. In table 4.4 the average of Current Liabilities and SD are presented in Absolute term. So there is difficult to find the consistently increase of Current Liabilities So CV is calculated to find the highly consistent sample company in further generating of Current Liabilities. As per Table 4.4, NLG has highly consistently Current Liabilities during sample period due to lowest CV and NLG has lowest inconsistently Current Liabilities during sample period due to highest CV.

4.1.5 Total Assets of Sample Companies

Total assets refer to the total amount of assets owned by a person or entity. Assets are items of economic value, which are expended over time to yield a benefit for the

Companies. Here assets are usually recorded in the accounting records and appear in the balance sheet of Companies. Assets include anything a company owns that has monetary value. Total Assets are defined as anything that a business owns, has value, and can be converted to cash. Total Assets are broken down into two main categories. These two categories are current assets and noncurrent assets. Generally, higher assets are useful and stronger for companies. However, it depends upon utilization of assets to generate the income for companies. Therefore, Ideal assets are additional burden and wastage of source for fund. The total assets of sample companies are presented as follows:

Table 4.5 : Total Assets of Sample Companies

SN	Mean	SD	CV
SIC	1,881,406,002	777,654,455	0.41
LGIL	1,006,027,099	503,039,994	0.50
PIC	970,423,302	595,056,173	0.61
SICL	1,756,317,607	972,565,452	0.55
GLICL	2,067,758,906	1,265,980,769	0.61
LICN	21,175,662,198	14,159,554,475	0.67
NLICL	12,699,228,258	4,928,445,688	0.39
NLIC	26,259,205,818	14,362,044,058	0.55
SLICL	1,815,216,968	1,313,372,466	0.72
EIC	838,386,971	90,454,755	0.11
HGI	1,239,162,674	519,411,154	0.42
NLG	1,542,309,394	544,765,243	0.35

Source: Annex 6

Figure 6 :Total Assets of Sample Companies
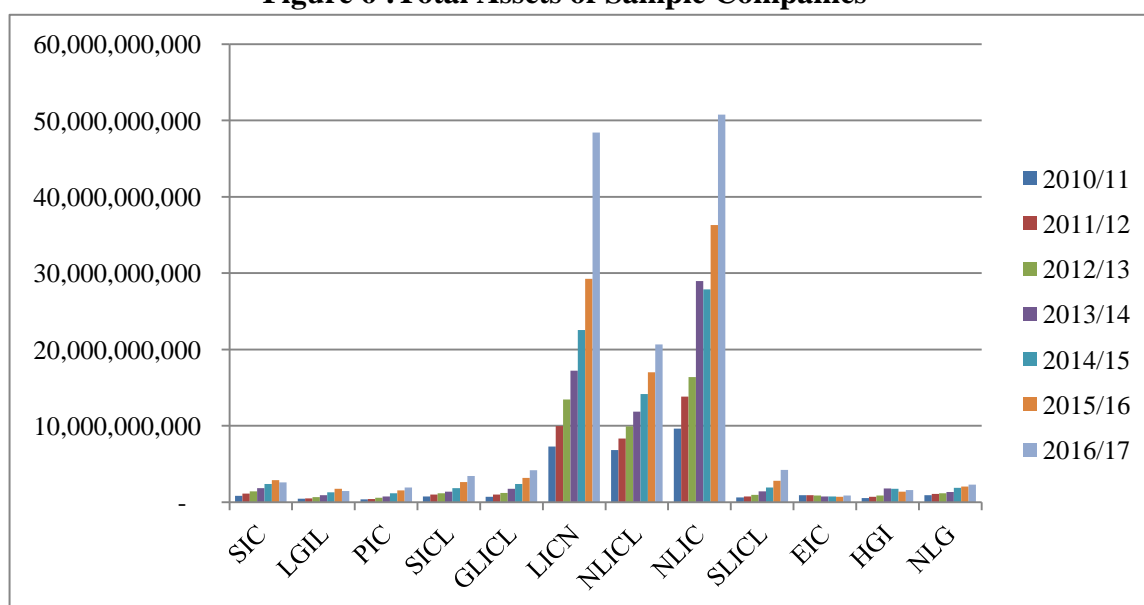
Source: Annex 6

As per the table 4.5, the average of Assets of NLIC, LICN and NLICL are Rs. 26,259,205,818.00, 21,175,662,198 and 12,699,228,258.00 respectively, which are highest assets among the sample companies. It indicates that these insurance are strong in situation to manage the insurance risk. Figure three, shows that NLIC has increased in investment of assets each year. It shows NLIC take aggressive strategic in assets. In addition, NLIC is becoming stronger than other sample companies are. However, the trend of investment in assets of LICN and NLIC is increasing trend where as NLICL is also increasing trend but fiscal year 2015/16, it is decreased. As per table 4.5, the average of Current assets of EIC and PIC are Rs. 838,386,971.00, and 970,423,302.00 respectively, which are lowest assets among the sample companies. It indicates these conditions may harmful for these insurance companies. However, it depends upon liabilities of the companies. If the liabilities are higher than assets, company may face the problem because Risk is uncertain, accident can happen any time, and companies may not be able to provide the compensation to policyholder immediately in accident like as earthquake.

As per the figure 6, assets of eight insurance companies are increasing trend but ratio of increasing is not consistent among the companies. In table 4.5, the average of current assets and SD are presented in Absolute term. So there is difficult to find the consistently increase of Current assets. So CV is calculated to find the highly consistent sample company in current assets. As per Table 4.5, ECI has highly consistently Current assets during sample period due to lowest CV and SLICL has lowest inconsistently of Current assets during sample period due to highest CV i.e. 0.72. Thus, Size relates to how big the companies are, in relations to the amount of assets owned. The larger companies are more likely to gain an upper hand in the competitive market than the smaller companies are because the larger companies are able to have more management layers, increased specialization and wide range of resources. Hence most small organization endeavor to expand their organization`s assets and resources to attain the large status which also increases their ability to acquire additional funds.

4.1.6 Liquid Raito of Sample Companies

Liquidity Ratios are a class of financial metrics used to determine a company's ability to pay off its short-terms debts obligations. Generally, the higher the value of the ratio, the larger the margin of safety that the company possesses to cover short-term

debts. The principle of liquidity is important for the insurance investment. Insurer has no information about when they need to pay the claim of their client. So, any one unseen time there will be the requirement of fund. However, the principle of liquidity is against the principle of profitability, because the idle cash will earn nothing and invested cash will have no liquidity. Hence, liquid ratio represents a margin of safety, i.e. a cushion of protection for creditors and the highest the liquid ratio, greater the margin of safety, large the amount of liquid assets in relation to liquid liabilities, more the companies' ability to meet its liquid obligations.

Table 4.6 : Liquid Ratio of Sample Companies

SN	Mean	SD	CV
SIC	1.35	0.10	0.07
LGIL	1.39	0.19	0.14
PIC	1.40	0.18	0.13
SICL	1.29	0.35	0.27
GLICL	10.01	4.20	0.42
LICN	8.26	5.81	0.70
NLICL	8.10	3.31	0.41
NLIC	7.60	5.31	0.70
SLICL	5.40	1.68	0.31
EIC	1.09	0.21	0.19
HGI	1.23	0.32	0.26
NLG	1.43	0.36	0.25

Source: Annex 6

Figure 7 : Liquid Ratio of Sample Companies
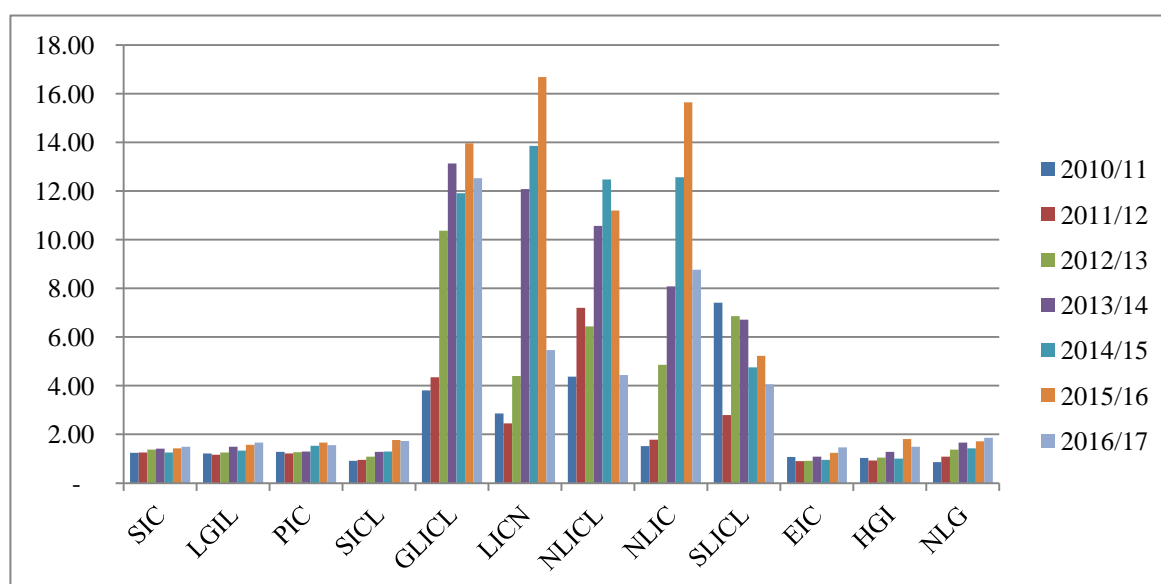
Source: Annex 7

The Table 4.6 and Figure 7 show the liquidity ratio of sample insurance companies. All sample Companies liquidity ratio are more than one that is satisfactory level for each insurance companies to covers its short-terms debts obligations. The average Liquidity of GLICL, LICN, NLICL, NLIC and SLICL are 10.01, 8.26, 8.10, 7.60 and 5.40 respectively, which are top fifth in liquidity position among the sample insurance companies. It means these companies have highest capacity to when they need to pay the claim of their client. EIC has lowest liquidity ratio i.e. 1.09 in comparison with other sample companies that means this companies capacity is lower to meet short-term obligation. Although ,it is concluded that the capacity of the company to meet its current liabilities is satisfactory due to average of Liquidity ratio of each company is higher than 1. Thus, the insurer has to invest under the principle of liquidity. The figure 6 shows that each company has maintain the liquidity position more than 1 during the study period. Although, liquidity ratio of each company is fluctuating trend. The higher fluctuation of liquidity ratio of LICN and NLIC is higher which is shown clearly in figure 6 and both companies have highest CV i.e. 0.70. In other side, SIC has lowest CV i.e.0.07 that means more consistent liquidity ratio among sample companies.

4.1.7 Leverage Ratio of Sample Companies

Companies rely on a mixture of owners' equity and debt to finance their operations. A Leverage Ratio is any one of several financial measurements that look at how much capital comes in the form of debt (loans), or assesses the ability of a company to meet financial obligations. In the case of Nepalese insurance company has not right to collect the fund from long-term debt financing. Therefore, in this situation, the ratio of Current Liabilities to Total Assets is taken for calculation of Leverage of insurance companies. Leverage ratio of insurance company shows how well or how badly it has managed its reserves (from the policyholders' surplus) to address claims. The goal is to have surplus reserves to be able to pay all possible claims while retaining a profit. A high ratio indicates that a business may have incurred a higher level of debt than it can be reasonably expected to service with ongoing cash flows. Leverage ratios are essentially measures of risk, since a borrower that cannot pay back its debt obligations is at considerable risk of entering bankruptcy protection. However, a modest amount of leverage can be beneficial to shareholders, since it means that a

business is minimizing its use of equity to fund operations, which increases the return on equity for existing shareholders.

Table 4.7 : Leverage Ratio of Sample Companies

SN	Mean	SD	CV
SIC	61.3%	3.5%	0.06
LGIL	58.3%	7.4%	0.13
PIC	56.3%	4.7%	0.08
SICL	59.6%	10.0%	0.17
GLICL	10.7%	6.1%	0.57
LICN	5.6%	1.5%	0.27
NLICL	7.0%	1.3%	0.19
NLIC	8.2%	5.2%	0.63
SLICL	9.8%	2.2%	0.23
EIC	66.7%	13.4%	0.20
HGI	64.7%	18.3%	0.28
NLG	58.9%	13.3%	0.23

Source: Annex 8

Figure 8 : Leverage Ratio of Sample Companies
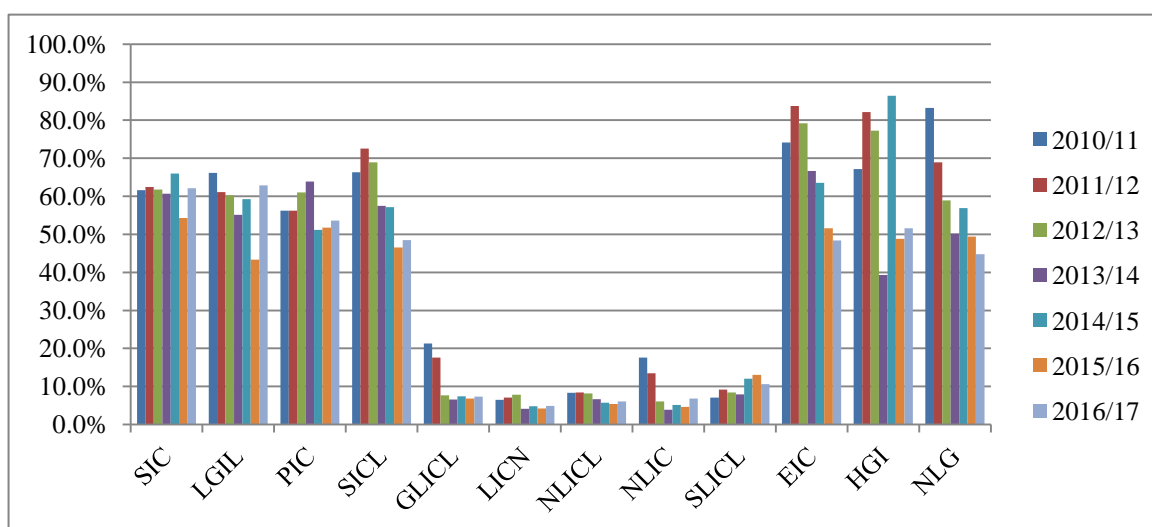
Source: Annex 8

The table 4.7 and Figure 7 show the situation of leverage ratio of sample insurance companies during the sample period. All sample companies leverage ratio is fluctuating in trend. The average of mean of EIC, HGI, SIC, SICL & NLG are 66.7%, 64.7%, 61.3%, 59.6% and 58.9% respectively, which are highest, leverage ratio among the sample insurance companies. A high ratio indicates that these insurance companies may have incurred a higher level of liabilities than it can be reasonably expected to cover from its asset. Highly leveraged companies may be putting themselves at risk of insolvency or bankruptcy, depending upon the type of company

assets and ongoing cash flow to cover its liabilities or interest. Hence, this company is more risk in comparisons of remaining sample companies. This outcome is achieved by controlling the number of underwriting activities, so it will not threaten to company's reserves. The average Leverage ratio of LICN, NLICL, NLIC and SLICL are 5.6%, 7.0%, 8.2% and 9.8% respectively, which are lowest leverage ratio among the sample companies. It means these companies have lower risk from the side of creditors. These companies can easily cover the obligation from insurance holders. The CV of SIC and PIC has lowest which means these companies maintain the consistency leverage ratio during the study period.

4.1.8 ROA of Sample Companies

ROA determine the net income produced per Rupess of assets. It is a measure of profitability linked to the asset size of the Insurance Companies. It is primary an indicator of managerial efficiency; it indicates how capably the management of the Insurance Companies has been converting the institution's assets into net earnings. It measures the profit earning capacity by utilizing available resources i.e. total assets. A higher ratio indicates the better income generating capacity of the assets and better efficiency of management in future. ROA is a useful static for comparing Insurance Companies profitability as it avoids distortions produced by differences in financial advantage .From an accounting perspective, ROA is a comprehensive measure of overall Companies performance. ROA has been widely used as a metric of Insurance Companies profitability while examining the relationship between factor affecting to performance and Insurance Companies performance

Table 4.8 : ROA of Sample Companies

SN	Mean	SD	CV
SIC	9.59%	3.33%	0.3476
LGIL	7.58%	3.25%	0.4288
PIC	7.62%	2.93%	0.3842
SICL	9.05%	2.40%	0.2647
GLICL	2.35%	1.25%	0.5328
LICN	1.11%	0.75%	0.6784
NLICL	2.06%	1.13%	0.5481
NLIC	2.59%	2.06%	0.7951
SLICL	3.30%	1.18%	0.356
EIC	3.83%	5.89%	1.535
HGI	4.70%	6.02%	1.2797
NLG	10.18%	2.98%	0.2924

Source: Annex 9

Figure 9 : ROA of Sample Companies
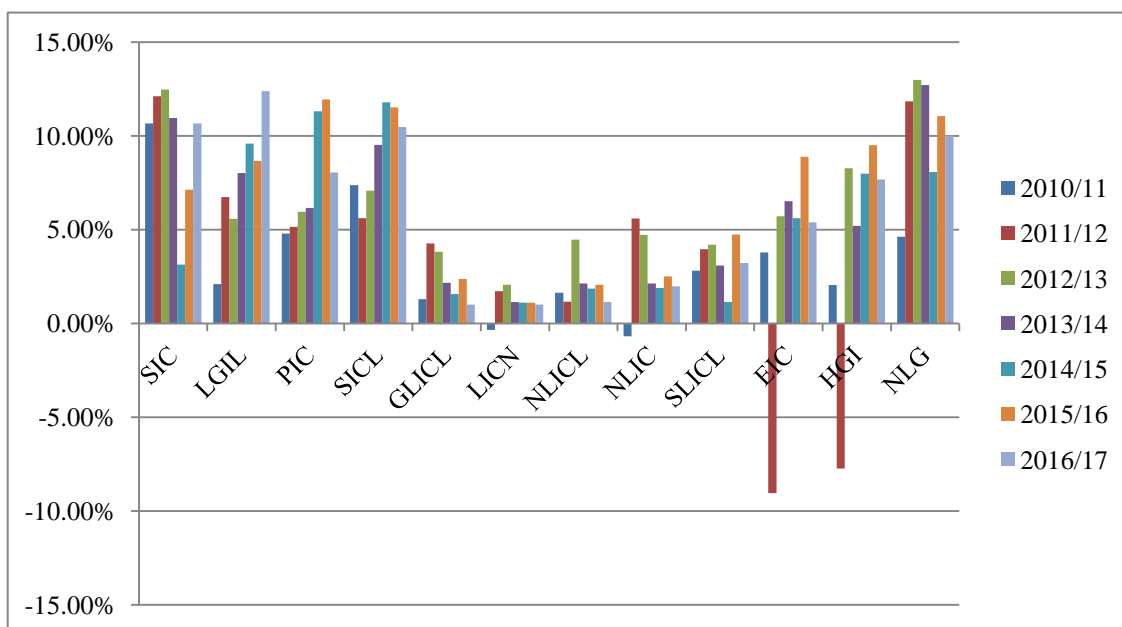
Source: Annex 9

Table 4.8 and Figure 9 disclose return on assets of selected companies for last seven years. ROA of all companies are fluctuating trend, which is, clearly show in figure 8. When, The performance of ROA of sample companies has declined, It indicates both Companies management has facing some problems to generate more profit by using its assets or evaporated profit of banks due to some problem and vice versa. An increasing trend of ROA indicates that the profitability of the company is improving. Conversely, a decreasing trend means that profitability is deteriorating. In other words, this figure shows the ability of the Insurance Companies to generate profit from the Insurance Companies' assets and measures the ability of the management to convert the assets of the Insurance Companies into net earnings is not consistent or fluctuating trend. Although, CV of SICL, NLG, SIC and SLICL are 0.2647, 0.2924, 0.3476 and 0.356 respectively which are highly consistent ROA among the sample companies. It means management capacity is more consistently ability to use its assets for generating the profit. CV of EIC, HGI are 1.535, 1.2797 that are highest, and more inconsistent ROA among the sample companies. The average of ROA of NLG, SIC, SICL are 10.18%, 9.59%, 9.05% respectively and highest average among the sample companies with highly consistently. Hence, this is best performance sample companies in term of ROA. ROA of LICN, NLICL and GLICL are 1.11%, 2.06%, 2.35% respectively which are lowest average ROA with highly inconstant. Although

this companies have higher average assets during the sample period which means these companies can`t optimal use of available assets to generate the income.

4.1.9 ROE of Sample Companies

Return on Equity (ROE) is the ratio of net income to total equity capital, which measures the return to shareholders on their equity. It measures how well the management is utilizing the shareholder's invested money to generate profit ROE is one of the most important measures for evaluating efficiency and profitability of companies' management based on the equity that shareholders have contributed to the companies. Return on equity ratio indicates how profitable a company is by comparing its net income to its average shareholder equity. It measures the rate of return on common stockholders' investment. Higher the returns on equity ratio represent the more efficient management and better returns to shareholders. It is calculated by diving net income by shareholder's equity. The return on equity ratio is an important tool for the financial analysis to appraise the financial structure of the firm. The following tables indicate return on equity ratios trend of four listed manufacturing companies from 2070/71 to 2073/74.

Table 4.9: ROE of Sample Companies

SN	Mean	SD	CV
SIC	24.46%	8.25%	0.337
LGIL	17.46%	5.96%	0.341
PIC	17.16%	5.25%	0.306
SICL	22.34%	2.44%	0.109
GLICL	2.65%	1.47%	0.555
LICN	1.22%	0.81%	0.664
NLICL	2.22%	1.23%	0.556
NLIC	3.17%	2.64%	0.835
SLICL	10.16%	11.10%	1.092
EIC	8.31%	21.77%	2.619
HGI	12.64%	21.66%	1.714
NLG	25.46%	6.82%	0.268

Source: Annex 10

Figure 10 : ROE of Sample Companies
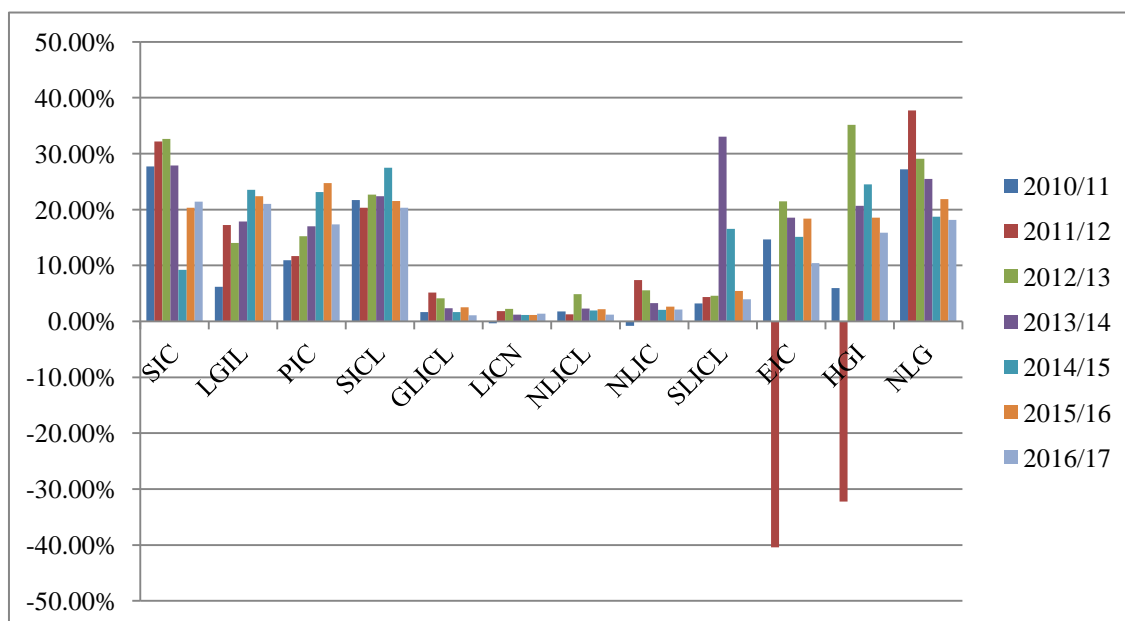
Source: Annex 10

Table 4.9 and Figure 10 disclose return on assets of selected companies for last seven years. ROE of all companies are fluctuating trend, which is, clearly show in figure 10. When, the performance of ROE of sample companies has declined, it indicates both Companies management has facing some problems to provide return to shareholder by using equity fund and vice versa. An increasing trend of ROE indicates that the profitability of the company is improving. Conversely, a decreasing trend means that profitability is deteriorating.

The figure 10 shows the ability of the Insurance Companies to generate profit from the Insurance Companies' shareholder equity and measures the ability of the management to utilization of shareholder equity of the Insurance Companies into net earnings is not consistent or fluctuating trend. Although, CV of SICL, NLG, PIC, SIC and LGIL are 0.109, 0.268, 0.306, 0.33 and 0.341 respectively which are highly consistent ROE among the sample companies. It means management capacity is more consistently ability to use its using equity for generating the profit. CV of EIC, SLICL are 2.619, 1.092 that are highest, and more inconsistent ROE among the sample companies. The average of ROE of NLG, SIC, SICL are 25.46%, 24.46%, 22.34% respectively and highest average among the sample companies with highly consistently. Hence, this is best performance sample companies in term of ROE. ROE of LICN, NLICL and GLICL are 1.22%, 2.22%, 2.65% respectively which are lowest

average ROE with highly inconstant. Although this companies have higher average using equity during the sample period which means these companies can`t optimal use of using equity to generate the income.

4.1.10 Combined Descriptive Analysis of Sample Companies

This section presents the descriptive analysis of the study. The descriptive statistics of Variables cover mean and standard deviation. The study collected data regarding the Age, Current Assets & Current Liabilities, net income, total equity and total asset at the end of each year. The result was information detailing Factors Affecting Financial Performance of Insurance Companies of Nepal. The descriptive statistics was executed on the overall data (combined) to observe for general patterns among the sampled firms. The purpose was to observe for industry characteristics.

Table 4.10 : Combined Descriptive Analysis of Sample Companies

SN	ROA	ROE	Total Assets	LEV	Liquid	AGE
Mean	5.33%	12.27%	6,104,258,766.50	38.92%	4.04	15.17
SD	4.35%	12.91%	10,257,290,378.59	27.52%	4.28	6.09
Min	-9.05%	-40.42%	393,499,562.00	3.92%	0.87	3
Max	12.98%	37.73%	50,745,147,864.00	86.43%	16.68	29
CV	0.82	1.05	1.68	0.71	1.06	0.4
Kurtosis	0.773	2.279	3.425	-1.608	0.867	-0.75
Skewness	-0.358	-0.998	1.667	-0.074	1.451	0.16
No of Observation	84	84	84	84	84	84

Output: SPSS version 20

In Table 4.10, Combined Descriptive studies produced the mean, minimum, maximum, CV, Standard Deviation, Kurtosis and Skewness for each variable for Nepalese insurance companies during 2010-2017. Findings from mean value of return on asset (ROA) ratios of 5.33% with standard deviation 4.35% and its minimum and maximum observed value found to be -9.05% and 12.89% respectively. The positive return on asset indicates that some of the insurance companies have generated profit (ROA) while negative minimum observed value represent loss made by some of the insurance companies of Nepal. The CV of ROA is 0.82, which means return generation by using its assets of insurance companies is less consistent during the study period. The average return on equity of the Companies is 12.27% with the ranging value -40.42% to maximum 37.73% , which indicate the positive return on equity means some of the companies were generating profit (ROE) while some of the

companies were operating at loss. In addition, the standard deviation of ROE is 12.91% and CV of 1.05 that indicate which is highly inconsistently with highly variation because its CV is higher than RO. It means company's management is not utilizing the shareholder's invested money to generate profit.

Size is one of the most influential characteristics in insurance companies. So, insurance Company size measured by total assets ranged from a low of Rs.393, 499,562.00 to a high of Rs.50, 745,147,864.00 with a mean of Rs. 6,104,258,766.50 and a standard deviation of Rs. 10,257,290,378.59. Additional, CV of Size of insurance companies is highly inconsistent because of higher than one i.e.1.68. The average assets value of Sample Nepalese insurance companies six billions that seems goods in context of Nepalese market, which enables to gain an upper hand in the competitive market and increase the ability to cope the uncertainty.

Leverage is leverage ratio this variables is proxied by the ratio of total Current liabilities to total assets in context of Nepalese insurance companies. The mean value of leverage ratio is 38.92% and ranged from a low of 3.92% to a high of 86.43% with Standard Derivation of 27.52% with coefficient variation (CV) is 0.71. It means that importance of leverage in the activity of these companies because leverage ratio was high band there were big difference as well as inconsistent between the values of leverage across the sample companies because range & CV is high.

When looking at any company's financial statements and attempting to understand where it stands as regards to its viability, liquidity ratios are quite important. The higher a company's liquidity ratio, the healthier it is. Entities with high liabilities and low liquidity are more likely to fail and riskier investments. The mean value of liquid ratio is 4.04 and ranged from a low of 0.87 to a high of 16.68, which shows that short-term liabilities can be paid four times from current assets. Standard Derivation of 27.52% and coefficient variation (CV) is 1.06 53 indicates that there is a high variation and inconsistent among insurance companies to this factor.

Age of insurance companies is an important determinant of profitability because Older the firm the more will be the profitability due to experience and efficiency cost decreases .There is no long history of Nepalese Insurance Companies. Hence, the average establishment age of insurance companies is 15.17 yrs where minimum age of insurance company is 3 yrs and maximum is 29 yrs. Hence, there is big difference

between the ages of insurance companies. Thus, standard derivation is 6.09 and Coefficient of variation is 0.4, which means there is high variation with consistently of between ages of sample companies.

LEV has negative values for both skewness and kurtosis which means it is left skewed and distribution with a negative kurtosis value indicates that the distribution has lighter tails and a flatter peak than the normal distribution. In others words, LEV has negative skewed and negative kurtosis value which, mean < median < mode for LEV with flatter distribution. AGE is negative kurtosis with positive skewness whereas mean > median > mode for AGE with flatter distribution. TA & Liquid ratio has positive values for both skewness and kurtosis this observes that mean > median > mode for TA & Liquid ratio with peaked distribution. ROA and ROE both are positive Kurtosis with negative Sknewness which means which, mean < median < mode for LEV with picked distribution. Skewness is a measure of symmetry, or more precisely, the lack of symmetry. the value of Skewness and Kurtosis are the range between -1.97 and 1.97. So, it indicate that the distributions are normally distributed, which means that the homogeneity of variables are achieved and assumptions of parametric testing are accepted. Therefore, some other test is conduct also to test before the multiple regression analysis.

4.2 Diagnostic Tests

The classical linear regression model is based on a number of assumptions including linear relationship, multivariate normality, no or little multicollinearity, no auto-correlation and homoscedasticity. A multiple linear regression analysis was performed to test the assumptions on the variables in the study. The Stepwise method was used to enter the variables in the equation. The results of the diagnostic tests conducted on the data are presented below.

4.2.1 Normality Test

Several normality tests were used to test for normal distribution of the model residuals; including Kolmogorov-Smirnov Test goodness of fit test as well as the Shapiro–Wilk test, which is a more robust test of normality. Null Hypothesis is that there is no significant departure from normality as such; retaining the null hypothesis indicates that the assumption of normality has been met for the given sample. Alternative, Hypothesis is that there is a significant departure from normality, as such; rejecting the null hypothesis in favor of the alternative indicates that the assumption

of normality has not been met for the given sample. From this test, the Sig. (p) value is compared to the a priori alpha level (level of significance for the statistic) – and a determination is made as to reject (p < α) or retain (p >α) the null hypothesis

Table 4.11 : Test of Normality

SN	Kolmogorov-Smirnova			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
ROA	.112	84	.110	.943	84	.100
ROE	.145	84	.098	.892	84	.199
Total Assets	.329	84	.078	.588	84	.162
LEV	.204	84	.060	.851	84	.140
Liquid	.302	84	.300	.727	84	.163
AGE	.079	84	.200	.982	84	.273
a. Tests of Normality						

Source: Annex 12

In Kilmogorov – Smirnov test of normality Since p values >α i.e. .110,.098,.078,.060,.300 and 0.200,0.200 are more than 0.05, the null hypotheses of no significant departure from normality is not rejected. Similarly in Shapiro-wilk test of normality Since p (values of all the parameters stated in above table 4.11)>α i.e. .100,.199,.162,.140,.163 and .273are more than 0.05, the null hypotheses of no significant departure from normality is not rejected. Significant values < 0.05 for the two tests, then the normality condition is achieved for the residuals.

4.2.2 Multicollinearity Test

Variance inflation factors (VIF) were used to test for multicollinearity between explanatory variables. VIF values greater than 10 may indicate that multicollinearity is unduly influencing regression results. VIF value indicates the presence of multicollinearity. Thus, The VIF (Tolerance) test confirms there was no multicollinearity in the multiple linear regression model, as all the variables meet the Tolerance threshold of 0.1 < VIF < 10) (Statsoft 2016).

Table 4.12 : Multicollinearity Test Statistics

	Collinearity Statistics	
	Tolerance	VIF
Total Assets	.591	1.691
LEV	.371	2.695
Liquid	.383	2.611
AGE	.911	1.098

Source: Annex 13

The VIF (Tolerance) test confirms there was no multicollinearity in the multiple linear regression model, as all the variables meet the Tolerance threshold of 0.1 < VIF < 10) .The VIF is computed as the reciprocal of Tolerance. The generally accepted rule is that VIF should not be greater than 10. Table 4.12 indicates that VIF values are lesser than 10 of Total Assets, LEV, Liquid Ratio and Age.

Annex 12 shows that ALL correlations are below 0.90. Thus, there is no multicollinearity between the independent variables. A multiple regression analysis is carried out with the dependent variable being ROA and ROE to proxy firm performance and a number of independent variables.

4.2.3 Durbin-Watson test to check the presence of Autocorrelation

Autocorrelation is another important problem of linear regression, in which models residual are dependent on their selves with time delays. It was assumed that the errors are uncorrelated with one another. The Durbin-Watson test is used in this research for the presence of autocorrelation. The Durbin Watson statistic is a number that tests for autocorrelation in the residuals from a statistical regression analysis.The Durbin-Watson statistic is always between 0 and 4. A value of 2 indicates that there is no autocorrelation. Value nearing 0 (i.e., below 2) indicates positive autocorrelation and value towards 4 (i.e., over 2) indicates negative autocorrelation. Hence, in annex 13 show Durbin Watson statistic is 1.250 and 1.626 in model 1 and 2 respectively, which means there is positive auto correlation but not high Therefore, research neglects this marginal impact.

4.3 Correlation analysis

Correlation is a statistical tool that measure relationship between two or more variables. It indicates the extent to which two or more variables fluctuate together. A positive correlation indicates the extent to which those variables increase or decrease

in parallel; a negative correlation indicates the extent to which one variable increases as the other decrease. Correlation is computed into what is known as the correlation coefficient, which has value that must fall between -1 and 1. If the value of the correlation coefficient is 0.00, it means that between two variables there is no even relationship. If the value of the correlation coefficient is between 0.00 and 0.50, it can be interpreted that between two variables there is a positively weak connection. If the value of the correlation coefficient is between - 0.50 and 0.00, it means that there is a negatively weak correlation between two variables. If the value of the correlation coefficient is between 0.50 and 0.90, it means that there is a positively strong correlation between two variables. If the value of the correlation coefficient is between -0.90 and -0.50, it can be interpreted that between two variables there is a negatively strong connection. If the value of the correlation coefficient is between 0.90 and 1.00, it can be interpreted that between two variables there is a perfect connection. If the value of the correlation coefficient is between -1.00 and -0.90, it means that there is a negatively perfect correlation between these variables. In this section the correlation between ROA and ROE (dependent Variable) with Total Assets, Leverage, Liquid and Age have been presented and analyzed. A correlation matrix is used to ensure the correlation between explanatory variables.

Table: 4.13 Correlation between independent variables with ROA and ROE

		ROA	ROE
SIZE	Pearson Correlation	-.358[**]	-.359[**]
	Sig. (2-tailed)	.001	.001
LEVERAGE	Pearson Correlation	.447[**]	.459[**]
	Sig. (2-tailed)	.000	.000
Liquid	Pearson Correlation	-.456[**]	-.441[**]
	Sig. (2-tailed)	.000	.000
AGE	Pearson Correlation	.078	.034
	Sig. (2-tailed)	.482	.760
	N	84	84
**. Correlation is significant at the 0.01 level (2-tailed).			

Source: Annex 12

Table 4.13 shows there is that the negative correlation (-0.358) between SIZE and return on asset (ROA) and statistically significant at 0.05 level with 2-tailed test. Similarly there is negative correlation (-0.594) between SIZE and return on equity (ROE) and statistically significant at 0.05 level with 2-tailed test. Thus, SIZE is negatively weak correlated with ROE and ROA because value rang is between 0 to -

0.50. Negative correlation between SIZE with ROE and ROA indicates that higher Assets cannot generate benefits for insurance companies due to negative relationship with ROE and ROA. It concludes that ideal assets portion is higher in Nepalese insurance companies. In other words, Assets is not used at optimal level to generate return for companies.

There is Positive correlation (.447) between LEV and return on asset (ROA) and statistically significant at 0.05 level with 2-tailed test. Similarly there is Positive correlation (.447) between LEV and return on equity (ROE) and statistically significant at 0.05 level with 2-tailed test. Thus, Total assets is positively weak correlated with ROE and ROA because value rang is between 0 to 0.50. It shows LEV has positive impact for generate return to shareholder and utilization of assets for generates the return.

There is the negative correlation (-0.456) between Liquid Ratio and return on asset (ROA) and statistically significant at 0.05 level with 2-tailed test. Similarly there is negative correlation (-0.441) between Liquid Ratio and return on equity (ROE) and statistically significant at 0.05 level with 2-tailed test. Thus, Liquid Ratio is negatively weak correlated with ROE and ROA because value rang is between 0 to -0.50. Negative correlation between Liquid Ratio with ROE and ROA indicates that higher liquid assets have adverse effect on ROA and ROE of insurance companies.

There is Positive correlation (.482) between AGE and return on asset (ROA) and statistically insignificant at 0.05 level with 2-tailed test. Similarly there is Positive correlation (.760) between AGE and return on equity (ROE) and statistically insignificant at 0.05 level with 2-tailed test. Thus, AGE is positively weak correlated with ROE and ROA because value rang is between 0 to 0.50. It indicates age in the business of insurance companies as doesn`t affect the market share and the performance of them.

4.4 Multiple Regression Analysis

The principle advantage of multiple regression anlaysis is that it allows us to utilize more of the information available to us to estimate the dependent variable. Sometime the correlation between two variables may be insufficient to determine a reliable estimation equation. Thus, if we add the data from more independent variables, we may be able to determine an estimation equation that describes the relationship with

greater accuracy. This chapter tries to analyze the relationship between independent or predicator variables and dependent or criterion variables. It includes many techniques for modeling and analyzing several variables, when the focus is on the relationship between a dependent variable and one or more independent variables. This section determines which independent variable explains variability in the outcome, how much variability in dependent variable is explained by independent variables and which variables are significant (over other variables) in explaining the variability of the dependent variable. Multiple regressions have used to explore the impact of independent variables (SIZE, LEV, AGE, LIQUID) on dependent variables (ROA &ROE).

Table 4.14 : Model Summary

Model	R	R^2	Adj R^2	Std. Error	Change Statistics					Durbin-Watson
					R^2	F	df1	df2	Sig. F	
1	.489[a]	.239	.200	3.89034%	.239	6.194	4	79	.000	1.250
2	.487[a]	.237	.199	11.55276%	.237	6.148	4	79	.000	1.626
a. Predictors: (Constant), AGE, Liquid , SIZE LEV										
b. Dependent Variable: ROA &ROE										

Source: Annex 13

In the table 4.14, the R column represents the value of R i.e. correlation coefficient shows the relationship between two variables and R can be considered one measure of the quality of the prediction of the dependent variable. R is the correlation between the predicted values and the observed values. Here the value of R is 0.489 and 0.87 in ROA and ROE respectively, which indicates a good measure of quality prediction of the dependent variables of ROA and ROE. In other words, there is medium positive correlation between independent and dependent variables.

R square column represents coefficient of determination, which is the proportion of variance in the dependent variable that can be explained by the independent variable. Here the value of R squares are 0.239 and 0.237 in ROA and ROE, which means that 23.9 % variation in ROA is explained by joint effect of AGE, LIQUID , SIZE and LEV and remaining 76.1% is explained by other factors. Similarly 23.7 % variation in ROE is explained by independent variables i.e. AGE, LIQUID, SIZE and LEV and remaining 76.3% is explained by other factors which is not capture by this model. In other words, the R-square that is also a measure of the overall fitness of the model

indicates that the model is capable of explaining about 23.9% and 23.7% in ROA and ROE for the variability in profitability variables of insurance companies.

Similarly, adjusted R-square in model 1 where ROA is Dependent variables is 0.200, which means 20% variation in performance of Nepalese insurance companies as measure by ROA is explained AGE, LIQUID, SIZE and LEV after adjusting degree of freedom (df). Likewise, adjusted R-square in model 2 where ROE is independent variables is 0.199 which means 19.9% variation in firm performance of Nepalese insurance companies as measure by ROE is explained by AGE, LIQUID, SIZE and LEV after adjusting degree of freedom (df).

Model summary also indicates the standard error of estimate of model 1 and 2-is 3.89034% and 11.55276% respectively, which shows the variability of the observed value of on performance of insurance companies in Nepal from regression line is 3.89034 units and 11.55276 units.

Table 4.15 : ANOVA Table

Model		Sum of	df	Mean Square	F	Sig.
1(ROA)	Regression	374.962	4	93.741	6.194	.000[b]
	Residual	1195.643	79	15.135		
	Total	1570.605	83			
2 (ROE)	Regression	3282.457	4	820.614	6.148	.000[b]
	Residual	10543.836	79	133.466		
	Total	13826.293	83			
a. Dependent Variable: ROA & ROE						
b. Predictors: (Constant), AGE, Liquid , SIZE, LEVERAGE						

Source: Annex 13

ANOVA is used in testing the hypotheses and to measure the difference and similarities between the companies according to their different characteristics. Finding form the Fishers ratio (i.e. the F-Statistics which is a proof of the validity of the estimated model) as reflected in Table 4.15 indicates that the F is about 6.194 and 6.148 for ROA and ROE and a P-value that is almost equal to 0.000 (p-value=0.000) and 0.000 in ROA and ROE respectively . This invariably suggests clearly that simultaneously the explanatory variables are significantly associated with the dependent variable. The P value is 0.000, which is lesser than alpha value 0.05, these shows that independent variable in this model statistically significantly predict the dependent variable ROA. Therefore, the model is a good predictor of the relationship between ROA and independent variable. As a result, the independent variables are

significant in explaining the variance in ROA. Similarly, the P value is 0.000 in ROE which is lesser than alpha value 0.05, these shows that independent variables in this model statistically significantly predict the dependent variable ROE. Hence, the overall regression has found to be significant at 5% level of significance. This indicated that collectively independents variables in this research have a statistically significant effect on ROA and ROE at 5 % level of significance.

Table 4.16: Coefficient of ROA and ROE

Coefficients						
Model		Unstandardized		Standardized	t	Sig.
		B	Std. Error	Beta		
1 (ROA)	(Constant)	5.050	1.814		2.784	.007
	SIZE	-0.005	.000	-.117	-.913	.0.34
	LEVERAGE	.030	.025	.191	1.188	.023
	Liquid	-.002	.002	-.239	-1.504	.013
	AGE	.025	.073	.036	.346	.730
2 (ROE)	(Constant)	10.999	5.386		2.042	.044
	SIZE	-0.001	.000	-.104	-.812	.041
	LEVERAGE	.123	.076	.262	1.625	.010
	Liquid	-.005	.005	-.182	-1.148	.025
	AGE	.032	.218	.015	.148	.882
a. Dependent Variable: ROE						

Source: Annex 13

Taking four variables; AGE, Liquid, SIZE & LEV are as independent variables (X1, X2, X3 & X4). Two variables; return on assets and return on equity as dependent variables.

Factors Affecting and Financial Performance of Insurance Companies of Nepal Measured with Returns on Assets (ROA)

The model 1 is constructed with equation as below:

$\hat{Y}ROA = \alpha + \beta1X1 + \beta2X2 + \beta3X3 + \beta4X4 + ei.$

Where, $\hat{Y}ROA$ = Dependent Variable measured by ROA, α = Constant, $\beta1$= SIZE, $\beta2$= LEV, $\beta3$= Liquid, $\beta4$= Age and ei= Standard Error Term.

In the table 4.16, the standardized coefficient indicates how much the dependent variable varies with an independent variable when all other independent variable is held constant. Under the study of Model 1where ROA is dependent variables, the regression coefficient of SIZE,LEV,LIQUID and AGE denoted by b1, b2, b3 and b4 are -.117 and .191, -.239 and .036 respectively. It means that Rs. 1 increase in SIZE and LIQUID leads to Rs -.117 and -.239 respectively in ROA. In other side, Rs.1 increase in LEV and AGE leads to increase Rs .191 and 0.36 respectively in ROA.

Similarly, considering the effect of SIZE and Liquid in above table the Un standardized coefficient of B is equal to -.005 and -.002 this means that there is a negative relationship between SIZE & Liquid with ROA and for every increase in SIZE & Liquid there is a decrease in ROA. In additional, there is a positive relationship between LEV and AGE with ROA because Un standardized coefficient are 0.30 and 0.25 respectively.

Each of these beta values has an associated standard error indicating to what extent these values would vary across different sample. Standard error of SIZE, LEV, LIQUID and AGE are 0.00, 0.25, 0.02 and .073 respectively. The regression constant of ROA in multiple regression is 5.050. The value of constant of ROA has positive. This shows that ROA of this Companies is highly affected by others factors besides SIZE, LEV, LIQUID and AGE.

However, further empirical findings provided in Table 4.16 show that there is a negative relationship between Size & liquid with ROA. This is evident in the t-statistics value of Size & liquid are -.913 and -1.504 as well as both variables beta variables are negative and significant at 5% with a P-Value of Size & liquid i.e. 0.034 and 0.13 which means that with the negatively influence of other variables held constant as Size and Liquidity changes. There is positive significant relationship between LEV and ROA because both t-value as well as beta value is positive and P-value is lesser than 0.05. T here is higher LEV, higher ROA will be. There is positive insignificant relationship between AGE and ROE because both t-value as well as beta value is positive but P-value is higher than 0.05.

The finding indicate that the significant predictors of financial performance were SIZE (β = -0.005, p=<0.05),, LEV(β = .030, p=<0.05), and Liquid (β = -.002, p=<0.05).Financial performance was not significantly predicted by AGE (β = .025,

p>0.05). The study explored the relationship between financial performance and various determinants by suggesting that there is a statistically significant relationship between financial performance of insurance companies and selected factors. Results of this study indicate that the relationship between financial performance of insurance companies and selected factors is statistically significant (p=<0.05) for three predictor variables (SIZE, LEV and Liquid) which means that there is a significant relationship between financial performance of insurance companies and determinants.

The analytical model, which was:

$\hat{Y}ROA = \alpha + \beta1X1 + \beta2X2 + \beta3X3 + \beta4X4 + ei.$

Is therefore specified as:

$\hat{Y}ROA = 5.050 - 0.005 X1 + .030 X2 - .002 X3 + .025X4$

Since the regression coefficient of AGE is not statistically significant and therefore their beta regression coefficients were not different from zero, the regression model can then be simplified to:

$\hat{Y}ROA = 5.050 - 0.005 X1 + .030 X2 - .002 X3.$

Factors Affecting and Financial Performance of Insurance Companies of Nepal Measured with Returns on Equity (ROE)

The model 2 is constructed with equation as below:

$\hat{Y}ROE = \alpha + \beta1X1 + \beta2X2 + \beta3X3 + \beta4X4 + ei.$

Where, $\hat{Y}ROE$ = Dependent Variable measured by ROE, α = Constant, $\beta1$= SIZE, $\beta2$= LEV, $\beta3$= Liquid, $\beta4$= Age and ei= Standard Error Term.

In the table 4.16, the standardized coefficient indicates how much the dependent variable varies with an independent variable when all other independent variable is held constant. Under the study of Model 2 where ROE is dependent variables, the regression coefficient of SIZE,LEV,LIQUID and AGE denoted by b1, b2, b3 and b4 are -.104 and .262, -.182 and .015 respectively. It means that Rs. 1 increase in SIZE and LIQUID leads to Rs -.104 and -.182 respectively in ROE. In other side, Rs.1 increase in LEV and AGE leads to increase Rs .262 and 0.15 respectively in ROE.

Similarly, considering the effect of SIZE and Liquid in above table the Un standardized coefficient of B is equal to -.001 and -.005 this means that there is a

negative relationship between SIZE & Liquid with ROE and for every increase in SIZE & Liquid there is a decrease in ROE. In additional, there is a positive relationship between LEV and AGE with ROA because Un standardized coefficient are 0.123 and 0.32 respectively.

Each of these beta values has an associated standard error indicating to what extent these values would vary across different sample. Standard error of SIZE, LEV, LIQUID and AGE are 0.00, 0.76, 0.005 and .218 respectively. The regression constant of ROA in multiple regression is 10.999. The value of constant of ROE has positive. This shows that ROE of this Companies is highly affected by others factors besides SIZE, LEV, LIQUID and AGE.

However, further empirical findings provided in Table 4.16 show that there is a negative relationship between Size & liquid with ROE. This is evident in the t-statistics value of Size & liquid are -.812 and -1.148 as well as both variables beta variables are negative and significant at 5% with a P-Value of Size & liquid i.e. 0.044 and 0.25 which means that with the negatively influence of other variables held constant as Size and Liquidity changes. There is positive significant relationship between LEV and ROE because both t-value as well as beta value is positive and P-value is lesser than 0.05. T here is higher LEV, higher ROE will be. There is positive insignificant relationship between AGE and ROE because both t-value as well as beta value is positive but P-value is higher than 0.05.

The finding indicate that the significant predictors of financial performance were SIZE (β = -0.001, p=<0.05),, LEV(β = .123, p=<0.05), and Liquid (β = -.005, p=<0.05).Financial performance was not significantly predicted by AGE (β = .032, p>0.05). The study explored the relationship between financial performance and various determinants by suggesting that there is a statistically significant relationship between financial performance of insurance companies and selected factors. Results of this study indicate that the relationship between financial performance of insurance companies and selected factors is statistically significant (p=<0.05) for three predictor variables (SIZE, LEV and Liquid) which means that there is a significant relationship between financial performance of insurance companies and determinants.

The analytical model, which was:

$\hat{Y}ROE = \alpha + \beta1X1 + \beta2X2 + \beta3X3 + \beta4X4 + ei.$

Is therefore specified as:

$\hat{Y}ROE = 10.999 - 0.001\ X1 + .123\ X2 - .005\ X3 + .032X4$

Since the regression coefficient of AGE is not statistically significant and therefore their beta regression coefficients were not different from zero, the regression model can then be simplified to:

$\hat{Y}ROE = 999 - 0.001\ X1 + .123\ X2 - .005\ X3$

4.5 Hypothesis Testing

Hypothesis testing is the use of statistics to determine the probability that a given hypothesis is true. Hypothesis testing is done using inferential analysis. Inferential analysis test hypotheses to determine if observed differences between groups or variables are real or occur simply by chance. The best way to determine whether a statistical hypothesis is true would be to examine the entire population. Since that is often impractical, researchers typically, examine a random sample from the population. If sample data are not consistent with the statistical hypothesis, the hypothesis is rejected.

Eight alternative hypotheses has drawn for the purpose of identifying relationship between dependent and independent variables in this study. Each hypothesis is tested based on the Pearson's correlation coefficient presented in Table 4.13 .Test on each of these hypotheses is discussed below:

Hypothesis 1

H11: There is significant effect for SIZE on Financial Performance (Return on Assets) of Insurance Companies of Nepal.

The correlation analysis shows that there is negative relationship between ROA and SIZE at 5% significant level. The correlation is significant at 5% where p-value is less than alpha i.e. 0.001< 0.05.Hence SIZE significantly effect on ROA of Insurance companies.

Hypothesis 2

H12: There is significant effect for SIZE on Financial Performance (Return on Equity) of Insurance Companies of Nepal.

Similarly, there is negative relationship between ROE and SIZE at 5% significant level. The correlation is significant at 5% where p-value is less than alpha i.e. 0.001<

0.05.Hence, the alternative hypothesis (H12) is accepted. It means that there is significant relationship between SIZE and ROE.

Hypothesis 3

H13: There is significant effect for LEVERAGE on Financial Performance (Return on Assets) of insurance companies of Nepal.

Similarly, there is positive relationship between LEVERAGE and ROA at 5% significant level. The correlation is significant at 5% where p-value is less than alpha i.e. 0.001< 0.05.Hence, the alternative hypothesis (H13) is accepted. It means that there is significant relationship between LEVERAGE and ROA.

Hypothesis 4

H14: There is significant effect for LEVERAGE on Financial Performance (Return on Equity) of insurance companies of Nepal.

Similarly, there is positive relationship between LEVERAGE and ROE at 5% significant level. The correlation is significant at 5% where p-value is less than alpha i.e. 0.001< 0.05.Hence, the alternative hypothesis (H14) is accepted. It means that there is significant relationship between LEVERAGE and ROE.

Hypothesis 5

H15: There is significant effect for Liquid ratio on Financial Performance (Return on Assets) of insurance companies of Nepal.

Similarly, there is positive relationship between Liquid ratio and ROA at 5% significant level. The correlation is significant at 5% where p-value is less than alpha i.e. 0.001< 0.05.Hence, the alternative hypothesis (H15) is accepted. It means that there is significant relationship between Liquid and ROA.

Hypothesis 6

H16: There is significant effect for Liquid ratio on Financial Performance (Return on Equity) of insurance companies of Nepal.

Similarly, there is positive relationship between Liquid ratio and ROE at 5% significant level. The correlation is significant at 5% where p-value is less than alpha i.e. 0.000< 0.05.Hence, the alternative hypothesis (H16) is accepted. It means that there is significant relationship between Liquid and ROE.

Hypothesis 7

H17: There is significant effect for AGE on Financial Performance (Return on Assets) of insurance companies of Nepal.

Similarly, there is positive relationship between AGE and ROA at 5% significant level. The correlation is statistically insignificant at 5% where p-value is less than alpha i.e. .482> 0.05.Hence, the Null hypothesis (H17) is accepted. It means that there is not significant relationship between AGE and ROA.

Hypothesis 8

H18: There is significant effect for AGE on Financial Performance (Return on Equity) of insurance companies of Nepal.

Similarly, there is positive relationship between AGE and ROE at 5% significant level. The correlation is statistically insignificant at 5% where p-value is less than alpha i.e. .760> 0.05.Hence, the Null hypothesis (H18) is accepted. It means that there is not significant relationship between AGE and ROE.

Table 4.17: Result Summary of Hypothesis

Statements	Null Hypothesis	Alternative Hypothesis
There is significant effect for SIZE on ROA	Rejected (H0)	Accepted (H1)
There is significant effect for SIZE on ROE	Rejected (H0)	Accepted (H1)
There is significant effect for LEV on ROA	Rejected (H0)	Accepted (H1)
There is significant effect for LEV on ROE	Rejected (H0)	Accepted (H1)
There is significant effect for LIQUID on ROA	Rejected (H0)	Accepted (H1)
There is significant effect for LIQUID on ROE	Rejected (H0)	Accepted (H1)
There is significant effect for AGE on ROA	Accepted (H0)	Rejected (H1)
There is significant effect for AGE on ROE	Accepted (H0)	Rejected (H1)

4.6 Major Finding

1. Net income varies greatly from company to company because net income is measured in Amount where NLICL, NLIC and LICN have highest Net Profit among other sample companies and GLICL, EIC & SLICL seems lowest in Net Profit. The average net Profit of NLIC is Rs. 647,967,766.17, which is highest in absolute figure and EIC is lowest i.e. Rs. 29,128,215.57. Hence, overall Net profit

patterns of companies seem good. NLG has highly consistently net income during sample period due to lowest CV.

2. The average of Shareholder equity of LICN and NLIC are 18,615,363,181.86 and 22,712,929,507.43 respectively, which are highest among the sample companies. It means this company has highest ability is able to protect itself against the financial losses in comparison with others sample companies. Capitals of each insurance company are increasing trend but ratio of increasing is not consistent among the companies. ECI has highly consistently equity capital during sample period due to lowest CV.

3. The average of Current Assets of NLIC, LICN and NLICL are Rs. 13,480,961,714.86, 9,237,821,827.57 and 6,726,909,794.57 respectively, which are highest current assets among the sample companies. It indicates that these companies are strong in situation to manage the insurance risk. The average of Current assets of EIC, PIC, and LGIL are Rs. 597,374,865.43, 784,604,759.29 and 816,526,111.86 respectively, which are lowest current assets among the sample companies. Lowest current assets may harmful for companies because Risk is uncertain, accident can happen any time, and companies may not be able to provide the compensation to policyholder immediately in accident like as earthquake.

4. The average of Current Liabilities of NLIC and SIC are 1,749,912,227 and 1,144,660,376 respectively, which are highest among the sample companies. Each company's current liabilities are increasing in trend. However, LICN and NLICL have increased in last year and EIC and HGI is in fluctuation trend. ECI has highly consistently Current Liabilities during sample period due to lowest CV and NLG has lowest inconsistently Current Liabilities during sample period due to highest CV.

5. The average of Assets of NLIC, LICN and NLICL are Rs. 26,259,205,818.00, 21,175,662,198.00 and 12,699,228,258.00 respectively, which are highest assets among the sample companies. It indicates that these Companies are strong in situation to manage the insurance risk. The average of Current assets of EIC and PIC are Rs. 838,386,971.00, and 970,423,302.00 respectively, which are lowest assets among the sample companies. ECI has highly consistently Current assets

during sample period due to lowest CV and SLICL has lowest inconsistently of Current assets during sample period due to highest CV i.e. 0.72.

6. All sample Companies liquidity ratio are more than one that is satisfactory level for each insurance companies to covers its short-terms debts obligations. The average Liquidity of GLICL, LICN, NLICL, NLIC and SLICL are 10.01, 8.26, 8.10, 7.60 and 5.40 respectively, which are top fifth in liquidity position among the sample insurance companies. It means these companies have highest capacity to when they need to pay the claim of their client. EIC has lowest liquidity ratio i.e. 1.09 in comparison with other sample companies that means this companies capacity is lower to meet short-term obligation.

7. All sample companies leverage ratio is fluctuating in trend. The average of mean of EIC, HGI, SIC, SICL & NLG are 66.7%, 64.7%, 61.3%, 59.6% and 58.9% respectively, which are highest, leverage ratio among the sample insurance companies. A high ratio indicates that these insurance companies may have incurred a higher level of liabilities than it can be reasonably expected to cover from its asset. The average Leverage ratio of LICN,NLICL,NLIC,SLICL are 5.6%,7.0%,8.2% and 9.8% respectively which are lowest leverage ratio among the sample companies.

8. ROA of sample companies is fluctuating trend. CV of SICL, NLG, SIC and SLICL are 0.2647, 0.2924, 0.3476 and 0.356 respectively which are highly consistent ROA among the sample companies. It means management capacity is more consistently ability to use its assets for generating the profit. CV of EIC, HGI are 1.535, 1.2797 that are highest, and more inconsistent ROA among the sample companies. The average of ROA of NLG, SIC, SICL are 10.18%, 9.59%, 9.05% respectively and highest average among the sample companies with highly consistently. Hence, this is best performance sample companies in term of ROA. ROA of LICN, NLICL and GLICL are 1.11%, 2.06%, 2.35% respectively which are lowest average ROA with highly inconstant.

9. ROE of all companies are fluctuating trend. The average of ROE of NLG, SIC, SICL are 25.46%, 24.46%, 22.34% respectively and highest average among the sample companies with highly consistently. Hence, this is best performance sample companies in term of ROE. ROE of LICN, NLICL and GLICL are 1.22%,

2.22%, 2.65% respectively which are lowest average ROE with highly inconstant. Although this companies have higher average using equity during the sample period which means these companies can`t optimal use of using equity to generate the income.

10. In Descriptive Statistics, Overall insurance Company size measured by total assets, which mean value, is Rs. 6,104,258,766.50. The average assets value of Sample Nepalese insurance companies six billions that seems goods in context of Nepalese market, which enables to gain an upper hand in the competitive market and increase the ability to cope the uncertainty. The mean value of leverage ratio is 38.92% and ranged from a low of 3.92% to a high of 86.43% with Standard Derivation of 27.52% with coefficient variation (CV) is 0.71. It means that importance of leverage in the activity of these companies because leverage ratio was high band there were big difference as well as inconsistent between the values of leverage across the sample companies because range & CV is high.

11. The mean value of liquid ratio is 4.04 and ranged from a low of 0.87 to a high of 16.68, which shows that short-term liabilities can be paid four times from current assets. Standard Derivation of 27.52% and coefficient variation (CV) is 1.06 53 indicates that there is a high variation and inconsistent among insurance companies to this factor the average establishment age of insurance companies is 15.17 yrs where minimum age of insurance company is 3 yrs and maximum is 29 yrs. Hence, there is big difference between the ages of insurance companies. Thus, standard derivation is 6.09 and Coefficient of variation is 0.4, which means there is high variation with consistently of between ages of sample companies. Overall ROA and ROE indicate 5.33% and 12.27% respectively mean return based on asset and equity seems positive and quit satisfactory.

12. All dependent and independent variables value of Skewness and Kurtosis of are the approximate range between -1.97 and 1.97. Therefore, it indicate that the distributions are normally distributed, which means that the homogeneity of variables are achieved and assumptions of parametric testing are accepted. Therefore, some other test is conduct also to test before the multiple regression analysis.

13. In correlation Analysis, there is negative correlation between SIZE and liquid Ratio with ROA & ROE and statistically significant at 0.05 level with 2-tailed test. There is Positive between LEV with ROA & ROE and statistically significant at 0.05 level with 2-tailed test. There is Positive correlation between AGE with ROA & ROE and statistically insignificant at 0.05 level with 2-tailed test.

14. In Multiple regression, the coefficient of multiple shows ROA and ROE are influenced by the joint effect of AGE, Liquid , SIZE ,LEV where R2 of ROA and ROE are 0.239   and 0.237 respectively. It means that the dependent variable higher predicted with less error from the independent variable than multiple regression that is about 76.1% and 76.3% of the variations in ROA and ROE of sample companies are accounted for by other factors not capture by the model.

15. Based on ANOVA table, the p-value in ROA and ROE is 0.000 that is less than alpha value 0.05. Therefore, the model is a good predictor of the relationship between the dependent and independent variables. As a result, the independent variables (AGE, Liquid, SIZE, and LEVERAGE) are significant in explaining the variance in firms' performance in Nepal. In others words a P-value that is almost equal to 0.000 (p-value=0.000) in ROA and ROE. This invariably suggests clearly that simultaneously the explanatory variables are significantly associated with the dependent variable.

16. The finding indicate that the significant predictors of financial performance of ROA were SIZE (β = -0.005, p=<0.05),, LEV(β = .030, p=<0.05), and Liquid (β = -.002, p=<0.05).Financial performance was not significantly predicted by AGE (β = .025, p>0.05). The finding indicate that the significant predictors of financial performance of ROE were SIZE (β = -0.001, p=<0.05), LEV (β = .123, p=<0.05), and Liquid (β = -.005, p=<0.05).Financial performance was not significantly predicted by AGE (β = .032, p>0.05).

17. In hypothesis testing, all alternative hypotheses are accepted for LEV, SIZE and Liquid ratio due to significant level is lesser than P-Value. It shows LEV,SIZE and Liquid ratio significant impact on performance (ROA & ROE) of insurance companies in Nepal but there is rejected alternative hypothesis for AGE due to P-value is higher than 0.05. it shows AGE is not significant impact on performance (ROA & ROE) of insurance companies in Nepal.

4.7 Discussion

This section discusses the analysis of factors influencing Financial Performance of Insurance Companies of Nepal, and the interrelationships/ impact of each factor derived from these larger constructs. As discussed in chapter II, what past research has found is a link between factors affecting and Financial Performance during of Insurance Companies of Nepal. The purpose of this study was to add to this new area of research by examining the factors influencing to financial performance of Nepalese insurance companies.

The key purpose of this study is to understand the Size, Leverage, Liquidity and Age that influencing Return on Assets and Return on Equity of Nepalese Insurance Companies from FY 2010/11 to FY 2016/17 like as study of Omondi & Muturi (2013) at the Nairobi Securities Exchange in Kenya and Mehari & Aemiro (2013) at Insurance Companies' Performance in Ethiopia. Hence, like as pervious research, This study helps to determine, to what extent the independent variables of insurance companies are affecting performance of insurance. The study has analyzed over a seven-year period from 2010/11-2016/17 of 12 insurance companies in Nepal.

In correlation Analysis and Multiple regression analysis in this research, there is negative correlation between SIZE and liquid Ratio with ROA & ROE and statistically significant at 0.05 level with 2-tailed test. This finding is similar with the finding of Kwaning, Awah & Michael (2015) where negative relationship between ROA & ROE with SIZE and Liquidity of Non-Life Insurance Companies in Ghana. Similary this finding was similar with the finding of Kripa & Ajasllari (2016), where liquiditiy has stratically negative relationship with Profitability of Insurance Companies in Albania. As per Omondi & Muturi (2013), liquidity had a significant positive effect on financial performance ($\beta2 = 0.296$, $\rho<0.05$) and Company size had a significant positive effect on financial performance ($\beta3 = 0.480$, $\rho<0.05$).but this research finding shows that Contradiction result with this finding. As per Mehari & Aemiro (2013) The results of regression analysis reveal that insurers' size leverage are statistically significant and positively related with return on total asset. Almajali, Alamro & Al-Soub (2012) where liquidity and Size have a positive statistical effect on the financial performance of Jordanian Insurance Companies and Contradiction the finding of Malik (2011) where finding was there is significantly positive association between size of the company and profitability.

There is Positive between LEV with ROA & ROE and statistically significant at 0.05 level with 2-tailed test in this research. This finding is similar with the finding of Oktiani, Priyarsano & Andati (2015) where significant positive influence of leverage ratio of Indonesians Life Insurance companies on profitability. Mehari & Aemiro (2013) has studied on regression analysis reveal that leverage are statistically positive related with ROA Insurance Companies' Performance in Ethiopia and These result has exactly similar with this result. but this result is contraction with result of Omondi & Muturi (2013) where leverage had a significant negative effect on financial performance ($\beta 1 = -0.289$, $\rho<0.05$) Listed Companies at the Nairobi Securities. Similary, Almajali, Alamro & Al-Soub (2012) Leverage have a positive statistical effect on the financial performance of Jordanian Insurance Companies. But there is insignificant impact of leverage on performance of insurance companies in Life Insurance Companies in Tunisia which result is difference from this research.

There is Positive correlation between AGE with ROA & ROE and statistically insignificant at 0.05 level with 2-tailed test. This result similarly with Mehari & Aemiro (2013), where establishment Age of Insurance companies age have statistically insignificant relationship with ROA. But there is contributing result with result of Omondi & Muturi (2013) where company age had a significant positive effect on financial performance ($\beta 4 = 0.168$, $\rho<0.05$).

CHAPTER –V
CONCLUSION

In this final chapter summery, conclusion and implication are given based on the results and analysis of data collected from the field. The suggestions of the possible solutions to the research problem are also given in this chapter. Finally, study suggests the area for further study in order to assist others who will be in a position to conduct studies by referring this study.

5.1 Summary

This study concern in the topic of "Factors Affecting Financial Performance of Insurance Companies of Nepal". The research has followed these objectives: (i) To examine the effect of leverage on financial performance of Nepalese insurance companies. (ii) To determine the effect of liquidity on financial performance of Nepalese insurance companies. (iii)To identify the effect of company's age on financial performance of Nepalese insurance companies. (iv)To identify effect of company's size on financial performance (Return on assets) of Nepalese insurance companies. To meet the desired objectives, it utilizes the Seven years (2010/11 to 2016/17) of sample Nepalese insurance companies. For this purpose, descriptive and inferior research design has adopted. Out of the total population, twelve insurance companies were taken as sample using Convenience Sampling Method. Secondary data have been used in the study. Analysis of Absolute Data, Analysis of Financial Ratios, and Statistical Analysis is carried out to fulfill the objective of the study. The findings are drawn after analyzing the seven years data of sample companies. Different ratios were calculated to get the results for conclusions. Since the topic of the study revolves around the factors affecting on performance of Nepalese insurance companies.

This study has takes four variables as independent variables i.e. SIZE, LEV, AGE and Liquidity after reviewing the previous study. As per the review of literature, these independent variables are important factors for affecting performance of abroad countries such as Kenya insurance companies, Indian insurance companies, Srilanka insurance companies, Pakistan insurance companies and soon. In context of Nepal, many studies have conducted as on topic related with factors affecting in market price

of share in NEPSE and banking sectors. But. No any previous research work focusing on factors affecting financial performance of insurance companies' of Nepal is found. After Keeping in view the research gap, Researcher has taken sample of twelve insurance companies listed in NEPSE, which predict the relationship between Size (Total Assets), LEVERAGE (Current Liabilities/ Total Assets), Liquidity (Total Current Assets / Total Current Liabilities) and Age with ROA as well as ROE by using data from the period 2010/11-2016/17.

This study has studies the patterns of the Net income, Shareholder Equity, Current Assets, Current Liabilities, Total Assets in absolute term before financial and statistical analysis to find the objective of the studies. The pattern of Net income, Shareholder Equity, Current Assets, Current Liabilities, and Total Assets are increasing trend. LICN, NLICL,NLIC has highest absolute figure in Net income, Shareholder Equity, Current Assets, Current Liabilities, and Total Assets. The average net Profit of NLIC is Rs.647, 967,766.71, which is highest in absolute figure and EIC is lowest i.e. Rs. 29,128,215.57. The average of Shareholder equity of LICN and NLIC are 18,615,363,181.86 and 22,712,929,507.43 respectively. The average of Current Assets of NLIC, LICN and NLICL are Rs. 13,480,961,714.86, 9,237,821,827.57 and 6,726,909,794.57 respectively, which are highest current assets among the sample companies. It indicates that these companies are strong in situation to manage the insurance risk. The average of Current Liabilities of NLIC and SIC are 1,749,912,227.00 and 1,144,660,376.00 respectively, which are highest among the sample companies. Each company's current liabilities are increasing in trend. The average of Assets of NLIC, LICN and NLICL are Rs. 26,259,205,818.00, 21,175,662,198.00 and 12,699,228,258.00 respectively.

This study has analyzed the individual financial ratio of sample companies for descriptive analysis. This study shows the average of liquid ratio of NLIC, LICN, NLICL and GLICL highest among the sample companies. However, these companies are weak in ROA, ROE and Leverage ratio. Others companies which have lowest NI, TA, CA, CL these companies ROA, ROE and Leverage Ratio is highest. The average Liquidity of GLICL, LICN, NLICL, NLIC and SLICL are 10.01, 8.26, 8.10, 7.60 and 5.40 respectively, which are top fifth in liquidity position among the sample insurance companies. It means these companies have highest capacity to when they need to pay the claim of their client. EIC has lowest liquidity ratio i.e. 1.09 in comparison with

other sample companies that means this companies capacity is lower to meet short-term obligation. All sample companies leverage ratio is fluctuating in trend. The average of mean of EIC, HGI, SIC, SICL & NLG are 66.7%, 64.7%, 61.3%, 59.6% and 58.9% respectively, which are highest, leverage ratio among the sample insurance companies. The average Leverage ratio of LICN, NLICL, NLIC, SLICN are 5.6%,7.0%,8.2% and 9.8% respectively which are lowest leverage ratio among the sample companies. The average of ROA of NLG, SIC, SICL are 10.18%, 9.59%, 9.05% respectively and highest average among the sample companies with highly consistently. The average of ROE of NLG, SIC, SICL are 25.46%, 24.46%, 22.34% respectively and highest average among the sample companies with highly consistently. Hence, this is best performance sample companies in term of ROE

In overall descriptive analysis of this study, mean value of return on asset (ROA) ratios of 5.33% with standard deviation 4.35% and its minimum and maximum observed value found to be -9.05% and 12.89% respectively. The mean value of ROE of 12.27% with SD 12.91% and its minimum and maximum observed value found − 40.42% and 37.73%. Insurance Company size measured by total assets ranged from a low of Rs.393, 499,562.00 to a high of Rs.50, 745,147,864.00 with a mean of Rs. 6,104,258,766.50 and a standard deviation of Rs. 10,257,290,378.59. The mean value of leverage ratio is 38.92% and ranged from a low of 3.92% to a high of 86.43% with Standard Derivation of 27.52% with coefficient variation (CV) is 0.71. The mean value of liquid ratio is 4.04 and ranged from a low of 0.87 to a high of 16.68, which shows that short-term liabilities can be paid four times from current assets. Standard Derivation of 27.52% and coefficient variation (CV) is 1.06 53 indicates that there is a high variation and inconsistent among insurance companies to this factor. , the average establishment age of insurance companies is 15.17 yrs where minimum age of insurance company is 3 yrs and maximum is 29 yrs. Hence, there is big difference between the ages of insurance companies.

In Multiple regression, the coefficient of multiple shows ROA and ROE are influenced by the joint effect of AGE, Liquid , SIZE ,LEV where R^2 of ROA and ROE are 0.239 and 0.237 respectively. Based on ANOVA table, the p-value in ROA and ROE is 0.000 that is less than alpha value 0.05. Therefore, the model is a good predictor of the relationship between the dependent and independent variables. The finding indicate that the significant predictors of financial performance of ROA were

SIZE (β = -0.005, p=<0.05),, LEV(β = .030, p=<0.05), and Liquid (β = -.002, p=<0.05).Financial performance was not significantly predicted by AGE (β = .025, p>0.05). The finding indicate that the significant predictors of financial performance of ROE were SIZE (β = -0.001, p=<0.05), LEV (β = .123, p=<0.05), and Liquid (β = -.005, p=<0.05).Financial performance was not significantly predicted by AGE (β = .032, p>0.05). In hypothesis testing, all alternative hypotheses are accepted for LEV, SIZE and Liquid ratio due to significant level is lesser than P-Value but there is rejected alternative hypothesis for AGE due to P-value is higher than 0.05.

5.2 Conclusion

It can conclude during the study period of the concerned sample Insurance companies, certain conclusion has been derived after the financial as well as statistical tools have been measured on behalf of different aspect of factors affecting on performance of insurance companies in Nepal. Four variables (SIZE, Liquidity, AGE and Leverage ratio) are considering studying impact on performance of insurance companies through descriptive and analytical research design.

Nepalese insurance companies are growing in tend and its exposures seem good because Net income , total assets, current assets, current liabilities and shareholder equity are increasing trend of all sample companies during the study period. LICN, NLICL, NLIC are stronger in position in NI, CA, TA, CL and Equity. The companies LICN, NLICL, NLIC that are stronger in position in NI, CA, TA, CL and Equity, these companies are weak in ROA and ROE. It shows stronger companies can`t always provide sufficient return to shareholder and utilization of its assets. Those companies provide the higher return to shareholder which campiness' utilization of shareholder fund and assets at optimum level. LICN, NLICL and NLICL companies leverage ratio is lowest and liquidity ratio is highest. So this companies ROA and ROE is lowest because leverage ratio is significant positive and liquidity ratio is significantly negative relationship with performance of Nepalese insurance companies.

 Finding of this study shows there is the negative correlation between Liquid Ratio with ROA & ROE and statistically significant at 0.05 level with 2-tailed test. Negative correlation between Liquid Ratio with ROE and ROA indicates that higher liquid assets have adverse effect on ROA and ROE of insurance companies. Hence, Liquidity affects financial performance of insurance companies. This is why all the

Nepalese insurance companies have liquid investments at lower level as possible. Although, lower liquidity may keep companies at risk to fulfill the short-term obligation and contingent obligation. Hence, Liquidity is significantly affect performance (ROA & ROE) of Nepalese insurance companies.

Size is one of the most influential characteristics in insurance companies. So, insurance Company size measured by total assets. The average assets value of Sample Nepalese insurance companies six billions that seems goods in context of Nepalese market, which enables to gain an upper hand in the competitive market and increase the ability to cope the uncertainty. However, there is negative relationship between Size and performance (ROA & ROE) of insurance Nepalese insurance companies. It conditions shows if companies couldn`t be utilization of its assets effectively, performance of companies will decreased. Therefore, insurance companies must careful about utilization of its assets and ideal asset. Ideal assets only increase the size of companies and decrease the performance of the companies. This finding shows Nepalese companies should careful to utilization of its assets.

There is Positive correlation between LEV with ROA and ROE and statistically significant at 0.05 level with 2-tailed test. It shows higher LEV has positive impact for generate return to shareholder and utilization of assets for generates the return. It was that high leverage might be beneficial, because it can improve managerial incentives and force them to invest optimally. On the other hand, highly leveraged firms may confront aggressive strategies from their less leveraged rivals and lose the performance of companies. Companies that are highly leveraged may be at risk of bankruptcy if they are unable to make payments on current liabilities, they may also be unable to find new lenders in the future. On the other hand, leverage can increase the shareholders' return on their investment and make good use of fund for certain time.

The study concludes that company age has a insignificant positive relationship on financial performance (ROA &ROE). In addition, the study infers that age helps firms to become more efficient, because with time firms discover what they are good at and find better ways of doing things. The finding regarding age has a good indicator for new entrants to insurance industry that the age of the company has no influence on its good performance. The findings revealed no effect for age on financial performance (ROA & ROE) of Nepalese Insurance Companies. The result suggested that the new

insurance companies should not pay attention to age because age of the company has no influence on its good performance. Finally, this study revealed that, Size, Liquidity, Leverage ratio has impact on company's performance in terms of ROA and ROE because the p-value in ROA and ROE is 0.000 that is less than alpha value 0.05. And there is no any significant effect of age in company performance. so insurance companies should careful factors related with Size ,liquidity and leverage ratio for improving the performance of companies.

5.3 Implication

Based on the major findings of the study, the following implications can be carried out:

Recommendation for Improvement

I)   Financial should be increased which have positive relationship with ROA & ROE and while have negative impact with ROA & ROE should be reduced.

II)   All insurers should find an area they capitalize on it to get a competitive edge while trying to upgrade factors to impact positively on the ROA & ROE in which they are weak. This would place them ahead of competition. In additional ,This would enhance their financial performance after analysis the different factors which not included in this study may affect to their performance .

III)   The negative impact of liquidity on the profitability of insurance companies leads to the recommendation that the optimal level of liquidity holding is an important issue for financial decision-making insurance companies. They must find a balance between the need to keep funds in the form of liquidity to pay their short-term liabilities and those that may engage in investment.

IV)   There is positive relationship between Leverage with ROA & ROE. Thus insurance companies should use more sources of short term liabilities as possible. But high levels of obligation could lead to bankruptcy due to inability to pay these liabilities. Companies should careful to use of fund from these liabilities.

V)   The study further showed that size has a negative effect on ROA & ROE. That is an increase in total assets such as the establishment of more branches and the adoption of new technologies which are acquired to underwrite more policies may not realize their desired results because of inefficient management of actuarial risks leading to underwriting losses and high outstanding premiums,

then investment income and equity capital will have to be used to finance the acquisition of assets. There is thus need for general insurers to perform a cost benefit analysis prior increasing assets.

Further Researcher

I) Analysis of the others factors, which not included in this research, can be a good option for including further research.

II) Detail statistical analysis of the various parameters to determine their relationship with the financial performance of insurance companies could be a good area for further research.

III) Other issues that could be covered in future research include whether insurance companies are effectively and efficiently indemnifying risks and providing fair and improve the performance of insurance companies

IV) The study period has taken 7-year period and therefore for future studies a longer period needs to be studied.

V) To obtain a more accurate result and to generalize the result, future researchers could use probability sampling technique, random sampling technique, systematic sampling technique etc. instead of convenience sampling technique

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ANNEX: ONE

Equity, Total Assets, Current Assets, Current Liabilities and Net Income of Sample Companies

SN	Years	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
SIC	**Equity**	327,835,727.95	426,999,067.06	548,968,148.00	729,367,976.00	816,582,913.00	1,018,195,018.00	1,291,389,228.00
	CA	651,861,650.34	886,597,806.87	1,215,999,606.00	1,597,311,181.00	1,987,405,296.00	2,243,719,900.00	2,397,759,852.00
	CL	525,301,912.99	707,880,803.87	887,326,448.00	1,125,369,001.00	1,583,997,226.00	1,573,636,105.00	1,609,111,134.00
	TA	852,420,375.70	1,134,341,640.79	1,435,935,401.00	1,854,535,379.00	2,400,428,937.00	2,900,449,961.00	2,591,730,323.00
	NI	90,837,459.98	137,418,547.35	179,034,326.00	203,184,689.00	75,052,644.00	206,753,646.00	276,207,115.00
LGIL	**Equity**	157,144,907.00	189,540,740.00	273,001,098.00	405,871,337.00	530,321,740.00	678,958,316.00	852,993,833.00
	CA	374,270,235.00	344,549,505.00	518,663,645.00	742,990,451.00	1,033,918,970.00	1,193,143,976.00	1,508,146,001.00
	CL	306,825,114.00	296,480,009.00	413,535,074.00	498,730,928.00	771,401,645.00	759,327,006.00	909,382,252.00
	TA	463,970,020.00	485,268,041.00	686,121,993.00	904,444,846.00	1,301,723,384.00	1,753,287,347.00	1,447,374,060.00
	NI	9,706,028.00	32,713,066.00	38,229,374.00	72,456,908.00	124,860,008.00	151,794,470.00	179,298,675.00
PIC	**Equity**	172,294,624.00	192,740,591.00	225,069,990.00	269,011,819.00	566,709,394.00	746,812,538.00	898,732,030.00
	CA	282,519,317.00	300,485,127.00	443,956,648.00	615,732,192.00	908,157,086.00	1,329,592,973.00	1,611,789,972.00
	CL	221,276,790.00	245,963,721.00	350,782,244.00	475,530,362.00	593,376,371.00	799,858,958.00	1,037,247,396.00
	TA	393,499,562.00	437,530,898.00	575,086,577.00	744,184,281.00	1,160,051,415.00	1,546,646,551.00	1,935,963,827.00
	NI	18,867,200.00	22,543,505.00	34,233,312.00	45,800,109.00	131,175,570.00	184,700,605.00	155,855,106.00
SICL	**Equity**	258,840,430.00	283,346,903.00	363,766,117.00	586,385,427.00	799,160,092.00	1,423,875,605.00	1,772,638,695.00
	CA	464,878,856.00	707,115,998.00	868,544,000.00	1,014,647,661.00	1,385,399,946.00	2,189,487,738.00	2,875,410,747.00
	CL	506,551,601.00	743,697,608.00	802,992,775.00	791,674,259.00	1,064,184,966.00	1,238,249,347.00	1,666,732,776.00
	TA	764,029,807.00	1,024,913,962.00	1,165,184,754.00	1,376,835,806.00	1,862,658,358.00	2,661,597,433.00	3,439,003,132.00
	NI	56,234,765.00	57,515,539.00	82,446,599.00	131,127,131.00	219,618,855.00	306,611,312.00	360,003,789.00

GLICL	**Equity**	577,057,114.27	825,329,443.54	1,123,255,955.00	1,656,251,056.00	2,198,263,945.00	2,977,727,579.00	3,884,167,860.00
	CA	595,309,633.93	763,047,759.99	965,097,998.00	1,522,038,314.00	2,106,997,219.00	3,032,602,781.00	3,829,542,850.00
	CL	156,427,655.26	175,336,507.49	93,043,961.00	115,905,838.00	177,001,967.00	217,327,047.00	305,828,308.00
	TA	733,484,769.52	995,825,509.10	1,213,541,402.00	1,771,143,956.00	2,375,265,912.00	3,195,054,626.00	4,189,996,167.00
	NI	9,485,800.50	42,481,362.36	46,372,814.00	38,416,582.00	37,032,222.00	75,731,849.00	41,819,168.00
LICN	**Equity**	6,901,468,641.00	9,314,919,122.00	12,453,124,362.00	16,526,611,101.00	21,507,537,088.00	28,051,066,106.00	35,552,815,853.00
	CA	1,359,732,030.00	1,736,153,614.00	4,652,947,896.00	8,613,546,343.00	14,939,930,379.00	20,484,002,630.00	12,878,439,901.00
	CL	474,434,278.00	706,771,984.00	1,058,968,479.00	713,253,107.00	1,077,923,364.00	1,227,810,400.00	2,359,398,442.00
	TA	7,314,199,114.00	9,970,522,295.00	13,473,178,163.00	17,211,666,674.00	22,564,609,777.00	29,264,203,612.00	48,431,255,754.00
	NI	(25,128,308.00)	171,774,428.00	277,346,216.00	194,829,700.00	249,042,175.00	321,435,018.00	482,935,363.00
NLICL	**Equity**	6,294,051,845.00	7,686,335,471.00	9,130,747,866.00	11,099,944,639.00	13,385,034,833.00	16,113,670,925.00	19,408,455,609.00
	CA	2,501,797,819.00	5,069,625,458.00	5,227,532,976.00	8,322,977,153.00	10,067,204,787.00	10,356,827,825.00	5,542,402,544.00
	CL	571,893,368.00	704,077,175.00	812,888,874.00	787,242,946.00	807,316,674.00	924,496,016.00	1,248,540,119.00
	TA	6,847,476,475.00	8,360,669,867.00	9,926,277,165.00	11,881,488,612.00	14,188,427,735.00	17,035,224,112.00	20,655,033,843.00
	NI	112,068,139.00	96,329,518.00	442,759,478.00	252,514,776.00	263,707,686.00	349,719,304.00	235,523,212.00
NLIC	**Equity**	8,065,222,588.00	10,517,250,794.00	13,906,338,021.00	18,905,089,640.00	25,650,026,722.00	34,638,264,105.00	47,308,314,682.00
	CA	2,569,858,504.00	3,305,508,102.00	4,851,670,796.00	9,177,414,383.00	18,143,902,304.00	26,164,551,007.00	30,153,826,908.00
	CL	1,696,805,358.00	1,860,309,673.00	997,691,568.00	1,135,084,142.00	1,444,045,462.00	1,672,890,009.00	3,442,559,374.00
	TA	9,654,043,621.00	13,850,354,864.00	16,390,526,436.00	28,987,132,831.00	27,885,033,084.00	36,302,202,025.00	50,745,147,864.00
	NI	(66,375,780.00)	774,607,048.00	774,607,048.00	614,111,885.00	527,555,789.00	906,634,254.00	1,004,634,123.00
SLICL	**Equity**	534,099,031.00	675,431,049.00	880,740,322.00	132,466,752.00	132,466,752.00	2,427,860,123.00	3,465,223,807.00
	CA	322,167,998.00	191,391,851.00	557,512,958.00	756,596,130.00	1,106,730,525.00	1,904,499,864.00	1,830,814,150.00
	CL	43,472,157.00	68,349,930.00	81,226,100.00	112,741,536.00	233,000,065.00	364,795,141.00	451,021,124.00
	TA	610,756,879.00	743,599,919.00	961,881,840.00	1,417,252,969.00	1,937,458,193.00	2,792,655,264.00	4,242,913,711.00
	NI	17,116,525.00	29,396,001.00	40,281,491.00	43,791,302.00	21,941,458.00	132,466,752.00	136,252,540.00

EIC	**Equity**	237,467,580.00	210,177,633.00	239,175,563.00	266,263,536.00	285,166,240.00	343,124,763.00	451,514,958.00
	CA	725,033,717.00	712,086,378.00	651,143,378.00	548,731,495.00	467,005,677.00	454,934,150.00	622,689,263.00
	CL	680,551,327.00	786,074,376.00	712,086,378.00	505,991,933.00	489,603,697.00	365,348,694.00	423,418,441.00
	TA	918,018,911.00	938,494,568.00	898,892,793.00	759,079,951.00	770,815,695.00	708,473,457.00	874,933,424.00
	NI	34,761,583.00	(84,946,499.00)	51,383,338.00	49,399,488.00	43,166,542.00	62,978,580.00	47,154,477.00
HGI	**Equity**	190,525,634.00	169,696,454.00	206,107,432.00	452,001,552.00	577,900,602.00	704,499,760.00	767,826,700.00
	CA	386,456,844.00	539,918,757.00	705,886,992.00	903,351,789.00	1,533,553,170.00	1,217,382,046.00	1,224,995,960.00
	CL	373,167,674.00	580,627,942.00	677,609,801.00	706,627,778.00	1,533,553,170.00	672,878,627.00	818,151,064.00
	TA	555,682,150.00	706,837,852.00	876,918,227.00	1,797,112,319.00	1,774,232,020.00	1,377,378,387.00	1,585,977,764.00
	NI	11,354,307.00	(54,695,118.00)	72,465,740.00	93,359,992.00	141,674,755.00	130,864,436.00	121,770,244.00
NLG	**Equity**	154,708,166.00	337,346,820.00	522,988,773.00	677,846,908.00	817,090,453.00	1,050,027,795.00	1,274,164,313.00
	CA	657,439,579.00	803,281,699.00	945,931,132.00	1,134,853,941.00	1,541,811,400.00	1,753,852,140.00	1,920,259,655.00
	CL	758,667,103.00	741,208,678.00	690,705,388.00	681,828,804.00	1,078,530,971.00	1,025,281,509.00	1,032,931,614.00
	TA	911,283,555.00	1,075,249,686.00	1,172,132,615.00	1,359,473,246.00	1,895,621,424.00	2,075,309,304.00	2,307,095,927.00
	NI	42,101,732.00	127,289,911.00	152,152,474.00	172,834,451.00	152,814,109.00	229,513,811.00	230,997,548.00

Sources: Annual Report of Sample Companies from 2010/11 to 2016/17

Where, CA   =   Current Assets

CL   =   Current Liabilities

TA   =   Total Assets

NI   =   Net Income

ANNEX: TWO

Net Income of Sample Companies

SN	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	Mean	SD	CV
SIC	90,837,460	137,418,547	179,034,326	203,184,689	75,052,644	206,753,646	276,207,115	166,926,918.19	70,817,578.78	0.42
LGIL	9,706,028	32,713,066	38,229,374	72,456,908	124,860,008	151,794,470	179,298,675	87,008,361.29	65,399,099.46	0.75
PIC	18,867,200	22,543,505	34,233,312	45,800,109	131,175,570	184,700,605	155,855,106	84,739,343.86	70,095,902.67	0.83
SICL	56,234,765	57,515,539	82,446,599	131,127,131	219,618,855	306,611,312	360,003,789	173,365,427.14	123,773,192.51	0.71
GLICL	9,485,801	42,481,362	46,372,814	38,416,582	37,032,222	75,731,849	41,819,168	41,619,971.12	19,368,812.85	0.47
LICN	(25,128,308)	171,774,428	277,346,216	194,829,700	249,042,175	321,435,018	482,935,363	238,890,656.00	154,975,935.44	0.65
NLICL	112,068,139	96,329,518	442,759,478	252,514,776	263,707,686	349,719,304	235,523,212	250,374,587.57	122,571,605.74	0.49
NLIC	(66,375,780)	774,607,048	774,607,048	614,111,885	527,555,789	906,634,254	1,004,634,123	647,967,766.71	354,054,191.78	0.55
SLICL	17,116,525	29,396,001	40,281,491	43,791,302	21,941,458	132,466,752	136,252,540	60,178,009.86	51,544,882.51	0.86
EIC	34,761,583	(84,946,499)	51,383,338	49,399,488	43,166,542	62,978,580	47,154,477	29,128,215.57	51,021,005.76	1.75
HGI	11,354,307	(54,695,118)	72,465,740	93,359,992	141,674,755	130,864,436	121,770,244	73,827,765.14	71,832,333.24	0.97
NLG	42,101,732	127,289,911	152,152,474	172,834,451	152,814,109	229,513,811	230,997,548	158,243,433.71	64,677,557.17	0.41

Source: Annual Report of Sample Companies from 2010/11 to 2016/17

Formula in excel,   Mean= Sum of Net Income/ N,

SD= STDEV (Column of Net Income) &CV=SD/Mean

ANNEX: THREE

Equity of Sample Companies

SN	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	Mean	SD	CV
SIC	327,835,728	426,999,067	548,968,148	729,367,976	816,582,913	1,018,195,018	1,291,389,228	737,048,296	339529498	0.46
LGIL	157,144,907	189,540,740	273,001,098	405,871,337	530,321,740	678,958,316	852,993,833	441,118,853	260641669	0.59
PIC	172,294,624	192,740,591	225,069,990	269,011,819	566,709,394	746,812,538	898,732,030	438,767,283	296886311	0.68
SICL	258,840,430	283,346,903	363,766,117	586,385,427	799,160,092	1,423,875,605	1,772,638,695	784,001,895	595702837	0.76
GLICL	577,057,114	825,329,444	1,123,255,955	1,656,251,056	2,198,263,945	2,977,727,579	3,884,167,860	1,891,721,850	1207941780	0.64
LICN	6,901,468,641	9,314,919,122	12,453,124,362	16,526,611,101	21,507,537,088	28,051,066,106	35,552,815,853	18,615,363,181	10410924712	0.56
NLICL	6,294,051,845	7,686,335,471	9,130,747,866	11,099,944,639	13,385,034,833	16,113,670,925	19,408,455,609	11,874,034,455	4722693559	0.40
NLIC	8,065,222,588	10,517,250,794	13,906,338,021	18,905,089,640	25,650,026,722	34,638,264,105	47,308,314,682	22,712,929,507	14207502200	0.63
SLICL	534,099,031	675,431,049	880,740,322	132,466,752	132,466,752	2,427,860,123	3,465,223,807	1,178,326,833	1273798074	1.08
EIC	237,467,580	210,177,633	239,175,563	266,263,536	285,166,240	343,124,763	451,514,958	290,412,896	82874707	0.29
HGI	190,525,634	169,696,454	206,107,432	452,001,552	577,900,602	704,499,760	767,826,700	438,365,447	253830513	0.58
NLG	154,708,166	337,346,820	522,988,773	677,846,908	817,090,453	1,050,027,795	1,274,164,313	690,596,175	392844225	0.57

Source: Annual Report of Sample Companies from 2010/11 to 2016/17

Formula in excel,   Mean= Sum of Equity/ N,
SD= STDEV (Column of Equity) &CV=SD/Mean

ANNEX: FOUR

Current Assets of Sample Companies

SN	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	Mean	SD	CV
SIC	651861650.3	886597807	1215999606	1597311181	1987405296	2243719900	2397759852	1568665042	676926676.1	0.43
LGIL	374270235	344549505	518663645	742990451	1033918970	1193143976	1508146001	816526111.9	443456210.2	0.54
PIC	282519317	300485127	443956648	615732192	908157086	1329592973	1611789972	784604759.3	520822009.9	0.66
SICL	464878856	707115998	868544000	1014647661	1385399946	2189487738	2875410747	1357926421	873062743	0.64
GLICL	595309633.9	763047760	965097998	1522038314	2106997219	3032602781	3829542850	1830662365	1226573323	0.67
LICN	1359732030	1736153614	4652947896	8613546343	14939930379	20484002630	12878439901	9237821828	7211042900	0.78
NLICL	2501797819	5069625458	5227532976	8322977153	10067204787	10356827825	5542402544	6726909795	2919208152	0.43
NLIC	2569858504	3305508102	4851670796	9177414383	18143902304	26164551007	30153826908	13480961715	11373786360	0.84
SLICL	322167998	191391851	557512958	756596130	1106730525	1904499864	1830814150	952816210.9	691920392.7	0.73
EIC	725033717	712086378	651143378	548731495	467005677	454934150	622689263	597374865.4	110029575.8	0.18
HGI	386456844	539918757	705886992	903351789	1533553170	1217382046	1224995960	930220794	414814506.9	0.45
NLG	657439579	803281699	945931132	1134853941	1541811400	1753852140	1920259655	1251061364	490690427.9	0.39

Source: Annual Report of Sample Companies from 2010/11 to 2016/17

Formula in excel,   Mean= Sum of Current Assets / N,
SD= STDEV (Column of Current Assets) &CV=SD/Mean

ANNEX: FIVE

Current Liabilities of Sample Companies

SN	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	Mean	SD	CV
SIC	525,301,913	707,880,804	887,326,448	1,125,369,001	1,583,997,226	1,573,636,105	1,609,111,134	1,144,660,376	453,454,474	0.40
LGIL	306,825,114	296,480,009	413,535,074	498,730,928	771,401,645	759,327,006	909,382,252	565,097,433	246,662,443	0.44
PIC	221,276,790	245,963,721	350,782,244	475,530,362	593,376,371	799,858,958	1,037,247,396	532,005,120	301,436,774	0.57
SICL	506,551,601	743,697,608	802,992,775	791,674,259	1,064,184,966	1,238,249,347	1,666,732,776	973,440,476	385,545,263	0.40
GLICL	156,427,655	175,336,507	93,043,961	115,905,838	177,001,967	217,327,047	305,828,308	177,267,326	70,035,235	0.40
LICN	474,434,278	706,771,984	1,058,968,479	713,253,107	1,077,923,364	1,227,810,400	2,359,398,442	1,088,365,722	619,028,447	0.57
NLICL	571,893,368	704,077,175	812,888,874	787,242,946	807,316,674	924,496,016	1,248,540,119	836,636,453	211,702,666	0.25
NLIC	1,696,805,358	1,860,309,673	997,691,568	1,135,084,142	1,444,045,462	1,672,890,009	3,442,559,374	1,749,912,227	808,640,700	0.46
SLICL	43,472,157	68,349,930	81,226,100	112,741,536	233,000,065	364,795,141	451,021,124	193,515,150	160,477,236	0.83
EIC	680,551,327	786,074,376	712,086,378	505,991,933	489,603,697	365,348,694	423,418,441	566,153,549	159,647,326	0.28
HGI	373,167,674	580,627,942	677,609,801	706,627,778	1,533,553,170	672,878,627	818,151,064	766,088,008	365,273,200	0.48
NLG	758,667,103	741,208,678	690,705,388	681,828,804	1,078,530,971	1,025,281,509	1,032,931,614	858,450,581	177,833,103	0.21

Source: Annual Report of Sample Companies from 2010/11 to 2016/17

Formula in excel,   Mean= Sum of Current Liabilities / N,
SD= STDEV (Column of Current liabilities) &CV=SD/Mean

ANNEX: SIX

Total Assets of Sample Companies

SN	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	Mean	SD	CV
SIC	852,420,376	1,134,341,641	1,435,935,401	1,854,535,379	2,400,428,937	2,900,449,961	2,591,730,323	1,881,406,002	777,654,455	0.41
LGIL	463,970,020	485,268,041	686,121,993	904,444,846	1,301,723,384	1,753,287,347	1,447,374,060	1,006,027,099	503,039,994	0.50
PIC	393,499,562	437,530,898	575,086,577	744,184,281	1,160,051,415	1,546,646,551	1,935,963,827	970,423,302	595,056,173	0.61
SICL	764,029,807	1,024,913,962	1,165,184,754	1,376,835,806	1,862,658,358	2,661,597,433	3,439,003,132	1,756,317,607	972,565,452	0.55
GLICL	733,484,770	995,825,509	1,213,541,402	1,771,143,956	2,375,265,912	3,195,054,626	4,189,996,167	2,067,758,906	1,265,980,769	0.61
LICN	7,314,199,114	9,970,522,295	13,473,178,163	17,211,666,674	22,564,609,777	29,264,203,612	48,431,255,754	21,175,662,198	14,159,554,475	0.67
NLICL	6,847,476,475	8,360,669,867	9,926,277,165	11,881,488,612	14,188,427,735	17,035,224,112	20,655,033,843	12,699,228,258	4,928,445,688	0.39
NLIC	9,654,043,621	13,850,354,864	16,390,526,436	28,987,132,831	27,885,033,084	36,302,202,025	50,745,147,864	26,259,205,818	14,362,044,058	0.55
SLICL	610,756,879	743,599,919	961,881,840	1,417,252,969	1,937,458,193	2,792,655,264	4,242,913,711	1,815,216,968	1,313,372,466	0.72
EIC	918,018,911	938,494,568	898,892,793	759,079,951	770,815,695	708,473,457	874,933,424	838,386,971	90,454,755	0.11
HGI	555,682,150	706,837,852	876,918,227	1,797,112,319	1,774,232,020	1,377,378,387	1,585,977,764	1,239,162,674	519,411,154	0.42
NLG	911,283,555	1,075,249,686	1,172,132,615	1,359,473,246	1,895,621,424	2,075,309,304	2,307,095,927	1,542,309,394	544,765,243	0.35

Source: Annual Report of Sample Companies from 2010/11 to 2016/17

Formula in excel,   Mean= Sum of Total Assets / N,

SD= STDEV (Total Assets) &CV=SD/Mean

ANNEX: SEVEN

Liquid Ratio of Sample Companies

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	Mean	SD	CV
SIC	1.24	1.25	1.37	1.42	1.25	1.43	1.49	1.35	0.10	0.07
LGIL	1.22	1.16	1.25	1.49	1.34	1.57	1.66	1.39	0.19	0.14
PIC	1.28	1.22	1.27	1.29	1.53	1.66	1.55	1.40	0.18	0.13
SICL	0.92	0.95	1.08	1.28	1.30	1.77	1.73	1.29	0.35	0.27
GLICL	3.81	4.35	10.37	13.13	11.90	13.95	12.52	10.01	4.20	0.42
LICN	2.87	2.46	4.39	12.08	13.86	16.68	5.46	8.26	5.81	0.70
NLICL	4.37	7.20	6.43	10.57	12.47	11.20	4.44	8.10	3.31	0.41
NLIC	1.51	1.78	4.86	8.09	12.56	15.64	8.76	7.60	5.31	0.70
SLICL	7.41	2.80	6.86	6.71	4.75	5.22	4.06	5.40	1.68	0.31
EIC	1.07	0.91	0.91	1.08	0.95	1.25	1.47	1.09	0.21	0.19
HGI	1.04	0.93	1.04	1.28	1.00	1.81	1.50	1.23	0.32	0.26
NLG	0.87	1.08	1.37	1.66	1.43	1.71	1.86	1.43	0.36	0.25

Source: Annex 1

Where

Liquid Ratio = Total Current Assets / Total Current Liabilities

Formula in excel,   *Mean* = Sum of Liquid Ratio/ N,
SD = STDEV (Liquid Ratio) &CV=SD/Mean

ANNEX: EIGHT

Leverage Ratio of Sample Companies

SN	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	Mean	SD	CV
SIC	61.6%	62.4%	61.8%	60.7%	66.0%	54.3%	62.1%	61.3%	3.5%	0.06
LGIL	66.1%	61.1%	60.3%	55.1%	59.3%	43.3%	62.8%	58.3%	7.4%	0.13
PIC	56.2%	56.2%	61.0%	63.9%	51.2%	51.7%	53.6%	56.3%	4.7%	0.08
SICL	66.3%	72.6%	68.9%	57.5%	57.1%	46.5%	48.5%	59.6%	10.0%	0.17
GLICL	21.3%	17.6%	7.7%	6.5%	7.5%	6.8%	7.3%	10.7%	6.1%	0.57
LICN	6.5%	7.1%	7.9%	4.1%	4.8%	4.2%	4.9%	5.6%	1.5%	0.27
NLICL	8.4%	8.4%	8.2%	6.6%	5.7%	5.4%	6.0%	7.0%	1.3%	0.19
NLIC	17.6%	13.4%	6.1%	3.9%	5.2%	4.6%	6.8%	8.2%	5.2%	0.63
SLICL	7.1%	9.2%	8.4%	8.0%	12.0%	13.1%	10.6%	9.8%	2.2%	0.23
EIC	74.1%	83.8%	79.2%	66.7%	63.5%	51.6%	48.4%	66.7%	13.4%	0.20
HGI	67.2%	82.1%	77.3%	39.3%	86.4%	48.9%	51.6%	64.7%	18.3%	0.28
NLG	83.3%	68.9%	58.9%	50.2%	56.9%	49.4%	44.8%	58.9%	13.3%	0.23

Source: Annex 1

Where

	Leverage	= Current Liabilities/ Total Assets
Formula in excel,	*Mean*	*= Sum of Leverage Ratio/ N,*
	SD	*= STDEV (Leverage Ratio) &CV=SD/Mean*

ANNEX: NINE

ROA of Sample Companies

Years	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	Mean	SD	CV
SIC	27.71%	32.18%	32.61%	27.86%	9.19%	20.31%	21.39%	24.46%	8.25%	0.337
LGIL	6.18%	17.26%	14.00%	17.85%	23.54%	22.36%	21.02%	17.46%	5.96%	0.341
PIC	10.95%	11.70%	15.21%	17.03%	23.15%	24.73%	17.34%	17.16%	5.25%	0.306
SICL	21.73%	20.30%	22.66%	22.36%	27.48%	21.53%	20.31%	22.34%	2.44%	0.109
GLICL	1.64%	5.15%	4.13%	2.32%	1.68%	2.54%	1.08%	2.65%	1.47%	0.555
LICN	-0.36%	1.84%	2.23%	1.18%	1.16%	1.15%	1.36%	1.22%	0.81%	0.664
NLICL	1.78%	1.25%	4.85%	2.27%	1.97%	2.17%	1.21%	2.22%	1.23%	0.556
NLIC	-0.82%	7.37%	5.57%	3.25%	2.06%	2.62%	2.12%	3.17%	2.64%	0.835
SLICL	3.20%	4.35%	4.57%	33.06%	16.56%	5.46%	3.93%	10.16%	11.10%	1.092
EIC	14.64%	-40.42%	21.48%	18.55%	15.14%	18.35%	10.44%	8.31%	21.77%	2.619
HGI	5.96%	-32.23%	35.16%	20.65%	24.52%	18.58%	15.86%	12.64%	21.66%	1.714
NLG	27.21%	37.73%	29.09%	25.50%	18.70%	21.86%	18.13%	25.46%	6.82%	0.268

Source: Annex 1

Where

	ROA	= Net Income/ Total Assets
Formula in excel,	*Mean*	*= Sum of ROA / N,*
	SD	*= STDEV (ROA) &CV=SD/Mean*

ANNEX: TEN

ROE of Sample Companies

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	Mean	SD	CV
SIC	27.71%	32.18%	32.61%	27.86%	9.19%	20.31%	21.39%	24.46%	8.25%	0.337
LGIL	6.18%	17.26%	14.00%	17.85%	23.54%	22.36%	21.02%	17.46%	5.96%	0.341
PIC	10.95%	11.70%	15.21%	17.03%	23.15%	24.73%	17.34%	17.16%	5.25%	0.306
SICL	21.73%	20.30%	22.66%	22.36%	27.48%	21.53%	20.31%	22.34%	2.44%	0.109
GLICL	1.64%	5.15%	4.13%	2.32%	1.68%	2.54%	1.08%	2.65%	1.47%	0.555
LICN	-0.36%	1.84%	2.23%	1.18%	1.16%	1.15%	1.36%	1.22%	0.81%	0.664
NLICL	1.78%	1.25%	4.85%	2.27%	1.97%	2.17%	1.21%	2.22%	1.23%	0.556
NLIC	-0.82%	7.37%	5.57%	3.25%	2.06%	2.62%	2.12%	3.17%	2.64%	0.835
SLICL	3.20%	4.35%	4.57%	33.06%	16.56%	5.46%	3.93%	10.16%	11.10%	1.092
EIC	14.64%	-40.42%	21.48%	18.55%	15.14%	18.35%	10.44%	8.31%	21.77%	2.619
HGI	5.96%	-32.23%	35.16%	20.65%	24.52%	18.58%	15.86%	12.64%	21.66%	1.714
NLG	27.21%	37.73%	29.09%	25.50%	18.70%	21.86%	18.13%	25.46%	6.82%	0.268

Source: Annex 1

Where

ROE = Net Income/ Total Shareholder Equity

Formula in excel, *Mean = Sum of ROE / N,*
SD = STDEV (ROE) &CV=SD/Mean

ANNEX: ELEVEN

AGE of Sample Companies

Years	SIC 1996 *	LGIL 2005*	PIC 1994*	SICL 2004*	GLICL 2008*	LICN 2001*	NLICL 1988*	NLIC 2001*	SLICL 2008*	EIC 1994*	HGI 1993*	NLG 1988*
2011	15	6	17	7	3	10	23	10	7	17	18	13
2012	16	7	18	8	4	11	24	11	8	18	19	14
2013	17	8	19	9	5	12	25	12	9	19	20	15
2014	18	9	20	10	6	13	26	13	10	20	21	16
2015	19	10	21	11	7	14	27	14	11	21	22	17
2016	20	11	22	12	8	15	28	15	12	22	23	18
2017	21	12	23	13	9	16	29	16	13	23	24	19

Source: Web Page of Sample Companies

Where,   *   =   Establishment Year of Insurance Companies

Age   =   the difference between Establishment year and Study year of firm

ANNEX: TWELVE

Correlations Analysis and Test of Normality

		ROA	ROE	SIZE	LEVERAGE	Liquid	AGE
ROA	Pearson	1	.889**	-.358**	.447**	-.456**	.078
	Sig. (2-tailed)		.000	.001	.000	.000	.482
ROE	Pearson	.889**	1	-.359**	.459**	-.441**	.034
	Sig. (2-tailed)	.000		.001	.000	.000	.760
SIZE	Pearson	-.358**	-.359**	1	-.569**	.571**	.114
	Sig. (2-tailed)	.001	.001		.000	.000	.304
LEVERAGE	Pearson	.447**	.459**	-.569**	1	-.768**	.160
	Sig. (2-tailed)	.000	.000	.000		.000	.146
Liquid	Pearson	-.456**	-.441**	.571**	-.768**	1	-.104
	Sig. (2-tailed)	.000	.000	.000	.000		.346
AGE	Pearson	.078	.034	.114	.160	-.104	1
	Sig. (2-tailed)	.482	.760	.304	.146	.346	
	N	84	84	84	84	84	84
**. Correlation is significant at the 0.01 level (2-tailed).							

Tests of Normality						
	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
ROA	.112	84	.110	.943	84	.100
ROE	.145	84	.098	.892	84	.199
SIZE	.329	84	.078	.588	84	.162
LEVERAGE	.204	84	.060	.851	84	.140
Liquid	.302	84	.300	.727	84	.163
AGE	.079	84	.200	.982	84	.273
*. This is a lower bound of the true significance.						
a. Tests of Normality						

ANNEX: THIRTEEN

Multiple Regression Analysis of ROA and ROE

Model Summary										
Model	R	R^2	Adjusted R^2	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R^2	F	df1	df2	Sig. F	
1	.489[a]	.239	.200	3.89034%	.239	6.194	4	79	.000	1.250
a. Predictors: (Constant), AGE, Liquid , SIZE, LEVERAGE										
b. Dependent Variable: ROA										

Model Summary										
Model	R	R^2	Adjusted R^2	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R^2	F	df1	df2	Sig. F	
1	.487[a]	.237	.199	11.55276%	.237	6.148	4	79	.000	1.626
a. Predictors: (Constant), AGE, Liquid , SIZE LEVERAGE										
b. Dependent Variable: ROE										

ANOVA							
	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	374.962	4	93.741	6.194	.000[b]
	Residual	1195.643	79	15.135		
	Total	1570.605	83			
a. Dependent Variable: ROA						
b. Predictors: (Constant), AGE, Liquid , SIZE, LEVERAGE						

ANOVA						
	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3282.457	4	820.614	6.148	.000[b]
	Residual	10543.836	79	133.466		
	Total	13826.293	83			
a. Dependent Variable: ROE						
b. Predictors: (Constant), AGE, Liquid , SIZE, LEVERAGE						

Coefficients[a]										
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B		Collinearity Statistics	
	B	Std.	Beta			Lower	Upper	Tolerance	VIF
1 (Constant)	5.050	1.814		2.784	.007	1.440	8.661		
SIZE	-0.005	.000	-.117	-.913	.0.34	.000	.000	.591	1.691
LEVERAGE	.030	.025	.191	1.188	.023	-.020	.081	.371	2.695
Liquid	-.002	.002	-.239	-1.504	.013	-.006	.001	.383	2.611
AGE	.025	.073	.036	.346	.730	-.121	.172	.911	1.098
a. Dependent Variable: ROA									

Coefficients[a]										
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B		Collinearity Statistics	
	B	Std.	Beta			Lower	Upper	Tolerance	VIF
1 (Constant)	10.999	5.386		2.042	.044	.277	21.720		
SIZE	-0.001	.000	-.104	-.812	.041	.000	.000	.591	1.691
LEVERAGE	.123	.076	.262	1.625	.010	-.028	.274	.371	2.695
Liquid	-.005	.005	-.182	-1.148	.025	-.015	.004	.383	2.611
AGE	.032	.218	.015	.148	.882	-.467	.402	.911	1.098
a. Dependent Variable: ROE									

FACTORS AFFECTING FINANCIAL PERFORMANCE OF INSURANCE COMPANIES OF NEPAL

A Thesis Proposal

By

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Table of Contents

1.1 Background of the Study

Financial System is a base for development of every country economy. Financial System is a set of institutional arrangement through which financial surplus in the economy are mobilized from surplus units and transfer to the deficit units. Financial System is includes financial institutions, financial markets, financial instruments and regulations and law (Mayo, 2004). It mediates between the short-term perspective of investors by transforming the size, maturity and the risk characteristics of assets. A financial system, thus, enhances economic growth by both increasing the saving ratio and reducing the capital output ratio by reducing the cost of transaction and by facilitating trade, leading to specialization in production (Thapa, 2014). Investment Banking houses, Commercial banks, financial Services corporations, Savings and loan associations, Mutual Saving Banks, Credit unions, Life insurance Companies, Mutual funds etc are the example of financial institutions (Brigham & Earnhardt, 2014), Which play intermediary role in financial system.

Insurance companies are one of the most important non-banking financial institutions. Insurance is a means of protection from financial losses. It is a form of risk management primarily used to hedge against the risk or contingent uncertain losses. Insurance companies reveal an importance for businesses and because individuals compensate losses and put them in positions, where they were before they occur. In addition, insurers provide economic and social benefits for companies such as, loss prevention and reduction of anxiety (Derbali& Jamel, 2018). Insurance can be defined as a service that provides a benefit upon the occurrence of a risk. Delivery, usually financial, may be for an individual, association or business in exchange for a perceived contributions or premiums (Derbali, 2014). Thus, insurance is economic sector, which includes the design, production and marketing of this type of service.

The need to be safe and protect from danger threatening property and the physical integrity of a person is inherent in human nature. This need has increased in flow of goods and services in the country economy through the insurance (Zouhaier, 2014). For economic development, investment are necessary, investments are made out of savings**.** By insurance, the savings are channeled to investment projects, which are the main driving force for country development. The processes that take place in a country have supported for country economy (Ungur, 2016). Insurance companies

provide unique financial services to the growth and development of every economy. Such specialized financial services range from the underwriting of risks inherent in economic entities and the mobilization of large amount of funds through premiums for long-term investments. Thus, Insurance Company is a major instrument for the mobilization of savings of people. These savings are channelized into investment for economic growth. Insurance serves a number of valuable economic functions that are largely distinct from other types of financial intermediaries (Rao & Srinivasulu, 2013). Hence, Insurance Good performance is very essential to country as well as companies itself.

Company performance is very essential to determine success of any organization. Performance is the function of the ability of an organization to gain and manage the resources in several different ways to develop competitive advantages (Iswantia & Anshoria, 2007). Financial performance is a measure of an organization; earnings profit appreciation in value, which can be observed through rise in organization share price. Insurance performance is normally expressed in net premium earned, profitability from underwriting activities, annual turnover, returns on investment and return on equity. Due to several reasons, Nepalese insurance market has not been effective and efficient (Nepal, 2012). Although, the expansion of insurance market during last two decades is found satisfactory comparing to the previous four decades growth rate. To measure the growth of insurance activities some parameters are considered such as Premium collection, investments, tax revenue to government (Ghimire, 2013).

A well-developed and evolved insurance industry is a boon for economic development as it provides long- term funds for development (Ahmed, Ahmed & Ahmed, 2010). But In Nepal, The insurance doesn't have a long history. Modern insurance company began from 1947 A.D. Due to lack of awareness, people were not serious about the significance of different aspects of insurance. This resulted in people suffering heavy losses during accidents. The first insurance company was named as "Maal Chalani ra Bima Company" which was later renamed as "Nepal insurance and Transport Company" in 1959 and further renamed as "Nepal Insurance Company Ltd". In 1968, the government of Nepal established "Rastriya Bima Sasthan" under the Company act. Beema Samiti (Insurance Board) is an autonomous body, established to develop, systemize, regularize and regulate the insurance business of

Nepal under Insurance Act, 1992" (Insurance Board of Nepal). Insurance company collects funds as premium method in accordance to their nature and corporate objectives. According to National board of Nepal, 36 companies had registered within 2018 November.

In Nepal, the rapid development of financial markets, banks and insurance companies are facing intense competition. Traditional performance management appears to be insufficient to meet the needs of strategic development financial institutions. There was a good performance of many sectors such as banking sector; the insurance sector does not react to the growth as like banking sectors of Nepalese economy. The overall financial performance of insurance companies in Nepal is somehow weak expect for some companies which accomplished some revenues (Kumar, 2013).

Financial performance of insurance company can measure by using different variables and prospective. The economy of Nepal is characterized by lower per capital income, lack of sufficient infrastructure for development high population higher population growth rate. In such condition, this study tries to examine empirically the impact of firm-specific characteristics (size, leverage, liquidity and age) on the profitability of insurance companies in Nepal with entitled "Factors Affecting Financial Performance of Insurance Companies of Nepal".

1.2 Statement of the Problems

After the established of democracy, Nepal Government has adopted economic liberalization. Many more financial institutions including insurance company established in the country as a result. Nepal Government tried to develop the financial market with faire competition. As a result, many more old companies faced the increasing competition in their existing market. Financial factor is the key element of any firm to its successful running. The present study evaluates a modest attempt to analyze financial performance of Insurance Company Ltd. in the current situation. The total Business Volume of Nepalese Insurance Company is very low portion of world insurance Market. The increase of re-insurance premium indicates that Nepalese Insurance market has not increased its risk bearing capacity. Major part of total investment is made in the government securities and fixed deposit shows that Nepalese Insurance management seems risk averter and has not paid attention to make

effective investment portfolio. In such situation, this study will try to address the following research questions.

1. What is the effect of leverage on financial performance of Nepalese Insurance Company?
2. What is the effect of Liquidity on financial performance of Nepalese Insurance Company?
3. What is the effect of Company's age on financial performance of Nepalese Insurance Company?
4. What is the effect of Company's size on financial performance of Nepalese Insurance Company?

1.3 Purpose of the Study

The main objective of the study is to Factors Affecting Financial Performance of Insurance Companies of Nepal. Other objectives will be as under:-

1. To examine the effect of leverage on financial performance of Nepalese insurance companies
2. To determine the effect of liquidity on financial performance of Nepalese insurance companies
3. To identify the effect of company's age on financial performance of Nepalese insurance companies
4. To identify effect of company's size on financial performance of Nepalese insurance companies

1.3 Significance of the Study

This study will be useful in a number of ways. This study will assist the insurance company to identify the focus on improvement of performance. Most of the researches done on the insurance companies are targeted in performance appraisal. Those studies sufficient in bringing the factors affecting of insurance companies and impact on performance .Thus, this study will carry great significance. This study will be important for the individuals who are interested in knowing the condition of the insurance companies. The management of the selected insurance companies also can take suggestion from this study. Therefore, this study will be significant. The main significances of the study will be as follows:

1. It will help shareholders, professionals related with insurance, and investors to know about the factor affecting of financial performance of insurance companies in Nepal

2. Students and teachers will also be benefited by the study.

3. It will help the policy makers of the insurance to take good decision through the recommendation of the study.

4. The study also will assist government to frame national policy by considering such determinants. The study will also bridge the literature gap as it will be used by upcoming researchers

1.4 Limitation of the Study

Every study will have some constraints and limitations. Similarly, this study will not be exception and free from limitations. The accuracy of this study largely will depend upon the data and statements provided by the sample-listed companies. The study will imply the following limitations:

1. The study will be based on the data of Seven years i.e. from FY 2010/11 to 2016/17.

2. The study will be primarily based on the data available in published annual reports.

3. This study will cover only four independent factors, which will not be sufficient to find the factors affecting to ROA and ROE of insurance companies.

4. Non-availability of the various reference or sources act constraints for the study.

5. Sample size will be small. Therefore, finding may not be generalization to all listed companies.

6. These Analysis methods will not attempt to capture these qualitative values. How should one quantify the value of a brand, the size of its customer base, or a competitive advantage.

1.5 Literature Review

This chapter will deal with theoretical aspect of the topic on factors affecting financial performance of insurance companies in Nepal. It will provide the foundation for developing a comprehensive theoretical framework and knowledge of the status

relevant to the field of research in order to explore the relevant facts for the reporting purpose .For this, NRB's directives, books, journals, articles, annual reports and some related research papers will have been reviewed. This chapter will have been, broadly classified into two sectors: theoretical perspective for conceptual review and review of related studies for development of research gap.

Almajali, Alamro & Al-Soub (2012) conducted research on topic entitled as *"factors affecting the financial performance of Jordanian insurance companies Listed at Amman Stock Exchange".* This study aimed at investigating the factors that mostly affect financial performance of Jordanian Insurance Companies. The study population consisted of all insurance companies' enlisted at Amman stock Exchange during the period (2002-2007) which count (25) insurance company. The data collected was analyzed by using a number of basic statistical techniques such as T-test and Multiple- regression. The results showed that the following variables (Leverage, liquidity, Size, Management competence index) have a positive statistical effect on the financial performance of Jordanian Insurance Companies. The researcher recommended that a high consideration of increasing the company assets would lead to a good financial performance and there is a significant need to have highly qualified employees in the top managerial staff.

Kumar (2013) conducted research entitled *"Testing Financial Performance of Nepalese Life Insurance Companies by CARAMELS Parameter."* This paper assesses the financial performance and soundness of Life insurance companies in Nepal on the basis of CARAMEL parameters during 2007/08 to 2011/2012. Quantitative analysis shows the mix results but this is not enough to obtain the true and fair picture of the financial health of insurers since qualitative factors also play vital role on its financial soundness. The study provides detail summary of financial performance of each company for 2011/12 and brief and aggregate overview over the five years period under the different dimensions: Capital adequacy, Assets quality, Reinsurance and Actuarial issues, management soundness, Earnings, profitability, and liquidity. Conclude that the financial status of the life insurance companies from different six aspects give the mix results. Past trend of capital adequacy ratio was not good. Assets quality, in term of receivables, the situation is in improving way. Reinsurance and actuarial base, Risk Retention Ratio is improving from 80% to 97% and the net technical reserves ratio matched its reserves with net premium.

Management soundness of insurers had been improving as both were in upward direction. Earnings and profitability point of view, Return on Equity was in decreasing trend, which may discourage the investors to hold the share. There is ray of hope since expenses ratio, investment income to investment assets ratio, liquidity position also in improving direction.

Lee (2014) expressed in his article on topic "*Effects of Firm Specific Factors and Macroeconomics on Profitability of Property Liability Insurance Industry in Taiwan.*" This article investigates the relationship between firm specific factors and macroeconomics on profitability in Taiwanese property-liability insurance industry using the panel data over the1999 through 2009 time. Using operating ratio and return on assets (ROA) for the two kinds of profitability indicators to measure insurers' profitability. The results show that underwriting risk, reinsurance usage, input cost, return on investment (ROI) and financial holding group have significant influence on profitability in both operating ratio and ROA models. The insurance subsidiaries of financial holding group compared with other insurance companies, showing lower profitability. In addition, economic growth rate has significant influence on profitability in operating ratio model but insignificant influence on profitability in ROA model. The findings contribute to insurance operation in the property-liability insurance industry and should be of interest to regulators, investors and policyholders.

Berteji & Hammami (2016) has conducted research on topic "*The Determinants of the Performance of the Life Insurance Companies in Tunisia.*" In this study, researcher examined the impact of the characteristics of the company (size, leverage, tangibility, risk, growth, liquidity and age) on the performance of 8 life insurance companies in Tunisia all along a period of 10 years (ranging from 2005 to 2014). Analysis of the results of a regression on panel data indicates that the variables size, age and premium growth measured by ROA ratio (Return on Asset) are the most important determinants of the insurance companies performance. The performance of insurance companies is not statistically significant with such variables as leverage, tangibility, liquidity and risk.

1.6 Theoretical Framework and Hypothesis

Financial statement analysis allows managers, investors and creditors as well as potential investors and creditors to reach a conclusion about recent and current status of corporation. Some main variables affecting financial performance of companies are as unde

Figure 1 : Theoretical Framework

Source: (Almajali, 2012:276)
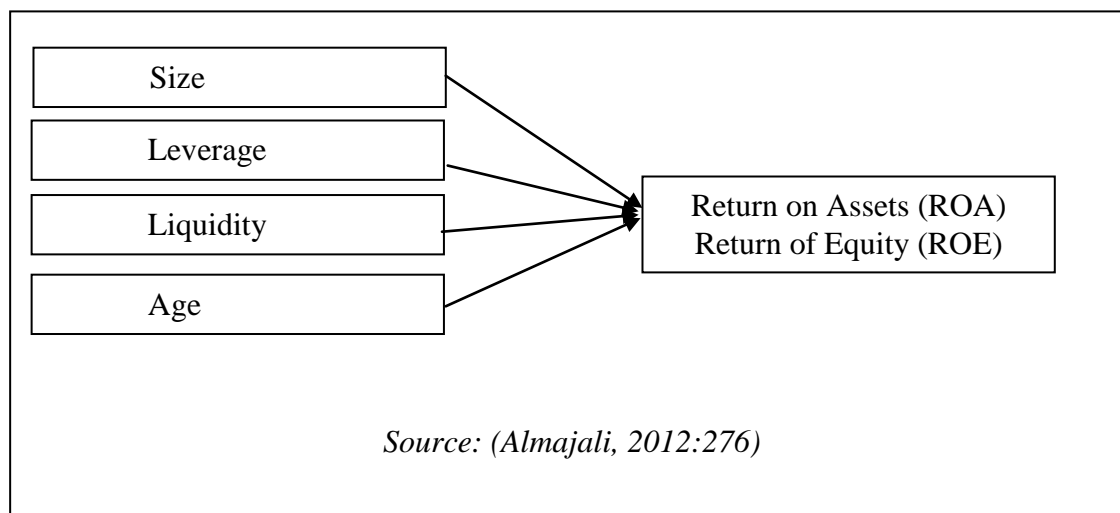
The following alternative hypotheses will have formulated for this study to make

Hypothetical answers to the study problem and its questions

Hypothesis 1

H11: There is significant effect for SIZE on Financial Performance (Return on Assets) of Insurance Companies of Nepal.

Hypothesis 2

H12: There is significant effect for SIZE on Financial Performance (Return on Equity) of Insurance Companies of Nepal.

Hypothesis 3

H13: There is significant effect for LEVERAGE on Financial Performance (Return on Assets) of insurance companies of Nepal.

Hypothesis 4

H14: There is significant effect for LEVERAGE on Financial Performance (Return on Equity) of insurance companies of Nepal.

Hypothesis 5

H15: There is significant effect for Liquid ratio on Financial Performance (Return on Assets) of insurance companies of Nepal.

Hypothesis 6

H16: There is significant effect for Liquid ratio on Financial Performance (Return on Equity) of insurance companies of Nepal.

Hypothesis 7

H17: There is significant effect for AGE on Financial Performance (Return on Assets) of insurance companies of Nepal.

Hypothesis 8

H18: There is significant effect for AGE on Financial Performance (Return on Equity) of insurance companies of Nepal.

1.7 Methodology

Research methodology is a systematically way to solve the research problem. It refers to the various sequential steps that are to be adopted by a researcher during the course of studying the problem with certain objectives. This chapter will refer to the Overall research method from the theoretical aspect to the collection and analysis of data. This study will covers quantitative methodology in a greater extent and use the descriptive part based on both technical aspects and logical aspect. This research will try to perform a well- designed quantitative research in a very clear and direct way using both financial and statistical tools. Details research methods will have described in the following heading:

1.7.1 Research Design

Generally, research design is the plan, structure and strategy of investigation conceived to obtain answer to research questions and to control variance. In order to make any type of research a well- set research design is necessary to fulfill the objective of the study. Generally, research design means definite procedure and techniques, which guide to study and provide ways for research viability. It is arrangement for collections and analysis of data. To achieve the objective of this study, descriptive and inferior research design will have been used. Some financial, Statistical tools will have been applied to find factor affecting financial performance of insurance companies of Nepal.

1.7.2 Population and Sampling

This study will be analytical in nature and using secondary data for the purpose of empirical evaluation of Factors Affecting Financial Performance of Insurance Companies of Nepal. Sample size of this study will base on 27 listed Insurance Companies of Nepal stock exchange and collected 7 years (20010/11-2016/17) annual data of all twelve sample banks, which will have been selected randomly. Thus, the populations in this study will be all Insurance Companies listed in NEPSE. Twelve Insurance Companies will have been selected for sample as per convenience sampling. Thus, sample Insurance Companies will be as follows:

SN	Name of Insurance Companies	Symbol	Date of operation
1.	Sagarmatha Insurance Co. Ltd	SIC	1996
2.	Lumbini General Insurance Co. Ltd.	LGIL	2005
3.	Premier Insurance Co. Ltd.	PIC	1994
4.	Shikhar Insurance Co. Ltd.	SICL	2004
5.	Gurans Life Insurance Company Ltd.	GLICL	2008
6.	Life Insurance Co. Nepal	LICN	2001
7.	National Life Insurance Co. Ltd.	NLICL	1988
8.	Nepal Life Insurance Co. Ltd.	NLIC	2001
9.	Surya Life Insurance Company Limited	SLICL	2008
10.	Everest Insurance Co. Ltd.	EIC	1994
11.	Himalayan General Insurance Co. Ltd	HGI	1993
12.	NLG Insurance Company Ltd.	NLG	1988

Source: Annual Report of Sample Companies

1.7.3 Sources of Data

The study mainly will base on secondary data. Some sources of data will be annual report of respective company, Beema Samiti, NEPSE, websites of respective Insurance Company and, websites of NRB.

1.7.4 Data Collection and Processing Procedure

The data will have been acquired from the annual reports of respective commercial banks and put them in a sheet. Then data are entered into the spreadsheet to work out the financial ratios and prepare necessary figures, according to the need and requirement of the study. For this purpose, collected data will be processed using computer programs like Ms Excel and statistical software SPSS (version20) Statistics tool as per the necessity. The collected data will focu on following variables: - company's leverage, company's liquidity, Company's age, company's size and Return on assets. Regression analysis and T- test has used to investigate the impact of independent variables on dependent variable. Return on equity will have used to evaluate financial performance.

1.7.5 Data Analysis Tools and Techniques

Several tools and techniques and will use to analyze Secondary data collected from various sources for obtaining the logical conclusion. The following financial as well as statistical tools will have been used to analyze the data:

Financial Data Analysis Tools

Return on Assets (ROA)

Return on Equity (ROE)

Liquidity Ratio

Leverage Ratio

Statistical Tools

Average/Mean

Standard Deviation

Coefficient of Variation

Karl Pearson's Coefficient of Correlation

Multiple Regression Analysis

1.8 Chapter Plan

On this research, the study will be carried out in different stages and procedures, as it needed. As well as study organized on following chapters in order to make the study easy to understand.

Chapter- I Introduction

This chapter will cover background of the study, focus of the study, statement of the problem, objectives of the study, significance of the study, limitations of framework and review of the major studies. It will give an overview of the related literature done in the past related to this study.

Chapter-II Literature Review

This Chapter will be the brief review of literature related to this study. It will include a discussion on the conceptual framework and review of the major studies and research gap. It will give an overview of the related literature done in the past related to this study.

Chapter- III Methodology

This chapter will deal with the methodology followed to achieving the objective of the study, which will include research approach, sampling procedure, and research instruments, collection of data and data analysis tools and techniques.

Chapter- IV Results

This chapter will deal with presentation, analysis and interpretation of data, collected from various sources. It also will include the major finding of the study.

Chapter- V Conclusions

This chapter will cover on the results and findings obtained from chapter four and recommend some suggestions based on the findings made. Finally, references and appendices will be also included at the end of the study.

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